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 for the Southeast or for the United States as a whole.

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 pre-Civil War South, contemporary economic activities are so diverse that defining the Southeast is rather difficult. The Federal Reserve Bank of Atlanta—a part of the U.S. central bank—oversees all or portions of six states—Alabama, Florida, Georgia, Louisiana, Mississippi, and Tennessee. These are generally regarded as core states of the Southeast, although in recent decades Louisiana’s energy-based economy has come to have more in common with its oil-producing western neighbors—Texas and Oklahoma—than with the southern states whose culture and history it shares. (Chart 1).
These six states constitute a large region, whether measured in terms of area or population. The Southeast covers nearly 800,000 square kilometers, a little more than the combined areas of Italy, Switzerland, Austria, and East and West Germany. The population of this region is more than 33 million, nearly two-thirds that of Italy and almost 15 percent that of the United States. Atlanta is the economic center of the Southeast. Within the city proper some 430,000 people live—about half as many as in Zurich. However, as in many newer American cities, more and more people live and work in the suburbs. When we consider the larger but probably more meaningful unit of the city and its suburbs, Atlanta’s population is about 2.5 million, closer to the population of Rome. 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 relative role has shrunk greatly in the last 50 years as other sectors have outstripped its growth. Less than 4 percent of the area’s work force is employed in agriculture, and except in Mississippi, where one-tenth of the state’s output derives from agriculture, farm receipts make up 4-5 percent of the personal income of southeastern 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 fruits, vegetables, rice, sugar-
cane, beef cattle, pork, dairy products, fish, 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 natural resource 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 as well as in the United States as a whole. Timber resources are also abundant in the Southeast. In fact, this region is able to supply nearly one-fifth of the nation’s total lumber needs. In addition, 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 and southern Mississippi have extensive concentrations of oil and natural gas, while Alabama and, to a lesser extent, Tennessee have abundant supplies of coal. Processing raw materials derived from petroleum and timber resources makes chemical production an important southeastern industry. However, stiff competition from imported products has caused some retrenchment in the chemical industry.

In spite of the important role that natural resources play in the southeastern economy, manufacturing has supplanted farming and other activities that involve extracting and processing raw materials, 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 area’s economy and are proportionately larger than their counterparts elsewhere in the United States (Chart 2), 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 but it has waned during the 1980s. 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 Alabama, Tennessee, and Georgia. In Atlanta, for example, over 150 high technology firms operate in the metropolitan area, employing more than 62,000 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 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 the highly urbanized state of Florida, where services make up a much larger share of the economy than is the case nationally. Since service-sector employ-
ment tends to fluctuate less over the business cycle, the urban Southeast has suffered far less in recent recessions than have areas that are heavily dependent on manufacturing.

Many of these services—including banking, retail establishments, and medical facilities—have increased at a fast pace to meet the needs of the area’s rapidly growing population. The same is true regarding the construction of homes, apartments, and condominiums. 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. New Orleans ranks among the busiest ports in the United States. Last year only New York City handled more tonnage. 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 and three airports, respectively, thus making connections less convenient. Furthermore, these and other sea and air hubs are linked with other transportation modes—rail lines, waterways, and a system of 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. Its Gulf Coast outlet through the port of Mobile, Alabama, substantially shortens the inland water route for 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 northern Georgia 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 its 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 Dallas, 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. Rapidly growing industries like defense and space are represented along with 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, over 75,000 new jobs were created in Atlanta last year, more than 3 times as many as New York City added. This economic expansion, along with the balanced economic composition, has also helped keep the unemployment rate in the two largest southeastern states—Florida 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 fertility 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 and generally lower cost of living. 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, relatively low land prices, and reduced distribution costs associated with readily accessible transportation networks and enhanced market proximity. These cost advantages as well as the area’s favorable business climate have drawn businesses and people and caused the southeastern economy to growth faster than the nation’s.

Although one could probably cite other causes for this outstanding record of growth, the final one I will mention today is 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, measured in 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 and auto 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. Over a hundred international financial institutions, including departments of American banks, branches and agencies of foreign banks, and international banking and finance corporations are located in the Southeast.

