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 less than the combined areas of Japan, South Korea, Taiwan, and the Philippines. The population of
this region is more than 34 million, a little over half that of the Philippines and about 14 percent that of the United States. Atlanta is the economic center of the Southeast. Within the city proper some 430,000 people live—less than a third as many as in Kyoto. 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 2.7 million, closer to the population of Osaka. 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 8 percent of the state's output derives from agriculture, farm receipts make up only 3 to 5 percent of the personal income of the remaining southeastern states. Farmers in the Southeast have also moved away from their historical reliance on cotton and tobacco to a wide range of products, including soybeans, peanuts, citrus fruits, rice, sugarcane, beef cattle, dairy products, fish, and poultry. This diversification has improved the profitability of southeastern agriculture and has helped reduce the risk associated with relying on one or two main crops.

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. The southern areas of Louisiana, Mississippi, and Alabama have extensive concentrations of oil and natural gas. Alabama and, to a lesser extent, Tennessee also have abundant supplies of coal. Processing raw materials derived from petroleum and timber resources makes chemical production an important southeastern 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 livelihood for most area residents and as a source of income. Although the textile and apparel industries have traditionally been major components of the area's economy and are still 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 the kinds 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 nearly 90,000 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 aircraft components manufactured in Atlanta and Lake Charles, Louisiana. In Florida,
aircraft, ships, and military and space vehicles dominate the transportation equipment 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—particularly health care, data processing, computer software, and electronic payments systems—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 employment 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 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 hubs. New Orleans is the busiest port in the United States in terms of combined domestic and foreign waterborne tonnage. Atlanta's Hartsfield Airport is the second busiest airport in the world. Moreover, Atlanta's air traffic is located in a single airport, whereas the other cities boasting a greater volume of air travel—Chicago and New York—have two and three airports, respectively, thus making connections less convenient (Chart 3). 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.
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 exposition hall, the Georgia World Congress Center—enable the city to host more convention delegates than any American city except Dallas, Chicago, and New York (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 in the early 1980s to a 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

Whether measured in terms of income or employment, the Southeast has expanded more rapidly than the United States as a whole in the last decade or so (Charts 5 and 6).
In some localities the growth can be described only by superlatives. For example, over 56,000 new jobs were created in Atlanta last year, more than twice 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 for most 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. During recent years, retail sales and residential construction in the Southeast, 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 grow faster than that of the nation as a whole.

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 occurred 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 such 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 1990, I expect the region's economy to grow at about the same pace as the nation's economy but not as rapidly as it has in the past several years. That is somewhat slower than the growth earlier in the decade, largely because of slowing growth in defense expenditures and the drop-off in the rate of immigration that has accompanied the manufacturing recovery in the rest of the United States. Nonetheless, the Southeast should continue to have respectable population gains.
and, with them, ongoing healthy growth. At the same time, construction activity, which is normally boosted by in-migration, is likely to be weaker. This slowdown will probably be particularly apparent in the commercial area, including offices and retail space. One reason for this development is the substantial overbuilding that has occurred over the past few years. It will take time for all the existing space to be absorbed.

Another positive influence on the region is the improvement in the U.S. trade deficit in response to the substantial currency realignment we have had. Although the dollar has risen a bit recently, according to our research at the Federal Reserve Bank of Atlanta, the dollar is still some 30 percent below its peak in 1985 (Chart 12). This has provided manufacturers of export products with stronger demand at home as well as overseas and has stimulated brisk growth in shipments through southeastern ports. Producers of paper, chemical, and agricultural commodities have been notable beneficiaries of the gains in trade. As a result, the value of export shipments from southeastern ports climbed 26 percent in the first seven months of 1989 following a 24 percent increase during the 1988 calendar year. Meanwhile, import values of southeastern ports also expanded but at a slower rate than the gain in exports (Charts 13 and 14).

