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Smart Growth and Rebuilding the Mississippi Gulf Coast

As Gulf Coast communities continue to recover from Hurricane Katrina's devastation, residents, politicians, and developers in Mississippi are contemplating major changes in zoning. The decisions they make may shape the region's quality of life for years to come.

Only six weeks after hurricanes Katrina and Rita ravaged the coastal communities of Louisiana and Mississippi, Mississippi Gov. Haley Barbour convened a smart-growth planning group, or charrette (see glossary), under the auspices of the Mississippi Renewal Forum to work on rebuilding each of the 11 affected communities.

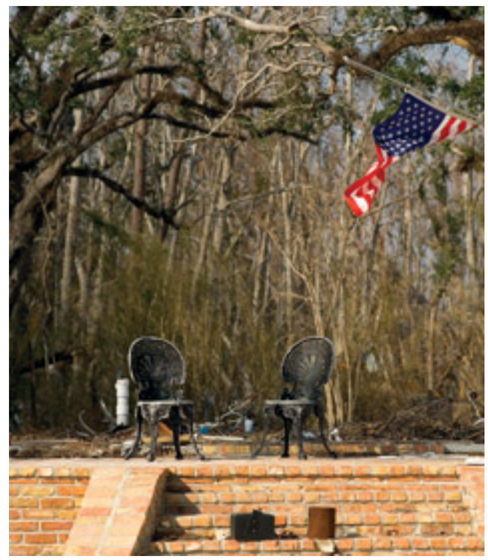

Photo by Flip Chalfant

The charrette's purpose was to define a new vision for rebuilding the Gulf Coast by bringing together local officials, residents, and other stakeholders along with experts in urban planning and architecture.

This work may eventually lead to the adoption of new zoning ordinances, new transportation investments, and comprehensive urban plans for the affected coastal communities. One immediate result was a draft of a smart code (see glossary) planning and building ordinance that could be adopted or customized by individual cities, towns, and counties along the Gulf. Four communities have already taken steps to pass smart code–derived ordinances, and only one city, Biloxi, appears to have largely chosen not to incorporate them.

The reforms would entail changes to existing subdivision regulations, use zoning, allowable development densities, and architectural styles and materials. The reforms also affect the function, size, style, and situation of properties, from low-density rural areas to downtown commercial cores.

New Urbanism, form-based zoning, and smart codes

The person Gov. Barbour chose to lead the charrette was Andrés Duany, founder of the New Urbanism architectural movement and head of Duany Plater-Zyberk & Co. of Miami. The movement's tools of choice are form-based zoning and smart codes (see glossary). The plan that came out of the charrette attempts to pay homage to communities' unique architectural heritage and character while also incorporating New Urbanist tenets.

Photo by Flip Chalfant

New Urbanism aspires to build towns and neighborhoods that resemble those built before World War II and the rise of automobile-centered development. Commercial land uses are brought closer to or within residential communities. Garages are de-emphasized and where possible moved behind the home, while houses are brought closer to the street. Front porches and sidewalks are promoted to increase neighbor interaction, while large lots and deep front lawns are discouraged for the same reason.

At the same time, residences are added to the commercial area in the form of mixed-use projects in which apartments or condominiums are built over retail and office space. Storefronts are brought to the edge of the property line to encourage pedestrian shopping, and parking is relegated to the back of the lot or placed underground. New Urbanism opposes the standard strip-mall development pattern, in which a row of shops sits behind several acres of parking.

A change in zoning philosophy

Although the draft smart code, an example of form-based zoning, involves more detailed zoning, there's more to it. This type of zoning represents a philosophical shift in emphasis beyond considering land-use issues to also considering the look, feel, and functionality of communities. Thus, smart codes not only regulate the use but the density of development, its scale, and its function.

Steve Coyle, a New Urbanist designer who worked on Gulfport's recent plan, offered this example: "A bar may not be an appropriate use in a neighborhood, but home offices or a corner store that closes at 9 or 10 at night might be a perfect use. Current code does not allow that, but the smart code would say that use is just fine."

To accomplish this shift in zoning philosophy, smart codes divide a city into six transect zones (see glossary) that provide a gradual transition of development intensity, from low-density rural areas at the edge of cities to high-density multistory offices and apartments at the center, the same sort of graduated building heights and density that cities had when the principal forms of transportation were walking and streetcars. Within each transect, the types of buildings (whether single-family or multifamily), the amount and type of commercial space (convenience, destination shopping), and the amount of public infrastructure are typically specified.

Smart codes do not necessarily mean less development. For example, Dave Dennis, a local builder who participated in the planning for the town of Pass Christian, says the smart codes draft envisions raising building heights in that city's downtown core by almost 50 percent, from 50 to 70 feet. (Dennis is also a director of the Atlanta Fed's New Orleans Branch; see his interview.) Dennis points out that the smart code—and an accompanying pattern book that spells out architectural styles consistent with the historic neighborhoods of Mississippi—also will be much more prescriptive for building materials and architectural finishes. But these details will likely raise construction costs.

One principal challenge in implementing these codes is that they demand a much greater sensitivity to the marketplace. As a city decides what it will allow to be built, it must take great care to ensure that a market for such a product exists. Cities with very high land values can demand high architectural standards and the inclusion of low-income housing and underground parking. A less valuable location must be more accommodating to developers' cost considerations.

A Glossary of Terms

Charrette: An intensely compacted planning process that includes public meetings and brings together municipal officials, developers and area residents. The goal of the process is to promote collaboration to solve problems and to defuse confrontational attitudes between residents and developers.

Form-based zoning: Regulations that support mixed-use neighborhoods with a range of housing types. This zoning focuses more on the size, form, and placement of buildings and parking and less on land use (residential vs. commercial) and density (housing units per acre). Landowners, developers, and building owners retain the flexibility to build based on market demand as long as the building form conforms to the community's vision espoused in the zoning codes.

New Urbanism: A relatively new design movement that emphasizes walking areas, a diverse range of housing and jobs, population density (and the resulting reduction in urban sprawl), and the incorporation of green space.

Smart codes: Building and construction codes that encourage the preservation and reuse of existing buildings while still allowing their alteration.

Transect zones: A diagram that depicts zones of varying development density. Each zone denotes a mixed-use environment with most conveniences within a short walk.

Bill Stallworth, a Biloxi council member whose district includes many poorer neighborhoods put it simply. "I like that the codes are simpler, a little easier to read. It does acknowledge more livable neighborhoods," he said. "The question that's on the minds of a lot of people is, 'How much of that can we actually implement?' "

While successful New Urbanist builders are attuned to the real estate market, the ultimate product is likely not what the market would build in the absence of form-based zoning. Furthermore, new, attractive, and accessible communities may cause wealthier households to outbid poor households, producing the same kind of income stratification that New Urbanists such as Duany dislike in many existing suburban developments.

New Urbanism's challenges

New Urbanism has succeeded in building attractive, pedestrian-friendly, and—if property values are any indication—desirable communities such as Celebration, Fla., and Seaside, Fla. However, implementing a New Urbanist vision for the Mississippi Gulf Coast poses several challenges stemming from landowners' immediate needs.

With some exceptions, such as parts of Biloxi, structures within Katrina's surge zone were largely destroyed; on the surface these areas may appear to be a clean slate for redevelopment. However, the land has already been subdivided and is owned by many people. Instead of directing the efforts of a single master-development firm, the smart code must be accessible and comprehensible to thousands of individual property owners whose principal objective is to leave temporary housing, rebuild their homes, and get on with their lives. Whether the draft smart code ordinances will succeed in the face of these more immediate goals remains an open question.

Since many of the existing properties are owned by individuals whose homes were built under the existing zoning codes, local governments may implement smart code ordinances as overlays, rather than simply replacing the existing zoning. Overlaying, meaning that builders can submit applications under the new or existing codes, may offer all of the regulation of New Urbanism without solving the underlying development coordination problem.

Photo by Flip Chalfant

Builders may choose to submit plans under the smart code because of local government incentives. In addition, the smart codes may offer a quicker, more predictable permit process because what is allowed, and what is not, are carefully spelled out.

"They [developers], for the most part, do not mind the more prescriptive regulations that smart code represents because it is giving them certainty," Coyle said. "It is giving them an objective basis for submitting an application, whereas the older code tended to be more discretionary and certainly less descriptive about outcome." By forcing the community to arrive at a common vision in drafting the smart codes, political battles over permit applications may be sidestepped, reducing application times and litigation risk.

Cities that simply replace their existing zoning with a smart code risk mandating types of structures, building materials, styles, and uses that cost more to implement than what the market can support.

For example, Gulfport envisions high-density, mixed-use housing, and retail structures downtown. But building to such heights can be costly because stronger building materials, deeper foundations, and more space dedicated to stairwells and elevators are necessary. (Presumably the ultimate structure will be built to withstand future hurricanes.) Revenue from the apartment or condominium investments may also need to support the ground-floor retail until a critical mass of stores can emerge to revive downtown shopping.

