ECON SOUTH

Volume 9, Number 3
Third Quarter 2007

FEATURES

DEPARTMENTS

110° in the Shade: Drought Sears the Southeast

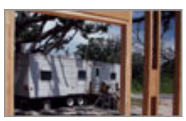
In the summer of 2007, the Southeast experienced the sort of drought that historically occurs only twice in a century. The parched region and its large agricultural sector are still adding up the toll that Mother Nature exacted.

Latin Multinationals Become Global Headliners

Latin America–based multinational firms are part of a global movement of large companies from emerging economies that are pursuing profits and market share in developed nations, often through acquisitions.
EconSouth Now | Español | Português

The Past, Present, and Future of Futures

The exchanges on which futures contracts are traded have come a long way from their 19th-century origins and now play a major role in the global financial system.



The Gulf Coast: Still Laboring Toward Recovery

More than two years after Hurricane Katrina roared through the Gulf Coast, rebuilding continues. Despite the considerable progress made, much remains to be done to achieve normalcy.

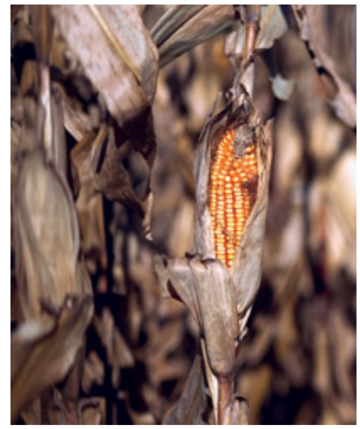
FEDERAL RESERVE BANK of ATLANTA
Economic Research

ECON SOUTH

Volume 9, Number 3
Third Quarter 2007

110° in the Shade: Drought Sears the Southeast

Mother Nature turned up the heat on the South in the summer of 2007. For the region's large agricultural sector, the long, hot summer was a season of discontent.



The dark red splotches on the U.S. Drought Monitor map vividly depict the experience of the Southeastern United States in the summer of 2007. Like cloudy spots on an x-ray, these patches indicating a lack of rain are foreboding for many of the region's climate-sensitive industries.

Other colors on the map also indicate less severe droughts across the country, but the dark red hovers only over the Southeast (see the map). That color represents a D4-level drought as designated by the maps' authors, a coalition of federal and academic agencies. These organizations include groups within the U.S. Department of Agriculture (USDA), the U.S. Department of Commerce, the National Oceanic and Atmospheric Administration (NOAA), the U.S. Geological Survey, and the National Drought Mitigation Center at the University of Nebraska–Lincoln.

One remarkable characteristic of a D4-level drought is its frequency: only once every 50 years. Areas classified as D4 experience exceptional, widespread crop and pasture losses as well as emergency water shortages.

While the full impact of the 2007 drought won't be known for some time, preliminary information and anecdotes help to identify the industries in the region most affected by this event. Many industries—especially agricultural concerns—were set back by the weather, but a few isolated clusters of businesses benefited from the drought.

Scarce water, blistering heat

The Drought Monitor uses a combination of measurements including soil moisture, stream flow levels, precipitation, and other variables to gauge a drought's impact. Three Southeastern states have particularly suffered.

According to the Drought Monitor, at one time this summer just slightly more than 50 percent of Alabama was enduring the once-every-half-century D4-level drought, and 90 percent of the state endured a D3 or higher drought. D3 conditions are only slightly less damaging than D4, occurring once every 20 to 30 years and featuring major crop and pasture losses and widespread water shortages or restrictions.

Almost one-fourth of Georgia has reached D4 levels while more than 80 percent has been D2 or worse. D2 occurs once every 10 to 20 years and is defined as having crop and pasture losses likely with water shortages and restrictions.

With less than 1 percent of the state reaching D4, Florida was less affected than Alabama or Georgia. However, 95 percent of the state has been hit by one of the Drought Monitor's five drought classifications (D0 through D4), which means crops grow slowly and water deficits linger.

Related Links

On the Web:

U.S. Drought Monitor

Drought Impact Reporter

U.S. Geological Survey WaterWatch

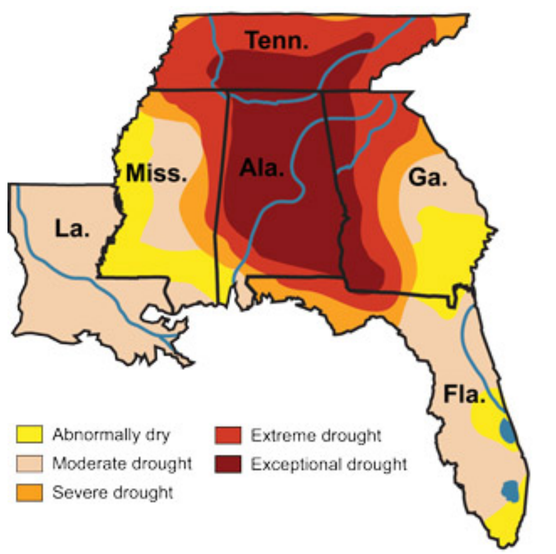
U.S. Water Monitor

As the Drought Monitor notes, much of the region has implemented a mix of mandatory and voluntary watering restrictions. In Alabama no statewide restrictions exist, leaving municipalities to determine their own strategies. Birmingham implemented mandatory watering restrictions, but most other areas made restrictions voluntary. Georgia enacted statewide restrictions, but five metro Atlanta counties imposed even more stringent guidelines. Two of those counties banned watering altogether. Florida also implemented statewide watering restrictions.

Perhaps nothing illustrates the impact on the region's water supply as much as the drop in elevation in Lake Okeechobee in south Florida. Local residents like Ed Jones, president of Angus Investments Inc. in Port St. Lucie, Fla., are concerned about the depth of the 730-square-mile lake.

Jones, who has been involved in farming and real estate in south Florida for more than three decades, said the lake's elevation, normally at 13 to 14 feet, sank to a record low of nearly eight feet at one point this summer, threatening the water supply of the Miami-Dade area. "The previous drought we had that was this severe got the lake down to about 8.2 feet in 2000," he said. "This drought has pretty much been a recurrence of the severity we had then."

Drought Conditions in the Southeast



Note: The map depicts conditions on Aug 14, 2007.
Source: U.S. Drought Monitor

Numbers don't tell the losses . . . yet

Although the drought has adversely affected agriculture, forests, and livestock, quantifying the losses has only recently begun. Observers in agribusiness see signs, though, that make them wary of the final tally.

The USDA's initial crop production report for 2007, released Aug. 10, predicted a mixed bag of gains and losses on crop yields, but its predictions were certainly nothing that looked catastrophic. In Alabama, for instance, corn production was projected to fall 9.7 percent (from 72 bushels an acre to 65) while winter wheat production in Georgia was projected to slump 22 percent (from 49 bushels an acre to 38).

Yields actually increased for some crops, such as sugarcane in Florida (up 8.7 percent, from nearly 36 tons to 39 tons per 1,000 acres), corn in Georgia (up 2.7 percent from 112 bushels per acre to 115), and soybeans in both Georgia and Alabama (up 20 percent and 30 percent, respectively). The report projects cotton as both a winner and loser: up nearly 13 percent (from 579 pounds per acre to 652) in Alabama but down in Florida (0.5 percent from 789 pounds per acre to 785) and Georgia (3.2 percent from 818 pounds per acre to 792).

Even in cases where yields fell or failed to meet expectations, some of this performance can be blamed on an early April freeze, explains Brad Rippey, an agricultural meteorologist for the USDA. "A lot of Southeastern producers had their grass growing beautifully up into March and early April, and then the freeze burned off all the vegetation," Rippey said. The subsequent drought delivered the second half of a one-two punch to crops.

"Some of the corn that was planted early and was hit by the freeze was either replanted or just never really recovered because the drought intensified after the freeze," Rippey said. "And the corn that was replanted got hit by the drought because it was trying to go through its critical stage of tassling and silking just as the drought was peaking in the spring. It was a really nasty combination."

But whether alone or in tandem with other events, the drought's effects are what has primarily stung the Southeast.

All crops were affected, Jones said, but those with a longer maturity period appeared less devastated. Annual crops like sugarcane, citrus, or sod with a more extended growing cycle could suffer drought conditions as part of the cycle and still recover. Their yields might be affected but not to the same degree as those for short-term crops that mature in 60 or 90 days. "The shorter the crop's growing cycle, the more effect the drought had on that crop," he noted.

Timber!

The timber industry also took hard hits on multiple fronts, according to Chris Issacson, executive vice president of the Alabama Forestry Association; he noted that between 80 percent and 90 percent of last winter's regeneration planting fell victim to the drought. "That far exceeds the acceptable threshold," he said. "If mortality gets up around 30 to 40 percent, you look at replanting. From a financial standpoint, the additional cost in replanting may range anywhere from $60 to $70 up to a couple of hundred dollars an acre."

Established trees also faced challenges.

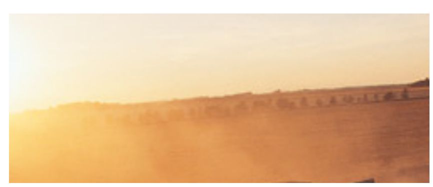
"We're seeing a decrease in tree growth," Issacson said. "We typically go through dry cycles and wet cycles. So you would hope that at the end of a 25-year rotation everything evens out and that, on average, growth is where it's supposed to be. But the trees that are growing are stressed. We're seeing the beginning of additional or increased mortality due to insects and disease.

"Sometimes there's a lag between the event that causes the stress and the actual mortality that may follow," he added. "We'll be feeling this into next year with the insects and disease. While the past few years have been dry, they haven't been nearly this extreme. It's kind of like piling on. We haven't seen anywhere near the level of mortality that we're seeing this year."

Pulp, paper, and livestock suffer

Even after they're harvested, trees face challenges.

"Our pulp and paper industry is very water intensive," Issacson said. "To discharge the small wood fiber that's coming out of the process, mills have to mix it with a certain amount of water before they can legally discharge it. When there's not enough water, they'll hold that process water in their holding ponds, and they've only got so much capacity."



Three Alabama paper mills have been filling their ponds with process water, awaiting the point when they can release it. "They could potentially wind up shutting down due to lack of flow," Isaacson said. "We've got 13 pulp paper facilities in the state. You can imagine the economic impact that would occur if one or more had to shut down."

The livestock industry is better able than the agriculture and forestry industries to quantify the drought's effects, and the figures being calculated are confirming earlier fears, especially in the state hit hardest by the drought, Alabama.

