

Federal Reserve Bank of Atlanta

Michael Chriszt

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Moderator: *Welcome to Southeastern Economic Perspectives, an occasional podcast from the Federal Reserve Bank of Atlanta. I'm speaking with Michael Chriszt, an assistant vice president on the regional team who analyzes and reports on economic conditions in the Sixth District. We will be speaking about the region's economic indicators. Mike, thanks for talking with me. Over the last several months, economic reports have painted a rather subdued picture for the national economy in terms of growth. Is that the story for the Southeast as well?*

Michael Chriszt: Yes, Jean, it is. Economic activity in the Southeast has slowed very much over the past year. Employment indicators, for example, which are pretty much the best high-frequency data we have to measure overall economic activity, have deteriorated. Just as an example, the states of the Sixth District lost a net 52,000 jobs in April and a total of 91,000 since January. Two-thirds of those losses are from Florida, but Georgia is down 18,000, and Tennessee has shed 13,000 since the beginning of the year. The other states in our District—Alabama, Louisiana, and Mississippi—are largely unchanged over the same time frame.

The largest industry in terms of job losses has been construction, which is tied to the weak housing markets. Over 40 percent of the region's job losses since January have been in the construction industry, and most of those losses have been in Florida, where housing activity has been the weakest.

Unemployment rates are also up, Jean. If we add up the total number of unemployed in Sixth District states and divide it by the sum of the states' labor force, we can actually derive a net unemployment rate for the states of our region. And that rate has risen from 4.7 percent in January of this year to 5 percent in April. In addition, our business contacts are reporting that hiring is largely on hold until a clearer picture of the economic outlook takes shape.

Moderator: *You mentioned housing a moment ago. I'd like to look more deeply into that sector since so much of the deceleration in national economic activity is tied to weak residential home sales and construction. What is the current state of the housing market in our region?*

Chriszt: It's a great point, Jean. Residential sales and construction activity remain quite weak. Prices have declined in several areas as well. Florida markets were the first to weaken, but housing markets across the District are underperforming. For instance, permits for new residential construction were down over 50 percent in Georgia in the first quarter, they were down 40 percent Florida and Tennessee and around 30 percent in Alabama and Mississippi. Even in Louisiana, where construction has received a boost from hurricane-related rebuilding, permits were down over 10 percent year-over-year in the first quarter.

Recently, our contacts in Florida's housing industry have noted an increase in traffic, meaning more people were out shopping for homes. This has not yet translated into a huge boost in sales, but several homebuilders there did report flat to slightly rising sales in April for the first time in several months. Builders outside Florida remain quite pessimistic, however.

Moderator: *Mike, another angle on housing is the decline in home prices. Can you talk a little about the implications for individuals resulting from declining home prices and some of the other issues that you noted? Are you seeing any pullback on the part of consumers?*

Chriszt: Yes, Jean, we are. In recent months, sales tax revenues from the states in our region were flat or below year-ago levels. Our contacts in the retail sector reported below-average sales as well.

Moderator: *Let's look a little deeper into the consumption issue. Surely, high food prices and energy prices are affecting spending patterns. What have you been able to discern from your business contacts around the Southeast?*

Chriszt: Jean, the basic message that we get is that consumers are becoming much more guarded. For example, restaurant patronage is down. That's a pretty good indicator of how people adjust their spending when faced with higher prices for basic commodities like food and energy. Dining out is a barometer of discretionary spending. Weaker reports from restaurants are an indication that people are indeed tightening their belts.

In addition, people who work in the tourism sector are also sharing their concerns. The fear is that vacationers may either put off or cut short their summer plans, which will affect their bottom line.

Moderator: *What sorts of signs are you looking for to indicate that economic activity is improving? Or maybe the better question is, what would you need to see to convince you that the regional economy is improving?*

Chriszt: Well, we'll probably continue to look toward employment numbers. Although these are typically a lagging indicator, to date we have not seen massive job losses in nonhousing-related sectors. If that holds, it's definitely a positive sign. A bottoming out in construction employment is also something that may indicate that the worst is over for the housing sector.

Along those lines, signs of a bottoming out in home sales and a reduction in home inventories is important. The early signs we are picking up from our contacts in Florida are encouraging, but they need to be sustained for several months and we need to see an improvement in the data for

sales and permits before we get too excited.

And, of course, Jean—as you mentioned—consumption is the key. We'd like to see improving sales tax revenues and more optimism from our retail contacts. Until that happens, the outlook for regional economic activity will remain unclear.

Moderator: *Thank you for taking time to speak with us, Mike. Again, we've been listening to Atlanta Fed Assistant Vice President Michael Chriszt provide insight into leading economic indicators for the Southeast. This concludes our Southeastern Economic Perspectives podcast. Thanks for listening and please return for more podcasts. If you have comments, please send us e-mail at podcast@frbatlanta.org.*