In parts of Waveland, Miss., the renewal forum envisions multifamily housing built to look like historic mansions, with associated architectural finishes. But the market for such housing is unclear. The land will be used more intensely, and at greater cost, providing each individual with less space.

On the other hand, would-be residents will get more attractive buildings and greater pedestrian-accessible amenities because the smart code allows the mixing of uses, while the higher population density can support greater retail, and the higher property values can support more parks and better sidewalks.

The future

Whether the New Urbanist vision for the Gulf Coast ultimately hinders or accelerates redevelopment will depend on the skill, care, and speed with which the municipalities choose to implement it.

In the long run, however, the stimulative or depressive effects of the new laws may be outweighed by the new flood zone maps from the Federal Emergency Management Agency (FEMA). In some areas of the Gulf Coast, insurance and mortgage companies may require that properties be built as high as 15 feet off the ground. Not only will such requirements impede the New Urbanist desire for historic-looking structures and street-fronting retail, they may simply overshadow any other development considerations.

Andrés Duany, quoted in a recent *New York Times* article, estimates a cost of $30,000–$50,000 to elevate an 800-square-foot home by 12 feet. In much of the Gulf, the market for such expensive homes simply may not exist. If such a market does exist, there is a strong possibility that the people who could afford to occupy those structures would in many cases not be the people who lived there pre-Katrina.

Courtesy of Laurence Aurbach, Gulfport, Miss., charrette

These architectural renderings and elevations represent work based on the Gulfport and Pass Christian charrettes in planning for the rebuilding of the Mississippi Gulf Coast.

In some locations, the New Urbanists may be better able to incorporate the FEMA elevations than individual property owners working within the existing building codes. For example, in Gulfport, the draft rebuilding plans envision elevating the entire port area over a floor of underground parking to meet FEMA standards and also to connect storefronts with the street.

Hanging over all of these decisions is the threat of another hurricane. Should another storm of the magnitude of Katrina or Camille come ashore in the same area, builder Dave Dennis says many investors would likely abandon the entire area. “I don’t think anyone with any reasonable business investment sense about themselves would attempt to come back and build again. I think the ‘three strikes and you’re out’ rule would probably come into play.”

If fears of another hurricane can be allayed, and the design challenges of the new FEMA elevations incorporated, then smart codes could succeed in creating a more attractive and functional Gulf Coast. These reforms have the potential to speed reconstruction efforts, but only if sufficient demand justifies the added construction costs, and only if the smart codes produce less political and market uncertainty than they generate.

The plan’s success hinges on the skill, savvy, and expediency of local officials and their advisers. But whatever statutory reforms are ultimately implemented, the New Urbanists may have succeeded in articulating an alternative vision for what the Mississippi Gulf Coast could be, a vision that many local officials and developers now appear to share.

This article was written by Chris Cunningham, an economist and policy adviser in the regional group of the Atlanta Fed’s research department, with Ed English, a staff writer in the Atlanta Fed’s public affairs department.

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KATRINA UPDATE

Recovery Comes Slowly

The 2006 hurricane season began June 1. In Louisiana and Mississippi—the areas most affected by Hurricanes Katrina and Rita—where is recovery under way? Where is it elusive? Are plans for rebuilding being implemented?

In some areas of Louisiana and Mississippi, cleanup from 2005's hurricanes is complete and rebuilding is under way. But in other areas, debris removal and demolitions continue and reconstruction is only just beginning. Some parts of the Gulf Coast remain much like they did nine months ago, littered with gutted homes and ruined cars—and devoid of signs of recovery.

Cleaning up

Both Louisiana and Mississippi have made considerable headway in removing debris from public spaces, according to the Federal Emergency Management Agency (FEMA). Only 15 percent of the estimated amount of debris in Louisiana remains, while in Mississippi that figure is just 3 percent.

Photo by Flip Chalfant

While building permits for multifamily residential construction have increased in New Orleans since Hurricane Katrina, they are still below prehurricane levels.

A different picture emerges of debris removal from private property. In Mississippi, only 3 percent of private debris remains, while in Louisiana the estimate is 86 percent. Private property demolitions in Mississippi are also well ahead of Louisiana—19 percent versus 94 percent (see chart 1) of structures awaiting demolition.

Why the large differences? Katrina completely destroyed homes and businesses along Mississippi's coast via wind and storm surge, but in New Orleans the storm flooded homes, damaging but not totally destroying them.

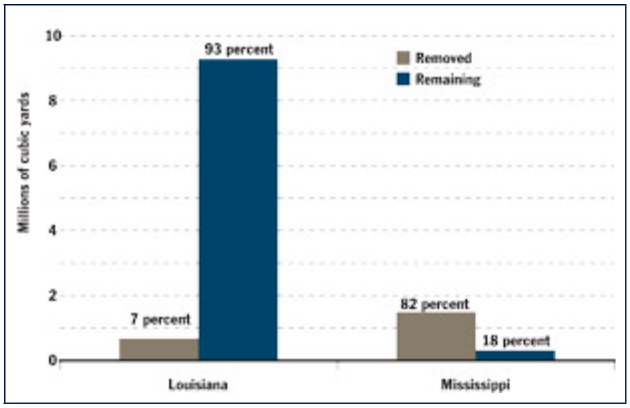
The availability and affordability of flood insurance are also holding back progress in the Crescent City. People with damaged homes may be ready to repair or rebuild, but so much uncertainty surrounds the levee and floodgate systems, giving people pause.

Further complicating matters for New Orleans is that so many people who evacuated have not returned and, therefore, cannot help clean up. And they can't return because they have no housing. Public officials cannot demolish damaged homes before the necessary legal process required for demolition takes place, and that process cannot occur without the property owners' participation.

Chart 1
Structural Demolitions in Louisiana and Mississippi

Economic pulse difficult to take

Estimating the level of economic activity in the most-affected metro areas is difficult. Common national measures, such as gross domestic product or consumer spending, are not measured at the level of a city by governmental statistical agencies. Other statistics, however, can provide a glimpse of activity.



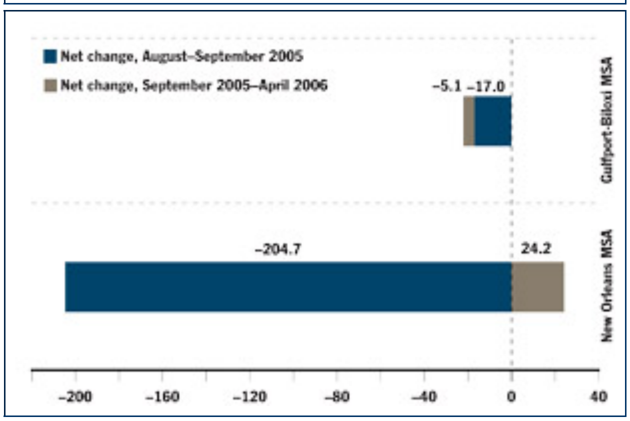
Note: Data are current as of May 26, 2006.
Source: Federal Emergency Management Agency

Sales tax data. One can infer from sales taxes the level of consumer spending in a given location. The data may not be strictly comparable because of differences in tax rates and reporting requirements, but sales tax intake can be tracked to indicate patterns in spending.

In Orleans Parish, for example, first quarter 2006 sales tax revenues were 35 percent below first quarter 2005 levels, but they have increased steadily since then. In Jefferson Parish, sales tax revenue was up nearly 50 percent in the first quarter of 2006 compared with year-ago levels. (Some of this increase is attributable to spending that is displaced from New Orleans.)

Sales tax revenue increases are expected in the wake of natural disasters as consumers receive insurance proceeds and initiate repairs and replacement of lost goods. The situation in Orleans Parish is different because of the severe flooding and evacuations. Fewer consumers are living in the area, and fewer retail establishments exist. The fact that consumption is up in Jefferson Parish, which did not experience catastrophic flooding to the extent seen in Orleans Parish, is no surprise.

Chart 2
Changes to New Orleans and Gulfport-Biloxi MSA Payroll Employment



Note: Figures represent thousands of employees.
Source: Bureau of Labor Statistics

Sales tax revenues from affected areas along the Mississippi Coast are well up from year-ago levels. In Jackson County, sales tax receipts in March 2006 were up more than 60 percent from March 2005. In Harrison County, tax receipts were up 30 percent for the same period. Only in the less populated and heavily damaged Hancock County was the sales tax intake unimpressive, down just over 1 percent from March 2005.

Measuring the workforce. According to the Bureau of Labor Statistics' (BLS) Establishment Survey, 204,700 people in the New Orleans metro area lost their jobs because of Katrina. Since then, establishments in the New Orleans metro area have added a net 24,200 jobs, mostly in leisure and hospitality, construction, and healthcare. No private sector industry is near the level of employment seen before the hurricane (see chart 2).