"We are in the phase of the cattle cycle where a buildup in numbers normally begins," said Billy Powell, executive vice president of the Alabama Cattlemen's Association. "In 2006 we saw a small increase in numbers in spite of the drought." This year should have been a time where Alabama's cattle numbers really grew, he noted, but instead no increase will occur.

The drought took a significant toll on the state's hay production, which fell to 1.7 tons per acre from the normal two tons, according to the USDA's Rippey. The shortfall forced cattle producers to reduce the size of their herds, Powell said. "Some small herds, 30 or fewer cows, simply sold out while large herds reduced their brood cow numbers by half," he said.

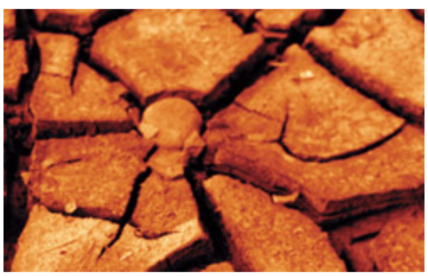
"In June, 95,000 head of cattle were sold through our auction markets compared to 76,000 last year and 45,000 head in 2005, which was a normal year," Powell added. "I expect Alabama's cattle numbers to drop to 50-year lows at a time when cattle have been one of the most profitable segments of the farm economy."

Winners outdoors and indoors

In areas where an abundance of sunshine didn't wither crops or affect animals, the hot weather was welcome. The construction industry basked in a busy schedule.

"In terms of highway construction, the drought is a good thing," said Billy Hammack, president of C.W. Matthews Co., a road and bridge construction enterprise with 2,000 employees. "We typically figure about 200 construction days [annually] in Georgia that we can put in on the primary lines of our work." As of early August his firm was about 50 days ahead of that pace. "I've been with the company 36 years," he said. "We've never put this much work on the books or had this many construction days [in one year]."

Recreational venues such as amusement parks and outdoor activities such as fishing are benefiting from the dry weather. In fact, the drought has been a major contributor to improving the quality of fishing in south Florida. The lower elevation of Lake Okeechobee has increased the clarity of the lake for fishermen.



"It had been very turbid after the hurricanes of 2004 and 2005," Jones said. After the storms the lake was further stirred up by flooding from the Kissimmee River basin, he noted. "The water stayed very turbid and blocked out all the sunlight so we didn't get the plant growth needed for fish and other wildlife. Now the drought has served to filter the water and increase the clarity back to prehurricane levels."

Not everyone has been drawn to outdoor recreational venues, which has been good business for Southern Co., the parent company for many of the region's leading power providers, including Georgia Power and Alabama Power. Those who stayed inside cranked up the air conditioning. Southern Co. set a new system peak demand record for electricity on Monday, Aug. 6, and then proceeded to break that record each of the next three days. On the last day of the run, Southern Co.'s peak demand averaged around 40,644 megawatts between 3 p.m. and 4 p.m. Before this record-setting period, the previous peak average usage record was 38,056 megawatts, which occurred on Aug. 10, 2006.

Even the water restrictions that have accompanied the drought have been good for at least one business. With watering prohibitions preventing many in the Southeast from washing their cars at home, car washes have flourished. The South Carolina–based Cactus Car Wash chain began 2007 with four locations in three states. By year's end, the chain will have doubled to eight locations, with six of them in water-strapped metro Atlanta.

"Our location on Ponce de Leon Avenue is the top-grossing car wash in America," said Lennox Bundy, head of the chain's Atlanta operation.

Bundy says one of the reasons his business has fared well has been its environmental friendliness. "Our system recycles 80 percent of the water," Bundy said. "Only our waxing and final rinse cycles use fresh water. The average car wash, when someone does it in their driveway, uses about 80 gallons of water. We only use 15 to 20 gallons when we wash a vehicle."

As those affected by the drought of 2007 knows, every drop counts.

This article was written by staff writer Ed English.

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

ECON SOUTH

Volume 9, Number 3
Third Quarter 2007

FEATURES

110° in the Shade: Drought Sears the Southeast

Latin Multinationals Become Global Headliners

The Past, Present, and Future of Futures

The Gulf Coast: Still Laboring Toward Recovery

DEPARTMENTS

Fed @ Issue

Grassroots

Q & A

State of the States

Research Notes & News

Southeastern Economic Indicators

Staff

BackGround

EconSouth Now

Latin Multinationals Become Global Headliners

Emerging-market multinationals are grabbing the spotlight in the world economy. Gaining ground on firms from Asia, sophisticated Latin American companies are becoming giants in their industries, acquiring firms and tapping into the fertile markets in developed economies like the United States and Europe.

Photo courtesy of Cemex

Though headquartered in Mexico, some of cement giant Cemex's business operations are in Europe, and more than three-quarters of its workforce are from countries other than Mexico. The company is traded on the New York Stock Exchange and is North America's largest cement producer.

Most Americans hear plenty about immigration and outsourcing. Those politically charged issues are as close as the nearest television or radio.

Chances are that far fewer people have heard of Gerdau Group, Cemex, Telmex, CVRD, and Embraer. Yet those companies embody a powerful, if quiet, phenomenon that is dramatically affecting international economics. Those firms are Latin American–based powerhouses that are aggressively expanding into the United States and other industrialized nations. The Latin multinationals—or "multilatinas," as they are commonly known—are part of a global movement of large companies from emerging economies that are pursuing profits and market share in developed nations, often through acquisitions.

This trend reverses the long-standing North-to-South flow of investment from rich, developed countries to emerging nations. The newer South-to-North foreign direct investment is fueled by myriad forces. For multilatinas, those forces include freer trade and economic liberalization policies in Latin America, greater competition from global players in their once-protected home markets, the quest to expand their markets, and easier access to global capital markets.

Growing up global

Many Latin American countries, led by Mexico, Brazil, and Chile, launched structural reforms during the 1990s designed to increase the role of the market in their economies. Privatization of once state-owned enterprises has been a major element of the reforms. According to Javier Santiso, deputy director and chief development economist at the Paris-based OECD (Organisation for Economic Co-operation and Development) Development Centre, 20 percent of the 500 largest enterprises in Latin America were under government control in 1991, but less than 9 percent were a decade later. One prominent example of this trend is Embraer, the world's No. 4 commercial aircraft maker, which was founded by the Brazilian government in 1969 and converted to the private sector in 1994.

Meanwhile, foreign competitors have made significant inroads in Latin America. Foreign transnational companies accounted for 27 percent of these 500 biggest enterprises in 1991. That number rose to 39 percent early this decade, said Santiso.

Related Links

On the site:

Play (MP3 7:53)

EconSouth Now

Multinacionales Latinoamericanas logran estar en los encabezados mundiales

Multinacionais Latinas Tornam-se Manchete em Todo o Mundo

On the Web:

OECD Development Centre

Jerry Haar's Web page

Economic liberalization has made it easier for Latin American companies to expand, and foreign competition in their home markets has spurred them to look beyond their own borders. In fact, said Santiso, the biggest multilatinas have become so thoroughly international that they are really no longer Latin American companies at all but rather hybrids of various nationalities.

For example, the financial and economic operations for cement giant Cemex are centered in London and Madrid, not in Monterrey, Mexico, the company's home. More than three-quarters of Cemex's 54,000 employees are from countries other than Mexico, according to a Cemex spokesperson.

Not surprisingly, Santiso notes, multilatinas like Cemex are highly sophisticated. Known as a leader in logistics, Cemex was a pioneer in the cement business with a global positioning system–based service that dispatches mixing trucks to construction sites to fill orders quickly, like taxicabs answering a call.

[University of Miami's Center for Hemispheric Policy](#)

[Inter-American Dialogue](#)

Cemex, Gerdau, Telmex, and Embraer, which are large technology- and capital-intensive multilatinas, "are so big they can't afford not to be world class," said Jerry Haar, a business professor at Florida International University in Miami who studies Latin multinationals.

Those companies and other multilatinas have climbed onto the world stage in two phases, Santiso explained. First, during what he calls the "trade expansion phase" that lasted through the 1990s, the companies dramatically boosted exports. Subsequently, the companies entered what Santiso terms an "investment phase," acquiring companies and other strategic assets abroad.

Building brick by brick

Companies from the "BRIC" countries—Brazil, Russia, India, and China—plus Mexico announced foreign acquisitions totaling a record $72 billion in 2006, Santiso said. That record will probably be surpassed this year, he added. Cemex and Gerdau (Latin America's largest steel producer, based in Rio de Janeiro) made major acquisitions in the United States and Australia during the first half of 2007.

Photo courtesy of Cemex

Twenty years ago, Mexico's Cemex (top) produced less than $1 billion in annual revenues. Today, through growth and acquisitions of other cement companies, Cemex's revenues are more than $23 billion. Embraer (below), created and once operated by the Brazilian government, became privately owned in the 1990s and is now the world's fourth-largest commercial aircraft maker.

Photo courtesy of Embraer

"We used to think of the center and the periphery," said Santiso, who has extensively studied multinationals from emerging economies. "Now the center is less and less the center, and the periphery is less and less the periphery. Times are changing, and these emerging-market multinationals are part of that change."

When the OECD was formed in the 1960s, the "center," or the developed nations, accounted for 75 percent of the world's economic activity, Santiso said. Today that share is less than 60 percent as mutinationals are helping to push emerging economies toward the center. Foreign direct investment, such as corporate mergers and acquisitions, from Latin America and the Caribbean climbed from an average of $18.9 billion a year from 1994 through 1999 to an annual average of $30.4 billion from 2000 through 2005, according to the United Nations Conference on Trade and Development (UNCTAD).

This expansion is not happening in a vacuum. Greater investment abroad by Latin American firms reflects a global trend: In 1990, only six developing and transition economies reported outbound foreign direct investment stocks—the total invested in all years to that date—of more than $5 billion, according to UNCTAD. By 2005, 25 developing and transition economies topped the $5 billion level. Latin American nations among UNCTAD's top 15 emerging countries in outward foreign direct investment stocks—excluding offshore financial centers like the British Virgin Islands and Cayman Islands—were Brazil at No. 6, Mexico at 12, Argentina at 13, and Chile at 14.

Multilatinas rise to stardom

Asian firms dominate the ranks of emerging-market multinational firms, but Latin American firms come next, according to UNCTAD and other sources. Six multilatinas were among the top 25 nonfinancial emerging-country multinationals in 2004, the most recent year for which UNCTAD data are available. Three of those are from Mexico, two are from Brazil, and one is from Venezuela. On that top 25 list, Latin America trails only Asia, which is home to 16.

"In the future, the success of [Latin America's] multinational corporations could equal that achieved by the Asian emerging markets and bring about further successful multilatinas," Santiso wrote in a March 2007 report for Deutsche Bank Research.

