Economic Review

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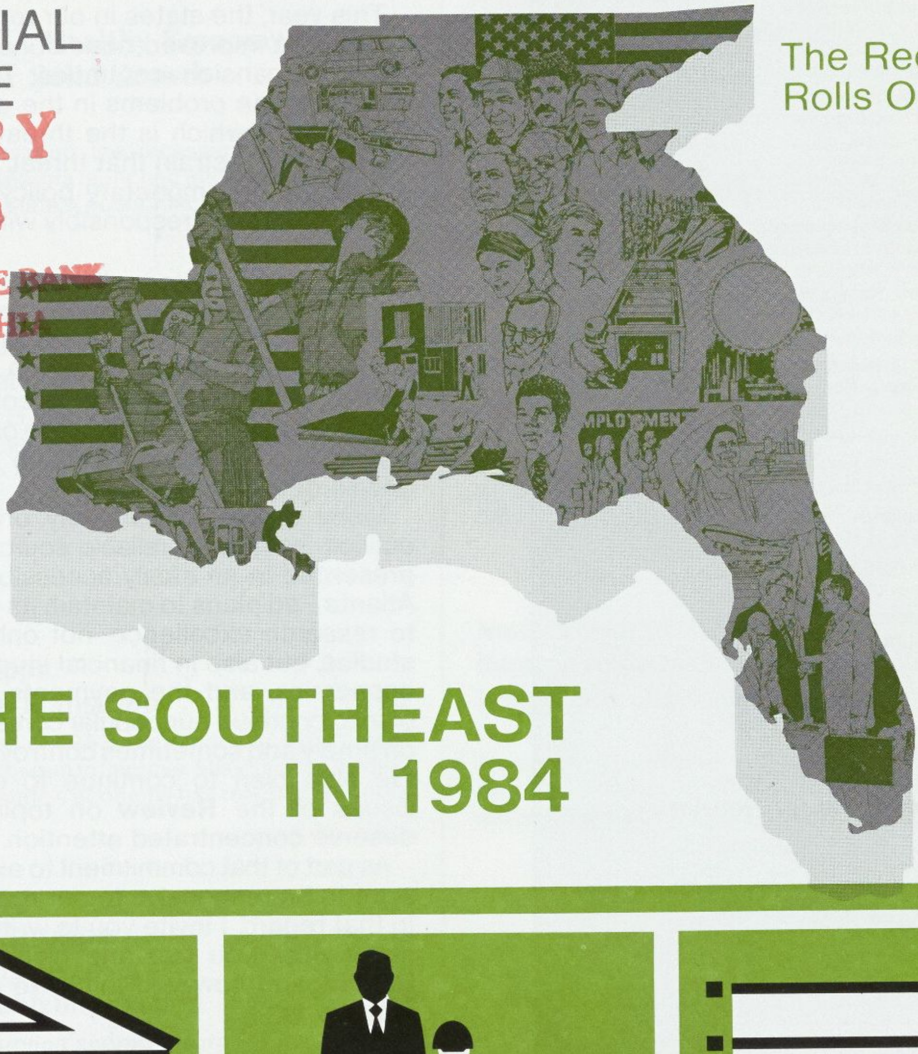
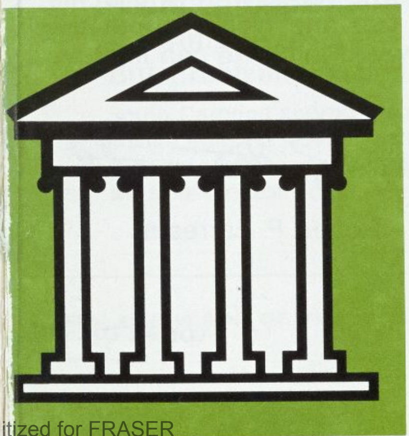
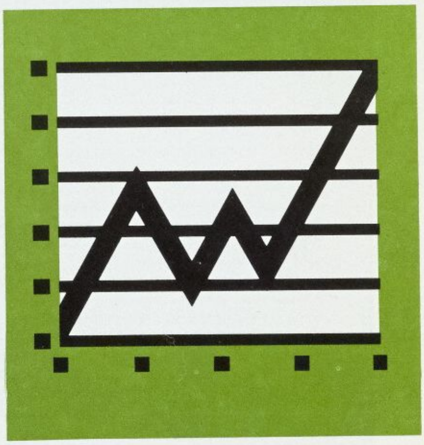
SPECIAL ISSUE



The Recovery Rolls On

THE SOUTHEAST IN 1984





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To our readers:

As the new president of the Federal Reserve Bank of Atlanta, I'm pleased to introduce this special issue of the **Economic Review.** It has become a tradition for us to gather the considerable resources and widespread contacts of our Research Department each February to present the economic outlook for the southeastern states.

This year, the states in our region can look forward to improved conditions as the economic expansion continues. There are, of course, some problems in the economy, not the least of which is the threat of renewed inflation. To restrain that threat, we will need not only a firm monetary policy, but a fiscal policy that deals responsibly with the federal deficit.

Our research effort will continue its strong focus on specific problems impeding the nation's economic growth and on specific solutions to those problems. A forthcoming article on high-performance companies, for example, will address the issue of how to keep productivity improving through the ups and downs of the business cycle.

Many of our readers rely on our annual outlook issue as a reliable source of analysis presented in an easily accessible style. The Atlanta Fed plans to maintain its commitment to research excellence, not only in regional studies, but also in financial studies, national economics, and the payments system. We plan to continue our popular conference series on timely and sometimes controversial topics. We also plan to continue to offer special issues of the **Review** on topics we think deserve concentrated attention.

As part of that commitment to excellence, we want to be responsive to our readers' needs. In that regard, I invite you to write and let me know what you like and dislike about the **Review** and how you think we can improve our efforts.

Robert P. Forrestal

Robert P. Forrestal

The Southeast in 1984: An Overview

With the Southeast's economy mustering fresh strength moving into 1984, the outlook is promising for the region in the months ahead.

Within the region, those state economies that showed the greatest strength in the 1981-1982 recession and the recovery in 1983 also are likely to lead the way in 1984.

Of the eight states covered in this issue, Florida should enjoy the strongest expansion. An inflow of new residents and businesses into Florida promises to boost spending on housing and consumer durable goods, creating new jobs at the same time. Increased defense spending will stimulate local economies surrounding military installations and, in particular, boost those areas that produce sophisticated military hardware. Florida's tourist attractions will lure a growing number of domestic and foreign travellers, and add to the growth of the state's economy as well.

Other states in the region will benefit from these strengths, too. Georgia and North Carolina, especially, are likely to benefit from the effects of increased migration. Increased defense spending will boost many local economies in the region. Tourism is expected to be a pillar of Louisiana's recovery in 1984 and the benefits of the World's Fair to be held there this year should spread across the Southeast.

The national recovery this year and increased tourism should boost the region's airline and convention trade. With the world's fair, the continued lure of Disney World's EPCOT Center, and the growth of convention facilities in Atlanta, this could be a banner year for southeastern hospitality industries.

Revived growth will stimulate the manufacturing economies of Alabama, Mississippi, and Tennessee. These states, hard-hit by the recessions of the early 1980s, have begun to experience solid employment gains in response to the national recovery. In 1984, they should gain from plant reopenings in diverse durable manufacturing industries and from increasing mining activity. South Carolina, also hard-hit by the recession, made a faster than usual comeback in 1983 and state leaders are moving aggressively to diversify its economy.

A lack of diversity hurt Louisiana's energy and trade dependent economy in the recent recession. Louisiana's economy still has some catching up to do because the petroleum industry and international trade have both been slow to join in the economic revival. A rebound of the energy sector and increased trade flows would benefit this and other states in the region. It is likely that international trade will improve later this year, particularly helping Louisiana, North Carolina and south Florida. Increased exports also would induce faster growth in the other regional states. The region also should profit from foreign investment.

The Southeast in Recovery

After suffering the pains of a recession that continued through most of 1982, parts of the southeastern economy began to experience a strong upturn during the first half of 1983 with a reawakening of consumer spending. Increasingly optimistic consumers began to buy cars, clothes and houses as interest rates fell.

A revival in residential construction, first noted as 1982 drew to a close, stimulated construction-related industries across the nation. Predictably, the region's substantial furniture and carpet manufacturing industries soon began to expand output rapidly to meet the renewed demand.

The recovery spread quickly, injecting new life into the Southeast's concentrations of automobile parts and apparel manufacturing plants. Closed factories began to reopen and idled employees were summoned back to work. Total employment, which had languished through 1982, began to grow again during the late spring, pumping more money into the economy.

As 1983 ended, both employment and joblessness reflected the recovery's burgeoning strength. Employment was showing strong growth, while the unemployment rate continued to drop. Alabama, Louisiana, Mississippi and Tennessee continued to experience jobless rates around 11-12 percent late in the year, but the region's average rate had fallen from nearly 11 percent at the beginning of the year to about 9 percent by the fourth quarter.

In Florida, Georgia and North Carolina, where economic activity weathered the recession relatively well, unemployment had fallen to 7.8, 7.1 and 8.2 percent, respectively, in November. Those states' mix of service-related industries had provided some insulation from the unemployment problems that plagued the manufacturing-dominated economies of neighboring states.

A second consecutive year of economic expansion promises a continuing reduction in unemployment throughout the Southeast and in the nation, where the rate seems likely to decline to 8 percent or even lower by yearend.

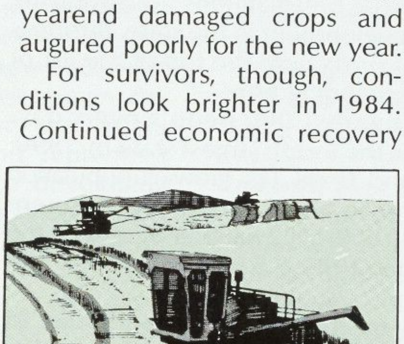
Unanswered Questions

But trouble spots that could generate problems in the months ahead also remain in the regional economy. The international trade and energy areas, which declined so dramatically during the recession, continue to lag other sectors of economic activity in recovery. A strong U.S. dollar reduced trade flows through most of 1983, including the flow of agricultural and energy products at major ports in the region. The speed of economic recovery worldwide should help shape the vigor of recovery in important coal, phosphate, chemical, and pulp and paper exports as well as imports of oil and machinery into the United States.

If the dollar's foreign exchange value declines this year partly in response to a widening American merchandise trade deficit, the nation's manufactured exports should grow steadily later in the year despite continued stagnation in the Latin American market. Such a rebound would add to the increased trade stimulated by reviving global economic growth.

Another problem sector, particularly for the Southeast, is agriculture. Drought across most of the region last year left farmers hard-pressed to repay the debts they had accumulated during several years of adversity. A severe freeze in Florida near yearend damaged crops and augured poorly for the new year.

For survivors, though, conditions look brighter in 1984. Continued economic recovery



and favorable trade developments should increase agricultural exports and generate demand for farm products. Farmers are likely to resume full-scale planting, which would trigger a resurgence in demand for seed, fertilizer and equipment—good news for merchants who suffered during last year's acreage reductions.

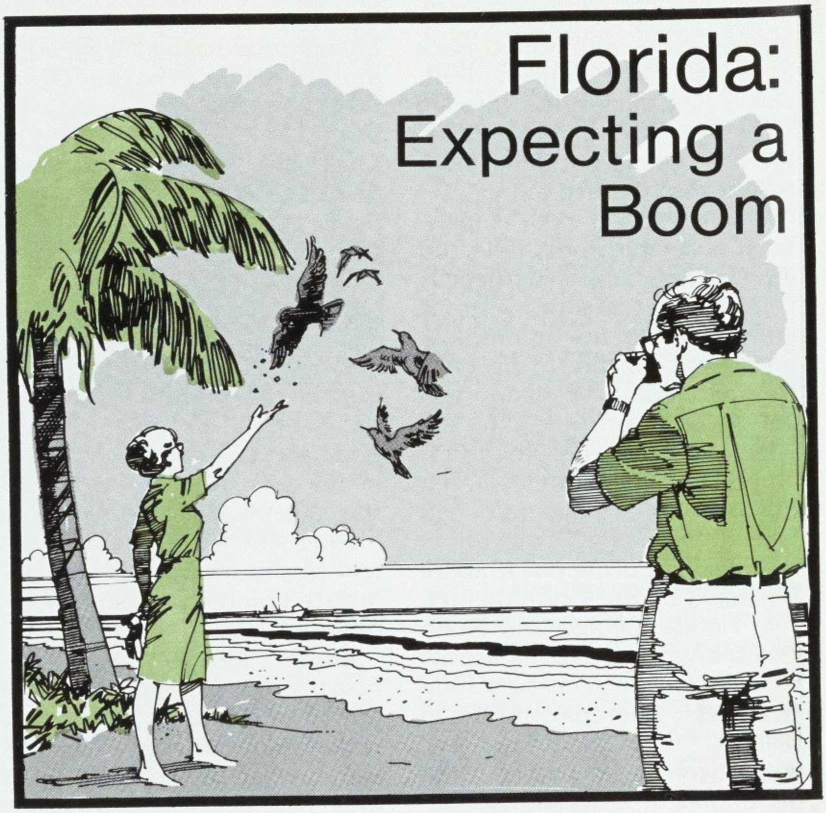
Summary

As the economic good news continues to roll in, construction, services and manufacturing firms are gearing up for what they expect to be a second consecutive year of regional growth. Plants should continue reopening and the job picture should improve, assuming that consumer and business spending continues to fuel the national recovery.