Another BLS measurement shows how dramatically the New Orleans workforce has changed. The Household Survey, which estimates the labor force and unemployment, shows the New Orleans-area workforce has declined by nearly 210,000 (or 33 percent) since the hurricane, yet the unemployment rate for the area is similar to its pre-storm level because the BLS recognized in December that many of the workers it was labeling as unemployed were no longer in the area. Such a large decline in the workforce makes it difficult for businesses to find staff. Taken together, the BLS surveys on employment reveal that although New Orleans has added jobs since the hurricane, very large and potentially permanent declines in the labor force make a full-employment recovery there tenuous.

In the Gulfport-Biloxi metro area, payroll employment has actually declined an additional 5,100 workers on net after losing 17,000 in September. However, a closer look reveals that nearly all of the post-September decline can be traced to additional job cuts in the leisure and hospitality industry. Many establishments—especially casinos—kept employees on payrolls in the immediate wake of the storm, but this industry experienced another round of layoffs last December.

The Household Survey for Gulfport-Biloxi is very different from New Orleans. The number of unemployed has decelerated slowly since September but is still well above pre-storm levels. As a result, the Gulfport-Biloxi unemployment rate remains elevated. In Gulfport-Biloxi, post-storm declines are largely associated with the leisure and hospitality industry. In other areas of the economy, employment is slowly coming back. In addition, labor force declines have not been as severe, making a full recovery in Mississippi likely.

Housing. Specific data on the housing situation are scarce, but some conclusions can be made based on available reports. In New Orleans, little new residential construction is evident. Permits for new multifamily residential construction have picked up in the New Orleans metro area but are still below pre-Katrina levels. Two parishes that experienced severe flooding—St. Bernard and Orleans—have reported no new single-family residential construction permits since Katrina. In Jefferson Parish, which was partially flooded, new permits are increasing and are near pre-storm levels. The level of repair work to existing homes being undertaken is more difficult to ascertain as repair permits, when required, are not publicly available.

Photo by Flip Chalfant

Another indicator of housing activity is sales of existing homes. Existing home sales in Orleans Parish remained 24 percent below year-ago levels in April, but they have picked up in recent months, according to the New Orleans Metropolitan Association of Realtors. Sales in Jefferson Parish were running 36 percent above year-ago levels in April, but sales in St. Bernard remained nearly 80 percent below year-ago levels.

In Mississippi, permits for new single-family residential construction are picking up and are above year-ago levels in the three most-affected counties (Hancock, Harrison, and Jackson). Although damage is still apparent nearly everywhere, damaged structures are being repaired, demolished homes and businesses are being rebuilt, and new construction is under way all along the Mississippi coast.

Tourism. A major sector in both New Orleans and on the Mississippi coast is tourism, which has continued to suffer since the hurricanes. In New Orleans, 86 hotels were fully open at the end of April out of a pre-storm total of 143. Additionally, as of April, only 30 percent of eating establishments in Orleans Parish have been certified to reopen, according to the Louisiana Restaurant Association. In Mississippi, only three of nine major casinos have reopened. Economic recovery in these areas is tied to a rebound in tourism.

Renewing the infrastructure

In addition to the work on the New Orleans levee system, massive repairs to roads, rail, and port facilities continue in both Louisiana and Mississippi. Although some roads and bridges remain closed, substantial repairs have been completed to most of the damaged transportation infrastructure.

Repairs also continue on port facilities in New Orleans and Gulfport. In terms of tonnage processed, both ports are operating near pre-storm levels.

Photo by Flip Chalfant

Trailers remain a ubiquitous sight in the New Orleans metro area as repair work continues. State officials have introduced programs to facilitate the repair process.

Planning for the future

New Orleans' recovery largely depends on addressing the housing issue. Drawing evacuees back to the city cannot begin unless adequate permanent housing is available. To assist, Louisiana officials are planning a program called "The Road Home," which provides financial assistance for homeowners to repair, rebuild, or sell their property.

In Mississippi, plans are farther along. In November 2005, the Mississippi Renewal Forum, a gathering of more than 200 community leaders and professionals seeking design options on rebuilding, issued a summary on rebuilding plans. The forum, part of Gov. Haley Barbour's Commission on Recovery, Rebuilding, and Renewal, is led by Netscape's former chief executive officer James Barksdale. The forum issued plans for each affected community along the Mississippi Coast. In May 2006, six months after the forum issued its report, participants continue to work with communities.

Both southern Louisiana and the Mississippi coast face a long road to recovery. While each area has unique and daunting hurdles to overcome, thoughtful planning and leadership are paving the way.

This article was written by Michael Chriszt, director of international and regional analysis for the regional group of the Atlanta Fed's research department.

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Financial Volatility and Electoral Uncertainty in Latin America: Perspectives for 2006

Latin American economies have in the past experienced increased economic upheaval during busy electoral seasons. Will the large number of elections this year pose a threat to the region's financial stability?

At the heart of every financial transaction lies the presumption of confidence. In turn, any event that could bring about change, to the extent that the change is unpredictable, will foster uncertainty and put that confidence to the test. Political elections are an example of such an uncertain event, and in Latin America elections have typically been associated with more than their share of uncertainty.

In fact, many financial crises in Latin America have coincided with elections. For example, the largest stock market sell-offs in Brazil's recent history occurred in the last two presidential election years of 1998 and 2002. Chart 1 illustrates the relationship between the number of elections in Latin American countries and the risk that sovereign bond buyers perceive in those governments.

In the past, uncertainty about policy continuity, coupled with preexisting economic fragility, provided the catalyst for financial meltdowns in Latin America. Such cause-and-effect collapses occur during times of transition—like elections—when sensitive investors are forced to form expectations based on scarce and highly imperfect information. Therefore, a mere unfortunate comment or a change in the direction of the polls can diminish a foreign investor's appetite for Latin American assets.

Photos (bottom) by Jennifer Weissman

Latin American elections this year may not bring with them the volatility that has roiled the region's markets in years past, as many countries there have strengthened their trade balances and currencies.

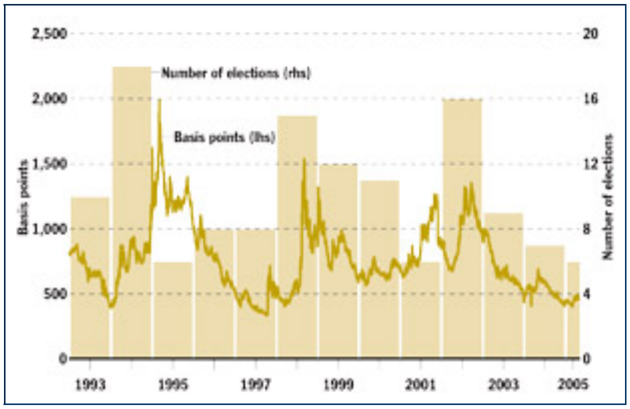
With at least 21 presidential and legislative elections scheduled, 2006 represents an unusually politically intense year in Latin America. Moreover, some of these elections are taking place in the region's largest economies, including Brazil and Mexico. As a consequence, a great deal of speculation has occurred concerning the political cycle's economic effect on Latin America. Will the uncertainty usually associated with the elections cause a sudden stop of financial flows into the region? Or, alternatively, will the series of political and institutional reforms implemented in the region over the last decade be enough to reassure investors that political change will not lead to a fundamental shift in economic prospects?

So far this year, the elections in Chile, Costa Rica, Haiti, El Salvador, Colombia, and Peru took place without major market disruptions, standing in stark contrast to outcomes during previous election cycles in those countries. This trend should continue throughout the remainder of 2006 because, for a number of reasons, Latin America appears better prepared to withstand the gyrations of the political cycle.

Improving trade balances

Thanks mainly to favorable external demand for the region's commodities, most Latin American economies have been experiencing strong export performance. As a result, most countries in the region are making more money on exports than they're spending on imports. This current account surplus clearly contrasts with the situation in the 1990s, where current accounts were for the most part running a deficit as countries spent more on imports than they made on exports. As a result, Latin America has been able to reduce its dependence on foreign financing by going from being a net borrower to a net lender of funds.

Chart 1
Latin American Election Frequency and Government Bond Spread



Note: Bond yield calculations represent a weighted average of Latin American bond yields vs. comparable U.S. Treasury bond yields. Bond yield data are through May 5, 2005.

Source: JPMorgan Chase, Federal Reserve Bank of Atlanta

This situation has also mitigated the effects of the increased cost of borrowing. When the Fed raised interest rates in the 1990s, cash-starved Latin America suffered. Its financing costs increased every time the fed funds target rate was raised in the United States. Today, by reducing its borrowing needs, Latin America has not only reduced its vulnerability to sudden halts of foreign investment but also to higher financing costs.

Central banks gain credibility in fighting inflation

Slowly but steadily, central banks in Latin America have been able to better cope with the region's traditional Achilles' heel: inflation. For example, the annual average regional inflation rate for the last three years was around 8 percent while the average for 1993–2002 was closer to 53 percent.

In addition, the region's central banks have on average shifted away from attempting to manage a particular exchange rate and have undertaken a more stringent focus on inflation. Several Latin American monetary authorities have opted for a monetary policy rule that is similar to inflation targeting. Brazil, Chile, Colombia, Mexico, and Peru gradually started to implement this sort of monetary policy throughout the 1990s.

