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### **The Growing Gulf Coast: Good Signs despite Low Sales**

The weather is not the only thing about to heat up along the Gulf Coast. The economy is warming up as well, according to the Regional Economic Information Network's (REIN) contacts. The REIN team in the Atlanta Fed's New Orleans Branch reaches out to leaders from large and small businesses from all sectors of the economy and to representatives from community groups along the Gulf Coast in order to gain a representative picture of regional economic conditions, which, by the way, appears to be markedly improving. Since mid-April, we've held 15 one-on-one interviews, one roundtable with a mix of business leaders, our branch board meeting, and we also attended several conferences.

According to our contacts, business sentiment has picked up. Most of them were optimistic about near-term (three to six months) and medium-term (two to three years) growth and were more confident in their outlook than in the recent past. Of contacts who indicated they were experiencing second quarter growth, approximately half believed the growth was a rebound from an unusually weak first quarter, with the other half attributing it to a modest increase in economic strength.

Burgeoning capital investment was a consistent recent theme. A lack of "visibility"—or a firm's ability to confidently predict future business conditions—was not reported as a significant inhibitor of capital investment. Nearly every contact shared information about merger and acquisition (M&A) activity or capital expenditure projects under way or planned for 2014. Most projects involved expansion to meet growing demand, including constructing new facilities and upgrading existing ones, although several projects involved new product offerings. Consistent with the recent trend along the Gulf Coast, much of the increased investment stemmed from the energy sector. However, we noticed investment picked up in other industries, such as in education and medical services.

Business contacts also reported that spending on consulting services for leadership development and organizational culture training increased. The addition of new leaders, M&A activity that resulted in conflicting organizational cultures, and the recession-era deferral of discretionary spending generated a surge in demand for these services.

Residential real estate across the Gulf Coast picked up marginally since mid-April. The median residential home sale was around \$200,000, though inventories were low. Homes in coastal Alabama's high-end market (over \$600,000) were slow to move, and a lack of high-end inventory in coastal Mississippi led to increased construction in that market. In past months, we heard reports of an increase in raw land deals along the Florida Panhandle, and similarly, a recent reemergence of raw land deals was reported in coastal Alabama, often 50 percent bank-financed with fully collateralized loans. Commercial construction also resurfaced in parts of the region.

#### **Resting retail**

Unfortunately, the general optimism was not shared by all sectors. Regional retail contacts shared dampened expectations for the second quarter. Some admitted to difficulty adjusting to a shopping landscape increasingly dominated by the internet, which forced big-box retail stores to rethink sales strategies and reevaluate store locations and sizes and in some cases led to resurgence in the redevelopment of shopping centers.

#### **Bracing for the boom**

The employment picture was heartening, with nearly all of our contacts implementing hiring plans. In fact, a few contacts who took steps to reduce employment to "lean and mean" levels during the recession and early recovery admitted they were not so sure the decision was advantageous, and recently they saw productivity increase significantly once they added workers. However, the continued shortage of skilled labor has many contacts worried that some project start dates may be pushed back as they struggle to find qualified people.

Most contacts continued to report isolated wage pressures for skilled labor, medical services, and professional jobs, though some expressed they are bracing themselves for significant wage pressure in the coming months as the economy picks up.

The chatter about plans to increase prices in recent months materialized into reports of price increases, yet contacts admitted the increases were challenging and required a great deal of negotiating.

Overall, the Gulf Coast economy appears to be rising out of the recessionary fog and shedding the winter frost. The picture across most industries was definitively positive, with reports of large investment projects, hiring plans, and price increases.

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