AN ECONOMIC OVERVIEW OF THE AMERICAN SOUTHEAST

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My remarks today are intended to provide you with some background information on the southeastern economy, including that of the region's hub city, Atlanta. Most of my comments will focus on the economic structure of the area and its performance in recent years. However, I'll have a few words about the outlook, and I'll be happy to answer any questions you might have about what the future seems to hold in store for the Southeast.

What Is the Southeast?

Unlike New England and certain other regions of the United States that have clear geographic boundaries determined by history, culture, and economy, there is no official designation or general consensus regarding which states make up the Southeast. While a number of states share common historical traditions associated with the ante-bellum South, contemporary economic activities are so diverse that defining the Southeast is rather difficult. The Sixth Federal Reserve District, which I represent, comprises six states—Alabama, Florida, Georgia, Louisiana, Mississippi, and Tennessee. These are generally regarded as core states of the Southeast, although recently Louisiana has come to have more in common, economically speaking, with its oil-rich western neighbors than with the southern states whose culture and history it shares. On the other hand, many people would deem North and South Carolina southeastern states because of their many similarities to the states in my District. For this reason I've included data on the Carolinas as well as the other six states in the various charts and statistics I'll be citing (Chart 1).
These eight states constitute a large region, whether measured in terms of area or population. The Southeast covers more than 1 million square kilometers, over four times the size of the United Kingdom and almost twice the size of France. The population of this region is over 42 million, about three-quarters that of either France or the United Kingdom and 18 percent of United States. Atlanta, the Southeast's largest city, has a population in excess of 2 million. Thus, it is considerably larger than either Lyon or Marseilles, each of which has somewhat more than 1 million residents living in the city proper as well as the surrounding urban area. Atlanta is also somewhat larger in overall population than Birmingham, the closest city of comparable size in the United Kingdom. These population figures testify to the considerable size of the southeastern market.

**Economic Structure**

What are the mainstays of the regional economy? Many people, including a surprising number of Americans, still retain the historical image of the Southeast as primarily agrarian. Agriculture is an important element of the southeastern economy, but its role has shrunk greatly in the last 50 years. Less than 5 percent of the area's work force is employed in agriculture, and except in Mississippi, where one-tenth of the state product derives from agriculture, farm receipts make up a comparable percentage of the product of these eight states. Farmers in the Southeast have also moved away from their historical reliance on cotton and a few other crops to a wide range of products, including soybeans, tobacco, peanuts, citrus, pork, dairy products, and poultry. This diversification has improved the profitability of many southeastern farmers and has helped them to reduce the risk associated with relying on a single crop.

Of course, certain primary sector activities remain significant, but today they are closely integrated with secondary, or manufacturing, activities. Food processing, for example, is one of the four largest industries in six southeastern states (Chart 2). Timber
resources are also abundant in the Southeast. In fact, this region is able to supply onequarter of the nation's total lumber needs, and the processing and manufacturing of wood products, including furniture as well as construction materials, pulp, and paper are major industries. Energy resources also exemplify the ongoing importance of natural resource wealth to the Southeast. Louisiana has extensive concentrations of oil and natural gas, while Alabama and, to a lesser extent, Tennessee have abundant supplies of coal. Processing such raw materials makes chemical production the first-ranking source of manufacturing jobs in Louisiana and a major employer in Tennessee and South Carolina.

In spite of the important role that natural resources play in the southeastern economy, manufacturing has long supplanted farming and other primary sector activities both as a means of livelihood for most area residents and as a source of income. What are the leading industries? The region's diversity precludes a single answer. The stereotype of the Southeast as a land of textile mills has become anachronistic. Although the textile and apparel industries continue to be major components of the economies of the Carolinas, Georgia, Alabama, Mississippi, and Tennessee, employment in these industries has been undergoing a secular decline for over a decade. Meanwhile, other industries have been supplanting them. Steel production has long been important in Alabama. More recently, the manufacture of electrical and electronic machinery, especially that used in the defense and space programs, has become a vital source of jobs and value added, especially in Florida, but also in particular cities in North Carolina, Alabama, Tennessee, and Georgia. In Atlanta, for example, over 150 high-tech firms operate in the metropolitan area, employing more than 33,000 people. Many of these are in the fields of electronics, telecommunications, and computers. Transportation equipment has also become a leading industry in some states. Products range from ships built and repaired in Mississippi and Louisiana to cars and trucks produced in Tennessee and Georgia and cargo planes manufactured in Atlanta. In Florida, aircraft, ships, and military and space vehicles dominate this industry.
No description of the southeastern economy would be complete without discussing the tertiary, or service sector, which has contributed so much in the way of job growth and cyclical stability. Rapid expansion of all kinds of services has been especially important in certain southeastern cities such as Atlanta and in Florida, where services make up a much larger share of the economy than is the case nationally. Since service-sector employment tends to fluctuate less over phases of the business cycle, the Southeast, especially localities with a large service sector, have suffered far less in recent recessions than have areas that are heavily dependent on manufacturing.