As we have emphasized in past outlook issues, the Southeast, so often characterized as a monolithic fast-growing unit, actually contains states with widely differing economic profiles. This region of over 40 million people, representing almost 18 percent of the nation's population,is a fascinating mix of rural and urban, agricultural and manufacturing, and traditional and high-tech industries.

Adding to the mix, the Southeast in recent years has become a hotbed of entrepeneurship, aided by a traditional commitment to free enterprise and a history of good management-labor relations. Those qualities, together with a rich diversity of environmental factors, give each state in the region a quite distinct economy. The detailed state-by-state analyses in this issue explore those distinctions and what they hold in store for southeastern states in the year ahead. The issue was produced by our regional research team, headed by Gene D. Sullivan.

—Donald L. Koch



Florida: Expecting a Boom

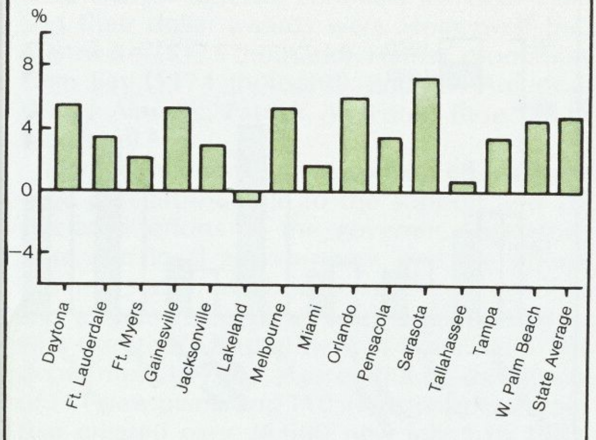
With population growth returning to prerecession levels, construction surging and high-tech industry expanding, Florida looks forward to a strong 1984.

Once recognized solely for its clean beaches and warm climate, Florida is now a leading center of industry and commerce. The fast-growing high-technology industry is locating in Florida at a rapid rate; high-tech now constitutes more than 27 percent of manufacturing employment compared to 20 percent on average for the nation. The state ranks in the top six nationally in the value of foreign trade moving through its ports. Three Florida bank holding companies rank in the top 35 nationwide, and out-of-state financial organizations are supplying funds aggressively for economic development in the state. Business climate studies consistently rank Florida near the top of the list of desirable locations for new and expanding firms.

Florida's population grows by nearly 1,000 people every day. Recent projections place Florida as the fourth largest state by 1990, behind only California, New York and Texas. The growing population provides an ample labor force for industry to tap. Employment never stopped growing through the 1980-1982 national recession; the number employed grew 3 percent in 1981, 0.8 percent in 1982 and 4.5 percent in 1983.

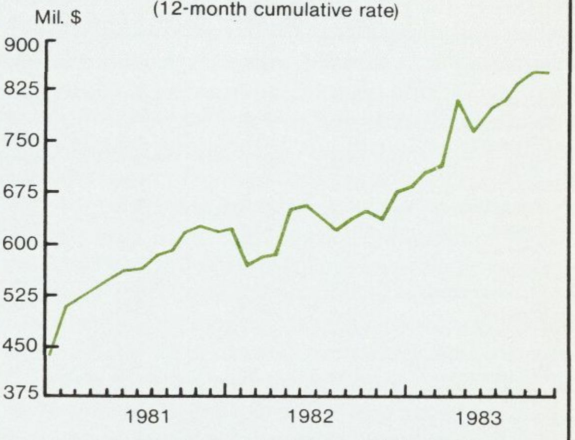
Florida's growth path certainly has not been a smooth one. At times, major setbacks have raised questions about the staying power of the state's growth. But the diversity of the economy today, with reduced dependence on tourism and real estate development, should help propel Florida through even the nation's worst recessions. After a sluggish year in 1982 and the beginnings of recovery in 1983, Florida is poised for rapid expansion in 1984. This year should be one of the "boom times" on the state's economic growth chart. Population growth is returning to prerecession levels, new housing construction has regained its strength, and industry development is moving forward. Personal income rose 7.6 percent in 1983 compared to 5.7 percent growth at its most recent weak point.

Chart 1. Florida Nonfarm Employment Annual Percent Change November 1983



Source: Florida Department of Labor and Employment Security

Chart 2. Florida Office Construction Building Permits (12-month cumulative rate)



Source: Construction Statistics Division, U.S. Census Bureau, unpublished data.

A few factors should serve to dampen the expected growth, but none should thwart it entirely. A repeat performance of the tourist surge induced by Disney's new EPCOT center last year is unlikely in 1984. And Miami has yet to recover the losses it sustained from ailing Latin American trade and tourism. Prior to the most recent national recession, south Florida was the strongest region of the state. Today, however, a shift in population growth from the southeast coast to the Tampa/Orlando/Melbourne corridor is indicative of the relocation of new economic opportunity. The state's southeast region developed first, primarily based on real estate investment for resort, tourist and retirement properties. The central corridor is developing rapidly today because of high-technology and other industry growth, resulting in expanded job opportunities.

Diversified Business Development

With a dual goal of economic growth and environmental preservation, much of Florida's development emphasis starting in the late 1970s was on light, clean manufacturing industries. Florida has been particularly successful in capturing high growth, high-technology companies. Rapid growth in Florida's service and trade sectors also has helped round out the state's economy.

Florida's expanding economic base has provided employment for many of the young workers who relocate to the state each year, and that base contributed to the economy's resilience during the 1981-82 recession. While the U. S. was experiencing year-to-year nonfarm employment declines of almost 2 percent during the early 1980s recessionary period, Florida employment was registering average gains of almost 1 percent. Employment expanded by almost 5 percent in 1983 to total over 3.9 million people. Chart 1 shows the change in nonfarm employment for major Florida cities.

Florida's rapidly expanding business sector and the associated high absorption of existing office space have made Florida a very attractive market for new office development, which has recently experienced an "unprecedented boom." The value of statewide office construction in 1983 was 31 percent higher than in 1982 (Chart 2). With the heavy office construction currently underway, office construction probably will slow down in 1984. Retail and industrial construction should remain strong (Table 1).

Florida hopes to capture a disproportionate share of its target industries, including aviation, communications and electronics, defense, food processing, pharmaceuticals, and surgical and medical instruments. One study of manufacturing business climates ranked Florida first in both 1982 and 1981.[1] A 1983 **Fortune** survey of the

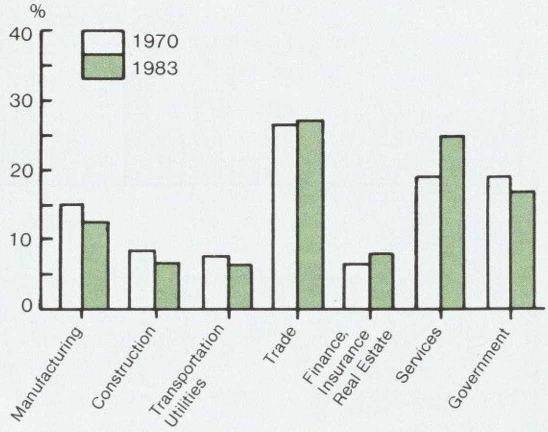
[1]Alexander Grant and Company, **General Manufacturing Business Climates**, 1981-1982.

Table 1. Nonresidential Construction by SMSA
(12 month Cumulative Rate) November 1983

	$Mil	Annual % Change	Sq. Ft. (000's)	Annual % Change
FLORIDA	4279.3	+15.3	81,439	+15.4
Jacksonville	345.4	+68.2	5,918	+44.1
Tallahassee	55.0	−21.5	1,121	− 4.5
Pensacola	97.7	+69.6	1,598	+52.8
Daytona	71.3	−21.7	1,344	−21.4
Gainesville	34.3	−41.8	466	−48.3
Melbourne	113.6	+28.1	2,032	+19.2
Orlando	489.0	+51.6	9,411	+27.6
Lakeland	75.2	+51.3	1,265	+23.2
Tampa-St. Petersburg	744.2	+22.5	14,842	+28.6
Sarasota	115.5	+46.4	2,362	+56.3
Ft. Myers	78.1	−28.8	1,489	−16.7
W. Palm Beach	425.6	+52.6	7,826	+44.0
Ft. Lauderdale	414.9	− 3.6	8,768	−10.7
Miami	696.5	−24.6	13,522	−7.6

Source: Calculated from data published by F. W. Dodge, McGraw-Hill, Inc.

Chart 3. Florida Nonagricultural Employment Major Sectors as Percentages of Total



Source: Florida Department of Labor and Employment Security

nation's top 1,000 companies ranked Florida second as a choice for corporate headquarters.

While high-technology manufacturing has registered impressive growth rates in the past few years, the largest number of jobs has been created in other areas. Chart 3 shows how the distribution of Florida's nonagricultural employment changed from 1970 to 1983. With the population growing rapidly, the service sector grew from 18.6 percent of nonagricultural employment in 1970 to 24.3 percent in 1983. The finance, insurance and real estate sector grew from a 1970 level of 6.1 percent to 7.5 percent in 1983, a significant gain during a period when technological advances permitted increasing automation in these fields. During the same period, the share of workers employed in construction declined, as did manufacturing employment as a share of total nonfarm employment.

Although Florida manufacturing has not expanded at the rate of the other sectors, its growth has been much greater than in other areas of the country. Between 1970 and 1983, Florida increased its share of national manufacturing jobs from 1.7 percent to 2.5 percent. In addition, important shifts have occurred within Florida manufacturing, most notably the evolution away from construction-related activities toward a greater emphasis on high-technology products and processes.

Florida's manufacturing sector, with its high-technology products and young companies employing advanced technology processes, is dynamic and growth-oriented compared to manufacturing in states with a large portion of older smokestack industries. Florida leads the Southeast in high technology, both in terms of absolute employment and as a percentage of total manufacturing employment. By a narrow definition of high technology, the Florida high-tech manufacturing sector represented 27 percent of total manufacturing employment and employed 126,000 people in 1982, up 47 percent from 1977. Nationwide, high technology employment has increased 22 percent over the same period and now makes up 20 percent of total manufacturing employment.[2]

Much of Florida's high-technology manufacturing is defense-related. For the 1982 fiscal year, Florida companies received prime Department of Defense contracts totaling $4.2 billion, ranking Florida seventh in the value of contract awards. Aircraft engines, electronics equipment and missile systems accounted for well over half of Florida companies' military contracts. Almost half of the statewide contract dollars went to two companies, United Technologies Corporation of West Palm Beach and Martin Marietta Corporation

[2] Donald L. Koch, William N. Cox, Delores W. Steinhauser and Pamela V. Whigham, "High Technology: The Southeast Reaches Out for Growth Industry" **Economic Review**, Federal Reserve Bank of Atlanta, Vol. 68 (September 1983), pp. 4-19.

of Orlando, with total contracts of $1.2 billion and $0.9 billion, respectively. Other major Florida recipients of defense contracts in Fiscal 1982 and their dollar awards were Honeywell Inc., Clearwater ($175 thousand), Harris Corporation, Palm Bay ($174 thousand), and Pan American World Airways, Patrick Air Force Base ($118 thousand).[3]

Florida's economic development efforts are in large part attributable to the support and cooperative efforts of the governor, legislature, state and local governments, and the private business sector. Much responsibility for soliciting and assisting new plants and expansions rests with the state's Department of Commerce. The department in 1982 assisted the establishment of 111 new plants and 110 industrial expansions that created over 36,000 new jobs.[4] In 1983, those figures dropped to 93 new plants, 48 expansions and 16,000 new jobs. The weaker industrial expansion in 1983 resulted from the recession-induced decline in capital spending on plant and equipment nationwide.