Haar agrees. In particular, he figures more multilatinas are coming to America. Even during economic lulls, the United States is still the world's most fertile consumer market, with stable, predictable legal and financial systems, Haar noted. Thus, as more big Latin companies saturate their home markets, they will naturally look north.

More multilatinas are likely on the way because those companies are a manifestation of a more fundamental shift at the root of the global economy, Santiso said. What's more, suppliers to today's multilatinas might someday follow them across the world.

The major forces behind the Latin multinationals' global expansion have existed for at least a decade. But "the explosion of foreign direct investment" from developing countries, as Santiso calls it, is a more recent phenomenon. He is researching why the emerging-nation multinationals have begun moving so aggressively in the past three or four years.

The big difference from the 1990s is that today, despite some recent developments in credit markets worldwide, companies can secure financing on far more favorable terms because emerging-market credit spreads have narrowed and liquidity has expanded. "So those companies . . . are now in a position to match their ambitions and vision with access to capital that is much easier and much less expensive," Santiso said.

For instance, JPMorgan, one of the world's biggest investment banks, is providing $4.6 billion in financing for Gerdau Ameristeel's planned $4.2 billion acquisition of Texas-based Chaparral Steel Co., an agreement announced in July. Gerdau Ameristeel is the Gerdau Group's U.S. operation.

For its planned $14.2 billion acquisition of the Rinker Group of Australia, Cemex secured financing commitments from leading international banking groups, including Citibank and the Royal Bank of Scotland.

Learning the culture

Even as multilatinas are prospering and appear likely to continue doing so, they face challenges.

Politics can sometimes intrude when global companies want to expand into new markets. In the United States, Chinese or Middle Eastern firms are more likely to confront that problem, Haar said, but sensitivities surface in other cases. In Miami, for example, a French company that is bidding to work on a tunnel project has encountered problems because the company works in Cuba.

Patriot Act regulations, Sarbanes-Oxley rules, and other measures have also created more bureaucratic hurdles for multinationals, Haar noted. So the companies must judge whether the business they are pursuing is worth the work. In most cases, Haar said, they conclude that it is.

One way to help blunt the cultural and political challenges of entering new markets is to acquire or partner with existing domestic companies, an expansion method preferred by multilatinas.

Gerdau, for example, knits together its international acquisitions by applying a set of practices and principles it calls the Gerdau Business System. Established by the company in 2002, that system was designed to institute a "common language" among the Gerdau Group's operations in 13 countries and encourage an exchange of knowledge across borders, according to Gerdau's Web site.

The steelmaker Gerdau Group has experienced rapid growth outside of its native Brazil. Demand for its products such as reinforced steel bars has grown rapidly in the United States, and its acquisition of U.S. steel mills has strengthened its foothold here.

Beyond cultural issues, expanding through acquisition often makes the same business sense for a multilatina as it does for any large company. As a Gerdau spokesperson pointed out, building a new steel mill can take three to four years, which in many cases is too long to allow the company to seize market opportunities. Further, buying a company gives Gerdau an instant customer base.

Acquisitions have helped make Gerdau Group North America's second-largest mini-mill steelmaker. (Mini-mills use scrap metal as a raw material instead of the iron ore and coal used in blast furnaces.) Gerdau entered North America in 1989 with the acquisition of Canadian steelmaker Courtice Steel Inc.

Like many emerging-country multinationals generally, and multilatinas in particular, Gerdau's global advance has accelerated in the 21st century. Today the company operates in 13 countries, up from five in 2000 and three in 1990. International revenue accounted for only about 10 percent of Gerdau's total sales through the end of the 1990s. By 2006, sales outside Brazil accounted for 59 percent of Gerdau Group's total, according to the company's annual report. The company did more business last year in North America—46 percent of roughly U.S.$11.1 billion in total revenue—than it did in Brazil, which contributed 41 percent of revenue.

Breaking into U.S. markets, Southern style

The 106-year-old company cracked the U.S. market through its 1999 acquisition of Tampa, Fla.–based Ameristeel, thus establishing the multilatina's American base in the Southeast. (Gerdau Group owns 67 percent of Gerdau Ameristeel, which is traded on the New York Stock Exchange.)

Since then Gerdau has built a substantial presence in the Southeast. In addition to its U.S. headquarters in Tampa, the company acquired a steel mill in Cartersville, Ga., in 2002 and a rebar firm in Knoxville, Tenn., in 2006. Gerdau operates a wire mesh and nail factory near New Orleans; in the wake of Hurricane Katrina, the company opened an additional one-stop shop in the area for rebar and other steel construction materials. The company also makes steel in Baldwin, Fla., and Jackson, Tenn.

A wider audience

Like many other multinationals, Gerdau has extended its reach into geographical markets and sectors of its industry via a string of acquisitions. The company entered the European market in 2005 by acquiring a Spanish steelmaker and entered Asia in June 2007 via a joint venture in the booming Indian steel market.

And in the first six and a half months of 2007 alone, Gerdau invested roughly U.S.$4.7 billion to acquire companies in the United States, Venezuela, and Mexico and form joint ventures in India and the Dominican Republic.

Gerdau Ameristeel's largest deal, and the largest ever by the parent Gerdau Group, came in July when the company bought Chaparral Steel Co., another mini-mill steelmaker, for $4.2 billion to increase its output of metal used in bridges and office buildings.

Cemex is following a similar path, acquiring its way to its position as the biggest cement producer in North America. As recently as the late 1980s, Cemex was a privately held company with fewer than 10,000 employees, most of them in Mexico, and annual revenues well under $1 billion.

Today the company trades on the New York Stock Exchange and generated revenue of $9.2 billion in the first half of 2007. That number will rise sharply because in July Cemex closed the $14.2 billion purchase of Rinker Group Ltd. of Australia. That acquisition by itself will boost Cemex's annual sales 28 percent to more than U.S.$23 billion, according to Bloomberg News. Much of that new business will be in the United States, where Rinker generates 80 percent of its sales, according to news reports. The deal also provides Cemex inroads into Australia and the thriving cement market in China.

Photo courtesy of Cemex

Mexico's Cemex has used corporate acquisitions in the United States, Australia, the United Kingdom, and other countries to give it inroads around the world, including China and its flourishing cement market.

Rinker is just Cemex's latest purchase. In 2000 the company bought Houston-based Southdown for $2.8 billion. Since 2000 Cemex has also snapped up cement companies in Puerto Rico, Thailand, and Trinidad. And in 2005 the company greatly expanded its presence in Europe with the $5.8 billion acquisition of RMC Group PLC of the United Kingdom.

This acquisition spree has helped to push Cemex's annual revenue from $5.6 billion in 2000 to $18.2 billion in 2006. It's also brought new talent to the company. According to Lorenzo H. Zambrano, the Cemex CEO, in 2006 roughly 40 percent of the senior management team was from acquired companies.

The secrets of their success

Beyond the motivations unique to the multilatinas, global companies are animated by the same forces as sprawling corporations based in the United States, Europe, Japan, or other large economies. Gerdau Group and Cemex, for instance, are trolling the globe for acquisitions because they want to be long-term players in consolidating industries.

To reach their current thriving status, the first generation of multilatinas has quickly traveled a great distance. "These companies were in very, very difficult shape in the '80s and '90s, having to manage in environments that were very volatile—with ethics volatility, hyperinflation, [fluctuating] exchange rates," Santiso said. "In order to survive in those environments you have to be very innovative."

That experience appears to be serving them well.

This article was written by staff writer Charles Davidson and Stephen Kay, the coordinator of Latin American analysis at the Atlanta Fed and coordinator of the bank's Americas Center.

ECON SOUTH
Volume 9, Number 3
Third Quarter 2007

The Past, Present, and Future of Futures

The style and substance of futures trading have come a long way from its mid-19th century beginnings. In today's brave new high-tech world, futures trading plays a major role in the global financial system, accounting for trillions of dollars in trades every day.

Long removed from its regional roots, futures trading has gone global. Exchanges around the world make transactions that foster market efficiency and disperse risk among trade participants.

The United States has a long history in commodity futures trading in cities like Chicago or New York. The oldest of these exchanges still trade the lion's share of futures contracts in the United States. But the successful opening in 2000 of the Atlanta-based IntercontinentalExchange (ICE), on which half—approximately $23 billion worth—of the world's crude oil futures trade, demonstrates that there's room in the futures trading market for healthy competition. In fact, ICE is now becoming a major player in global energy and financial markets (see the sidebar.)

Nowadays futures trades are increasingly likely to occur via computer rather than on the trading floor and may involve anything from cattle to crude oil to currency. But no matter what's being traded or how the trade is transacted, the form of the futures contract is essentially the same.

Related Links

On the Web:

Futures Industry Association

InterContinental Exchange

U.S. Commodity Futures Trading Association

The anatomy of a futures contract

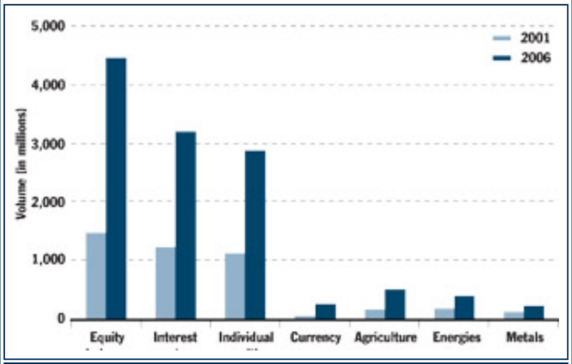
In essence, a futures contract is an agreement between two parties to exchange a financial instrument or physical commodity at a future date for an agreed-upon price. A simple example is a futures contract on winter wheat contracted between a farmer and a baker.

The farmer is concerned that the price of wheat may decline before he can bring his harvest to market. The baker, who needs wheat to mill and make into bread, is concerned that wheat prices will rise and increase her cost of doing business. The baker takes the "long" position in the futures contract by agreeing to buy 100 bushels of winter wheat from the farmer six months in the future for $2 a bushel. The farmer takes the "short" position by agreeing to deliver the 100 bushels to the baker in six months and receive the $200 payment. By entering into this contract, both parties are protected against any changes in the market price of wheat.