Increased tax receipts

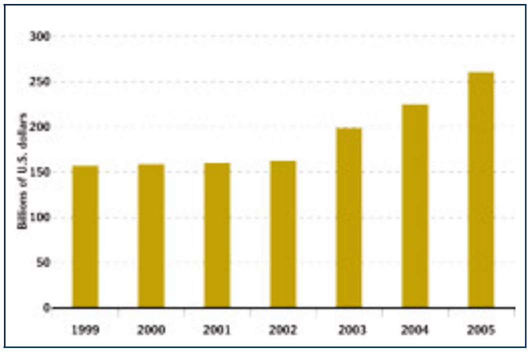
Given the strong growth in gross domestic product (GDP), governments have been able to boost their tax receipts, and revenues have recently grown faster than outlays. In fact, administrations in Brazil, Chile, and Argentina have created market stability through their fiscal surpluses. In turn, these fiscal surpluses also reduce the countries' financing needs, whereas in the past, outside investment would have been a source of concern should investor sentiment go against the countries. In fact, in February 2006, JPMorgan Chase estimated that most countries in the region had already prefinanced more than 90 percent of their projected external borrowing requirements for this year. With this reduced reliance on foreign financing, Latin American governments are better prepared to absorb other types of macroeconomic shocks.

Chart 2
International Currency Reserves of Latin American Countries

Reduced leverage

A stronger fiscal position has, in addition, allowed many Latin American governments to manage their liabilities in a way that has successfully reduced their debt levels. For example, in less than two years, Brazil, Peru, and Venezuela reduced their debt-to-GDP ratios from 79 to 50 percent, 46 to 37 percent, and 53 to 34 percent, respectively, according to the Economist Intelligence Unit (EIU), an economic data firm.

Moreover, not only has the region's average leverage situation improved, but so has the composition of its debt portfolio. Gradually, Latin American governments have either been able to sell new securities or roll over existing debt using instruments that can be paid



Source: Economist Intelligence Unit

back over a longer period. More importantly, these instruments are denominated in local currencies, thus eliminating the exchange rate risk. Therefore, not only are countries less leveraged, but they are also less exposed to variations in their exchange rates.

International reserve stock accumulation

To avoid dampening the export-led recovery, many Latin American central banks have gradually increased their holdings of international reserves. By doing so, they have been able to minimize the appreciation of their nominal exchange rates without fostering inflationary pressures.

Between 2000 and 2005 the stock of international reserves held in Latin America grew by approximately 63 percent, from $159 billion to $261 billion (see chart 2), according to the EIU. These reserves have in turn increased the countries' net worth position.

Additionally, JPMorgan Chase estimates that the reserves' value is well in excess of public and private external debt payments. Some analysts believe these hard-currency reserves could also allow policymakers additional options to counteract adverse economic shocks, should the situation require it.

Development of domestic capital markets

The development and growth of domestic capital markets in Latin American countries arguably should provide additional assurance that a major destabilizing sell-off in debt or equity markets does not occur. Sell-offs are less anticipated when domestic investors hold a greater share of their own government's debt, and on average these investors are holding all domestic assets with longer-term horizons.

Latin America's stock market capitalization as a percentage of GDP almost doubled between 2001 and 2004, according to the International Monetary Fund's Global Financial Stability report. In other words, the capital markets have grown faster than the region's economies, further providing policymakers with economic options.

A good year, so far

Entering 2006, the combination of good economic fundamentals and the perceived willingness of the main candidates to maintain macroeconomic policies were expected to anchor market expectations. To date, this has been the case.

Perhaps the greatest risk associated with the current electoral cycle is in the form of reform paralysis. Since most Latin American governments are busy with their electoral agendas, they seem to have little incentive to push forward with any of the remaining—and much-needed—reforms, such as in the fiscal and pension arenas.

Should economic conditions deteriorate, governments will find it difficult to expend the political capital needed to implement reform policies. Thus, the longer-term challenge confronting Latin America will be maintaining market confidence in the face of less favorable economic conditions and reduced enthusiasm for political and institutional reform.

This article was written by Diego Vilan, a senior economic analyst in the regional section of the Atlanta Fed's research department.

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FED @ ISSUE

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

Putting U.S. Manufacturing in Perspective

When I think about the state of U.S. manufacturing, at least two images come to mind: headlines announcing layoffs at manufacturing plants and the "Made in China" label on most nonfood goods purchased at my local discount store. Both of these images are reality. Since 1990, employment in the U.S. manufacturing sector has declined from almost 18 million to around 14.2 million today—a 24 percent decline. This decline is in sharp contrast to the 23 percent increase in employment in the private sector as a whole in that time. Over the same period, the share of domestic spending on manufactured goods accounted for by imports has risen from 38 percent to 45 percent.

What might come as more of a surprise to many is that despite these unsettling trends, the U.S. manufacturing sector is producing more goods today than at any time in the past, and the growth in manufacturing output has generally matched the growth of the U.S. economy overall. Manufacturing output has almost doubled in the past 15 years, and as a consequence the United States remains the largest manufacturer in the world, maintaining its more than 20 percent share of total world production despite the rapid growth in recent years of the developing nations' manufacturing sectors.

Some U.S.-made goods continue surging

The positive trends for manufacturing production do not tell the whole story, however. For instance, the growth in output from the durable-goods sector—which includes everything from household appliances to airplanes—and especially from producers of information technology equipment, has far outstripped the growth in other industries. The production of computer and communications equipment began to surge in the early 1990s, and apart from the period surrounding the 2001 recession growth has averaged more than 20 percent per year. On the other hand, the beleaguered U.S. apparel industry has experienced declining output since the early 1990s, and the 2001 recession only served to accelerate the decline. This dichotomy in performance illustrates that U.S. manufacturers do not enjoy the comparative advantage they once did in the production of goods that require a large labor input.

The overwhelming price competition from foreign companies that are able to make the same products with much cheaper labor has forced U.S. manufacturing to shift away from labor-intensive endeavors and toward capital- and technology-intensive types of production. At the individual plant level, investment in new technologies often leads to lower per-unit production costs. These lower production costs in turn contribute to a lower price for the product, thus improving the firm's competitive position. For manufacturing as a whole, lower prices have contributed to higher demand for U.S.-made goods, both domestically and internationally. Investment in new technologies has also tended to increase worker productivity, and in most manufacturing industries this development has translated into the ability to produce more goods with fewer workers.

As gains in worker productivity continue to outpace demand growth, U.S. manufacturing will not be a significant source of net job growth in coming years. Nonetheless, the changing nature of production processes will generate job opportunities. The ongoing transformation of the U.S. manufacturing sector involves investment in new technologies, equipment, and also a skilled workforce that is able to operate ever more complex industrial equipment. As a consequence, the typical manufacturing worker today is much more technologically sophisticated than his counterpart of just 10 years ago, and this trend is likely to continue.

Changes reverberate widely

Developments in the manufacturing sector have also had a significant impact on the U.S. economy beyond the sector's direct contribution to economic growth. For instance, competition among global and domestic suppliers for the large U.S. consumer market has kept the prices paid by U.S. consumers for manufactured goods in check. Since the mid-1990s, the average consumer price of manufactured goods in the United States has been flat or even declined. Lower prices for goods have served to move the overall rate of inflation lower than it otherwise would have been and contributed significantly to the low-inflation environment that the U.S. economy has experienced during the last decade.

For some, the scenario described here may sound familiar. In fact, it is. The U.S. agricultural sector experienced a similar transformation, but over a much longer period of time. Agricultural employment is now only a small fraction of total employment, yet U.S. agricultural production continues to rise, and agricultural prices remain relatively low. Just like agriculture, U.S. manufacturing is not going away, but neither is the relentless pace of change.

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

FEDERAL RESERVE BANK of ATLANTA

Economic Research

Grassroots

Space Coast: Where Economics Is More Than Rocket Science

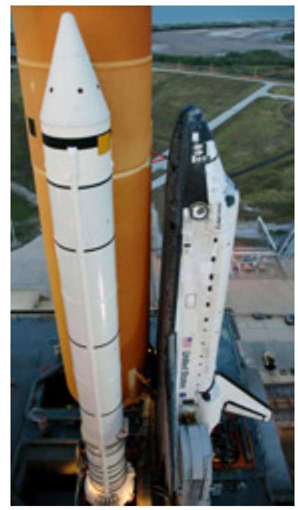


Photo courtesy of NASA

Although the Space Coast's economy has benefited from tourists attracted by shuttle launches, the region hopes to diversity its tourism economy by attracting visitors to its beaches and cruise ships.

Don't expect the name to change soon, but central Florida's Space Coast is becoming less dependent on its signature industry: space exploration.

Business is expanding in the coastal area, mainly Brevard County, beyond its traditional economic linchpin, Kennedy Space Center. In recent years, the area has formed a varied economic foundation including a cadre of flourishing defense contractors, a real estate boom (albeit one that has cooled of late), an influx of retirees, and tourism.

It's not just a company town any more.