Florida appears to be building the foundation for leadership in the emerging area of robotics. In November 1982, General Electric announced the establishment of the worldwide headquarters of its new Automation Systems Department near Orlando. Last February, IBM began marketing an expanded line of highly intelligent industrial robots produced at its Boca Raton facility. Dougherty Pressed Metals, a small engineering and manufacturing firm in St. Petersburg, began production of a specialized industrial robot early this year. In addition to manufacturing hydraulic presses, the firm now makes the robots to "feed" and operate them. In September, Automation Intelligence Inc. purchased the Westinghouse industrial automation facility in Orlando that produces integrated circuits for robots; the firm will continue producing for Westinghouse and other robot manufacturers.

High technology companies tend to cluster in areas offering an ample supply of highly trained technical labor. The state's heaviest concentrations are in central Florida from the Tampa Bay area through Orlando to Melbourne, and along the southeast coast. These regions have accumulated the critical mass of technological expertise, processes, and products that encourages new start-up firms and acts as a magnet in attracting related companies.

Central Florida is experiencing an explosive growth fueled primarily by the rapidly expanding high-technology sector. Nonfarm employment climbed 5.9 percent in Orlando and 5.2 percent in Melbourne during the last year. Orlando and neighboring Melbourne have the state's largest concentration of guided missiles and space vehicles activity, with Melbourne a major producer of aircraft and parts. Other strong elements in the central Florida economic mix include communication and electronic computing equipment and electronic components. Announcements of small to medium sized companies moving to or expanding in the Orlando area are at an all time high. During the 12 months ending in October, the Industrial Development Commission of Mid-Florida provided assistance to 62 new or expanding firms that created 10,000 area jobs.

Martin Marietta, Orlando's largest employer, is responsible for the area's largest expansion project, the Martin Marietta Orlando Aerospace Electronics System Center. Scheduled for completion early this year, the center's first phase will provide 700,000 square feet of space at an estimated cost of $82.9 million and should accommodate up to 3,000 employees. In addition, Westinghouse chose Orlando as the world headquarters site for its Steam Turbine Generator Division, which will employ over 850.

Business development has been strong in the Tampa Bay area of Florida's west coast, where rapid growth in the number of electronics companies has given the region one of the state's largest concentrations. Most of the electronics firms are in St. Petersburg, where the pool of military retirees in St. Petersburg offers a mature labor force for electronics. The rapid growth in this sector has attracted more young retirees and young families to the area and has changed the economy and demographics of this resort town. Most notable has been the large reduction in average age in St. Petersburg from 55 in 1970 to 44 in 1980.

While the electronics companies of the Tampa Bay area historically have not been as dependent on defense contracts as the high-technology companies in other parts of the state, several have captured major Department of Defense

[3]Department of Defense.

[4]**Annual Report to the Governor and the Legislature, January 1983,** State of Florida, Division of Economic Development.

contracts in the last year. Some of these include E Systems' $14 million Air Force contract for development of a new combat identification system, Reflectone's $17.7 million Navy contract to build eight more electronic training devices and Honeywell's expansion to assemble and test electronic guidance systems. The area also has attracted a number of research and development facilities, and in 1983 a major Japanese cancer research institute selected St. Petersburg Industrial Park as its U.S. site.

While high-technology companies have contributed heavily to Tampa's current prosperity, its economic growth has followed a diverse path. With international connections through its port and airport, commerce is important in Tampa's economy, and the manufacturing companies relocating to Tampa have been a diverse group. Tampa's major business relocations in 1983 included Citicorp Travelers Checks' world headquarters for processing travelers checks and General Dynamics' Electric Boat Division, a research and development arm for designing nuclear submarines.

Office construction has been heavy in Tampa. Projects currently underway or planned will supplement the existing 10 million square feet of office space by 1.1 million square feet in 1984, 1.4 million square feet in 1985, and 1.2 million in 1986. Local analysts expect that absorption could lag the completion of projects underway, which in turn could force the occupancy rate to drop from 86 percent to around 80 percent by as early as mid-1984.

In southeast Florida, the West Palm Beach-Boca Raton-Delray Beach area has been the economic leader throughout the recession and recovery. Office construction is strong in south Florida, where absorption in Broward and Palm Beach counties was high during the past year. New firm locations and expansions have given manufacturing the highest rate of job growth among Palm Beach County employers over the past year. This growth has been particularly strong in high-technology manufacturing, with most of that growth coming from expansions.

IBM's Entry Systems Division in Boca Raton has undergone a large expansion, adding 1,200 jobs in 1983 and expected to add another 2,300 jobs during the next two years. Also in 1983, Motorola's expansion of its Pager Assembly plant from Broward County will add 1,500 jobs by mid-1984. Palm Beach County continues to be popular with wealthy retirees, and population increases have fueled rapid growth of retail firms and health care services.

Most of Broward County's recent growth has been in its manufacturing sector. Business development in Broward during 1983 reflects the northern migration of population and businesses from Dade County. Of the 24 firms that relocated to Broward County in 1983 with the assistance of the local economic development agency, seven were from Dade County.

Jacksonville has entered an expansion, led by growth in retail trade, services and government. Following a sluggish performance in the 1970s, Jacksonville's economy has enjoyed diversified growth during the early 1980s. A major boost came with Bendix's announcement in 1981 that it would build a $40 million plant there. Bendix was followed by several manufacturing companies and by AT&T's decision to build its new computerized American Transtech operation, which ultimately will employ 1500. In addition to AT&T's move into its new buildings, Prudential announced during 1983 that Jacksonville will become one of only four regional centers in Prudential's future operations, and Ryder/P.I.E. Nationwide and Clow Corp both selected Jacksonville for their corporate headquarters.

The military, which has always been a stabilizing factor in Jacksonville's economy, has contributed to the growth momentum. The Navy is currently in a long-term expansion of three facilities that will continue through the year 2005. In addition to its direct impact on the local economy, military expansion has attracted sub-contractors to the area, such as the Ingersoll-Rand Corporation, which plans to build a pump repair facility.

Commercial construction was strong in Jacksonville during the past year. Almost half of this new building has been new office space, a large portion of which is contained in the city's two newest skyscrapers, the Southern Bell Tower and the Flagship Bank Building. While development has brought an increase in unoccupied office space downtown, local officials are optimistic about filling it. While they are counting on relocating out-of-town companies to absorb most of the space, anticipated spin-offs from Bendix and AT&T also should be important. Other major nonresidential projects underway include Prudential's $90 million office complex, the $27 million downtown convention center, and a multi-million dollar Federal Reserve Bank facility.

In addition, Faison and Associates will break ground in 1984 on a $40 million office building to house the new corporate headquarters for Florida National Bank, the first in an eight-building complex to be developed over the next fifteen years.

Financing for Growth

Economic growth in Florida should be facilitated by a broader, more powerful financial infrastructure. Three shifts are taking place within Florida's financial structure to broaden the range of available financial services and to ensure competition among financial institutions in the state. (1) Out-of-state financial organizations and "near-banks" are moving into the state with as wide an array of financial services as they can legally offer. (2) Florida's commercial banking industry is consolidating through acquisitions and mergers, giving the top holding companies enough size to service the growing economy and to compete with the out-of-state organizations. (3) Savings and loan associations, which hold over 50 percent of the total bank and thrift deposits, are recovering from severe losses in the last few years and are beginning to use their powers to offer new consumer and commercial services.

Interstate Banking - Business development in Florida is often dependent on out-of-state funding by financial organizations large enough to support a given project independently. At times, funds are pooled from local and out-of-state banks to provide capital for new ventures. Local banks maintain an extensive network of correspondent banking relationships both nationwide and worldwide. Out-of-state banks have loan production and Edge Act offices in the state. Larger Florida firms deal with out-of-state commercial and investment banks. Suppliers of venture capital headquartered elsewhere serve Florida firms. Funding for business development has managed to find its way into the state through various quasi-bank institutions, despite interstate banking restrictions.

While geographic restrictions are greatest for commercial banks, the out-of-state incursions are formidable. According to a recent study, Florida is home to at least 621 offices of out-of-state banking organizations. The penetration is second only to California, which has 787 offices. Other states are home to fewer than 400 interstate banking offices.[5] Citicorp of New York alone has 29 offices in the state, including corporate banking, consumer finance, investment banking, mortgages, credit card and data processing, and Edge Act headquarters.[6] NCNB Corp., the largest bank holding company in North Carolina, has taken advantage of a grandfather clause in Florida's banking legislation that allows it to acquire Florida banks. Upon approval of its acquisition of Florida's Ellis Banking Corp., NCNB of Florida, with deposits of $3.5 billion, would be the fifth largest bank holding company in the state.

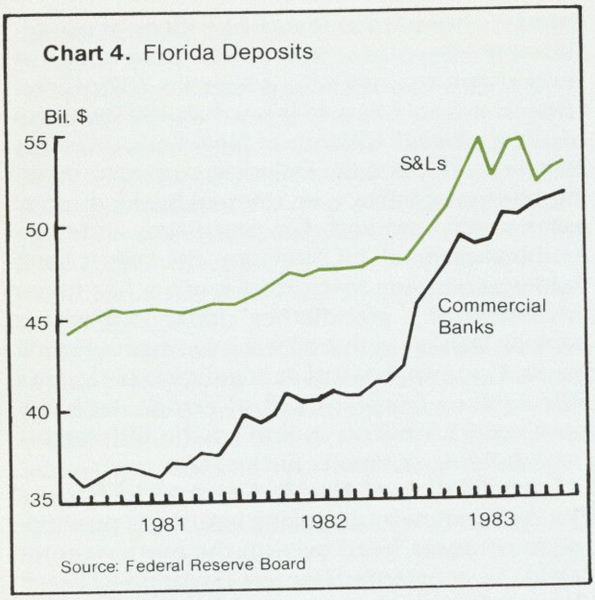
Consolidation of Florida Commercial Banks - Florida's commercial banking industry is positioning to compete head-on with the money center banks as geographic barriers continue to break down. Major banks have acquired smaller institutions aggressively in the past few years to build organizations with financial staying power. In 1983, commercial banks filed 29 applications for acquisition with the Federal Reserve Board for approval. Barnett Banks of Florida, Sun Banks of Florida and Southeast Banking Corporation all have assets over $8 billion. These three institutions, with statewide banking networks in place are the largest commercial banking organizations in the Sixth Federal Reserve District and are among the top 35 bank holding companies in the nation.

Florida banks can continue to grow and develop financial strength by expanding into neighboring states. A state legislative proposal that could be voted on early this year advocates limited reciprocal banking. In brief, the bill would allow Florida banks to acquire banks in eight southeastern states, if those states have similar legislation allowing their own banks to move into Florida through acquisition. After three years, the reciprocity would apply to any state in the nation, including New York. Then the regional banks presumably would be large enough to provide the services necessary to compete with money center institutions and to avoid massive acquisitions of local institutions.

Savings and Loan Associations - With over 50 percent of all bank and thrift deposits, savings and loan associations are serious contenders to

[5]David D. Whitehead, "Interstate Banking: Taking Inventory" **Economic Review**, Federal Reserve Bank of Atlanta, Vol. 68 (May 1983), p. 19.

[6]Daniel Hertzberg, "Interstate Banking Spreads Rapidly Despite Laws Restricting Practice" **Wall Street Journal**, December 19, 1983.



service business and consumer financial needs. The Monetary Control Act of 1980 and the Garn-St Germain Act of 1982 both gave S&Ls increased powers to offer services traditionally limited to commercial banks, but they also gradually eliminated the interest rate differential S&Ls once enjoyed. As a result, commercial banks are gaining on the S&Ls for a greater share of the total deposit market (Chart 4).

S&Ls have been battered in the past several years because their cost of funds rose more sharply than the yields on their mortgage portfolios. The poor health of the industry made its members likely candidates for takeover. In Palm Beach County, for example, five of the nation's eleven largest S&Ls operate offices that were acquired when they merged with ailing institutions. Even out-of-state commercial banks are taking over failing thrifts. Citicorp recently submitted the winning bid for New Biscayne Federal Savings & Loan Associaton in Miami, and the Federal Reserve Board has approved the acquisition. But the industry is beginning to recover. The total net worth of S&Ls in the state increased 43 percent from October 1982 to October 1983 after declining 23 percent during the prior 12 months.[7]

Because of the difficult times in the past several years, S&Ls have been slow to take advantage of their new commercial banking powers. One exception is Freedom Federal in Tampa, which acquired Combanks, Inc., a group of commercial banks in the central Florida market. It has actively solicited commercial as well as consumer lending and deposit business. Other larger S&Ls are following this lead.