I do not 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. Construction activity and transportation equipment manufacturing have also weakened in several areas. 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 diversified 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 as well as that of the nation in the coming year and perhaps even better in the years to come.
Chart 2

COMPOSITION OF SOUTHEASTERN AND U.S. MANUFACTURING
1989

S.E. Employment

- Apparel 11%
- Textiles 8%
- Machinery 15%
- Transportation Equipment 9%
- Food 9%
- Chemicals 5%
- Lumber 9%
- Paper 5%
- Other 29%

U.S. Employment

- Apparel 6%
- Textiles 4%
- Machinery 21%
- Transportation Equipment 11%
- Food 8%
- Chemicals 6%
- Paper 4%
- Lumber 7%
- Other 33%

Federal Reserve Bank of Atlanta
Chart 3

AIRLINE PASSENGERS
1988

Millions

<table>
<thead>
<tr>
<th>City</th>
<th>Passengers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Atlanta</td>
<td>46</td>
</tr>
<tr>
<td>Chicago</td>
<td>66</td>
</tr>
<tr>
<td>New York</td>
<td>78</td>
</tr>
</tbody>
</table>

Federal Reserve Bank of Atlanta
Chart 4

CONVENTION ATTENDANCE
1988

Federal Reserve Bank of Atlanta
Chart 5

PERSONAL INCOME GROWTH, 1970–87

Percent Change (1972 $)

<table>
<thead>
<tr>
<th></th>
<th>U.S.</th>
<th>S.E.</th>
<th>ATLANTA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent Change</td>
<td>59</td>
<td>88</td>
<td>106</td>
</tr>
</tbody>
</table>

Federal Reserve Bank of Atlanta
EMPLOYMENT GROWTH, 1970–89*

Chart 6

Percent Change

- U.S.: 46
- S.E.: 73
- ATLANTA: 89

* August

Federal Reserve Bank of Atlanta
Chart 7

UNEMPLOYMENT RATE, 1980–89
(SEASONALLY ADJUSTED)

Percent

United States
Florida
Georgia

Federal Reserve Bank of Atlanta
Chart 8

POPULATION GROWTH, 1970–1988

Percent Change

<table>
<thead>
<tr>
<th>Region</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.</td>
<td>21</td>
</tr>
<tr>
<td>S.E.</td>
<td>41</td>
</tr>
<tr>
<td>Atlanta</td>
<td>62</td>
</tr>
</tbody>
</table>

Federal Reserve Bank of Atlanta
Chart 9
RETAIL SALES GROWTH*
1979–88

Percent Change (Current $)

<table>
<thead>
<tr>
<th></th>
<th>U.S.</th>
<th>S.E.**</th>
<th>ATLANTA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>82</td>
<td>93</td>
<td>142</td>
</tr>
</tbody>
</table>

* Sales at stores selling furniture, apparel, home appliances, and general merchandise.
** Southeast total includes ONLY the states of Florida, Louisiana, Tennessee, and the Atlanta MSA.

Federal Reserve Bank of Atlanta
Chart 10

GROWTH OF RESIDENTIAL CONSTRUCTION 1978–88

Percent Change (Units)

- U.S.: -7.2
- S.E.: 21
- Atlanta: 78

Federal Reserve Bank of Atlanta
Chart 11
EMPLOYMENT GROWTH IN FOREIGN SUBSIDIARIES
1977–87

Percent Change

United States
Southeast

159
239

Federal Reserve Bank of Atlanta, Research Department
Chart 12

VALUE OF U.S. DOLLAR

CURRENCY INDICES

1980=100

- Atlanta
- Board

Federal Reserve Bank of Atlanta

(Sept.)

115.6

101.8
Chart 13

CHANGE IN SOUTHEASTERN PORT ACTIVITY, 1988–89
Exports

Percent Change January through July
($) Value

Federal Reserve Bank of Atlanta
Chart 14

CHANGE IN SOUTHEASTERN PORT ACTIVITY, 1988–89
Imports

Percent Change January through July
($ Value)

New Orleans: 22
Miami: 11
Savannah: 22
Tampa: 0
Mobile: 24
United States: 8