

Southeast Economic Strengths and Challenges

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It's my honor to participate in the chartering ceremony for the Southeastern United States and Canadian Provinces Alliance.

The Atlanta Fed serves the Federal Reserve System's Sixth District, which includes Georgia, Alabama, and Florida and parts of Tennessee, Louisiana, and Mississippi. Although our district does not align precisely with the states involved in this alliance, it's a fair proxy for the economy of the Southeast. For this occasion my references to the Southeast will include all of the states within the Sixth District as well as North and South Carolina.

In terms of industrial composition, the Southeast's economy is similar to the overall U.S. economy, which has a gross domestic product of \$13 trillion. By comparison, the economic output of the Southeast is about \$2.3 trillion—about the same size as the United Kingdom.

To provide some perspective on this large and diverse economic region, I will briefly comment on some of the region's strengths and challenges.

Strengths

The first strength is the growing number of people in the Southeast region. Today, the population of the Southeast is about 58 million. Population in the region has increased steadily with the trend of Americans migrating south because of the region's attractive weather, lifestyle, and economic opportunity—among other reasons.

Another strength is brainpower as reflected in the growth of knowledge workers and service industries. The Southeast is home to many high-quality institutions of higher education. The Atlanta area alone has 45 universities and colleges—not counting postsecondary technical schools, according to the Metro Atlanta Chamber of Commerce.

A broad historical trend in the Southeast is the substitution of traditional industries—for example, textiles—with technology-based industries and associated professional services. Health care, education and tourism are growth industries.

Growth clusters—big and small—are located throughout the region. Last week I visited Huntsville, Ala., which was the cradle of America's space program after World War II. Now, Huntsville is home to many aerospace and engineering businesses. Other clusters can be found in Raleigh-Durham (biotech), Charlotte (banking), Nashville (healthcare and hospital management), Atlanta (logistics), and the Mississippi Gulf Coast (tourism and gaming). Obviously, this list is not exhaustive.

In addition, the Southeast is well positioned for trade. Of the nation's 50 largest ports in terms of total international trade, 15 are in the Southeast. During the past six years, the value of international shipments across regional ports and airports has grown steadily. The Southeast also has strong connections to Latin America. Miami serves as a gateway to South America, and trade and investment connections are growing across the region.

And there is very healthy north-south trade between Canada and the Southeast as shipments between these areas amount to many tens of millions of dollars each day. One reason for this connection is proximity. For instance, a truck delivery from Montreal to, say, Nashville takes about two days. The same shipment going west to Vancouver might take as long as five days.

To emphasize the importance of Canada as a trading partner, the country is the largest export market for 36 U.S. states and a majority of Southeastern states.

Trade in automobiles and vehicles is brisk, with growing shipments from the Southeast into Canada—a positive outgrowth of the region's vibrant vehicle parts and manufacturing industry. Outside of the upper Midwest, the Southeast is the auto industry's second home in the United States.

Challenges

Despite the development of efficient manufacturing facilities, the region in recent decades has suffered the loss of many factory jobs—particularly in the apparel and textile industries. Although overall unemployment in the region is a bit lower than the United States as a whole, many workers in the region have not adjusted to changing technologies and global competitive pressures.

Many of the kindergarten through 12th grade schools in the Southeast fall below national averages by certain measures of performance, and pockets of poverty—especially in rural areas—are a lingering problem.

As you know, parts of the Southeast are currently experiencing serious drought conditions. Although perhaps a temporary problem, this situation points out the need for long-term resource management planning.

Finally, I should point out that the Southeast recently has begun to suffer from too much of a good thing when it comes to housing. Many lenders, builders, and other businesses failed to anticipate the end of the housing boom that lasted from 2001–05. In the aftermath of residential overbuilding, a painful adjustment is taking place with house prices stagnant or declining and housing starts dropping sharply in many areas in the region.

I should mention that with the strong Canadian dollar and weak housing markets, the Southeast has the potential to benefit from second-home residential investment by Canadians. Canada's demographic profile is slightly older than the United States. And need I say that Southeast beaches are warmer in January?

Benefits of trade, investment and collaboration

Taken as a whole, I believe that the economic strengths of the Southeast far outweigh its challenges. Throughout its history, the Southeastern economy has shown enormous resilience and an ability to respond to challenges.

Although not contiguous, Canada and the Southeast are both well positioned to benefit from the interconnection of their economies through trade, investment, and collaboration. I applaud the leaders for advancing closer explicit ties between our two economies. I believe this alliance will provide concrete economic benefits to everyone involved.

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