**Economic Prospects and Problem Areas**

Looking ahead through the end of 1987, I expect the region’s economy to grow at a faster pace than the national average but not as rapidly as it has in the past several years. Two main forces will propel expansion in the Southeast—a continuation of population growth, particularly in Florida and the Atlanta area, and a turnaround in the trade deficit brought about by the decline of the dollar’s value against foreign currencies. My outlook for economic strength derives for the most part from the beneficial effects of population gains on the service and trade industries. Construction activity, which is normally boosted by in-migration, is likely to remain strong only for single-family houses, while building of offices, retail space, and multi-family dwellings will probably be weak. One reason for this development is the substantial overbuilding that occurred over the past few years. It will take time for all the existing space to be absorbed. Another factor is the 1986 Tax Reform Act, which is less favorable to many types of real estate investment.
The second positive factor, an improvement in the American trade deficit, will occur, I believe, because of the substantial currency realignment we have had. According to our research at the Federal Reserve Bank of Atlanta, the dollar has fallen some 27 percent from its peak in 1985 (Chart 12). This should be sufficient to provide manufacturers of export products with stronger demand at home as well as overseas. Over the last two quarters exports have begun to pick up at the same time that imported goods were growing more expensive to domestic consumers. The Southeast's important paper industry has already been helped by currency realignments, and its automakers appear to be benefiting also. Until recently, however, the dollar had failed to depreciate against the major currencies of Canada and the newly industrializing countries of the Pacific rim. Consequently, the Southeast's forest products industry, whose greatest competitors in softwoods are Canadian, and apparel makers, who compete against clothing manufacturers in Taiwan, Korea, and Hong Kong, still await better market conditions. Fortunately, this situation has finally begun to show some progress, and the dollar is also on a downward trend against most of those countries' currencies. Since the margin of decline is still quite small, though, the amount of near-term improvement I foresee for some traditional southeastern industries—and those areas dependent on them—may not be very dramatic.

I don't want to make it sound as if the Southeast has no economic problems. In several states the unemployment rate is higher than the national average. I have already observed how excessive dependence on energy resources has come to haunt Louisiana and southern Mississippi 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 some major southeastern ports like New Orleans declined (Charts 13 and 14) because the shipments they handle are heavily concentrated in farm and energy commodities. In contrast, port activity nationwide rose moderately last year. Furthermore, 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 formerly high value of the U.S. dollar. However, it is important to keep these problem areas in perspective by emphasizing that they are confined to specific states and localities within the region.

Conclusion

Thus overall the strengths associated with high-growth industries and a balanced economic structure indicate a bright future for the Southeast, despite the problems currently besetting certain industries and areas of the region. There is 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 employment in these firms as well as growth of related 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 than that of the nation in the coming year and well beyond.
Chart 2
COMPOSITION OF SOUTHEASTERN AND U.S. MANUFACTURING
1986

S.E. Employment

- Apparel 12%
- Machinery 15%
- Textiles 7%
- Transportation Equipment 9%
- Food 10%
- Chemicals 6%
- Other 41%

U.S. Employment

- Apparel 6%
- Machinery 22%
- Textiles 4%
- Transportation Equipment 10%
- Food 10%
- Chemicals 5%
- Other 43%

Federal Reserve Bank of Atlanta
Chart 3

AIRLINE PASSENGERS
1986

ATLANTA
CHICAGO
NEW YORK

La Guardia
JF Kennedy
Newark

Millions

45
59
78

Federal Reserve Bank of Atlanta
Chart 4

CONVENTION ATTENDANCE
1986

Millions

ATLANTA 1.6
DALLAS 2.0
CHICAGO 2.9
NEW YORK 4.5

Federal Reserve Bank of Atlanta
AGGREGATE INCOME GROWTH, 1970–85

Percent Change (Current $)

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<td>301</td>
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Federal Reserve Bank of Atlanta
EMPLOYMENT GROWTH, 1970–86

Chart 6

Percent Change

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<th>Percent Change</th>
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<td>S.E.</td>
<td>60</td>
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<td>ATLANTA</td>
<td>88</td>
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Federal Reserve Bank of Atlanta
Chart 7

UNEMPLOYMENT RATE, 1980–87
(SEASONALLY ADJUSTED)

Percent

- United States
- Florida
- Georgia

(Mar.)
6.60
5.60
5.50

Federal Reserve Bank of Atlanta
Chart 8

POPULATION GROWTH, 1970–86

Percent Change

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<td>Value</td>
<td>19</td>
<td>37</td>
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Federal Reserve Bank of Atlanta

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis
Chart 9

RETAIL SALES GROWTH*
1978-86

* Sales at stores selling furniture, apparel, home appliance and general merchandise.

** Southeast total includes ONLY the states of Florida, Louisiana, Tennessee and the Atlanta MSA.

Federal Reserve Bank of Atlanta
Chart 11

EMPLOYMENT GROWTH IN FOREIGN SUBSIDIARIES 1977–84

Percent Change

United States
Southeast

Federal Reserve Bank of Atlanta
Chart 13

CHANGE IN SOUTHEASTERN PORT ACTIVITY, 1985-86

Exports

Percent Change January through June ($ Value)

- New Orleans: -6
- Miami: 18
- Savannah: 12
- Tampa: -26
- Mobile: 12
- United States: 2

Federal Reserve Bank of Atlanta
Chart 14

CHANGE IN SOUTHEASTERN PORT ACTIVITY, 1985–86

Imports

Percent Change January through June ($ Value)

- New Orleans: -1
- Miami: 15
- Savannah: 24
- Tampa: 22
- Mobile: -17
- United States: 5

Federal Reserve Bank of Atlanta