Global Volume of Futures and Options by Asset Class

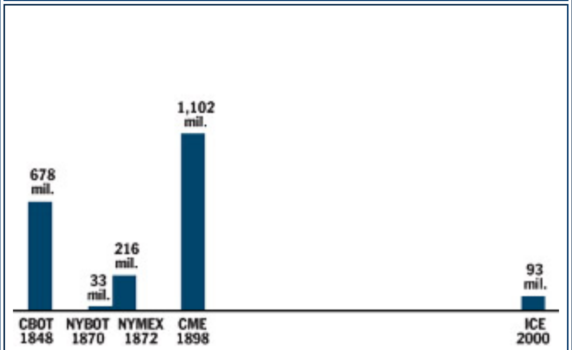
This example illustrates the key terms of any futures contract: the quantity and quality of the commodity to be delivered (100 bushels of winter wheat), the date on which delivery will be made (six months in the future), and the futures price ($2 per bushel).

Historically, futures contracts evolved from forward contracts, which are designed around the specific needs of the contracting parties with regard to the quantity, quality, and delivery date. Parties in a forward contract interact privately and directly and are thus exposed to the risk that the



Source: Futures Industry Association

A Timeline of Major U.S. Futures Exchanges (With 2006 Volume of Contracts Traded)



- CBOT—Chicago Board of Trade, founded 1848, first futures and options exchange in Chicago; merged with CME in August 2007
- NYBOT—New York Board of Trade, founded 1870, first exchange in New York; merged with ICE in January 2006
- NYMEX—New York Mercantile Exchange, founded 1872, physically the largest financial and commodities exchange in the world
- CME—Chicago Mercantile Exchange, founded 1898, first publicly traded commodities exchange; merged with CBOT in August 2007
- ICE—IntercontinentalExchange, founded 2000, first electronic-trading energy exchange; merged with NYBOT in January 2006

Source: Data on shares from the Futures Industry Association

other party might fail to deliver the goods or pay the agreed price. Futures contracts, in contrast, are traded on a centralized exchange and use a clearinghouse as an intermediary. The clearinghouse acts as a buyer to the seller and a seller to the buyer, thus eliminating credit risk to the buyer and seller. Because futures contracts can be easily traded by many market participants, they bring more liquidity to the market.

Originally, futures were written on agricultural products, such as wheat, corn, and soybeans, or precious metals, such as gold and silver. But futures contracts have evolved over time, often in response to financial market developments. The 1970s and '80s saw the introduction of futures contracts on financial instruments such as U.S. Treasury bills and bonds, stock indexes, and eurodollar time deposits. Energy and petroleum futures contracts were introduced on the heels of the 1970s energy crisis as the risk of oil price shocks increased. The chart to the left illustrates recent global futures and options trading volume by asset class. Financial futures (equities, interest rates, and currency) have experienced the most growth in the past five years and accounted for 90 percent of the trading volume in 2006.

Where and how are futures traded?

Futures exchanges are the centralized marketplaces in which standardized futures contracts are created and traded. The first U.S. futures exchanges, founded in the mid-to-late 19th century, began as organized market forums where buyers and sellers came together in one location to trade their goods with ease. These forums evolved into larger trading pits located either in New York or Chicago. Today the largest of these (shown on the timeline above) trade huge volumes of futures.

Until recently, futures were traded exclusively by open outcry—a process in which the customer calls a broker, the broker sends the order to the exchange floor trader, and the floor trader negotiates the price by shouting out the order to the other floor traders, who bid until a price is agreed upon. Once the two traders reach an agreement, the clearinghouse settles the trade. However, because of technological advancements and a growing global economy, this method of trading is becoming outdated.

For decades now, exchanges outside the United States have used electronic platforms to trade futures. Through a computer interface—the trading platform—traders place orders or post prices at which they are willing to buy and sell futures contracts. The host computer then sends the order through a bid-offer matching process. Once a match is found, the trade is executed and cleared by the associated clearinghouse.

In recent years, the U.S. futures exchanges have created their own versions of these platforms to compete for global trading volume and to offer electronic trading as an option for their clients.

Traders experience several benefits from an electronic market. For example, this form of trading allows for quick adaptability to market changes. Traders can watch futures prices change in real time around the world and can execute trades within milliseconds. On a single computer screen, traders can focus simultaneously on several different contracts across various markets (foreign exchange and eurodollar deposits, for example). Electronic markets also are likely to generate fewer errors in orders than open outcry trading. Last but not least, market participants can trade electronically from virtually anywhere around the world. This portability lowers traders' cost of doing business and opens up new opportunities for profitable trading.

Atlanta Puts Futures on ICE

While Atlanta is known for music, sports, and traffic, most people don't know that Atlanta is also home to the world's first electronic marketplace for energy commodities. In its headquarters in a wooded office park just north of Atlanta's perimeter interstate, each day the IntercontinentalExchange (ICE) electronically trades hundreds of thousands of futures and over-the-counter (OTC) derivative contracts (options and forwards).

ICE was founded in 2000 by a group of energy industry engineers whose goal was to create a more efficient, transparent energy marketplace. The company began by

How do futures contracts benefit the broader economy?

Futures markets are quite important to the global economy since their primary function is to distribute risk efficiently across market participants.

Some participants, like the farmer and baker in the earlier example, use futures to hedge, or reduce their exposure to, risk. These hedgers have a natural demand for futures. By entering into the futures contract, both the farmer and the baker have protected themselves against unprofitable changes in the price of wheat.

On the other end of the spectrum are speculators who use trading OTC products but in 2001 expanded into futures by acquiring International Petroleum Exchange (IPE), Europe's leading energy marketplace. Through IPE, ICE added to its portfolio such commodities as natural gas, power, emissions, heating, and leading crude oil benchmarks, Brent and West Texas Intermediate Crude (which make up half the world's volume of crude and refined products futures). In 2003 ICE partnered with the Chicago Climate Exchange to host its electronic marketplace, a move that allowed ICE to end floor trading and become completely electronic in 2005.

In January 2006 ICE acquired the New York Board of Trade (NYBOT), thus adding so-called soft—grown, not mined—commodities such as cocoa, coffee, orange juice, cotton, wood pulp, sugar, and ethanol to its product line. NYBOT also introduced financial futures such as currency and index futures to ICE. By acquiring NYBOT, ICE took control over its clearinghouse, increasing its market value to $11 billion—second only to the Chicago Mercantile Exchange (CME). And in February 2007 ICE successfully implemented electronic trading at NYBOT.

In 2006 ICE achieved 125 percent growth in the volume of contracts traded, all of which were transacted electronically. Currently, options make up 1 percent of its business while futures trading makes up the rest. ICE has offices in Calgary, Chicago, Houston, London, New York, and Singapore.

ICE was unsuccessful in its bid in March 2007 to merge with the grandfather of futures exchanges, the Chicago Board of Trade (CBOT), which instead agreed in July 2007 to merge with the CME. But ICE continues to look for new strategic opportunities to expand its presence in financial futures and foreign markets.

futures to take on additional risk. Speculators have no natural exposure to the risk of changing prices; instead, they buy or sell futures contracts in an attempt to make money by correctly guessing the future direction of changes in wheat prices. If a speculator thinks wheat prices will rise, he takes a long position in wheat futures, and if he is correct he will make a profit.

When speculators and hedgers trade futures contracts, they are acting on their own market analysis about supply and demand conditions in the underlying commodity (such as how a hurricane might affect oil refineries or the growth rate of India's demand for refined sugar). Their trading, in turn, affects futures prices. This process through which individuals' information and analysis become visible to the wider market through futures prices is known as "price discovery."

Every day, millions of individuals and corporations make economic decisions about how to invest their savings and which investment projects to take on. For these decisions to be efficient and investment to flow to its most highly valued use, the broader economy requires a financial market in which prices reflect all of the available information. By providing this type of price discovery, futures markets help to ensure that the overall economy functions effectively.

This article was written by Shalini Patel, a senior economic analyst, and Paula Tkac, a financial economist and associate policy adviser, both on the financial team of the Atlanta Fed's research department.

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

FEDERAL RESERVE BANK of ATLANTA

Economic Research

ECON SOUTH

Volume 9, Number 3
Third Quarter 2007

The Gulf Coast: Still Laboring Toward Recovery

On Aug. 29, 2005, the catastrophe that was Hurricane Katrina dealt a crushing blow to the Gulf Coast. Two years later, how is recovery progressing, and how close is the region to normalcy?

Photo courtesy of Boston Productions

Replenishing the Gulf Coast's housing stock is a vital step toward recovery. As Hurricane Katrina flooded but did not completely destroy many New Orleans homes, the reconstruction process there is complex and time consuming, but permits for new home construction are strong in some other areas where the storm struck.

Hurricane Katrina, the costliest and one of the deadliest hurricanes in U.S. history, killed more than 1,900 people and displaced 400,000 more. Estimates from the Insurance Information Institute show that Katrina caused $41.9 billion in insured property damage, nearly twice as much as the second-costliest storm, Hurricane Andrew, in 1992. The second anniversary of this disaster is a good time to evaluate how far along the affected areas are on the path to recovery.

Finding the funds to rebuild

Rebuilding the affected Gulf Coast is a massive undertaking. According to White House statistics, through the first quarter of 2007 the federal government has provided more than $110 billion in resources to the Gulf Coast. More than $85 billion of this total has been promised, and more than $53 billion has been spent. In addition, U.S. citizens have contributed more than $3.5 billion in cash and in-kind donations to relief and recovery efforts.

But even with this flow of financial aid, problems remain, most of which center around insurance issues. Obtaining insurance and skyrocketing insurance rates continue to place an enormous burden on residents and businesses, leading to the delay or termination of some rebuilding plans.

Repopulation happening, but slowly

One of Katrina's most heartbreaking effects was the displacement of hundreds of thousands of people from the Mississippi coast, south Louisiana, and New Orleans. The Big Easy had to deal not only with category 3 winds and storm surge but also with unprecedented flooding through breached levees that kept parts of the city under water for weeks.

The U.S. Census Bureau estimates that the total population of Orleans Parish, which contains New Orleans, fell from just over 437,000 in July 2005–the month before Katrina struck–to 158,000 in January 2006, a decline of more than 63 percent. Census estimates show a rebound to 215,400 by July 2006, but that figure is still less than half the pre-Katrina population. St. Bernard Parish saw its population plummet from 64,400 in July 2005 to just below 4,000 by January 2006, a drop of nearly 95 percent. By July 2006, according to Census estimates, the population had rebounded to 15,300, still less than a quarter of prestorm levels.

Related Links

On the Web:

Greater New Orleans Community Data Center

Brookings Institution's New Orleans Index

Mississippi Renewal Forum

Office of the Federal Coordinator for Gulf Coast Rebuilding

Although the Census Bureau has produced no official population estimates since July 2006, data derived from the U.S. Postal Service and published by the Brookings Institution and the Greater New Orleans Community Data Center suggest that repopulation has continued. For example, active residential postal deliveries are nearly 66 percent of pre-Katrina levels in Orleans Parish and 36 percent in St. Bernard Parish.