Population Growth and Shifts

Florida's business development has been encouraged by robust population growth, with migration accounting for over 90 percent of the total increase. With a current population of 10.8 million, Florida is the seventh largest state.[8] The high interest rates and soft national housing market restrained population growth in 1983 to 215,000, a level low by historical standards and much lower than forecasters predicted a year ago. The expected continuation of national economic recovery and an acceleration of migration in late 1983 make this look like a strong year for population growth in Florida.

The flow of new inhabitants is cyclical and is sensitive to interest rates and the national housing market. But even with the slower growth of the last two years, population increases were relatively strong and continued to propel the economy through the national recession (Chart 5).

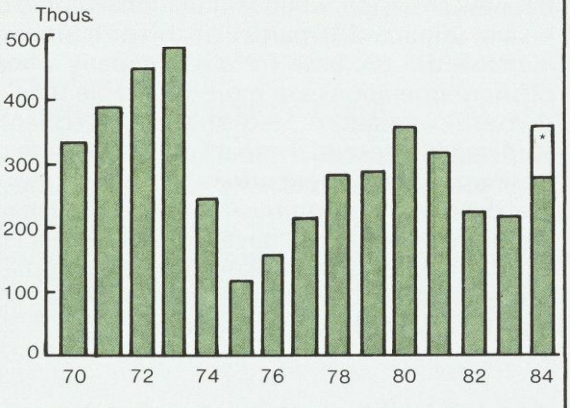
While it is true that Florida attracts more retirees than any other state, it has always attracted a large share of prime working age people in search of employment and opportunity. In recent years the average age of migrants has been trending downward. According to Census data, the share of persons migrating into Florida during the 1960s who were 65 or older at the end of the decade declined from 28 percent to 22 percent in the 1970s. While nationwide demographic changes associated with the aging of the baby boomers account for some of the shift, employment opportunities created by Florida's successful expansion and diversification of its economic base have also contributed to changing patterns.

The University of Florida's Population Project estimates that Florida's population of around 10.8 million should increase to 12.5 million by 1990 and 14.8 million by 2000. In annual terms, their projections imply increases of 273,000 a year between 1980 and 1990 and 234,000 per

[7]Selected Balance Sheet Data—Liabilities, **Fourth Federal Home Loan Bank District**, October 31, 1983.

[8]All population data from the Bureau of Economic and Business Research Population Division, University of Florida.

Chart 5. Florida Population Annual Increases



*Projections

Source: Historical population data from the Bureau of Economic and Business Research, University of Florida.

year between 1990 and 2000. Increasing at these rates, Florida should rise from the seventh to the fourth largest state in the nation by 1990.

The rebounding national economy and the migration upturn during the last two quarters of 1983 suggest that population will accelerate even faster this year than the long-run trend, with state forecasters' projections ranging from a low of 274,000 to a high of 354,000.[9] Since Florida's population growth is closely tied to interest rates, any change in the level of mortgage rates this year would affect population growth.

Infrastructure Challenges

One of the greatest challenges in accommodating rapid population and industrial growth in Florida has been maintaining and expanding the supporting infrastructure that has been strained under pressures of growth in the last decade. The challenges of providing adequate roads, water, water treatment and educational facilities were heightened by the New Federalism, which shifted more of the burden from the federal government to the states, cities and counties. The cutbacks fell hardest on rapidly growing states like Florida.

A recent study concluded that Florida's total capital needs for transportation, water and wastewater over the 1982-2000 period total $30.8 billion. Including the identified backlog requirements, the total is $41.0 billion. Projected revenue sources will cover only 59 to 66 percent of the capital needs, leaving a $600 million to $700 million shortfall annually.[10]

The study determined that approximately 90 percent of the state's future capital needs are for transportation, primarily roads. While the combination of tourist and local traffic on the north/south routes has become very heavy in recent years, the greatest needs will be for expanding the east/west highway network. Traffic along I-75 in western Florida has increased as the interstate nears completion, creating traffic and increased congestion on the connecting east/west routes. The largest concentration of overcrowded roads and bridges in need of maintenance are in the state's rapidly-growing urban counties such as Broward, Hillsborough, Palm Beach, Pinellas, and Sarasota. A large portion of the funding for upgrading and expanding roads in these areas will go for re-routing existing traffic during construction.

The state and counties share responsibility for the state's highway network. Bringing roads up to standard and accommodating future growth will require cooperative effort. Despite the rapid growth in the late 1970s and early 1980s, real combined state and local spending on roads and highways failed to rise. Recent tax increases and enabling legislation will help underwrite large capital outlays. Most of the revenues from the 1983 increase of five cents a gallon in the gasoline tax is earmarked for state road improvements. In addition, in 1982 the legislature permitted local governments to raise the gasoline tax as much as four cents per gallon. At the end of 1983, almost half the counties had exercised the option with an average tax of three cents.

The most urgent need created by rapid population growth is for new water and sewage treatment facilities. State resource experts say that the state does not lack underground supplies of fresh water, though the cost of getting the water to the user is likely to increase as readily available supplies are reduced. Underground

[9]Henry Fishkind of the Bureau of Economic and Business Research forecasts a population increase of 274,000. Gary Cooper, Florida State Economist, forecasts population increasing by 354,000 between the fourth quarter of 1983 and the fourth quarter of 1984.

[10]Neil G. Sipe and Earl M. Starnes, "Florida's Infrastructure: A Preliminary Report," Bureau of Economic and Business Research, University of Florida.

water is abundant in Florida's inland aquifers. Coastal communities face the threat of salt water intrusion when the level in the aquifer falls extremely low. In periods of drought and heavy usage, conservation measures are often required.

Expanding wastewater treatment fast enough is difficult in Florida's rapidly growing areas and at times has delayed construction. Orlando had a moratorium on permits in 1980 because the city could not dispose safely of all the wastewater generated by the growing population. The fast-growing city adopted the "growth ought to pay its own way" philosophy for economic development and turned from bond issues to impact fees to pay for new wastewater treatment plants. Rather than tax all citizens to provide the capital needed for new infrastructure, the new users bear all the costs. Reflecting the impact fees, new water connections in Orlando jumped from $400 in 1980 to $1600 in 1983.

While state and local officals marshal resources to improve Florida's infrastructure, a potential tax revolt is brewing among the state's voters. Led by a small band of conservative activists, the group has placed a tax-limiting amendment on the November 4 ballot. Proposition 1, as the amendment is called, would impose strict limits on nearly all funds collected by state, county and local governments in Florida. The movement has received most of its financial backing from corporate real estate developers reacting to their increasing share of Florida's property taxes in recent years. The increased share resulted from higher homestead exemptions for elderly residential property owners.

To generate revenue for improving education, Florida's corporate income tax was increased in 1983 through changes which increase the tax base for some companies. The changes include a repeal of Florida's existing exemption of foreign source income as taxable corporate profits, a change in the definition of Florida sales, and a provision for worldwide unitary apportionment for determining the corporate income tax base. Though it represents only a small portion of the estimated $95 million in revenue from the tax package, the worldwide unitary apportionment provision has evoked the strongest reaction from the corporate community.

Under worldwide unitary apportionment, a company's worldwide operating income is included in taxable corporate profits which are then apportioned to Florida by the amount of sales, payroll, and property in the state compared to everywhere else in the world. Companies operating primarily in Florida or the United States will experience little change in taxes from the new provision, while multinationals could be heavily impacted. In particular, this provision will increase the tax base for any company whose offshore operations are more profitable than its domestic operations. State analysts are currently studying the potential impact of the measure on business development efforts, since local industrial development commissions report that many recruitment prospects have expressed concern. In addition, expansion plans of some corporate giants already active in the state, such as IBM, may be affected by the measure.

Established Industries Accelerate

Florida's established industries are more susceptible to cyclical fluctuations than the new growth sectors. Construction, tourism, agriculture and international trade slowed down or declined during the latest recession. But in 1983, construction and tourism rebounded substantially, providing a strong boost to the overall economy. Activity in these sectors returned to or surpassed prerecession peaks. Agricultural production, particularly citrus, was below normal last year because of damaging freezes in earlier years. And the severe freeze in late 1983 has dimmed the outlook for this year. International trade suffered for the past two years from weak Latin markets, but initial recovery is expected by late 1984.

Residential Construction

As population growth picked up in 1983, Florida's residential construction continued the rebound begun in late 1982. With the anticipated stronger population influx this year, the outlook for residential construction is bright.

New residential housing starts are estimated at just over 180,000 in 1983, falling short of the 1979 peak of 192,000 units. Housing starts in 1984 are predicted to be around 220,000 units (Table 2).[11]

Monthly housing starts on a 12-month cumulative basis in November, 1983 were 78 percent above the trough reached in August, 1982, while the value of new units was up a lower 71

[11] All residential construction data are from **Dodge Construction Potentials**, F. W. Dodge, McGraw-Hill Informational Systems Company, McGraw-Hill, Inc.

Table 2. Residential Construction by City
Number of Units (12 month Cumulative Rate)

	1979-80 Peak	1982 Trough	Percent Decline From Peak	November 1983	Percent Increase from Trough	Percent Single-Family	Percent Multi-Family
FLORIDA	195,993	99,555	−49	177,067	+ 78	52.9	47.1
Jacksonville	6,608	4,765	−28	10,756	+126	51.4	48.6
Tallahassee	2,808	1,443	−49	3,638	+152	66.3	33.7
Pensacola	3,469	2,311	−33	5,499	+138	45.1	54.9
Daytona	6,123	3,585	−41	4,707	+ 31	79.3	20.7
Gainesville	3,433	1,087	−68	2,008	+ 85	48.0	52.0
Melbourne	7,159	3,071	−57	5,834	+ 90	61.0	39.0
Orlando	12,504	7,966	−36	19,165	+141	58.0	42.0
Lakeland	3,904	1,963	−50	4,078	+108	—	—
Tampa-St. Petersburg	30,212	16,030	−47	30,070	+ 88	55.7	44.3
Sarasota	6,899	3,135	−55	5,040	+ 61	57.5	42.5
Ft. Myers	9,652	4,235	−56	5,668	+ 34	45.8	54.2
W. Palm Beach	29,844	9,263	−69	18,300	+ 98	49.0	51.0
Ft. Lauderdale	24,355	6,591	−73	13,126	+ 99	29.8	70.2
Miami	22,475	7,145	−68	15,023	+110	38.9	61.1

Source: Calculated from data published by F. W. Dodge, McGraw-Hill, Inc.

percent. The smaller value increase reflects a shift by builders to meet the demand for moderately priced homes. Throughout the state, inventories of moderately priced single- and multifamily homes are "low to normal."

The market for luxury waterfront condominiums remains weak in many of Florida's coastal areas. A reduction in foreign buyers brought about by the strong dollar and international economic recession has curtailed the demand. Speculators are no longer active in the market as they were in the late 1970s when prices were rising rapidly.

While pockets of unsold luxury condominiums can be found throughout the state, the largest inventories are in Dade County, which has been hard-hit by the loss of a substantial portion of the Latin American market. Much of the Latin speculation and overbuilding in the luxury market was stimulated by a quirk in U. S. tax law that exempted foreigners from capital gains taxes on real estate investment. The repeal of this law also has contributed to the slowdown in Dade County's luxury market. The luxury units that do sell often command substantial discounts. Since lenders are just starting to unload their condominium repossessions, a trend that may not peak until 1985, there is no immediate improvement in sight.

In the northwest Florida coastal cities of Pensacola, Fort Walton Beach and Panama City, construction of less-luxurious waterfront condominiums has been strong. These units are in the more affordable $70,000 to $150,000 range and are in demand by seasonal tourists.

The most active residential construction is in local areas with rapidly expanding business and industrial sectors, such as central Florida. Housing starts in Orlando during the 12 months ending November 1983 totaled 19,165, placing Orlando second only to Tampa/St. Petersburg. Local observers say the boom in construction has resulted in occasional shortages of such essential building materials as dry wall.

The Tampa/St. Petersburg metroplitan area has emerged as Florida's largest housing market. New residential construction units in 1983 were approximately equal to those during the last peak 12-month period, but Tampa/St. Petersburg has increased its lead over the large metropolitan areas in southeast Florida. The Tampa Bay area should be Florida's top housing market in 1984 and the eighth largest nationally.