As the Space Coast flourishes beyond its boundaries, the Space Center will soon undergo dramatic change. The space shuttle program based at Kennedy will end in 2010. In its place, NASA wants a new spacecraft, the Crew Exploration Vehicle, ready for launch from Kennedy by 2014. That shift means Brevard County's economic mainstay of 44 years might shrink. Most of the Space Center's nearly 15,000 employees work on the space shuttle program, so when the shuttle is retired, those workers will face uncertainty.

Nevertheless, the retirement of the shuttle fleet hardly portends doom for the Space Coast economy, said Michael Slotkin, an economist and associate professor in the College of Business at the Florida Institute of Technology in Melbourne, one of Brevard's two biggest cities.

"With everything that changes there's opportunity," Slotkin said. "In Florida, as long as we don't get [severe] hurricanes every year, and as long as nothing really happens to the defense-aerospace backbone, this is always going to be a place people want to move to and live."

Not everything expands indefinitely

Concern still exists, however. In 2004, Kennedy Space Center accounted for 27,300 jobs, $2.5 billion in output, and $1.3 billion in income in Brevard County, according to the Center's 2004 annual report, the most recent one available at press time. The Space Center itself employs more than 14,800 people, most of whom—around 11,000—are contractors and not civil servants. Most work on the space shuttle program.

Brevard County, Fla.

Population:	531,250 (2005 estimate)
Median household income:	$42,971

There is hand wringing over the prospect of losing space industry jobs. The major Brevard County newspaper, *Florida Today*, has editorialized that the Space Coast risks falling behind in its namesake industry without increased incentives from state officials.

"The coming end of the shuttle program at Kennedy Space Center will bring large

No. of owner-occupied homes	164,466
Median home value:	$137,353

Source: U.S. Census Bureau, 2004 American Community Survey

workforce cuts, and other states are out-hustling Florida for new space business," the newspaper said in a Jan. 1 editorial.

The paper notably mentions New Mexico, which plans to build a facility to help launch commercial ships into space. That plan helped lure the world headquarters of Richard Branson's commercial space venture, Virgin Galactic. And New Mexico's legislature earlier this year approved $100 million in state funding for that spaceport over three years and also passed a separate law that allows local governments to impose a local-option tax to provide money for the spaceport.

But Florida is not sitting still. In early May, the state's legislature passed a law that consolidates various state agencies charged with cultivating space-related economic development under the state's privatized economic development agency, Enterprise Florida. That legislation allocates $43 million in state funding, including $35 million to rework launch facilities for a new spacecraft. Another attempt at fortifying the state's aerospace industry came when Rep. Bob Allen, a Republican from the Space Coast, unsuccessfully championed a $500 million, public-private investment fund to lure and cultivate space-based companies.

A new strategy for the Space Coast

For almost 50 years, Kennedy Space Center has been an economic and cultural staple in Brevard County. It's why people know about the area, and traditionally a big reason why they visit.

In recent years, however, as shuttle launches became almost routine and then temporarily stopped following the February 2003 shuttle Columbia explosion, space-related tourism declined from as much as 15 percent to less than 5 percent of the Space Coast's $1 billion tourism industry, according to Rob Varley, executive director of the Space Coast Office of Tourism, in a *Miami Herald* interview from late 2005. While some tourism expenditures shifted to other sources, overall tourism dollars declined with the launch hiatus.

From 1989 until the Columbia explosion, a space shuttle had launched from Kennedy every other month, on average, according to NASA. But the shuttle was grounded for two and a half years after the Columbia accident.

Space Coast tourism officials then shifted tactics. Rather than rocket launches, they touted beaches, nature tourism, and cruise ships.

But the shuttle returned to flight in July 2005, filling all of the area's 8,300 hotel rooms for the launch, according to the *Miami Herald*. Space Coast tourism officials thus staged a launch of their own in the fall of 2005, hatching a new marketing campaign featuring an astronaut.

Facts about the Space Coast

- The first rocket launch from Cape Canaveral was on July 24, 1950.
- Although Cocoa Beach was the setting for the sitcom *I Dream of Jeannie*, only one episode was filmed there.
- Titusville was founded by Col. Henry J. Titus, a New Jersey-born adventurer who in 1880 persuaded the Florida Legislature to make Titusville the seat of Brevard County.
- Merritt Island, on which NASA's John F. Kennedy Space Center sits, is an unincorporated municipality governed by Brevard County.

Growth despite tragedy

Given its history, any change at Kennedy Space Center radiates through the area, Slotkin said. In his view, the Space Coast is a boom—or at least boomlet—area.

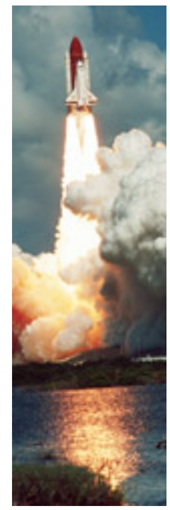
While it has not grown as rapidly as Orlando or Tampa, Brevard County added more than 10,000 people a year from 1998 to 2005. During that period, the county's population grew by 72,257 people, to 531,250, according to the Economic Development Commission of Florida's Space Coast, which uses figures from the U.S. Census Bureau.

Brevard's economy has grown alongside the population. The Palm Bay-Melbourne-

Titusville metropolitan statistical area, the Space Coast's major metro area, added 20,600 jobs from April 2001 to April 2006 after adding 22,100 jobs in the previous five years, according to figures from the Bureau of Labor Statistics. Nonagricultural employment totaled 214,400 as of April 2006.

In February, the Milken Institute, a Los Angeles-based economic think tank, ranked Palm Bay-Melbourne-Titusville number one in its Best Performing Cities Index, which rates 379 U.S. metropolitan areas on job creation and retention. The Space Coast boasts "a diversified economy, with many aerospace and defense-related industries, as well as space-related tourism and a growing number of retirees," the institute reported.

Cruise ships come and go, a lot



On the Space Coast, space ships aren't the only ships. Brevard's Port Canaveral consistently ranks among the world's three busiest cruise ship ports, according to the International Council of Cruise Lines. In 2005, 4.4 million revenue passengers came through the port, according to statistics maintained by the Canaveral Port Authority, which operates the facility.

The Canaveral Port Authority wants those cruising tourists to stick around. In December, the Port Authority chose Cocoa Beach-based Ron Jon Surf Shop to build a $147 million hotel and resort complex on 26 acres next to the port. Ron Jon operates a dozen stores and plans to enter the tourism business this year with the Canaveral resort and a planned surf park in Orlando that will allow surfers to ride machine-generated waves in large pools.

That sort of growth has created economic momentum and helped spur soaring real estate values. It has also left the county, like many fast-growing areas, struggling to keep up with infrastructure needs. Brevard faces more than $360 million in unfunded road needs, according to *Florida Today*, and constant pressure for more schools and public services.

Environmental protections in place

As the area—long perceived as more laid-back and cheaper than Miami, Tampa, and Orlando—rapidly develops, Brevard County has a land preservation program in place that residents view as a significant quality of life amenity and growth management tool. Since 1990, Brevard's taxpayer-funded Environmentally Endangered Lands (EEL) Program has acquired about 19,000 acres of ecologically sensitive forests and wetlands, said Mike Knight, the program manager.

The acquisitions have not always been easy. In many cases, EEL's legally mandated 60 days between appraising a tract and buying it has proved enough time for a property's price to jump above the two-month-old appraised value, Knight explained.

In such a market, some owners of land that EEL wants to preserve would rather take more lucrative offers. Knight figures the EEL program will do well to acquire a fourth of the remaining 55,000 acres it has targeted.

Even with the importance of the space program to the region, residents place value on keeping their terrestrial affairs in order. Space may be the final frontier, but it's not the only one.

This article was written by Charles Davidson, a staff writer in the Atlanta Fed's public affairs department.

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FEDERAL RESERVE BANK *of* ATLANTA

Economic Research

Q & A

‘I Truly Think Smart Codes Are a Long-Term Benefit’

An Interview With Dave Dennis, President and CEO of Specialty Contractors & Associates Inc.

The destruction wrought by hurricanes Katrina and Rita has given those involved in the rebuilding effort the opportunity to introduce new approaches to the way communities are developed.

Dave Dennis, a builder in hard-hit Gulfport, Miss., is a proponent of smart codes, which emphasize the preservation of historic buildings, walking areas, population density (and the resulting reduction in urban sprawl), and the incorporation of green space.

Dennis talks about these concepts and how the charrette process, which brings together stakeholders, including municipal officials, developers, and local residents, can play a role in forging progress in the recovery process.

Photo by Flip Chalfant

DAVE DENNIS

Title	President and Chief Executive Officer
Organization	Specialty Contractors & Associates, Inc.
Function	Specialty Contractors & Associates Inc. is a construction firm specializing in commercial and industrial interior/architectural work.
Web site	www.specon.biz
Other	Dennis serves on the board of directors of the New Orleans Branch of the Federal Reserve Bank of Atlanta. He is past president pro tem of the Mississippi Economic Development Council and past chairman of the Mississippi Business & Industry Executive Political Education Committee. Dennis is past president of the Mississippi Gulf Coast Economic Council and was named Mississippi’s “Volunteer of the Year” by the Mississippi Economic Development Council in 2000.