Along the Mississippi coast, population displacement was not as extensive as in the New Orleans area, but it was still significant. The three Mississippi counties that border the Gulf of Mexico (Hancock, Harrison, and Jackson) saw their collective population drop from 367,000 in July 2005 to 317,000 in July 2006, according to the most recent Census estimates, a net decline of more than 13 percent. Population in those counties rebounded to 343,000 by July 2006.

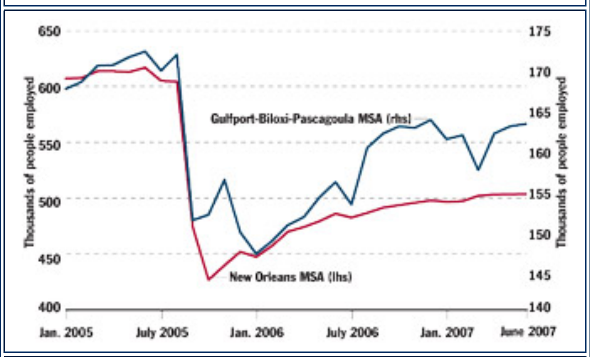
Housing remains the key

Rebuilding damaged housing and infrastructure is essential to the repopulation process. In New Orleans, this task was made more difficult because flooding damaged thousands of homes but didn't destroy them. Through June 2007, the U.S. Army Corps of Engineers had demolished a total of 3,741 buildings in Orleans Parish that were deemed unsafe. In June 2006 this number stood at only 185, so the pace of demolitions has accelerated. Permits for residential construction on existing structures, which includes repairing and rebuilding damaged homes, reached a cumulative 58,270 in April 2007 from just under 30,000 in April 2006, indicating that damaged buildings continue to be mended.

Just as important, the issuance of permits for new residential construction has accelerated. Year to date through the second quarter of 2007, the Census Bureau reports that total new residential permits stood at just under 1,700 units for Orleans Parish, well up from the year-to-date level of 206 in the second quarter of 2006. The majority of these new units have been multifamily, but new residential permits for single-family structures were also well above year-earlier levels.

Permit growth for new residential construction is also strong along the Mississippi Coast. Total new units authorized were up 30 percent through the second quarter of 2007 compared with the same period a year earlier.

Employment in New Orleans and Gulfport-Biloxi-Pascagoula MSAs, 2005–07



Source: U.S. Bureau of Labor Statistics

Employment still working to recover

In addition to needing a place to live, new and returning residents need a place to work. Employment data from the U.S. Bureau of Labor Statistics (BLS) show that both the New Orleans metro area and the Mississippi Gulf Coast are slowly adding jobs. In the New Orleans metropolitan statistical area (MSA)–which includes the parishes of Orleans, Jefferson, Plaquemines, St. Bernard, St. Charles, St. John the Baptist, and St. Tammany–total employment stood at 503,000 in June 2007. This number is still more than 100,000 below pre-Katrina levels but up 77,200 from the poststorm low of 425,800 recorded in October 2005 (see the chart).

Most of the job losses in New Orleans have occurred in services industries and government. Service jobs fell by more than 144,000 in the two months following Katrina's landfall, and roughly half of those have returned. The leisure and hospitality industry was particularly hard hit as tourists and business travelers stayed away. Just over 26,000 government jobs were lost immediately after the hurricane, and a further 4,400 jobs have been shed in the government sector since October 2005. Construction employment is up a net 2,800 from pre-Katrina levels, while manufacturing is down 3,100, according to the BLS.

In Mississippi, total employment in the Gulfport-Biloxi MSA (which includes coastal Hancock and Harrison counties along with Stone County) and the Pascagoula MSA (George County and coastal Jackson County) fell from 171,900 immediately preceding Katrina to a low of 146,900 in January 2006. Since then, total employment in the two MSAs has recovered significantly to 163,200 jobs in June 2007 (see the chart).

As it did in New Orleans, employment in construction and manufacturing along the Mississippi Coast rebounded quickly from the storm. Construction jobs were up 3,600 in June 2007 from August 2005 levels, and manufacturing jobs were down only 2,000. Employment in the service sector, especially in the leisure and hospitality industries, remains well below pre-Katrina levels. Net services job losses stood at 10,300 in June 2007. However, largely because of the ongoing recovery in the gaming sector, service industries along the Mississippi Coast have added over 16,000 jobs during the past 18 months. Government employment has remained fairly stable over the past two years.

Consumption gains ground

Local sales tax collections are an important gauge of an area's economic vibrancy because they serve as a proxy for overall consumer spending. In New Orleans, for example, general sales tax revenue averaged $11.4 million per month in the first half of 2005, according to city data. Revenues fell to just under $6 million per month in the second half of the year. In the first half of 2007, average monthly sales tax revenue was $9.7 million, indicating that consumer spending is recovering.

In Harrison County, Miss., which includes the cities of Gulfport and Biloxi, sales tax revenues dropped significantly in September and October 2005 but quickly recovered. Data from the Mississippi State Tax Commission shows that in the first half of 2007, sales tax revenues were running 15 percent higher than in the first half of 2005.

To be sure, both in New Orleans and Harrison County, a portion of these revenues is most likely related to sales of replacement goods for items damaged or destroyed by Katrina and were at least in part purchased with insurance funds. Anecdotal evidence gathered through business contacts indicates that the majority of these types of sales were recorded in late 2005 and early 2006, making comparisons between first-half 2005 and first-half 2007 more reflective of the general levels of economic activity before and after the storm.

The tourism industry, vital to the New Orleans economy, has begun to come back from Katrina's devastation but still has a way to go to achieve prestorm levels. This year, the city's signature event—Mardi Gras—drew about 800,000 people, around four-fifths of the number

Tourism making the long trip back

In tandem with the revenue that gaming generates, tourism is key to the economies of both New Orleans and the Mississippi Coast. The Crescent City traditionally attracts millions of people, including conventioneers. In Mississippi, the rapid growth of the gaming industry along the coast has been an important regional economic generator. As the employment statistics show, the leisure and hospitality industries were particularly hard hit by Hurricane Katrina.

it did before the storm.

In New Orleans, conventions were canceled and have been slow to come back as alternate venues have become established. Regular tourists who came in droves to experience the city's unique attractions have also been slow to return. City of New Orleans data show that tax revenues from hotels and motels, also referred to as "bed taxes," remain well below pre-Katrina levels. Through the first half of 2007, hotel-motel tax revenues were down nearly 25 percent from the first half of 2005. Arrivals at Louis Armstrong New Orleans International Airport were down 28 percent in the first half of 2007 compared with the first half of 2005 but are increasing steadily from post-Katina lows.

In addition, New Orleans's July 2007 State of the City report said that this year's Mardi Gras festivities drew a crowd of 800,000, topping last year's crowd of 700,000 but still shy of pre-Katrina numbers of around one million. Harrah's New Orleans is on pace for its best year ever, with gaming revenue 13 percent higher through the first five months of 2007 compared with the same period in 2005.

The recovery of the Mississippi Gulf Coast gaming industry is reflected in growing revenues. Gaming revenues were off just 2 percent in the first half of 2007 compared with the first half of 2005, according to data from the Mississippi State Tax Commission. Casino and resort reopenings have stimulated a rebound in patron numbers and employment levels for the Mississippi Gulf Coast's leisure and hospitality industries, but employment has not yet reached pre-Katrina levels. The July opening of the Hard Rock Casino in Biloxi and the recently completed addition to the Island View Casino Resort in Gulfport position the Mississippi Gulf Coast market for continued recovery.

Both New Orleans and the Mississippi Gulf Coast continue to recover from one of the nation's worst natural disasters. Though the recovery is slow and tentative, and anything resembling a full recovery is still years away, the areas laid low by Hurricane Katrina are dusting themselves off and getting up off the mat.

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

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

FEDERAL RESERVE BANK of ATLANTA

Economic Research

ECON SOUTH

Volume 9, Number 3
Third Quarter 2007

FED @ ISSUE

Scott Frame is a financial economist and policy adviser in the Atlanta Fed's research department.

Housing and the Subprime Mortgage Market

After years of stellar growth, residential housing and housing finance have slowed markedly in 2007. The press regularly reports significant increases in mortgage foreclosures, especially among borrowers who financed with subprime mortgage loans. These widespread foreclosures, which show few signs of abating in the near future, have repercussions not only for borrowers and lenders but also for neighborhoods, credit availability, and even financial markets.

The house of the rising prices

According to the U.S. Office of Federal Housing Enterprise Oversight, U.S. house prices rose 55 percent between the end of 2001 and the end of 2006. This price appreciation varied greatly from state to state, ranging from 16 percent in Michigan to 112 percent in the District of Columbia.

House price appreciation in the United States can be evaluated by focusing on changes in supply and demand. On the demand side, low mortgage interest rates and steady income growth in most parts of the United States were important drivers. At the same time, supply constraints were especially important contributors to the above-average house price appreciation in the coastal states. And in some areas such as Miami, where prices rose rapidly, speculation likely also pushed prices higher.

Affordability ebbs, ownership rises

The rapid upturn in house prices was accompanied by a decline in housing affordability, even after accounting for income growth and the historically low interest rate environment. Despite this development, U.S. homeownership rates continued to rise, topping out at a record of more than 69 percent at the end of 2004. The natural question is, What explains this unlikely inverse relationship between traditional housing affordability measures (based on a 30-year, fixed-rate, fully amortizing mortgage) and homeownership rates? One important contributing factor is the significant expansion of subprime and other forms of nontraditional, or exotic, mortgage financing.

Subprime mortgages are typically made to individuals with blemished credit histories, high levels of personal debt relative to income, or a high loan amount on property relative to its value. More recently, subprime loans were also being made to borrowers with little or no income verification.

Exotic mortgages are defined by characteristics embedded into the loan contract. These features can include interest-only mortgages (or negative amortization mortgages), pay-option mortgages, and 40-year amortization schedules. Another type that has become prevalent in the subprime environment is the so-called hybrid adjustable rate mortgage (ARM). These mortgages, sometimes referred to as 2/28s or 3/27s, feature fixed rates for an initial period and then move to an adjustable rate tied to a commonly used short-term money market interest rate. Notably, these hybrids also typically carry prepayment penalties during the opening fixed-rate period, greatly reducing the likelihood that the borrower will refinance during that time.

The music stops

In the latter half of 2006, serious delinquencies (defined as those more than 90 days past due or in foreclosure) on subprime mortgages began to rise sharply—a trend that has continued into 2007. Most of these delinquencies have been associated with subprime hybrid ARMs rather than with fixed-rate loans made to similar borrowers.