Construction in northeast Florida has been fueled by business expansion and increasing retiree migration into that part of the state. Residential construction is strong in Jacksonville, with the multi-family sector showing especially strong advances. Resort areas in northeast Florida, most of which are golf-oriented, report an increasing number of year-round residents. Several experienced shortages of homes in 1983 and are expected to have another outstanding year in 1984.

In southeast Florida, residential construction continued rebounding in 1983 following a four-year contraction. The number of residential housing units for the three county area was up 105 percent in 1983 over 1982, with an 80 percent increase in the value of new homes. Both West Palm Beach and Miami show a stronger rebound among single-family homes, while in Fort Lauderdale multi-family activity is stronger. The percentage of new homes composed of multi-family units is 70 percent in Fort Lauderdale, the highest in the state.

Tourism

While tourism is service-oriented, it is a major export industry for Florida since most tourist-related business comes from people outside the state. Only Hawaii, Maine, Nevada, and Vermont have a greater share of tourist-related jobs than Florida's conservatively estimated 8.9 percent, about double the U.S. norm.[12]

Last year was an extremely good one for Florida tourism. It was the first full year of operation for Walt Disney World's new attraction, EPCOT (Environmental Prototype Community of Tomorrow). The lure of EPCOT, along with the recovery and lower gasoline prices, brought a 10 percent increase in visitors last year to 40 million. This surge came despite a decline in visitation by foreigners. Tourism should continue to grow in 1984, but at a slower pace. The factors influencing visitation should reverse. Strengthening world economies and a weaker U.S. dollar may bring more foreign visitors, but EPCOT's novelty may have diminished somewhat for American travelers. Competition from the New Orleans World's Fair and, to a lesser extent, the Los Angeles Olympics, may dampen growth in Florida's tourist sector. A 7-8 percent increase in visitors is likely this year.

The healthy increase in tourist arrivals in 1983 was reflected in increased airport activity. Plane passenger arrivals were up 15 percent in Orlando and 20 percent in West Palm Beach for the first three quarters of the year. Jacksonville and Tampa also recorded hefty increases of 9 and 11 percent. Miami's lackluster performance is reflected in the 3 percent decline in plane passenger arrivals and in the heavy losses recorded by Eastern Airlines.

Air travel should continue to grow in 1984, and the outlook for air carriers appears bright. Miami-based Air Florida shows a 40 percent increase in advance bookings for the winter tourist season. Orlando airport officials are seeking to arrange scheduled international service to that city, a project that could take over a year. But officials expect to finish construction of a new $6 million customs center in 1984 to increase the airport's capacity for processing international visitors.

Orlando's new international capacity could further complicate Miami's and Eastern Airlines' problems. Eastern provides a major international hub for foreign travelers, but through the third quarter, 1983, Eastern lost $128.9 million on top of a similar loss in 1982. Eastern's heavy debt burden from its capital expansion exacerbated the cost pressures of deregulation. As Eastern attempted to reduce costs, labor-management tensions heightened. Eastern officials threatened bankruptcy if its workers refused to grant wage and benefit concessions. By year end, however, Eastern seemed to have reached a resolution with its unions and creditors, and corporate officials were formulating strategies, such as expanding service to Latin America and through the Midwest, to increase the carrier's revenues. Eastern Airlines is Miami's largest private sector employer with one-third of its 39,500 employees based there and a payroll of $350 million per year. Eastern pays about $10 million annually to the Dade County Aviation Department for rent and landing fees and buys $200 million in goods and services from local firms. Total compensation per employee averages almost $47,000.

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[12] **Impact of Travel on State Economies** (Washington, D. C.: U. S. Travel Data Center, July 1983). Subsequent tourism data from: Dick Pope Institute, University of Florida Bureau of Business and Economic Research, State Economist's Office, local airport administrative offices, Eastern Airlines, U. S. Travel and Tourism Administration, Florida Division of Tourism, Walt Disney World, Pannell, Kerr and Forster, **Tampa Tribune-Times, Orlando Sentinel**, and **Miami Herald**.

Foreign visitors come to the United States primarily by air, and many enter through Miami. Florida was the primary destination of 36 percent of overseas visitors to the United States in the first quarter of 1983. No other state commands such a high proportion of foreign air travelers. As the recovery exerts a greater impact abroad, more foreigners should visit Florida.

Most of Florida's 40 million visitors enter the state by automobile. They visit Walt Disney World, other major theme parks, and the beaches; they stay in campgrounds or at one of the many Florida hotels. Auto travel, spurred by a 2.2 percent decline in gasoline prices from August, 1982 to August, 1983, was up significantly last year. The number of visitors registering at Florida welcome centers grew 6.7 percent in the first three quarters. Occupancy at Florida's private campgrounds rose throughout the year and by August was 10 percent ahead of the first eight months in 1982.

Tourism in central Florida is most highly influenced by Walt Disney World. The influx of visitors to the newly opened EPCOT heightened activity around Orlando in 1983. Total visitors to Disney World through the third quarter were 77 percent higher than the same period in 1982. Over 20 million people visited the park last year. Just sustaining that level of attendance will be admirable for 1984. The opening of a new General Electric Corporation pavillion in late 1983 and the planned opening of a Moroccan exhibit in late 1984 should encourage some return visits, especially by Florida residents. Other attractions suffered in 1983 from EPCOT's competition, but their attendance is likely to increase in 1984.

The EPCOT boom renewed the lodging industry in central Florida as occupancy rates rose an average 21 percent through the year. About 11,500 to 13,500 rooms have been or will be added to 1983's level of 34,000 rooms in the three-county Orlando area. There is some concern about an oversupply of rooms as the one-time surge of EPCOT visitors levels off. Occupancy rates already are beginning to dip. In the immediate Disney World vicinity, hotel occupancy dropped to 80 percent in October from 84 percent the previous year.

Visitation to Miami has been affected adversely by the decline in foreign tourism in general and the competition from EPCOT, sometimes disparagingly referred to as the "EPCOT Wall." Attendance at Miami's Seaquarium has been down 11 to 12 percent. The convention market is also soft. The number of conventions in Miami Beach dropped from 300 in 1982 to 250 last year, and preliminary estimates indicate a decrease from 400,000 delegates in 1982 to 275,000 in 1983. In addition to the recession, which reduced convention traffic nationwide, Miami Beach's convention business has deteriorated because other cities have added or expanded facilities, lowering its rank in exhibition space from seventh in 1976 to 32nd in 1983. New hotel construction and expansion of the city's convention center should help improve the Miami tourist market over the long-term. For 1984, however, the industry is likely to show little improvement.

While the tourism outlook for 1984 generally is bright, near-term developments portend difficulties for Florida's tourism industry. The most important of these will probably be the World's Fair in New Orleans, which extends from May 12 through November 11. Many of the 11 million visitors expected at the fair are the same upscale travelers who would be attracted to EPCOT. However, continuation of economic expansion should increase disposable income not only in the United States, but also abroad, generating further increases in travel to Florida.

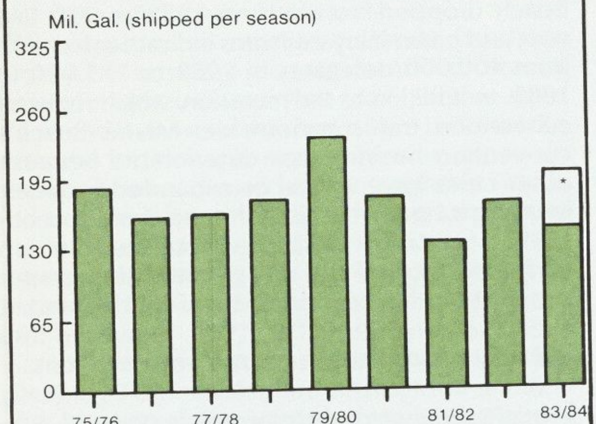
Agriculture

Florida's agriculture sector, though overshadowed by tourism, construction, and business development, is important in the state's economy. Florida ranks eleventh among the states in value of agricultural products, and agribusiness accounts for $12 billion or 11 percent of statewide income. Over half of Florida's farm revenue is generated by fruits and vegetables. Cattle and sugarcane are also important.

In 1983, the citrus industry, Florida's largest agricultural revenue producer with annual earnings over $1 billion,[13] was recovering from the damaging back-to-back freezes of 1981 and 1982 when extremely severe weather struck once again. In late December of 1983, temperatures plunged, breaking records throughout the state.

Damage was most extensive in central and north Florida where temperatures fell below freezing for two consecutive nights. Oranges, as a

[13]Economic Research Service, USDA. Economic Indicators of the Farm Sector, State Income and Balance Sheet Statistics 1981. Washington: GPO, 1982.



*Estimates before and after Dec. 83 freeze.
Source: Historical data from Agricultural Statistics 1982, USDa, Washington, D.C.: GPO, 1982.

result of a thinner skin, suffered more damage than the less valuable grapefruit crop.

Freeze-damaged fruit can be utilized for juice although the juice yield is much lower. Fortunately, temperatures remained below normal following the freeze, thus retarding deterioration. Much of the crop apparently can be salvaged, but juice production will be reduced significantly.[14]

The freeze was especially crushing because the 1983-1984 orange crop had been expected to be the first normal one in three years. While the previous season's crop had been an improvement over 1981-82's output, it remained below normal. With favorable prices and larger crops, Florida orange growers fared better last year. The prospects for 1984 abruptly changed with the early winter freeze (Chart 6).

The short-term impact of the freeze will be a shortage of fresh citrus, especially oranges. Growers in counties near Orlando and northward are expected to supply little fresh fruit to the retail market until next season. Prices of frozen concentrated orange juice (FCOJ) will rise significantly in the short run. The late January wholesale price was 22 percent above the pre-Christmas price.

In the long run, the impact will depend largely on the degree of tree damage incurred by the citrus industry. If trees experienced limb and twig damage, it could mean a reduced crop in the 1984-1985 growing season.

Consumers will continue to feel the effects of the December weather throughout 1984 and possibly longer. After the 1980-1981 freeze, wholesale frozen concentrate prices climbed 48 percent and remained above the pre-freeze price. Even with an almost certain increase in Brazilian imports, concentrate prices are likely to remain higher than last year until at least next season.

Vegetables generate almost $800 million, or 20 percent of Florida's farm revenue, and are especially important in south Florida where farmers have the advantage of being off-season producers. Weather is always a concern of vegetable growers and in recent years rising Mexican imports have also proved worrisome. The December freeze devastated Florida's vegetable industry with temperature-sensitive crops such as tomatoes, squash, and pepper virtually wiped out. No area of the state was left free of damage although tougher crops such as celery experienced only minor damage.

Perhaps the most significant impact has been the rising cost of fresh vegetables to consumers. Vegetable prices will remain high until new crops are harvested in late winter. By early January, wholesale prices of crops such as lettuce and corn had more than doubled while no market price was established for some commodities, because of their absence from the market. Farm workers who normally harvest the vegetable crops in Florida found little demand for their service.

Sugarcane, which accounts for approximately 6 percent of the state's cash farm receipts, also suffered from cold damage. One source estimates an approximate 10 percent reduction in sugar, processed from cane. Despite the smaller supply of Florida sugar, little price movement is expected. As a result, the net revenue of Florida sugarcane growers may decline.

The cattle industry, which accounts for approximately 11 percent of Florida's farm cash receipts, has been taking substantial losses as cattle prices fell 31 percent from their peak of over $70 per hundredweight in early 1979. However, cattlemen should see a turnaround in profit margins as beef supplies grow tight by midyear.

Given the diversity in Florida agriculture, it normally is difficult to characterize its health. It appears, however, that a number of factors are

[14]An early January estimate of the Florida Citrus Mutual, a grower organization.

impacting several major farm industries negatively. Cattlemen are not likely to see a significant turnaround in profit margins until at least midyear.

What had been shaping up as a favorable year for the citrus industry was abruptly changed by the late 1983 freeze. Many growers are experiencing below-normal production this growing season and may face a small crop in the 1984-1985 season. The vegetable industry suffered serious short-term losses in the early months of 1984 but can quickly rebound barring further severe weather. In general, 1984 may be a very trying year for the farm sector and this will undoubtedly have an impact on the state's economic health.