EconSouth: *What is your stance on smart building codes that encourage compact, mixed-use neighborhoods and facilitate historic preservation?*

Dave Dennis: For the record, I am for smart codes. I embrace the charrette process within the Governor’s Commission on Recovery, Rebuilding, and Renewal for Mississippi. That commission was the catalyst for the charrette process, which architect Andrés Duany oversaw in Mississippi. I chaired the cultural and historical preservation committees and the museum process, so basically it’s [a matter of] trying to guarantee a melding of the old with the new.

I’m a commercial contractor, so theoretically I should favor the “let’s go build 40-story condos, wall-to-wall, and proliferate the whole coast with a concrete jungle” idea. I’m a thousand percent opposed to that.

ES: *Will communities make smart codes obligatory or optional?*

Dennis: Communities will either embrace them or not embrace them. I don’t think they would be adopted as optional because that could create a competitive disadvantage for those who went with a smart code. I suspect they will be adopted in six of the 11 coastal communities of Mississippi. I don't know that for a fact, but it's my guess.

In Pass Christian, where I live, they are probably going to adopt smart codes with certain colloquial adaptations. In other words, they'll embrace it in principle, but they'll have some variations and variances reflecting local community directives.

ES: *What features of smart codes are likely to place the biggest constraints on developers?*

Dennis: I can talk about that from the perspective of Pass Christian, which is a very historic area. The front road of Pass Christian, called Scenic Drive, where I live, is one of only three streets in America that has a national historic preservation designation. The street was literally three miles of some of the most beautiful antebellum homes you've seen. Most of those are gone. My wife and I will probably be building a three- to four-story mixed-use, live-work building on the site of what was called the Union Quarters, which was the building that housed the Union soldiers during the Civil War when they occupied Pass Christian. We're going to take history and try to blend it with New Urbanism.

In terms of Pass Christian, I think a mixed-use, walkable community, live-work environment will manifest itself in a four-story maximum height in the small central business district. As you taper out, acceptable maximum heights will vary. Prior to Katrina, the maximum height in Pass Christian for either residential or commercial properties was 50 feet, unless you had five acres or more. Then, you could go to 70 feet. In terms of constraints, smart codes could really relax the building code.

Photo by Flip Chalfant

ES: *How do regulations from the Federal Emergency Management Agency (FEMA) affect the rebuilding effort?*

Dennis: FEMA is probably going to mandate an 18-foot minimum building height, which is likely a good number. That elevation should be a bare minimum, particularly if you want flood insurance. It's hard to ask a taxpayer to pay to rebuild something that has washed away once, and then it washes away a second time.

Some areas and velocity zones, which are waterfront areas near tidal basins and tidal flow bays, are going to be maybe 21 feet, and some other areas that are not prone to flooding may be 16 feet. And some of the smart codes are going to suggest if you have a four-story height, you probably would have parking underneath it, which in reality would make it a five-story building.

ES: *With final zoning decisions yet to be made, what is your current approach to rebuilding?*

Dennis: My wife and I intend to rebuild within the general spirit of the results of the charrette process. In all probability, those qualities would be general building techniques and aesthetic traits that we would incorporate into a building, whether the smart codes are adopted or not. We are also looking at building in an environmentally responsible manner.

ES: *Can the cost of implementing smart codes have the effect of forcing some people to leave the area because of economics?*

Dennis: If you put too much emphasis on stringent building codes, be they smart codes or whatever, then you have to ask whether some people who make up those intriguing and intrinsic mixes within your community will be able to return and rebuild.

At this point, not much rental housing is available. There aren't many apartments. There's a dramatic deficiency of housing on this coast. If you don't have apartments downtown, then you aren't going to have other options and other opportunities. The affected people would be the developers and builders who are contemplating building, but financially they're on the bubble of being able to proceed. That will affect developers and builders. Smart codes would also indirectly affect people who, let's say, had a condo or housing project that they wanted to call affordable housing. If it's a marginal deal in the first place, and if incorporating smart codes will add up to 10 percent to the cost of a project, that may be enough to stop the deal.

ES: *What are the features in the smart code that add the most cost?*

Dennis: Generally, it's the walkable area. Smart-code proponents want to build near the sidewalk or near the road, as opposed to the traditional, suburban thinking that a building sits back off the property and has parking in front. Smart codes suggest building with an increased footprint on the property.

Other higher cost items would include aesthetics, such as courtyards with significant landscaping, mill-working on doors, cast-iron and wrought-iron lamps, carriage lamps, those kinds of aesthetic upgrades . . . items that on a good building you probably would do anyway.

ES: *In mixed-use structures, do you expect the residential component to be established before the retail?*

Dennis: It's very possible that residential could carry retail, but I truly think both have to be lockstep, hand-in-hand. As you have additional people moving into town, you're going to have the smaller shops and retailers opening. Conversely, if you've got a live-work situation, if you have retail coming in, the viability of residential property in close proximity fuels additional retail development. But initially, you could have residential coming into mixed-use buildings prior to retail truly taking off. We anticipate, in all probability, either giving moderated rent in the first year or two or deeply discounting rent to people coming into the building just to let them get on their feet because a lot of people are in startup business mode.

ES: *Regardless of what zoning decisions are made now, do long-term risks exist for the area*?

Dennis: The number-one long-term risk would be another category 5 storm coming ashore. I really don't see significant long-term detriments relative to smart codes or to upgraded building codes. I truly think smart codes are a long-term benefit because you're not going to have to go through the same rebuilding process.

ES: *Was there an economic correlation with the damage caused by Hurricane Katrina, where higher-income areas fared better than lower-income ones?*

Dennis: That may be a stereotypical story that you're getting from the national media. I'm going to suggest to you that Katrina's destruction cut across all economic, all financial, all racial, all ethnic strata. No one got a pass on this storm along the Gulf Coast—no one.

Did it cause more damage and devastation in some of the lower socioeconomic areas? In parts of New Orleans, yes, that would be true. But then you can go to the Lakeview subdivision in New Orleans, where homes typically cost from $300,000 to $600,000, and they're totally wiped out.

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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

? Global Management Business Automotive USA, a Korean auto parts supplier, will build a plant in Auburn producing components for the Hyundai factory in Montgomery and the Kia plant planned for west Georgia. The $28.6 million plant will employ 200 when it begins operations in about two years.

? Birmingham's industrial buildings were 96 percent occupied at the end of 2005, and leased industrial space finished the year at 89 percent, according to a report from Graham & Co., a Birmingham-based real estate firm. A company spokesman said the overall Birmingham market is tighter than it has been in the past four or five years.

? A Swedish medical services company, Gambro Renal Products, recently broke ground on a manufacturing plant in Opelika. The plant will bring 160 new jobs to the area. Gambro will invest more than $100 million in the project.

? AOL is closing its Jacksonville call center, laying off 780 employees there. A company spokesman attributed the layoffs to improved self-service tools that reduced demand for call center support. The spokesman said call volume to AOL overall has dropped by about 50 percent since 2004.

? Single-family existing home sales in Florida totaled 18,881 in March 2006, down 22 percent from March 2005, according to the Florida Association of Realtors. While industry analysts predict that home price growth will eventually cool, annual price appreciation currently remains in the double digits in many markets throughout the state.

? Smith Travel Research reported that Orlando hotel room occupancy rates were 80 percent, down nearly 8 percent from March 2005. March 2006 resort tax collections in Orange County, where Orlando is the county seat, fell about 2 percent compared with a year ago. Tourism officials attribute the weak March figures to Easter's occurring in April this year, shifting some vacation spending out of March.

? Gulfstream Aerospace Corp., which employs 4,300 workers in Savannah, is planning a $300 million expansion. The project will add 1,100 jobs over the next seven years, according to company officials.

? Fruit of the Loom announced that it will close a yarn and textile plant in Rabun Gap in August. As a result, 930 people will lose jobs. In the announcement, a spokesman cited pressure from Chinese and other Asian imports.

? Mycoal Products Corp. is bringing 100 new jobs to Gwinnett County this summer. The Japan-based firm recently announced that it would locate its North American headquarters in Suwanee. The company manufactures a variety of products, including gloves and neck braces, that use chemical packages to warm the body.

? The Port of New Orleans has announced that it is ready for cruise ships again, and most cruise lines are expected to return by October. Construction is under way at the port's new $37 million Erato Street Cruise Terminal, which is scheduled for completion by mid-September.

? Royal Dutch Shell announced that its Mars oil and natural gas extraction platform will resume normal production by late June. The platform, which accounts for about 5 percent of all Gulf of Mexico oil and natural gas production, was the largest one damaged by Hurricane Katrina.

? Six Flags New Orleans will not open for the 2006 season because of damage from the flooding caused by Hurricane Katrina, according to a company spokesman. The company did not provide information on the park's status in 2007.