An important reason behind the increase in subprime hybrid ARM distress is that many of these borrowers took out their mortgages between 2003 and 2005, when short-term interest rates were extremely low. When these mortgages reset higher in 2006 and 2007, borrowers' required monthly payments rose substantially. Some homeowners were then unable to make their payments on time and became delinquent. Many observers are concerned that a large number of similar borrowers have yet to go through the interest rate reset cycle. With little or no house price appreciation likely, these borrowers will be ill-situated to refinance on more favorable terms. These facts suggest a continued drag on housing and mortgage markets.

Another less prevalent yet striking development was the increased underwriting of loans with little or no income verification. Historically, such loans accounted for a small fraction of new mortgages and were largely confined to self-employed people or real estate investors. But in 2006, such loans accounted for more than 13 percent of all new mortgages, according to *Inside Mortgage Finance.* Many of these loans went into distress almost immediately.

The fallout continues

Mortgage foreclosure is difficult for the affected households, often causing people to lose their homes and their creditworthiness. But when such events occur in large and concentrated numbers, they can also have a significant negative impact on neighborhoods and larger communities. Maintenance on foreclosed homes often suffers, and they are more likely to be converted to rental property.

Notably, the rise in mortgage foreclosures has also had swift and pronounced negative consequences for mortgage financiers. Many of the largest firms specializing in subprime loan originations have shut their doors or have been merged into diversified financial firms. These lenders' business model relied on capital markets purchasing the loans after being packaged into securities. As the quality of the loans deteriorated much beyond expectations, investors have also seen the value of the subprime mortgage securities that they hold plummet. This drop has left many investors questioning the initial ratings of these and other structured securities by institutions such as Moody's, Standard & Poors, and Fitch.

After more than a decade of phenomenal growth, the markets for housing and mortgage finance have cooled, resulting in stagnant or falling home prices in many areas, a significant increase in mortgage foreclosures, the closing of many subprime mortgage lenders, and a substantial revaluation of mortgage securities. These developments have become a drag on U.S. economic growth, the ultimate magnitude and duration of which remain to be seen.

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

ECON SOUTH
Volume 9, Number 3
Third Quarter 2007

FEATURES

DEPARTMENTS

Grassroots

Panama City Cruises Past Spring Break

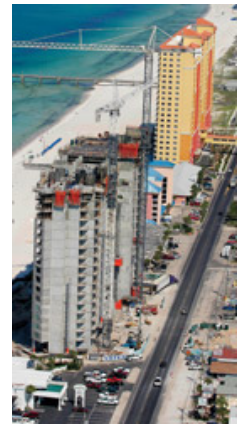


Photo courtesy of the Panama City Convention and Visitors Bureau

As Panama City seeks to attract affluent visitors, developers are erecting high-rise condos where motels once dotted the shoreline.

Bob Warren has nothing against pickup trucks or college kids on spring break. But in the world of resort marketing, he's looking to trade up.

Warren, president and chief executive officer of the Panama City Beach Convention and Visitors Bureau, is helping transform the north Florida beach town on the stretch of Gulf Coast once famously dubbed "the Redneck Riviera." That phrase, by the way, is one that Warren has outlawed in his offices.

Panama City has traditionally been synonymous with spring break rowdiness, mom-and-pop beach motels, airbrushed T-shirts, and the 1960s-vintage Miracle Strip amusement park. Today, the Miracle Strip is a memory as high-rise condos are shoving aside old motels. MTV's spring break program decamped for Mexico last year, even though a quarter million students still spend $60 million in Panama City each March, making it the beach's third-highest revenue month, Warren said.

So no one's ready to kick out the kids just yet. Still, a condominium building boom has hiked real estate prices and helped draw wealthier beachgoers. A proposed $330 million regional airport, expected to open in about three years, could push Panama City up another socioeconomic notch.

Beachgoers flash more green

Already, the profile of the typical Panama City Beach visitor has changed. Five years ago, the average guests were a family with two kids and an average annual household income of $45,000, Warren said. Today the average visitor's household income is $75,000, still "middle of the road," in Warren's view. To keep that figure climbing, his group is trying to lure a wealthier demographic and "snowbirds" coming south for the winter from Canada and the Midwest.

"We're not ever going to be the mom-and-pop hotel community that we were 40 years ago," Warren said. "We still have a few small hotels and motels, but it's mostly very high-end resort accommodations. That's the trend we've made."

The trend is built of stucco, concrete, and glass. In late 2004, according to the Convention and Visitors Bureau, Panama City Beach had 16,000 rooms available to guests. Today, because of the condo crop, there are more than 27,000 rooms, and that figure could approach 40,000 in four to five years.

Trying to fill those units creates a lot of work for Warren and his staff. And it's straining the local real estate market.

Panama City, Fla.

Population (city)	36,807
Bay county population	163,505
Households	14,819
Median family income (city)	$40,890

Source: Population figures from 2006 U.S. Census estimates; household and income figures from the 2000 Census

As beachfront prices soared in the early part of the decade, speculators and developers rushed in. Multifamily construction permits issued by Bay County nearly quadrupled in 2003, to 2,363, from 505 in 2002. Builders took out a similar number of permits in 2004 before another jump to 4,009 in

2005.

A look at price appreciation explains why. In 2004 Bay County's average condo sales price was $312,103, and each of the 1,399 units sold that year sat on the market for an average of 51 days, according to the Bay County Association of Realtors' multiple listing service statistics. Prices peaked in 2005 at an average of $401,171—a 29 percent rise in one year.

Hot condos cool off

Then, because of oversupply and tighter credit, according to local real estate brokers, prices began slipping. In 2006 the average sale price dropped $50,000, according to the Realtors group's figures. During each month in 2006, three and a half times as many condos were actively listed on the market compared with two years earlier. As a result, it took a year to sell most units whereas the average condo sold in less than two months in 2004. Sales dipped only 4 percent in 2006, but developers began pulling back: Multifamily building permits issued plummeted 46 percent, according to the U.S. Census Bureau, to the lowest number since 2002.

In the first six months of 2007, monthly condo sales were down 26 percent from 2006, while the average price fell another $27,513, according to data from the Bay County Association of Realtors.

"It's a classic boom-bust," said Ray Fieler of Fieler Group Inc., a real estate broker in the Destin-Panama City area for more than 20 years. "It's just like in the late 1980s and like the dot-com boom. Everybody rushed in and got greedy."

At the current pace, it would take two years to sell all the condos that were on the Bay County market in June, according to data from the Realtors Association. That sales lag doesn't account for units under construction or planned. Fieler estimated two dozen condo projects are on hold, including a half dozen in which he has been involved.

Beyond the beach

Fortunately, tourism is only one pillar of the Panama City economy. Tyndall Air Force Base is the area's largest employer, providing 5,000 jobs. A U.S. Navy weapons research and development station, Naval Support Activity Panama City, employs an additional 2,000 people.

The city's leading employers are state and local government, the military, full-service restaurants, the federal government, lodging establishments, and limited-service eating places, according to the U.S. Bureau of Labor Statistics and Economy.com.

Local economic developers would like to diversify the job base and hope the proposed airport will help. Bay County officials have been working for several years to move the existing 714-acre airfield to a 4,000-acre parcel donated by the St. Joe Co., a real estate development concern that plans to develop extensive holdings near the proposed airport.

The project has been delayed at various points and continues to face opposition from environmental groups. But in mid-August, the U.S. Army Corps of Engineers issued the final environmental clearance needed to begin construction. The Bay County Airport and Industrial District, the airport authority, then announced that construction would start immediately and take about two and a half years.

Local developers hope the airport will not only make Panama City Beach accessible to national and international markets—Warren said 83 percent of visitors today drive from within eight hours—but will also spark employment growth. The airport would be part of a larger development plan that includes 3,000 acres intended for commercial and office development. Ted Clem, executive director of the Bay County Chamber of Commerce, said the idea is to bring higher-paying jobs to an economy currently reliant on tourism and the military bases.

"One thing holding Panama City back at the moment is a lack of locations for employment centers, places where companies can locate," Clem said.

As the beach goes upscale, local officials hope the overall economy can go the same route.

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

Facts About Panama City

- A town developer gave the city its name because it is on a direct line from Chicago to the Panama Canal.
- In 1818 General Andrew Jackson and his army became the first Americans to survey St. Andrew Bay, where Panama City now stands.
- Panama City was a shipbuilding center during World War II. Tyndall Air Force Base, opened as a gunnery school in 1941, was in the national spotlight in 1942 when Clark Gable trained there.

Photo courtesy of the Panama City Convention and Visitors Bureau

Panama City's construction boom nearly doubled the number of rooms available to visitors. But a slowing resale market has tempered the city's heady real estate market and has put the brakes on a number of planned projects.

ECON SOUTH

Volume 9, Number 3
Third Quarter 2007

FEATURES

110° in the Shade: Drought Sears the Southeast

Latin Multinationals Become Global Headliners

The Past, Present, and Future of Futures

The Gulf Coast: Still Laboring Toward Recovery

DEPARTMENTS

Fed @ Issue

Grassroots

Q & A

State of the States

Research Notes & News

Southeastern Economic Indicators

Staff

BackGround

EconSouth Now

Q & A

'It's Got Everybody Nervous'

An Interview With Lester Killebrew, Chairman of SunSouth LLC

Lester Killebrew has been involved in agriculture for four decades as a farmer, retailer, and business executive. After graduating from Auburn University, he established Henry Farm Center Inc., a full-service John Deere dealership, in 1969, in Abbeville, Ala. Since then, the business has grown. Through SunSouth LLC, Killebrew owns 14 John Deere dealerships across the Southeast while also operating other, nonagricultural business interests. Killebrew also serves on the Sixth Federal Reserve District's Small Business, Agriculture, and Labor Advisory Council.

LESTER KILLEBREW

Title	Chairman
Organization	SunSouth LLC
Function	SunSouth LLC owns and operates 14 John Deere dealerships across the Southeast.
Web Site	http://jddealer.deere.com/sunsouth/
Other	In 1983 Killebrew acquired a ValCom franchise, one of the region's oldest and largest computer dealerships. His firm is one of the region's largest installers of computer networks, and in 2002 ValCom Wireless began distribution of wireless telecommunication equipment.

EconSouth: *How does the drought of 2007 compare with the other droughts in your four decades of experience?*

Lester Killebrew: We have finally started getting a little rain, but up until mid-July it was the toughest I've ever seen. I have heard a lot of the old-timers talk about 1953 or 1954 being the worst other than this one. The corn crop is just a total disaster. A lot of people had started planting more corn because the price was better. Now they're going to lose a lot of money because the costs of the inputs have gone up so much. The cost of fertilizer and nitrogen is just out of sight. The cotton crop does not look good either. I don't know what percent loss we'll see; it's hard to tell at this point. But a lot of our cotton, peanuts, and, of course, corn was just plowed up because it rained very little.