International Trade

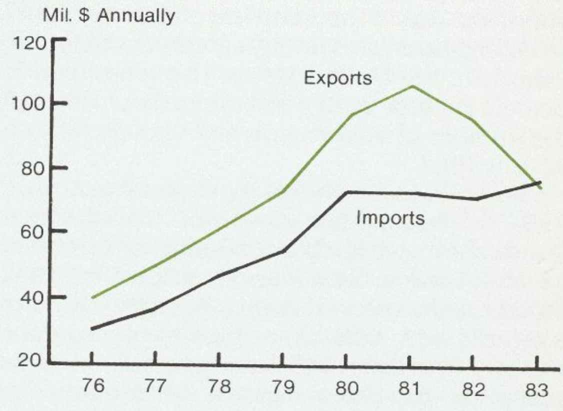
Following a poor performance in 1982, international trade in Florida weakened further in 1983. With the strong U.S. dollar and economic problems in key Latin American countries, exports from Florida fell sharply. For the first nine months of 1983, the value of airborne and waterborne foreign exports in the southern half of Florida declined 28 percent, while exports from northern Florida were down only 4.8 percent. Southern Florida's poorer performance resulted from its heavier dependence on trade with the troubled Latin American countries. While exports will likely be higher in 1984, they will continue to be constrained by sluggish growth and debt-related pressures in Latin America (Chart 7).

The continued strength of the U.S. dollar and the beginning of an international economic recovery boosted state import values in 1983 following a decline in 1982. During the first nine months of 1983, the value of foreign imports was up 3.2 percent over the same period in 1982. Imports into south Florida were up only 0.2 percent, while imports into north Florida ports were up 5.4 percent.[15]

During the last decade, international trade became an increasingly important sector of Florida's economy as the state's 16 seaports and major international airports captured a growing share of burgeoning U.S. foreign trade. With the value of merchandise exports through Florida ports growing at a compound annual rate of nearly 26 percent during the 1970s, international trade activity helped fuel the state's economic growth.

[15]**Highlights of U. S. Export and Import Trade**, U. S. Bureau of the Census, FT990/September 1983.

Chart 7. Florida Exports and Imports



Source: **Highlights of U. S. Export and Import Trade**, U. S. Bureau of the Census.

Increased foreign commerce has benefited not only those directly involved but other major sectors of the economy, such as tourism, banking, real estate and retailing. Those who become familiar with Florida through trade-related business often find the state a nice place to vacation and a safe place to invest capital. So expansions and contractions in international activity increasingly impact many sectors of the Florida economy.

A disproportionate share of Florida's foreign trade expansion has been with Latin America and the Caribbean. In the early 1980s, trade with these countries made up more than two-thirds of the state's total foreign commerce, with most of the trade conducted through Miami. While the strong dollar suppressed U.S. exports in all regions, the political, social, and economic problems plaguing many Latin American countries dealt a particularly harsh blow to Florida's export-oriented international commerce.

The Port of Tampa services such key state commodities as phosphate rock and by-products. During the port's 1983 fiscal year, total cargo tonnage was up 11 percent from the prior year. The increased tonnage resulted primarily from a 24 percent increase in phosphate shipments to industrialized countries. Total earnings of phosphate exporters, however, were 7 percent lower than in 1982 because of lower world prices.[16]

[16]Phosphate Rock Export Association, Tampa, Florida.

The Port of Jacksonville remains one of the nation's top ports for imported cars. For the fiscal year ending September 1983, the number of cars imported was 4 percent lower than in 1982, reflecting Japan's voluntary agreement to limit its exports to the United States. The scheduled 10 percent increase in the 1984 quota should increase the number of imports entering through Jacksonville in 1984.[17]

The outlook for Florida agricultural exports in 1984 is less certain than for manufactured goods. Farm products accounted for one-tenth of the state's total export values in 1982. Florida ranks second among the states as a fruit exporter and fifth as a source of vegetable exports. The late 1983 freeze has dimmed the prospects for citrus exports. In addition, the grapefruit industry faces an uncertain future because Japan, buyer of half of Florida's grapefruit exports, may limit imports as the result of a pesticide controversy. The potential loss of this market could sharply reduce grapefruit exports.

The overall prospect for international trade in the state in 1984 is clouded by continued debt problems in Latin American countries. Some improvement should result from the full implementation of the Caribbean Basin Initiative (CBI). The CBI provides many Central American and Caribbean products with 12-year duty-free access to the U.S. market. In addition, the CBI makes available to Basin countries a trade-financing program that provides for the purchase of U.S. raw materials and intermediate goods needed to fuel these countries' economies. The state's 1984 trade outlook is also enhanced by the economic recoveries underway in Canada, Japan, and Western Europe.

Conclusion

Paced by booming growth in its "central corridor," Florida appears ready to erase most doubts about the staying power of its economic growth. High growth, high-technology companies are flocking to the state, along with enough new residents to bring population growth back to prerecession levels. Such rapid growth will challenge the state's water, road and education systems, but the state's new economic diversity promises to help Florida continue its remarkable growth.

—Donald L. Koch,
Pamela V. Whigham,
and Delores W. Steinhauser

[17] Jacksonville Port Authority.

Miami: Foreign Influence Affects Economy

Miami's economy has begun a steady rebound from the recession, though at a slower pace than the rest of the state. As Florida's dominant international city and the United States' gateway to the Caribbean and Latin America, economic recovery in Miami has been suppressed by the social, political, and economic problems in Latin American countries. While the loss of a large portion of the Latin American market has hit tourism and small exporters most severely, other sectors of Miami's economy have suffered also. Though Miami's long-term prosperity lies in its increasing role in world commerce, its high degree of internationalization promises to dampen its economic performance until the Latin American economies strengthen.

During the past two decades Miami has changed from a quiet resort community catering to tourists and retirees to a thriving international metropolitan area. Miami's population currently is almost 40 percent Hispanic, the base of which came primarily from Cuba in the early 1960s. The influx of this highly entrepreneurial group stimulated foreign trade activity principally with transplanted Cubans in Latin American and Caribbean countries. The strong cultural ties facilitated trade, which evolved into a reciprocal network impacting more than those directly active in foreign trade. Miami's tourist industry has become increasingly dependent on the Latin tourists and businessmen whose numbers have risen during the last two decades to offset the declining number of domestic visitors. Many Latin businesses have established offshore offices in Miami, whose transportation and communications networks often make it an easier base from which to conduct business than most Latin countries.

The increasing international activity has affected all sectors of Miami's economy and shaped the pattern of business development. A recent study found that those involved in international transactions in 1981, including those directly and indirectly involved in foreign trade or who cater to international tourists, businessmen, and investors, made up 22 percent of Dade County workers, up from 17 percent in 1975.

While tourism in north and central Florida rebounded in 1983, Dade County tourist expenditures in 1983 are estimated to have fallen over 10 percent short of the 1982 level and 33 percent below 1980 tourist expenditures.[18] The decline in tourism has hurt business for Miami's retailers. While retail sales statewide were up 12.5 percent during the first ten months of 1983, in Miami they were up only 4.7 percent. Local real estate agents estimate that almost half of the hotels in several of Dade's once thriving beachfront tourist districts are for sale, though hotel construction has been strong in Miami's business district, downtown and near the airport.

Latin Americans have invested heavily in south Florida real estate, finding the region a safe harbor for dollars drawn out of their own financially troubled economies. Wealthy Latins helped fuel rampant inflation and speculation in Miami's luxury condominuim market in the late 1970s. With increasing restrictions on withdrawing capital from many of the countries, the flow of Latin American investment money has slowed and has been directed toward less conspicuous investments, thereby drying up the luxury condominium market.

There are an estimated 3,000-3,500 exporters in South Florida, most of which are small operations employing five or fewer people specializing in exports to Latin American countries. With a 28 percent decline in exports during the last year, the area's small exporters have shown enormous resilience. Lower earnings have forced many to turn temporarily to other types of work to keep their operations going.

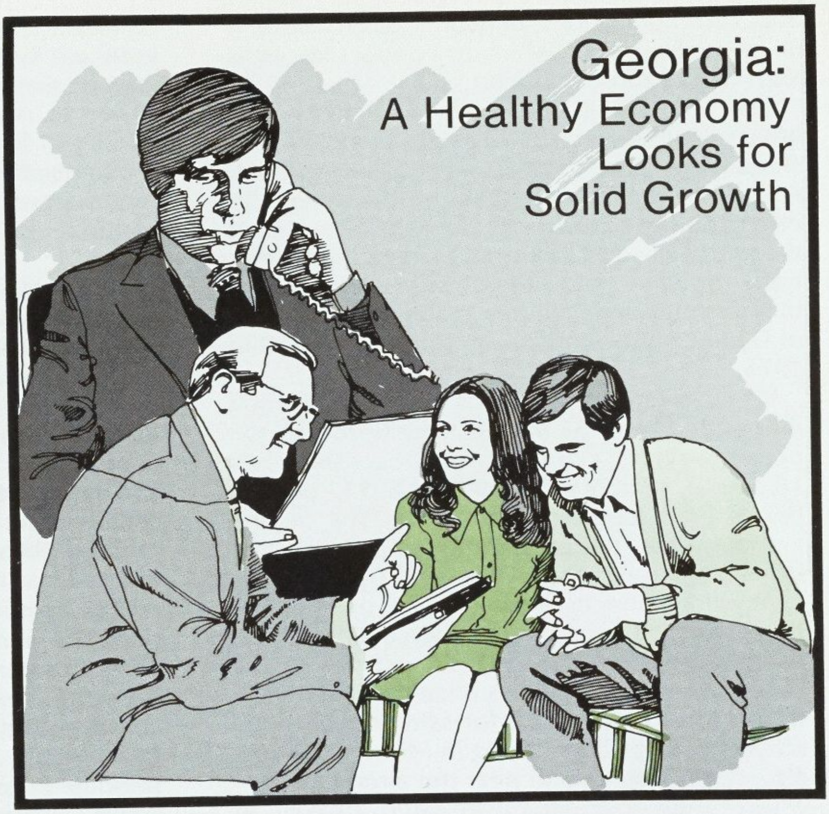
The prolonged decline of Miami's foreign trade has underscored the need to diversify from a heavy dependency on exports to Latin American countries. Many officials and businessmen are trying to diversify by seeking new export markets in Europe, Asia, and Africa. However, with their Latin backgrounds and fluency in Spanish, most Florida exporters have a comparative advantage in trading with Latin America and the Caribbean, so trade is likely to continue to be heavily weighted toward those areas.

By operating large vessels to Latin America, Miami freight forwarders can consolidate shipments and transport goods at a lower per unit charge. Many see an expanding role for Miami as a transshipment point for cargo coming from foreign countries. In addition, Miami's small exporters can position themselves to receive and market the increasing imports from Latin American countries. Increased imports are inevitable if these countries are to rebuild their economies and service their large foreign debts.

Many pin high hopes on developing Miami's potential as an international medical center, serving primarily Latin American countries. Miami has extensive hospital and medical facilities constructed to serve its large elderly population. By offering a comprehensive health service package to prospective foreign patients, Miami could fill the currently empty beds and lay the foundation for expansion of its medical network. In addition to direct patient care, services offered to the Latin market could include specialized medical education for physician support technicians, information services, and stimulation of local manufacture and distribution of medical equipment and supplies.

Despite the international difficulties, Miami's economy is recovering. New housing starts in the Dade County metropolitan area are up 100 percent over 1982 levels, and 11,700 nonagricultural jobs have been added over the past year. Even though Miami is heavily dependent on international trade, the current recovery demonstrates that the city has a diversified economic base, some of which is bouncing back with the domestic economy. For example, active in Miami's recovery are a large number of small manufacturers and warehousers that serve the local south Florida market. With recovery in the U.S. increasing activity in the broader south Florida region, these companies are coming back to life. But a robust expansion must wait for the revival of major Latin American economies.

[18] Metro Dade Department of Tourism, Research Division.



Georgia: A Healthy Economy Looks for Solid Growth

Georgia held up remarkably well during the past recession, paced by Atlanta's magnetic effect on relocating companies. Outside of Atlanta, the state's manufacturing and agricultural sectors look forward to a better year.

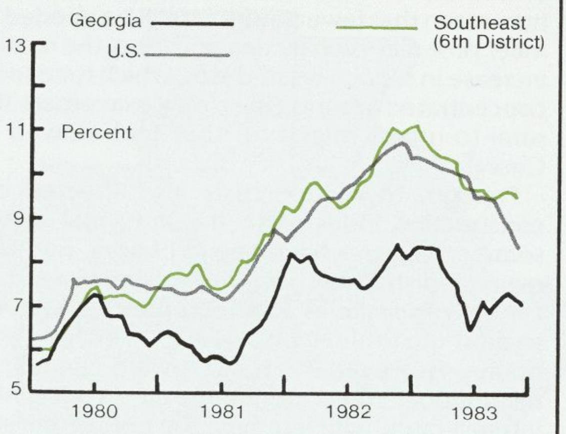
Georgia is well positioned to continue its strong economic performance in 1984. Just as the state seemed much less vulnerable to recession than most of its neighbors in the Southeast, its economic growth in coming years should continue to show sharper gains than the nation or the region as a whole. Along with Florida, Georgia can be fairly described as the "engine" of southeastern economic growth.

