

EconSouth Now Podcasts

2007 Outlook Transcript

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John Robertson, Atlanta Fed vice president and senior economist, gives an assessment of current economic conditions in the Southeast and each state in the region.

National Outlook

The U.S. economy should expand modestly in 2007. Adjustments within the housing sector and fluctuating energy prices should dampen overall growth.

During 2006, home sales declined from very high levels. Homebuilders responded to falling sales by scaling back. Most analysts expect home sales to pick up during 2007. However, the large inventory of unsold homes suggests that construction will be slow to turn around.

Oil prices will also have a moderating influence on growth. Most analysts expect oil prices to move higher in 2007 because of ongoing geopolitical risks and robust global demand.

Core measures of inflation will likely remain above 2 percent during 2007. However, forward-looking indicators suggest that longer-term inflation expectations are well-anchored.



Alabama

Alabama's economy performed well in 2006. Tax revenues were strong, unemployment was low, and employment growth outpaced the nation for much of the year. Moderate growth appears to be on tap in 2007.

The surge in posthurricane commercial activity in coastal Alabama has abated, and the coast's condominium market retrenched as supply outstripped demand. On the other hand, areas such as Birmingham and Huntsville should hold up reasonably well, supported by ongoing job growth.

The outlook for Alabama's service sector is for solid growth, with business services and activities related to the defense industry leading the way. However, the state's large manufacturing sector is likely to experience little growth in 2007. Labor-intensive industries will continue to send production offshore while others, such transportation and defense, should continue to expand.

Florida

Florida experienced the strongest growth in the Southeast during 2006. But the pace of growth slowed over the course of the year as housing markets retrenched and tourism activity moderated. These trends suggest Florida will experience only modest growth in 2007.

The decline in Florida's housing markets during 2006 was substantial. Increases in homeowner's insurance and construction costs reduced the demand for second homes, and speculators quickly withdrew from the

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market. Home sales declined and inventories rose. In 2007, the large backlog of unsold homes will dampen housing activity in Florida.

Employment growth in Florida's service-providing industries, such as tourism, business services, and health care, outperformed the nation as a whole during 2006. However, trends in some of these industries softened over the course of the year, thus clouding the outlook for 2007.

Georgia

Georgia's economy performed reasonably well in 2006, with job growth outpacing the nation. The outlook for 2007 is for continued moderate growth.

The state's housing market weakened in 2006 as home sales and construction declined. Looking forward, construction activity should remain slow until the inventory of unsold homes returns to normal levels.

The state's service-providing industries should continue to experience solid growth in 2007. Expansions and improvements to local tourist attractions should help ensure that tourism continues to be a bright spot for the state.

Manufacturing employment in Georgia has remained relatively stable since 2004. However, the ongoing retrenchment of some domestic auto producers, as well as declines in demand for housing-related products, will act as a drag on this sector during 2007.

Louisiana

Hurricane recovery activity dominated Louisiana's economy in 2006. The outlook for 2007 is clouded with uncertainty.

Home construction in New Orleans has been modest as efforts remained focused on cleanup and debris removal. In 2007, the pace of construction in the city should improve as the "Road Home" program, designed to assist displaced homeowners, picks up steam.

Nonresidential construction increased in 2006 as infrastructure repairs got under way. This activity should spillover into 2007 as well. The office market in Baton Rouge remains tight, and this condition should boost construction there.

It was a mixed bag for Louisiana's service-providing industries during 2006. Businesses tied to reconstruction performed relatively well. However, activity remained substantially below pre-Katrina levels in leisure and hospitality, and the outlook for this industry remains guarded.

Mississippi

The focus of hurricane recovery in Mississippi moved from cleanup to rebuilding in 2006. This activity lifted the state's economy, and the outlook for 2007 is encouraging.

Rebuilding boosted construction spending in 2006, and with a large amount of work still to be completed, this performance will extend into 2007 as well.

Retail trade and business service industries grew, while the coast's leisure and hospitality industry worked to get back up and running. Most of the coastal casinos have reopened, and their activity will increase employment and state revenues in 2007.

In manufacturing, producers of building materials benefited from posthurricane activity. However, the national decline in housing could dampen wood products activity in 2007. Foreign competition will lead to further retrenchment in labor-intensive manufacturing industries, while defense spending will boost shipbuilding.

Tennessee

Tennessee's economy performed reasonably well in 2006, led by the state's ability to attract new businesses, including corporate headquarters. However, overall employment growth was modest, as manufacturing

continued to shed jobs. It appears moderate growth is on tap for Tennessee in 2007.

Key markets such as Nashville and Knoxville supported commercial and home construction industries during 2006, and this performance should continue in 2007. Also, increased demand for second homes away from coastal states may help support housing activity in some rural areas in Tennessee.

The tourism, health care, and business service industries should expand during 2007, and the state should continue to benefit from its growing reputation as an attractive location for business. However, the manufacturing outlook is guarded as the transportation equipment, apparel, furniture, and printing industries continue to face headwinds.

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Federal Reserve Bank of Atlanta, 1000 Peachtree Street NE, Atlanta, GA 30309-4470