? The Beau Rivage casino is scheduled to reopen August 29. Also expected to resume operations this year under new ownership are what had been the Grand Casino in Gulfport and the Grand Casino in Biloxi. Casino Magic in Bay St. Louis, Boomtown Casino, and Treasure Bay (the latter two in Biloxi) are also expected to reopen this year. Collectively, these casinos will employ 6,500 employees.

? In March 2006, the three Gulf Coast casinos still operating took in $63.8 million in gross gaming revenues, compared with $117.8 million in March of 2005. This loss was partially offset by increased revenues—$159.7 million in March 2006 compared with $141.7 million in March 2005—generated by casinos in counties up the Mississippi River.

? Sales of large sport utility vehicles produced at the Nissan plant in Canton fell by double-digits in March compared with a year ago as consumers turned to more fuel-efficient vehicles, according to Nissan's figures.

? Quebecor World Inc. will close its book printing plant in Kingsport, eliminating about 425 jobs. The closure should be completed by the third quarter of this year. Quebecor, one of the largest commercial printers in the world, prints products including magazines, books, and catalogs.

? In Cookeville, Russell Stover Candies laid off 475 employees and turned its 30-year-old candy factory into a warehouse. The move comes less than a year after the company laid off 400 people when it eliminated two of the plant's three shifts. A company spokesman declined to specify causes of the cutbacks.

? A mix of new attractions and restaurants helped make 2005 a record year for Pigeon Forge's tourism industry. Gross business receipts totaled more than $777 million last year, up 9 percent from 2004. A number of new attractions are debuting this year, including WonderWorks, an educational amusement park.

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

Illustrations by Jay Rogers

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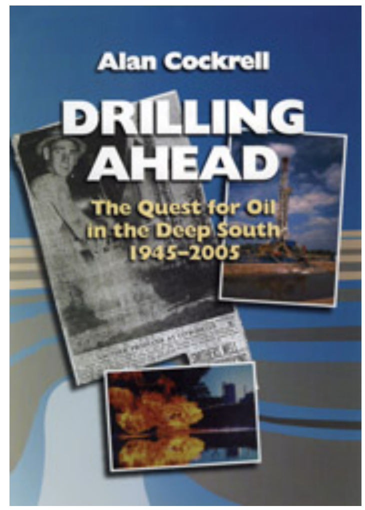
Economic Research

BOOK REVIEW

Drilling Deeply Into Southeastern Oil History



University Press of Mississippi
ISBN 1-5780-6811-8, $35

As oil prices hit a new nominal high this year, politicians, businesspeople, and citizens have made oil and gas a frequent topic of conversation. Energy traders are hanging on every bit of news about diplomatic concerns over Iran's nuclear policy, political unrest in Nigeria, and energy nationalization in Venezuela.

But oil is produced at home as well as abroad.

While the United States is the largest importer of oil, it is also one of the top five producers of oil in the world. And the South has played a significant role in the nation's oil and gas business; nearly half of current U.S. production comes from the South and its offshore federal waters. Although Texas, Louisiana, and the Gulf of Mexico have had the lion's share of discoveries, Alabama, Mississippi, and Florida have had their own finds and, as a result, experienced oil fever, albeit to a lesser extent than other areas did.

The causes and history behind oil fever in the Southeast might be unknown to most of us unless we read *Drilling Ahead: The Quest for Oil in the Deep South, 1945–2005* by Alan Cockrell, a petroleum geologist. While Drilling Ahead doesn't cover mainstream oil production in the Southeast, it places the search for oil—and the frequent deadends in that search—in a historical context.

Cockrell uses interviews, periodicals, and public records to depict the people behind the discoveries. He intended this book as a continuation of Dudley Hughes' 1993 book, *Oil in the Deep South: A History of Oil Exploration in Alabama, Mississippi, and Florida, 1889–1945*. Cockrell's book covers the peak oil production period as well as the early, large finds and their subsequent declines, particularly in Alabama and Mississippi (Florida had only one major field, the Jay Field, with less extensive overall exploration). His history does not include the much larger finds in Louisiana.

The book compiles a plethora of information about who made the oil discoveries, emphasizing the importance of the individuals behind the oil-producing wells and the numerous dry ones. Without these personalities at play, Alabama, Mississippi, and Florida would never have entered into oil production. The risks were huge, but so were the potential rewards. That combination is the main driver of oil fever.

Cockrell combines facts as well as personal stories to reveal the importance of these speculators and their drive to discover and market Southern oil and gas.

The driller personality

The search for oil can be addictive, the author shows—a gamble with large payoffs for the people with intelligence, people skills, luck, the right people around them, and risk-loving behavior.

The oil and gas business has few sure bets: From not knowing what will be at the end of the well (ranging from nothing to poisonous natural gas, perfect crude oil, saltwater in the oil, or natural gas that needs a new pipeline to get to market) to political issues (such as price controls) to fluctuating international demand (based largely on the strength and demands of numerous economies) to the rapid increase of supply in other countries (especially the Middle East).

Drilling also has its excitement. Cockrell describes oil or gas bursting into the air, one geyser even ruining the paint of one observer's brand-new car. The man did not seem to mind the loss; the paint job was well worth the thrill of seeing the thick crude oil exploding out of the earth.

Engulfed with details

For readers not already familiar with oil places and people, the book might overwhelm because of all the minute details. Instead of focusing on the life and work of a few key personnel in the oil and gas field, the author overpowers the reader with names and details of hundreds of people along with a brief history of their lives or their companies.

The important names come up again and again throughout the book and are recapitulated at the end, but keeping track of the key players in the sea of names early on is challenging. Cockrell uses chronology and location to structure the book, instead of following a select few for their entire careers.

By trying to cover the entire 1945–2005 period, Cockrell gives the reader a thorough overview of the people, the geology behind petrochemicals, the financial backing, and the simple fortitude it took to find oil. These oil players become real people with stories of friendships, superstitions, and other interesting human characteristics.

Drilling Ahead is a significant historical reference for the strongest years of oil production in Alabama, Florida, and Mississippi. The book documents for future generations an important part of these states' histories. While Cockrell's account may try to include too much information about oil exploration in the region, it may be that the author himself has his own bit of the oil fever.

This article was written by Sarah Dougherty, an economic analyst at the Atlanta Fed.

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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.

Fed economists point to financial system risks from housing GSEs

The two largest portfolios of residential mortgage debt in the United States are held by Fannie Mae and Freddie Mac, which are government-sponsored enterprises (GSEs). Together, their portfolios account for about 20 percent of a $7.7 trillion market.

Operating with unique congressional charters, which have created a perception in financial markets that their obligations are guaranteed by the federal government, these two entities maintain investment portfolios that have become increasingly controversial because of their size, their management, and the systemic risks they pose to the financial system, according to three Atlanta Fed research economists.

A recent working paper by Robert Eisenbeis, Scott Frame, and Larry Wall discusses these large investment portfolios' risk. They note that the Fannie Mae and Freddie Mac mortgage portfolios have become the central policy issue in the congressional debate in terms of the GSEs' overall safety and soundness and an appropriate approach to supervising and regulating them.

The authors provide a historic framework regarding Fannie Mae (formerly known as the Federal National Mortgage Association), created in 1938, and Freddie Mac (also known as the Federal Home Loan Mortgage Corp.), an entity created by Congress in 1970. They also describe the dramatic growth of the GSEs, noting that Fannie Mae (with more than $1 trillion in assets in 2003) and Freddie Mac ($803 billion in assets in 2003) are the second- and third-largest U.S. companies in terms of asset size.

The authors evaluate a number of policy options for reducing Fannie Mae's and Freddie Mac's enormous mortgage-related investment portfolios. They conclude that limits on the portfolio sizes—either assets or liabilities—would be the most effective approach to mitigating their inherent systemic risk.

Working Paper 2006-2
April 2006

Peering inside the "Black Box" of credit and debit card transactions

Each year, hundreds of millions of credit and debit cardholders make billions of transactions worth trillions of dollars. Yet few consumers are aware that such transactions travel through, and are made possible by, a highly evolved group of intermediaries that sign up merchants to accept cards, handle card transactions, manage the dispute-resolution process, and, along with regulatory agencies, set rules that govern card transactions.

A recent article by Ramon P. DeGennaro demystifies the "Black Box" of the transactions process for payment cards. After describing a simple transaction with a private-label card, the author then considers the complications introduced by general-purpose cards, such as Visa and MasterCard, emphasizing the key roles of merchant acquirers and card processors.

Merchant acquirers, who sign up merchants to accept cards and who provide or arrange for processing, bear most of the risk of loss if merchants fail to make good on credit transactions disputed by customers. To guard against such losses, acquirers carefully evaluate the credit quality of merchants seeking or using the acquirers' services.

The article delineates some of the risk factors associated with specific industries, merchant types, and transactions that influence the price merchants pay for acquirers' services. Finally, the article discusses some ways that merchant acquirers manage risk, especially the risk of fraud.