Atlanta is, in turn, the engine of Georgia's strong economic performance. A rebounding economy nationally has renewed the strong in-migration that contributes immeasurably to the economic strength of this part of Georgia. As the national economy becomes more decentralized geographically, Atlanta will benefit from being the natural economic center of a healthily growing southeastern market. Significant imbalances remain in the Atlanta economy, but they are the imbalances of growth rather than stagnation.

In the northern part of Georgia surrounding Atlanta, the predominant light industry showed a remarkable resurgence in 1983, somewhat ahead of similar industries in other parts of the South. The new year promises continuing strength in north Georgia, though not at the same rate of improvement as earlier because the early consumer-goods phase of the national economic recovery has peaked. The longer-run challenge is modernization in the face of low-cost foreign competition.

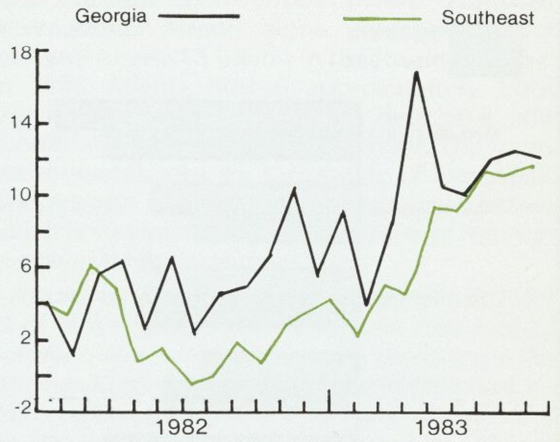
Five years of drought in the past seven have left farmers with extremely heavy debt. Although there are bright spots in particular locations, it will probably take many years to resolve problems confronting the agricultural economy.

Chart 1. Georgia Unemployment Rate, Compared with Region and the Nation



Source: Federal Reserve Bank of Atlanta

Chart 2. Georgia and Southeast Taxable Sales, Annual Percent Change



Monthly Data: 1/82 - 9/83

Source: Federal Reserve Bank of Atlanta

Recent Economic History

Georgia held up remarkably well during the past recession, both in comparison with the nation and with previous recessions. The stability of the state's unemployment rate was an especially bright feature in its economy. During the recession, Georgia's jobless rate remained below those of the Southeast and the nation (Chart 1). Compared with the 1973-1975 business cycle, the stability of Georgia's recent unemployment is even more apparent. During the earlier recession, the jobless rate increased by more than five percentage points before it peaked; during the past downturn, Georgians' unemployment rose little over two points.

Georgians' personal income also showed healthy growth during the past recession. In fact, the state's annual increase of 10 percent for the period ending in mid-1983 exceeded that of the nation by nearly 2 percent. Also, Georgia's consumer spending has outpaced spending growth in the region since early 1982 (Chart 2).

Part of the explanation for Georgia's increased stability lies in its employment base. Since the 1973-1975 recession, the percentage employed in service jobs in the Peach State has increased, while the proportion in manufacturing and construction has decreased (Chart 3). The increasing share of service jobs, generally less susceptible to economic downturns, has served to insulate the Georgia economy during recessions.[1] Furthermore, a cyclically sensitive sector, durable goods, currently accounts for 8 percent of nonagricultural employment in the state compared with 12 percent nationwide.

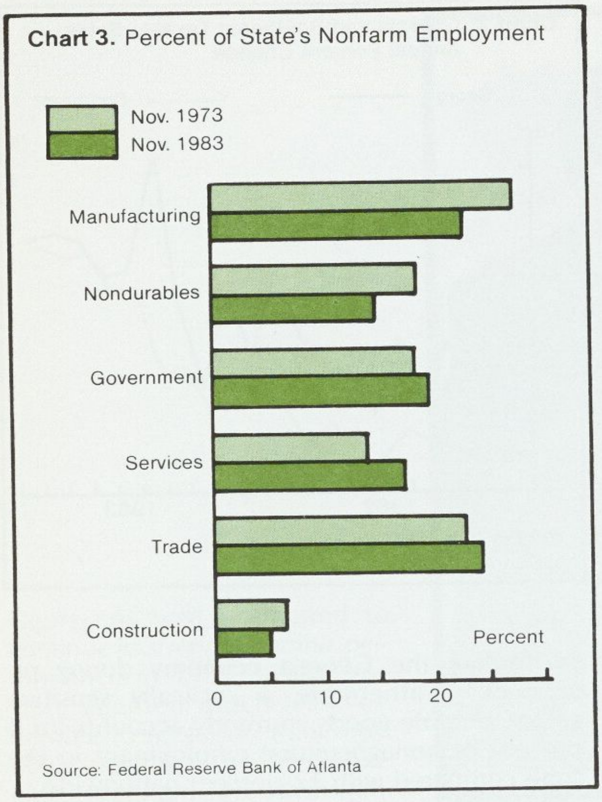
Recovery from Georgia's mild recession has been broad-based, with improvement in employment, construction activity, and tourism. Following "classic" recovery behavior, declining interest rates during early 1983 stirred demand and stimulated consumer purchases, which depleted inventories and increased employment.

The job market brightened for almost all Georgians in 1983, with employment rising in all major industries. Pent-up demand for automobiles stimulated employment in Georgia's transportation equipment industry. Similarly, lumber and wood employment responded favorably to increased demands for housing.

Residential and commercial construction also showed increases over year-ago levels. Single-family building permits in the state were up 64 percent through November compared with 1982 levels. Commercial space absorption in Atlanta, although posting near-record highs, barely kept pace with additional new construction.

Georgia's tourism sector was aided in 1983 by relatively low gasoline prices and pass-through

[1] William N. Cox and R. Mark Rogers, "Georgia: Rebuilding in 1983," **Economic Review**, Federal Reserve Bank of Atlanta (February 1983), pp. 20-29.



traffic to EPCOT Center in Florida. Georgia welcome centers, National Park Services sites, and state parks all experienced increases in visitors.

Overall activity at Georgia's deepwater ports was not as favorable. Contributing to the 4 percent decrease in port activity at Savannah and Brunswick was softness in world demand for clay, lumber, paper and wood pulp. In addition, American firms' conservation and stockpiling of petrochemicals slowed shipping through Georgia ports, as did the decreased world demand for U.S. exports.

For many Georgia farmers, 1983 was a year of mixed blessings. The year began with huge surpluses of major crops and the prospect of continued low farm prices. The federal payment-in-kind (PIK) program reversed the price outlook when thousands of participating farmers idled acreage. However, the resulting rise in grain prices lowered profit margins in the poultry and egg industries and inefficient producers suffered losses.

Several structural changes have affected the nature of Georgia's recovery and future growth. The efficiency-promoting measures undertaken during the recession by certain manufacturing industries, such as textiles and paper and pulp, may mean that fewer new jobs will be needed to meet post-recessionary demand. Also, the relative increase in service-related jobs, which tend to be concentrated around cities, may exacerbate the rural-to-urban migration that had slowed in Georgia.[2]

Pressure to reduce costs also affected the construction industry. In the industrial sector, some companies have begun phasing out their regional distribution centers, relying instead on centralized facilities and computerized systems to promote profitability and to ensure fast distribution. However, the trend toward centralized distribution could be mitigated by declining interest rates, which reduce the cost of carrying inventories, and by an offsetting trend toward closer ties between industries and their suppliers.

The move toward computerization instead of construction is beginning in the deregulated banking industry, which had previously relied on the convenience of branch facilities to attract customers. Banking mergers may slow employment growth in traditional functions; however, as financial institutions increase their scope of services, the need for employees to fill resulting new positions also will grow.

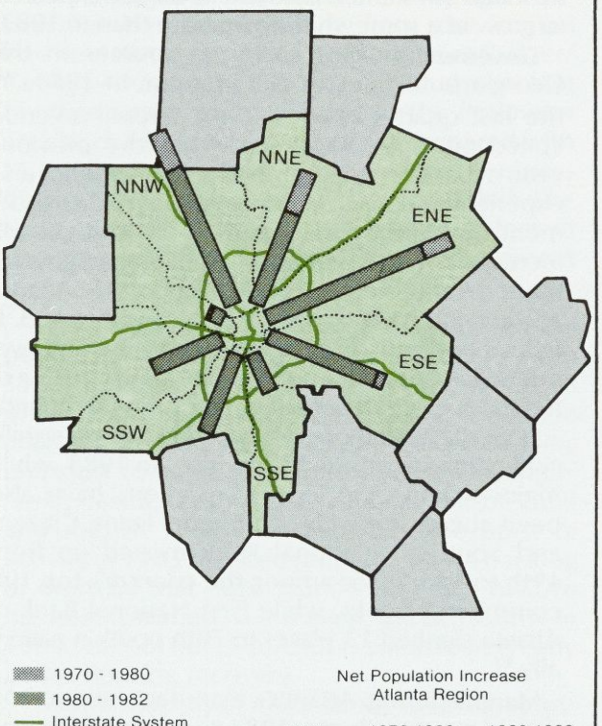
Metropolitan Atlanta Outlook

Metro Atlanta has contributed significantly to the state's recovery, and prospects are bright for further improvement in 1984. Atlanta's long-term outlook, however, will depend partly on how the region addresses two major issues confronting it.

One issue is north-south growth imbalance. The strong thrust of development and population growth has created a "boom town" of the north metro area (Map 1). The influx of people has created an urgent need for land-use guidelines, new services, and development planning for the flourishing northern suburbs, some of which underwent rapid transition from rural towns. While the north metro area struggles with the mixed blessing of rapid growth, development of south Atlanta has been disproportionately slower.

[2]For a closer look at the importance of service industries to Georgia and the Southeast, see Bobbie H. McCrackin, "Services: Key to Current Stability and the Future Growth," **Economic Review**, Federal Reserve Bank of Atlanta (July 1983), pp. 36-52.

Map 1. Directions of Population Growth



Central area/railroad cordon had a net loss of 40,500 persons between 1970 and 1980, and 1,587 persons between 1980 and 1982 totaling 42,185 persons since 1970.

Net Population Increase
Atlanta Region

Area	1970-1980	1980-1982
ENE	87,767	15,927
ESE	59,295	5,265
SSE	21,871	−867
SSW	42,787	1,490
WSW	38,301	810
WNW	6,161	2,024
WNW	77,625	20,472
NNE	51,209	23,250

Source: Atlanta Regional Commission

The other issue facing Atlanta is that the skilled workers needed by local industries are in short supply, while substantial unemployment prevails among low-skilled workers. Atlanta business and government leaders rue the growing split between north-south and high skilled-low skilled. The burden of unbalanced growth clearly weighs on the entire region.

Tourism, Business & Convention Travel. Travel accounted for 98,000 jobs and $211 million in local and state tax revenues in 1982.[3] Hartsfield International Airport alone generates 30,000 jobs and nearly $3 billion in the local economy.[4] In 1982 Atlanta hosted approximately 1,000 conventions with 1.15 million delegates, who contributed $420 million in revenues. The tourist trade creates jobs for thousands of low-skilled workers and helps the central business district, which is striving to maintain its share of Atlanta's commercial development.[5]

Atlanta tourism improved substantially in 1983. As of November, Stone Mountain Park had 22 percent more visitors; through September, the Six Flags Over Georgia amusement park had 2.3 million visitors, a year-over-year gain of 9 percent. Air travel increased after declining in 1982. In January 1983 Hartsfield International Airport had its first year-over-year increase since September 1981; it has continued to post positive increases. Passenger arrivals remain below peak levels attained prior to deregulation of airline industry routes and rates, however, because of increased competition from new hub cities.

Through August, hotel/motel occupancy rates in metro Atlanta were 64 percent, compared with 65 percent in 1982 and the peak level of 70 percent reached in 1979. This trend follows the national pattern, with occupancy lagging behind comparable months of 1982.[6]

Atlanta convention traffic remained weak through most of 1983.[7] Since bookings usually are made two to three years in advance, the convention trade takes longer to recover from economic downturns.