ES: *What effect does this drought have on your farm equipment customer base?*

Killebrew: We're going to lose more of our farmers because of it. So many of them were just holding on as it was. This drought has been going for several years. And the cost of farmers' inputs has just gone really high while the price they're getting for their crops has not increased overall. We've seen increases in the price for corn. Of course, we weren't able to grow any corn. They're getting much less for peanuts than they did before this last farm bill. Cotton's price has not increased either.

ES: *What about the effect on the local economy?*

Killebrew: The drought is felt throughout the towns and communities in Alabama too. We use five as a multiplier effect. Money generated by agriculture turns five times through the economies of all these small towns and communities.

ES: *Could irrigation have mitigated the effects of this drought?*

Killebrew: California grows most of the fruits and vegetables that you find in this country. There would not be a plant grown in California without irrigation because it doesn't have the rainfall you need to grow a crop. Farmers in this area have not spent the money and put the things in place to enable them to irrigate here in the South. We could be the breadbasket for the country as far as vegetables if we had irrigation. But we don't have that much irrigation in Alabama or northwest Florida. We do have more in south Georgia.

ES: *Why don't we see more irrigation in the region?*

Killebrew: You see a lot of irrigation in south Georgia because of the aquifer there. You can drill

With the absence of extensive irrigation on Southeastern farms, this summer's drought has hit the region's agricultural industry particularly hard.

down about 100 feet and have all the water in the world. Of course, they're beginning to regulate it because of the usage. But in Alabama you've got to drill about 800 feet, and the cost is just unreal. Also, you really have to plan ahead to put in a large irrigation system. These systems cover a lot of acres. You can't just go in there and install one like you can in a home. You have to drill wells or lay pipe in the ground.

ES: *Should there be a more aggressive pursuit of irrigation?*

Killebrew: If we're going to continue farming in Alabama, we've got to have irrigation. To help farmers build holding ponds for irrigation, Congressman Terry Everett [R-Ala.] has gotten legislation into the farm bill, HR 2419, that the House passed. These ponds would fill up when we have rainfall. Or you could drill a small well that didn't have to pump so much. A normal irrigation well has to pump 700 to 1,000 gallons per minute to operate a pivot system, but a small well or pump could run day and night and you wouldn't run the pivot quite that much. That type of irrigation could really be a good thing for us. Of course, it was in the mix before the drought. I think the drought is really helping to get the issue through Congress.

ES: *Historically, weather goes through cycles, alternating between very wet and very dry. With all the talk of global warming, what seems to be the consensus over whether the recent drought is part of a cycle or part of a trend?*

Killebrew: Just talking with everybody and observing, it kind of looks like it's been a trend the last eight to 10 years. We just have not had great rainfall through here the last six or so years. We were short going into this year, and I think we're still probably 12 inches behind for the year. Hopefully, it may turn around and we may have six good years of rainfall. It's got everybody nervous. I know that.

This interview was conducted by Ed English, a staff writer for EconSouth.

FEDERAL RESERVE BANK of ATLANTA
Economic Research

ECON SOUTH

Volume 9, Number 3
Third Quarter 2007

FEATURES

DEPARTMENTS

The State of the States

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

- Virginia-based General Dynamics Land Systems will assemble the U.S. military's Mine Resistant Ambush Protected (MRAP) vehicle in Anniston and Oxford. The company already employs 700 people in the state, and the MRAP work will add 270 jobs.

bullet image Vanity Fair Brands, a subsidiary of Fruit of the Loom, recently announced the elimination of 210 jobs at its Monroeville facility as the company moves its cutting facility to Honduras.

bullet image National Industries Inc. announced that its newly formed subsidiary, National Alabama Corp., will spend $350 million to build a new railcar manufacturing facility in northwest Alabama. Startup is expected in early 2009. The plant will produce 8,000 to 10,000 railcars annually and will employ 1,800 people.

bullet image Royal Concrete Concepts Inc. opened a manufacturing plant for modular building components in Okeechobee in August. According to a company spokesperson, the new plant is the largest concrete manufacturing facility in the Southeast and will create more than 1,300 jobs.

bullet image Dura Automotive Systems, an auto parts manufacturer, will begin closing its Jacksonville plant in November, idling more than 233 workers. The company is moving this work to other locations, including Mexico and Missouri, and attributed its decision to close the plant to the auto industry's downturn.

bullet image Increased international airline presence in Orlando is expected to provide a positive economic impact of $171 million and create 2,400 direct and indirect jobs. German carrier Lufthansa, Irish carrier Aer Lingus, and Panamanian carrier Copa will offer new or expanded nonstop service to Orlando beginning this year.

bullet image Range Fuels Inc. has received commercial permits from the state to build a $225 million cellulosic ethanol plant in Soperton. The firm broke ground on the factory this summer. The plant, the first in the United States to manufacture cellulosic ethanol, will have the capacity to produce 100 million gallons annually.

bullet image The Port of Savannah is posting record-breaking numbers for container traffic in 2007. The Georgia Ports Authority reports a 14.5 percent increase in the number of containers in 2007 compared with 2006. The port is the fourth-busiest container terminal in the country.

bullet image Precision Components International of Columbus is expanding. The company will add 100 employees and build an addition to its manufacturing facility following new military and civilian contracts for jet engine blades. The company currently employs 400 workers.

bullet image Tourism experts see Louisiana's tourism industry improving this year. The state anticipates attracting around 22 million visitors in 2007, four million more than last year. However, Louisiana's tourism industry isn't expected to attain its pre-Hurricane Katrina high until 2010, according to research from the University of New Orleans, the U.S. Department of Commerce, and the Travel Industry Association of America.

bullet image A cruise industry rebound is under way at the Port of New Orleans, with more than 475,000 passengers projected to leave from or arrive at the port in 2007. Prior to Hurricane Katrina, more than 750,000 passengers passed through the port annually.

bullet image Faustina Hydrogen Products announced plans to build a $1.6 billion plant in St. James Parish. The plant will begin production in 2010 and will produce anhydrous ammonia for agriculture and industrial-grade carbon dioxide used for enhanced recovery of oil.

bullet image Gaming revenues for July 2007 hit record levels in the Mississippi Gulf Coast market as well as in the entire state. The Mississippi State Tax Commission reports that revenue rose nearly 8 percent over pre-Katrina levels. With the July opening of the Hard Rock Casino and the recently completed addition to the Island View Casino Resort, most operators expect the gaming market's growth to continue.

bullet image PSL North America will build a steel pipeÐproducing plant in Port Bienville that will employ 275 people by the second quarter of 2008. The pipe will be shipped by barge, rail, and truck to customers for use in natural gas pipelines.

bullet image Mississippi farmers planted 980,000 acres of corn this season, the largest corn crop since 1960 and nearly triple last year's planting, according to the U.S. Department of Agriculture. Interest in ethanol is spurring demand and increasing prices for corn.

bullet image Vought Aircraft Industries will add 120 employees to its Nashville plant as a result of a new contract with the European firm Airbus. The contract could be worth $1 billion over the next five years, according to Vought officials. The plant employs about 1,000 people and makes wing components for airplane manufacturers.

bullet image Toshiba America Consumer Products is closing its television assembly line in Lebanon as of September, eliminating about 190 jobs at the plant. The plant is discontinuing assembly of large-screen televisions. The facility employed 1,188 people in 2006.

bullet image ARC Automotive Inc., which employs 630 people in Knoxville, recently laid off 45 workers. Company officials attributed the layoffs to the weakening of the North American car market.

bullet image Tennessee's seasonally adjusted July unemployment rate of 4.1 percent remained at a seven-year low, according to the state's Department of Labor and Workforce Development, and was unchanged from June. The state's unemployment rate was 5.2 percent in July 2006.

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

Illustrations by Jay Rogers

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

ECON SOUTH

Volume 9, Number 3
Third Quarter 2007

Research Notes and News

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

Identifying financial market frictions

Defined simply as anything that interferes with trade, financial market frictions can exist even in efficient markets. Understanding financial market frictions is important, according to a recent article, because such frictions generate real costs to investors, because they generate business opportunities, and because they change over time.

Financial market frictions depend in part on market structure. Market structure tends to evolve over time, as trading volume increases, from low fixed costs and high marginal costs to high fixed costs and low marginal costs. To help identify the best means of reducing market frictions' costs, authors Ramon DeGennaro and Cesare Robotti classify and discuss five primary categories of frictions: transactions costs, taxes and regulations, asset indivisibility, nontraded assets, and agency and information problems.

Looking for evidence of how frictions influence market participants' behavior, the authors not only review the economic literature but also conduct an empirical exercise to illustrate and quantify frictions' impact on investors' risk-return trade-off. Their results show that market frictions impose utility costs on investors by making preferable investment portfolios unattainable. Their findings and other academic studies also suggest that investors who ignore market frictions compound the harm done by the frictions themselves.
Economic Review
Third Quarter 2007

Creating a single Southeastern economic indicator

Although each of the six Southeastern U.S. states within the Sixth Federal Reserve District has unique economic characteristics, these states' business cycles also tend to move together. Currently, no single economic indicator exists for the region's economy.

In a recent article, Pedro Silos and Diego Vilán outline and estimate a model of the Sixth Federal Reserve District economy that provides a single economic indicator. The model assumes that the region's economic activity—measured by a large set of time series of employment, construction, earnings, and sales tax revenues—is driven by an unobserved common factor. The model incorporates disaggregated information for each state into a large model to derive a common component.

Understanding the dynamics behind this common factor will help academics, policymakers, and businesspeople better diagnose and forecast the region's economic condition. Having a single economic indicator for the region will also allow for simpler and faster interpretation of various (sometimes contradictory) economic signals and make comparisons with the nation's and other regions' economies easier.

Comparing their latent common factor model with the current practice of averaging individual states' coincident indicators, the authors find that their indicator provides a more reasonable assessment of the impact of large idiosyncratic shocks, such as Hurricane Katrina, than the weighted-average estimates.
Economic Review
Third Quarter 2007

Lockhart says Southeast mirrors nation

Addressing the Southern Governors Association in Biloxi, Miss., on Aug. 25, Atlanta Fed President Dennis Lockhart said that the Southeast's economy is a microcosm of the United States as a whole, mainly in that both are resilient and diverse. Lockhart stressed the importance of education and retraining to make workers resilient to competitive pressures in the global economy.