Economic Review
First Quarter 2006

Examining the changes in female labor force participation
For policymakers, identifying the factors contributing to changes in labor force participation over time is important for setting appropriate policy regarding the nation's productivity. Although the factors contributing to such changes over the past six decades have been well documented, more recent trends in women's labor force participation beg further scrutiny.

In a recent article, Julie Hotchkiss dissects the changes in the labor force participation rate over the past 30 years among women aged 25 to 54. Using Current Population Survey data from the Bureau of Labor Statistics, the author focuses especially on the unprecedented 2.7 percentage point decline in women's participation rate between 2000 and 2005. While changes in the observed behavior of educated women and in characteristics such as the number of young children have contributed to the decline, the results suggest that the largest contributors have been unobserved changes.

From a policy perspective, the presence of unobservables is not very satisfying or informative. Nonetheless, the large role of unobservables in determining labor force participation rates suggests that a rebound to participation rates seen in 2000 is not obviously forthcoming or likely to be easily predictable.

The next step in studying these trends, the author believes, is further investigation of how labor force participation decisions are made in a family context and how these decisions have changed over time.

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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]	**2006Q1**	**1,968.7**	**7,981.9**	**4,053.9**	**1,757.2**	**1,135.5**	**2,761.9**	**19,659.1**	**134,721.7**
% change from	2005Q4	0.6	0.8	0.7	1.6	0.9	0.1	0.7	0.4
% change from	2005Q1	2.2	3.8	2.3	–8.8	0.3	1.3	1.5	1.5
Manufacturing Payroll Employment (thousands)[b]	**2006Q1**	**301.5**	**399.6**	**445.9**	**142.4**	**176.0**	**404.4**	**1,869.8**	**14,132.7**
% change from	2005Q4	0.3	–0.4	–0.4	–1.2	0.2	–0.4	–0.3	–0.7
% change from	2005Q1	2.9	0.8	–0.1	–6.8	–2.3	–1.3	–0.5	–0.3
Civilian Unemployment Rate[a]	**2006Q1**	**3.6**	**3.1**	**4.8**	**4.6**	**8.2**	**5.1**	**4.2**	**4.7**
Rate as of	2005Q4	3.7	3.5	5.3	10.2	9.3	5.5	5.1	4.9
Rate as of	2005Q1	4.3	4.1	5.1	5.5	6.9	5.5	4.8	5.2
Existing Single-Family Home Sales (thousands of units)[c, d]	**2006Q1**	**133.2**	**469.6**	**245.2**	**98.8**	**70.4**	**178.0**	**1,195.2**	**6,796.7**
% change from	2005Q4	–2.1	–5.9	–1.8	1.2	9.3	0.7	–2.3	–2.1
% change from	2005Q1	8.5	–15.7	7.7	22.9	17.3	10.4	–1.2	–2.1
Single-Family Building Permits YTD (units)[b]	**2006Q1**	**6,753**	**51,257**	**22,006**	**5,409**	**3,218**	**10,359**	**99,002**	**374,331**
% change from	2005Q1	10.1	3.5	2.0	5.5	21.3	13.5	5.2	1.3
Personal Income ($ billions)[c]	**2005Q4**	**135.9**	**607.1**	**289.4**	**128.2**	**76.6**	**189.0**	**1,426.3**	**10,490.7**
% change from	2005Q3	2.3	1.9	1.9	97.9	7.0	1.4	6.8	2.3
% change from	2004Q4	5.4	6.6	5.6	1.6	5.3	4.5	5.4	4.7

		Atlanta	Birmingham	Jacksonville	Miami	Nashville	New Orleans	Orlando	Tampa
Total Payroll Employment (thousands)[b, e]	**2006Q1**	**2,358.0**	**520.9**	**618.2**	**2,436.8**	**739.2**	**418.7**	**1,067.4**	**1,314.1**
% change from	2005Q1	3.0	1.8	3.6	3.2	2.8	–31.2	4.7	3.3

Civilian Unemployment Rate[b, e]	**2006Q1**	**4.8**	**3.6**	**3.1**	**3.3**	**4.3**	**6.6**	**2.9**	**3.1**
Rate as of	2005Q1	5.3	4.1	4.3	4.4	4.7	5.2	4.0	4.2
Office Vacancy Rate[b]	**2006Q1**	**19.2**	**—**	**13.5**	**10.5**	**10.3**	**—**	**9.3**	**12.6**
Rate as of	2005Q1	22.2	—	16.9	14.3	11.0	—	13.3	15.0
Median Existing Home Sale Price (thousands of $U.S.)[b]	**2006Q1**	**168.4**	**163.4**	**195.6**	**377.0**	**165.3**	**175.0**	**260.5**	**207.3**
Median price as of	2005Q1	159.5	152.1	164.4	339.0	152.1	142.3	194.4	172.8

[a] Seasonally adjusted

[b] Not seasonally adjusted

[c] Seasonally adjusted annual rate

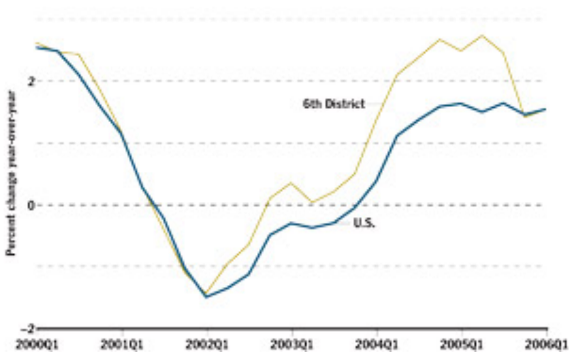
[d] Data include recent rebenchmarking and other data revisions.

[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 Economy.com.

For more extensive information on the data series shown here, see www.frbatlanta.org/publica/econ_south/2006/q2/dist_data.cfm.

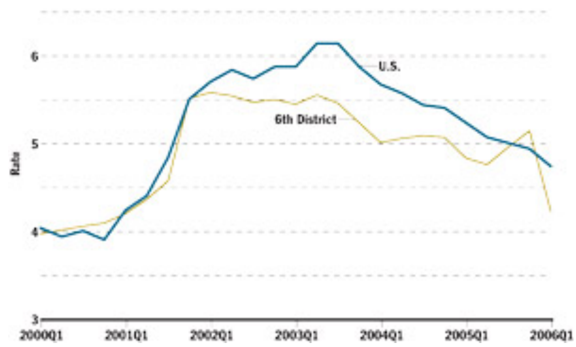
Total Payroll Employment

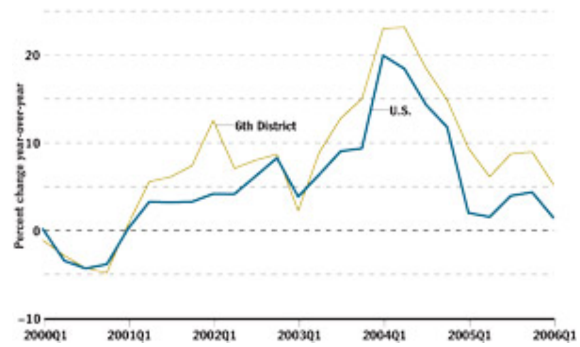


Manufacturing Payroll Employment

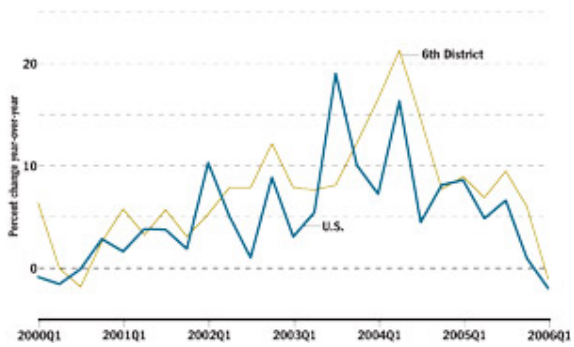
Civilian Unemployment Rate

Single-Family Building Permits YTD

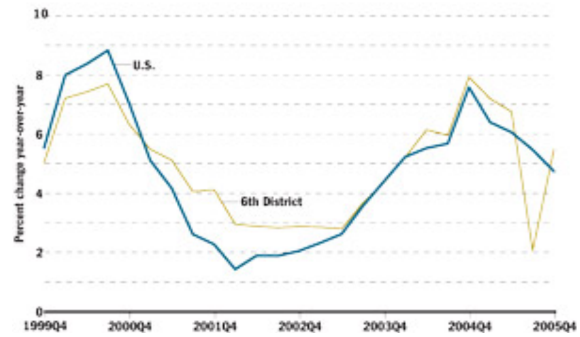




Existing Home Sales



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

Peachtree City photo and illustration courtesy of Peachtree City, Ga.; Levittown photo courtesy of the Library of Congress

From the original Levittown in New York (top left), a planned—albeit cookie-cutter—suburb developed in the 1940s, to Peachtree City, Ga., a planned community built around the concept of villages complete with shopping, 90 miles of paths crisscrossing the community, and 8,000 golf carts traversing bridges and lakes, the idea of New Urbanism has taken root.

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