Many of these services—including banking, retail establishments, medical facilities, and the construction of homes, apartments, and condominiums, have increased at a fast pace to meet the needs of the area's rapidly growing population. Other services, such as the Southeast's major sea and air ports, have been expanded and modernized and now serve not merely as regional distribution centers but as national and even international nodes. The port of New Orleans handles more tonnage than any other U.S. port except New York. (Rotterdam, and Marseilles. _____?) Atlanta's Hartsfield Airport is the second busiest airport in the world (Chart 3). Moreover, Atlanta's air traffic is located in a single airport, whereas the other cities boasting higher air travel—Chicago and New York—have two or three airports, respectively, thus making connections less convenient. Furthermore, these and other sea and air hubs are linked with other transportation modes by a system of rail lines, waterways, and interstate highways that are in many ways more modern than those elsewhere in the United States because they were constructed later. Our major water arteries include not only the Mississippi River but also the newly completed Tennessee-Tombigbee Waterway, which connects several rivers in the Southeast by a series of canals and locks. It will shorten substantially the trip to the port of Mobile, Alabama, used by many shippers of bulk commodities such as coal.
Another regionally important service whose market extends beyond the local population is tourism. Florida's beaches, warm climate, and numerous recreational facilities attract visitors from the rest of the country as well as from Canada, Europe, and Latin America. However, Florida does not have a monopoly on the tourist trade. Other states have successfully marketed their unique offerings to vacationers. These range from the mountains of North Carolina and Tennessee to the French and Spanish ambience of New Orleans. Another recent development is the market for conventions and meetings. Atlanta has greatly expanded the number of first-class hotel rooms. These lodging facilities, together with its recently expanded exposition hall—the Georgia World Congress Center—enable the city to host more convention delegates than any American city except New York and Chicago (Chart 4).

Thus, the southeastern economy is blessed by a structure that is well-balanced between the production of goods, both raw and processed, and services. I would not for a moment deny that certain areas have serious imbalances. Louisiana's dependence on energy and petrochemicals, for example, has turned from a boon not long ago to bane today. Nonetheless, the overall composition of the southeastern economy is an undeniable strength in its record of performance. The Southeast has also benefited from the infusion of many new residents and businesses. Many of these establishments are in rapidly growing industries including defense and space as well as business and consumer services. This influx has helped to offset weaknesses in other areas and fostered remarkable growth. I would like to turn now to this growth and other aspects of the Southeast's economic performance in recent years.

Economic Performance

Probably the most salient characteristic of the region's economic performance in the last decade or so is rapid growth. Whether measured in terms of income or
employment, the Southeast has expanded more rapidly than the United States as a whole (Charts 5 and 6). In some localities the growth can be described only by superlatives. For example, almost 100,000 new jobs were created in Atlanta last year. In contrast, New York City added about three-quarters that number. This economic expansion, along with the balanced economic composition, has also helped keep the unemployment rate in the three largest southeastern states—Florida, North Carolina, and Georgia—below the U.S. average, even during the recessions of the 1980s (Chart 7).

What factors account for this growth? One I have already mentioned is the concentration of high-growth industries and activities such as the production of technologically advanced electronic equipment used in the space and defense programs. Another critical element is the rapid in-migration of people to the region. Population growth has been far more rapid here than in most other areas of the nation (Chart 8), and this growth is less the result of high fecundity than of the movement of people from other areas of the United States to the Southeast. Population growth, particularly in-migration, tends to increase demand for housing, stores, restaurants, financial institutions, entertainment facilities, and medical care and, thus, explains the rapid rise of the service sector in states and localities which have gained the most new people. In recent years retail sales and residential construction in the Southeast, and particularly Atlanta, have outpaced the nation (Charts 9 and 10).

Why are people moving to the Southeast in such numbers? Many individuals have relocated here during their retirement years to take advantage of the region's milder climate. Others have come because of employment opportunities. American businesses are decentralizing, particularly their sales and distribution operations. At the same time, they are shifting their location preference for many types of manufacturing as well as distributive activities. Both trends are motivated in part by a quest for greater
efficiency. Competitive pressures have been spurring American businesses in the last several decades to seek southeastern locations because of the region's cost advantages. These include lower wage levels, less burdensome taxes, and reduced distribution costs associated with greater market proximity. These cost advantages, along with other factors such as the area's favorable business climate, about which John Clendenin will tell you more in a moment, have contributed importantly to the in-migration of businesses and people and propelled the southeastern economy to growth rates in excess of those nationally.