Underlying the region's ability to withstand economic shifts are workers with skills that are transferable from one industry to another, Lockhart said. A skilled and flexible workforce has helped the region adapt as some industries have shrunk. While the Southeast and the country have lost jobs in manufacturing industries such as textiles, apparel, and furniture making, for example, some of these losses are being offset by growth in higher-wage manufacturing. "For instance, a highly efficient vehicle assembly and parts manufacturing industry has taken root in our region," he remarked. He said the district had 119,000 auto-assembly industry jobs in 2006, a 13 percent increase since 2001.

Another economic strength in the region has been growth in service industries such as health care, education, tourism, and other professions. Lockhart also pointed out that almost 700,000 jobs in the Southeast are at nonbank, foreign-owned businesses.

The rapid pace of economic change is challenging to workers who must adapt and to policymakers who seek to bring jobs to their states. Consequently, an important policy question is how "states encourage development of workers with high aptitude and, therefore, help provide a highly adaptable workforce," Lockhart said.

"Those involved in promoting economic development at the state level should apply policies aimed at achieving a resilient workforce characterized by well-developed vocational aptitudes built on foundation skills, especially a capacity to learn new things throughout a career," he said.
Text of speech
August 2007

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

FEDERAL RESERVE BANK of ATLANTA
Economic Research

ECON SOUTH

Southeastern Economic Indicators

Volume 9, Number 3
Third Quarter 2007

		Alabama	Florida	Georgia	Louisiana	Mississippi	Tennessee	6th District	U.S.
Total payroll employment (thousands)[a]	**2007Q2**	**2,008.2**	**8,127.8**	**4,150.5**	**1,908.2**	**1,159.3**	**2,800.7**	**20,154.3**	**137,883.3**
Percent change from	2007Q1	0.4	0.5	0.6	0.5	0.3	0.0	0.4	0.3
Percent change from	2006Q2	1.4	1.7	1.6	3.3	1.8	0.7	1.7	1.4
Manufacturing payroll employment (thousands)[b]	**2007Q2**	**300.7**	**397.6**	**442.7**	**154.4**	**173.2**	**392.8**	**1,861.4**	**14,078.0**
Percent change from	2007Q1	0.1	–0.2	0.4	0.4	0.5	–0.1	0.1	0.5
Percent change from	2006Q2	–1.6	–2.0	–2.0	2.1	–1.9	–2.8	–1.8	–1.1
Civilian unemployment rate[a]	**2007Q2**	**3.4**	**3.4**	**4.3**	**4.3**	**6.3**	**4.4**	**4.0**	**4.5**
Rate as of	2007Q1	3.3	3.3	4.3	3.9	6.6	4.8	4.0	4.5
Rate as of	2006Q2	3.6	3.3	4.7	3.7	6.5	5.3	4.1	4.6
Existing single-family home sales (thousands of units)[c]	**2007Q2**	**124.8**	**247.2**	**226.4**	**78.4**	**58.8**	**144.4**	**880.0**	**5,913.0**
Percent change from	2007Q1	–2.5	–28.7	–3.7	–6.2	–2.6	–6.5	–12.7	–7.9
Percent change from	2006Q2	–3.1	–41.3	–13.1	–12.5	–7.5	–21.5	–23.3	–10.8
Single-family building permits YTD (units)[b]	**2007Q2**	**10,759**	**43,880**	**32,576**	**8,742**	**6,447**	**16,701**	**119,105**	**562.962**
Percent change from	2006Q2	–17.1	–53.5	–29.3	–19.8	–13.6	–18.5	–38.1	–28.6
Personal income ($ billions)[c]	**2007Q1**	**149.8**	**673.7**	**310.6**	**138.5**	**79.7**	**202.9**	**1,555.2**	**11,315.5**
Percent change from	2006Q4	2.1	2.0	2.1	1.6	1.6	1.5	1.9	2.2
Percent change from	2006Q1	6.3	6.1	5.3	6.1	4.4	6.0	5.8	5.8

		Atlanta	Birmingham	Jacksonville	Miami	Nashville	New Orleans	Orlando	Tampa
Total payroll employment (thousands)[b]	**2007Q2**	**2,438.9**	**534.5**	**636.5**	**2,451.3**	**760.5**	**503.0**	**1,100.5**	**1,324.1**
Percent change from	2006Q2	1.7	1.1	2.3	1.5	1.4	5.0	2.4	1.0
Civilian unemployment rate[b]	**2007Q2**	**4.2**	**2.9**	**3.3**	**3.3**	**3.6**	**4.6**	**3.2**	**3.5**
Rate as of	2006Q2	4.6	3.2	3.3	3.4	4.4	4.8	3.1	3.3
Office vacancy rate[b]	**2007Q2**	**19.7**	**—**	**14.3**	**7.2**	**10.8**	**—**	**8.6**	**12.3**
Rate as of	2006Q2	19.5	—	13.5	8.7	10.2	—	9.3	11.3
Median existing home sale price (thousands of $U.S.)[b]	**2007Q2**	**175.5**	**164.9**	**198.7**	**384.4**	**186.4**	**166.0**	**265.1**	**222.7**

Median price as of	2006Q2	173.9	169.7	198.0	376.9	177.9	178.0	271.7	231.6

[a] Seasonally adjusted

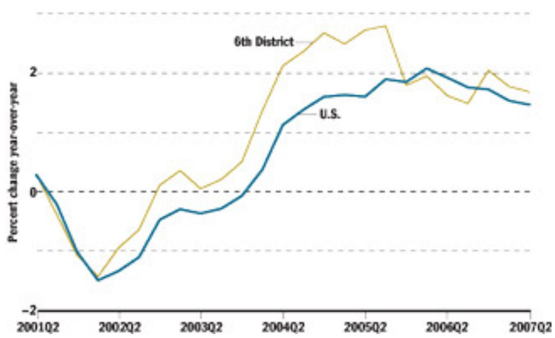
[b] Not seasonally adjusted

[c] Seasonally adjusted annual rate

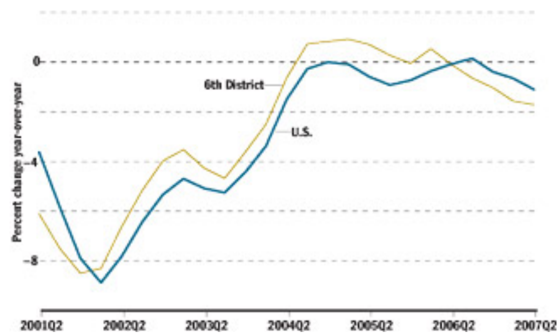
Sources: Payroll employment and civilian unemployment rate: U.S. Department of Labor, Bureau of Labor Statistics. Existing home sales and median existing home sale price: National Association of Realtors. Single-family building permits: U.S. Bureau of the Census, Construction Statistics Division. Personal 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/2007/q3/dist_data.cfm.

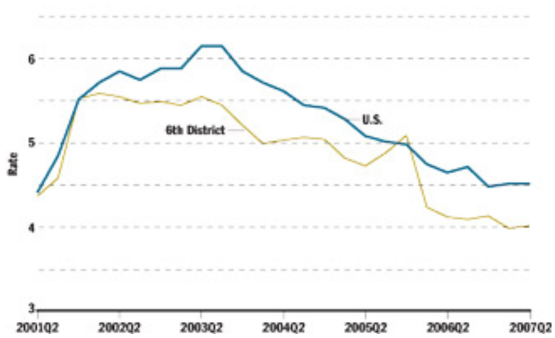
Total Payroll Employment



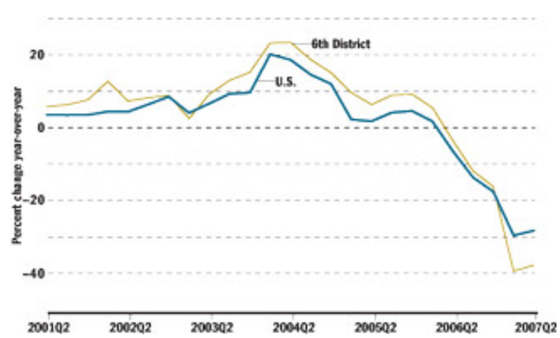
Manufacturing Payroll Employment



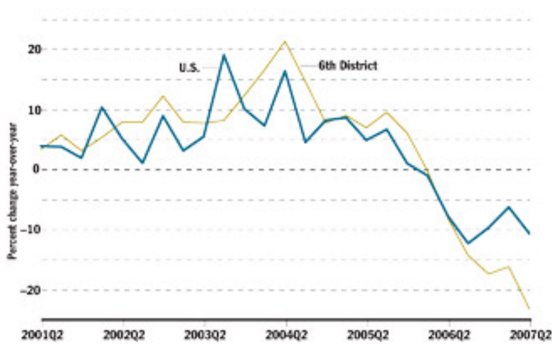
Civilian Unemployment Rate



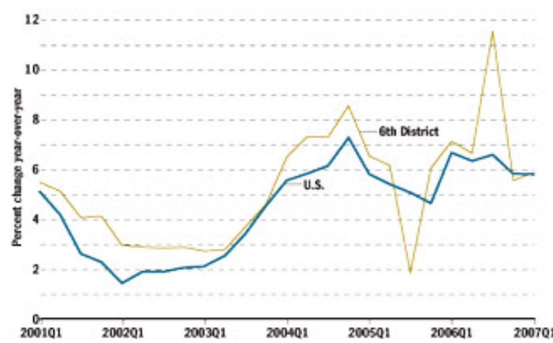
Single-Family Building Permits YTD



Existing Home Sales



Personal Income



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

ECON SOUTH
Volume 9, Number 3
Third Quarter 2007

Staff

Use the WebScriber service to request free subscriptions and additional copies or for change of address notices.

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

Public Affairs Department
Federal Reserve Bank of Atlanta
1000 Peachtree Street, N.E.
Atlanta, Georgia 30309-4470

ISSN 0899-6571

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.

ECON SOUTH
Volume 9, Number 3
Third Quarter 2007

FEATURES

110° in the Shade: Drought Sears the Southeast

Latin Multinationals Become Global Headliners

The Past, Present, and Future of Futures

The Gulf Coast: Still Laboring Toward Recovery

DEPARTMENTS

Fed @ Issue

Grassroots

Q & A

State of the States

Research Notes & News

Southeastern Economic Indicators

Staff

BackGround

EconSouth Now

Back Ground

Photo courtesy of the Library of Congress

A significant agricultural sector and rapidly growing population have made water a vital resource in the Southeast. Droughts in years past have hit the region hard, as this Walker County, Ala., tenant farmer saw in February 1937.