Although one could probably cite other causes for this outstanding record of growth, the final one I will mention today is that of foreign investment. Like many American businesses, foreign firms have found it profitable to locate production, distribution, and sales facilities in the Southeast. Foreign direct investment, whether measured in book value or jobs created has been faster in the Southeast than in the United States as a whole (Chart 11). Many people are aware of some of the major foreign plants, such as Nissan's truck assembly factory near Nashville, Tennessee, but such well-publicized facilities are complemented by a host of smaller-scale foreign investments in southeastern factories, shopping centers, office buildings, warehouses, and marketing operations. International financial institutions also abound in the region. There are currently over 300 international financial agencies, including international departments of domestic banks, Edge Act Banks, and branches and agencies of foreign banks.

Of course, the performance of the Southeast economy is not without certain problems. I have already observed how excessive dependence on energy resources has come to haunt Louisiana now that petroleum prices have slackened in today's glutted world markets. Similar conditions in agriculture are hurting not only the region's farmers
but also local industries that produce and handle farm supplies. For example, the value of exports and imports handled by major southeastern ports has declined or risen modestly in comparison with the nation as a whole (Charts 12 and 13) because the shipments they handle are heavily concentrated in farm and energy commodities. In addition Louisiana's petrochemical industry and Florida's phosphate manufacturing have been adversely affected by waning demand for fertilizers occasioned by a worldwide surfeit of agricultural commodities, falling prices, and the high value of the U.S. dollar.

As you know, the foreign exchange rate of the dollar rose rapidly during the early 1980s, at one point earlier this year reaching a peak 90 percent above its trough of 1980. Fortunately for Americans, the dollar has fallen around 20 percent since early 1985 (Chart 14). Yet those industries most affected have felt little effect as yet since it typically takes six months or a year for trade flows to respond to such changes. Fortunately, the diversity of crops and livestock grown and raised by southeastern farmers has shielded them from the even greater adversities being suffered by other American farmers such as those of the Plains states, where farming tends to be concentrated in grains and commodities most directly affected by international market conditions.

The dollar's high value has also taken its toll on southeastern manufacturing, particularly those industries such as textiles and apparel that are quite vulnerable to low-cost foreign competition. The secular decline in textile employment that I remarked upon earlier has accelerated sharply since 1980 (Chart 15). Similarly, lumber producers have seen their market share eroded by Canadian imports, particularly in the softwoods line that is so important in home construction. Manufacturers of commodity chemicals are finding it increasingly difficult to compete against producers abroad. Because of recent geographic patterns in the location of manufacturing facilities, these difficulties
have been felt more in rural areas. This imbalance is due not only to the concentration of agriculture in rural areas but also to the predominance of manufacturing in many rural areas of the Southeast. The shut-down of a single factory can spell economic malaise for an entire area. In contrast, many of the region's cities are more service-oriented and thus more immune to the vagaries of foreign trade.

Unfortunately, some industrialists and public policy leaders in the Southeast as in the nation are currently seeking protectionist measures to mitigate these troubles. I am deeply distressed by the short-sighted nature of these proposals. Economic history leaves no doubt that the havoc that trade barriers wreak far exceeds any short-time gains that employees and owners of a small number of affected industries may enjoy. In addition, such measures merely postpone the necessary adjustments to world economic integration that such industries will have to make. In seeking remedies for these ills, policy makers need to keep in mind that their underlying cause is the very large federal budget deficit, which has been growing enormously. The upward pressure that this deficit has been putting on interest rates has attracted foreign investors to dollar-denominated assets, thereby driving up the foreign exchange value of the dollar, widening our merchandise trade deficit to record levels, and sapping strength from domestic manufacturing and farming. The primary viable long-term cure for the problems plaguing certain American industries and agriculture is not the enactment, even on a temporary basis, of tariffs, quotas, and subsidies, but rather a dramatic reduction in the size of the federal budget deficit.

Outlook

The strengths associated with high-growth industries and a balanced economic structure augur a bright future for the region, despite the problems currently besetting certain industries and areas of the Southeast. I have no reason to expect that the in-
migration of people to this area will stop or slow appreciably. Therefore, those economic activities associated with population growth, especially construction, trade, and consumer services, should continue to flourish. There is also every reason to expect that the trend of relocation and decentralization of factories, warehouses, sales offices, and even research and development facilities by businesses, both domestic and foreign, will continue to favor the Southeast. This trend should bring with it ongoing expansion of transportation, distribution, and business and professional services. Thus, if, as I expect, U.S. economic growth continues for the foreseeable future at the moderate but respectable pace we have experienced of late, the southeastern economy promises to perform even better in the coming year and well beyond.