The outlook for Atlanta area tourism in 1984 is bright. Continuing recovery should further reduce unemployment and raise personal income, thereby encouraging discretionary spending for travel. Atlanta will feel the effects of the 1984 World's Fair in New Orleans. In addition, Six Flags Over Georgia and Stone Mountain Park plan to expand their facilities.

Continuing economic recovery should spur further growth in air travel and expansion of

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[3] Impact of Travel on State Economies (Washington, D. C.: U. S. Travel Data Center, July 1983), pp. 25-26, 35.

[4] Scott Kilman, "Hartsfield's Hub Role Fading," **The Atlanta Constitution**, August 26, 1983, pp. 1, C3.

[5] Bobbie H. McCrackin, "Services: Key to Current Stability and Future Growth," **Economic Review**, July 1983, pp. 36-52.

[6] "National Trend of Business Lodging Industry" (Philadelphia. Laventhol and Horwath, July 1983), unpaged.

[7] Atlanta Convention and Visitors Bureau.

[8] Scott Kilman, "Air Atlanta Plans to Get Business Flying in Early 84," **The Atlanta Constitution**, October 6, 1983, p. C1.

service. Air Atlanta planned to initiate service catering to business travelers coming to or leaving Atlanta on February 1.[8] Scandinavian Airlines System has been considering establishing direct flights from Atlanta to Scandinavia. The completed expansion of the Georgia World Congress Center should boost Atlanta's hotel and convention business in 1984. In November the center opened the first part of a two-phase $103 million expansion. This opening added two new exhibition halls to the facility, totaling 1.8 million square feet. The center is already booked to 85 percent of its capacity through the first 10 years.[9]

As in many other southeastern cities, hotel construction will continue apace: 3,000 new hotel rooms will come on the market in downtown Atlanta over the next three years, bringing the metro total to 35,000. With the Congress Center's expansion, the Atlanta area should be positioned to draw the largest conventions and trade shows in the country. The larger meetings should bring demand into line with the greatly expanded supply of hotel rooms in the area.

Atlanta's long-term convention outlook could also be enhanced by the planned $110-million Underground Atlanta redevelopment project currently under negotiation by the city and the Maryland-based Rouse Company. If the project is approved, preliminary demolition could begin this summer, with an opening date targeted for March 1986.[10] If successful, the "festival marketplace" could attract 11.5 million visitors a year and provide 2,500 jobs. It also promises a huge increase in MARTA riders and, ultimately, $200 million in private investment in the downtown area.[11]

Retail Trade. The rate of increase in consumer spending in Atlanta has been even higher than the increase in consumer spending for the state, resulting in a 15 percent gain in department store sales through October, compared with the same period in 1982. MARTA tax collections were up 13 percent in the same period. Retailers reported robust double-digit sales increases for the 1983 Christmas season over the previous year.

Georgia retail trade employment increased by 15,600 jobs during the year, with the majority of the new jobs generated in the Atlanta area. The outlook for retail trade in 1984 is excellent, although sales and employment can be expected to grow at a somewhat slower rate than in 1983.

Government. Most revenue sources in the Georgia public sector will increase in 1984. In the first quarter of fiscal 1984, overall revenue collections rose 9 percent from the previous year. Atlanta's government sector should also experience some growth in revenues and employment during the year. Atlanta's city budget will increase a slim 3 percent.[12] Surplus state government revenues could provide a boost for Atlanta and the rest of Georgia in 1984 and beyond. If federal budget cuts continue, however, state revenue surpluses could be offset by a retrenching of federal agencies' regional offices based in Atlanta.

Financial Institutions. Atlanta banks made significant gains in commercial lending in 1983, while major savings and loan associations have also been successful with commercial loans. Citizens and Southern National Bank moved up from 49th to 44th place among the country's top 100 commercial banks, while First National Bank of Atlanta climbed 13 places to 70th position nationally.[13]

Manufacturing. Atlanta's manufacturing sector should register a better 1984 as nondurables employment continues to grow. Also, in response to improved demand for automobiles, General Motors plans to reopen its Lakewood assembly plant in south Atlanta this spring, recalling 1,650 laid-off workers. Ford Motor Company will recall 1,200 laid-off workers at the Hapeville plant in mid 1984.[14] These two recalls will provide a boost both for employment of low-skilled workers and for southside Atlanta.

Construction. Atlanta's construction industry was extremely active in 1983. Building permits were up 71 percent through November, compared with the same period for 1982. The rate at which single-family residences were going up, however, threatened to overwhelm even optimistic estimates of current demand. Although building permits diminished beginning in August, metro Atlanta still had a significant number of new houses unsold by yearend. Similarly, Atlanta

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[9] Georgia World Congress Center, November 1983.
[10] Richard Stogner, Atlanta Mayor's Office, December 7, 1983.
[11] Kelly Scott, "The Return of Underground," **The Atlanta Journal-Constitution, Atlanta Weekly**, November 20, 1983, p. 17.
[12] Katheryn Hayes, "'84 City Budget Expected to Rise 3 Percent," **The Atlanta Journal**, December 9, 1983, p. 19A.
[13] "Top 100 U. S. Commercial Banks in Commercial & Industrial Lending," **American Banker**, June 22, 1983, p. 26.
[14] Scott Kilman, "Ford Calls 1,200 Here Back to Jobs," **The Atlanta Journal**, December 1, 1983, p. 1A.

is developing a severe oversupply of apartment units.

The strength of commercial leasing and construction has been shifting from the central business district north to the Perimeter Center/Georgia 400 area. By fall, 10.2 million square feet of office space were available in the Perimeter area, with 11.2 percent vacancy, compared with 11.6 million square feet in the central business district, with a 24 percent vacancy rate.[15] The central district had 10.6 million square feet of competitive office space with a 12 percent vacancy rate in 1973.[16]

Most estimates indicate that the Atlanta SMSA's population should rise almost 5 percent from 1983 through 1985, largely as the result of in-migration. In each of these years, the metro area will require roughly 32,000 new housing units just to handle the influx; yet fewer single-family residences almost certainly will be built and sold in 1984 than in 1983. The burst of activity in 1983 resulted primarily from a backlog of demand that most market watchers believe has been satisfied. The market will be healthy in 1984, but not out of control as some feared early in the housing recovery.

The oversupply of multi-family housing, apartments, and condominiums will persist if the single-family residence market enjoys the good year that we expect. Most southeasterners will leave apartments and bypass condominiums if mortgage rates and price structure allow them to buy houses.

The outlook for commercial real estate construction and leasing is favorable for most of Georgia. Atlanta, with the state's largest concentration of commercial real estate, should experience a net decline in its office vacancy rate. Southside Atlanta could receive a major boost from the pending Rouse redevelopment of Underground Atlanta. In addition, Filmworks USA has proposed to lease Lakewood Fairgrounds and spend at least $5 million to renovate the site into a motion picture and entertainment complex.[17] Together with a proposed industrial park at Blair Village, the Rouse and Lakewood projects could provide major impetus for much-needed southside development.

Atlanta and the Rest of Georgia

Because Atlanta is home to 37 percent of Georgia's population and is a regional transportation hub and media center, many people tend to forget that there is a "rest of Georgia." An analysis of some common misperceptions will help sort out what is really Atlanta and what is actually "the rest of Georgia."

First, Atlanta has no monopoly on wealth and income in the state. It is true that five of the state's top 10 counties ranked according to 1980 per capita income are in the Atlanta SMSA: DeKalb, Fulton, Clayton, Cobb and Fayette (see Table 1). But the five remaining counties are scattered throughout the state, three on the coast, one in the central part of the state and one in north Georgia. The income of the lowest of these is approximately the national average.

A second myth is that the rest of the state is rural. Most of the land area is rural, but it contains important cities, such as Albany, Athens, Augusta, Columbus, Macon and Savannah. These cities account for almost 20 percent of the state's total population, compared to Atlanta's 37 percent share. Even outside of Atlanta, a substantial portion of the population lives in urban areas.

The contrasting characters of Atlanta and the rest of the state are illustrated by the sources of income and employment of residents of both areas. Manufacturing employs the largest proportion of the state's workers. Traditionally, these have been textiles and wood product industries that thrived on the low wages they could pay workers in isolated towns of rural Georgia. These industries statewide gradually have shifted toward making finished products such as clothing, paper and plywood with a much higher value-added than the traditional cloth or lumber.

As late as 1970, manufacturing employed the largest portion of the Atlanta work force (21 percent) (see Chart 4). But after the 1974-1975 recession, the city's employment structure changed radically, with services becoming the largest employer and manufacturing second. From 1970 to 1975, Atlantans employed in manufacturing fell by 16 percent, and those in services rose by 36 percent.

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[15] Building Owners and Managers of Atlanta, Inc., "Fall Occupancy Report," Fall 1983.

[16] Building Owners and Managers of Atlanta, Inc., "Office Space Occupancy Survey," as of October 1, 1973.

[17] Thomas Oliver, "New Fairgrounds Movie Venture Awaits City OK," **The Atlanta Journal**, December 7, 1983, p. 13D.

Table 1. Georgia's 10 Highest Income Counties, 1980

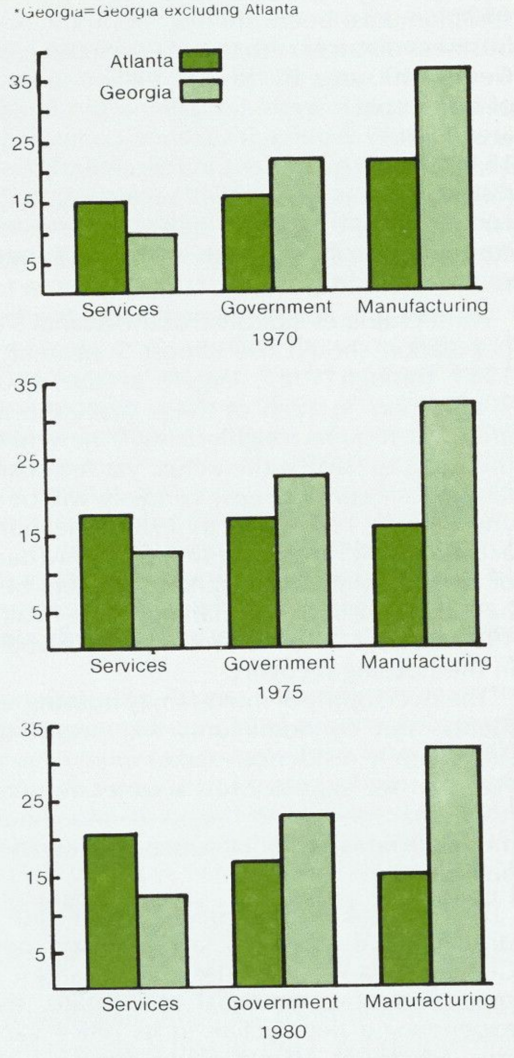
County	Per Capita Income (dollars)	Personal Income ($ millions)
DeKalb	11,850	5,724
Fulton	11,317	6,676
Clayton	9,378	1,410
Cobb	9,294	2,767
Glynn	8,821	485
Bibb	8,659	1,301
Fayette	8,608	250
Camden	8,376	112
Chatham	8,372	1,693
Hall	8,196	620

Georgia's 10 Lowest Income Counties, 1980

County	Per Capita Income (dollars)	Personal Income ($ millions)
Quitman	3,818	9
Lee	4,108	48
Crawford	4,164	32
Clay	4,222	15
Union	4,260	40
Twiggs	4,383	41
Baker	4,464	17
Stewart	4,579	27
Randolph	4,584	44
Brantley	4,597	40

Source: 1983 Georgia County Guide

Chart 4. Percent of Total Nonagriculural Employment



Source: Atlanta Regional Commission

In the rest of Georgia, manufacturing employs close to one-third of the work force. The proportion has declined since 1970, but no single sector has taken up the slack as did services in Atlanta.

While outside of Atlanta 20 percent of 1982 personal income was derived from manufacturing, only 14 percent of Atlanta income came from this source. Overall, the state has an above-average involvement in manufacturing compared to the U.S. average.

Government. Government employs the second largest proportion of Georgia's work force with 20 percent and delivers 15 percent of its personal income. The state has a national reputation for welcoming federal military installations. It is also, in effect, a regional center for many federal programs. However, only 4 percent of the work force falls within the federal government category. The federal government's share of employment outside of Atlanta may begin to expand late in 1984 because of the new Trident submarine base at Kings Bay. Its share of Atlanta jobs should decline a bit as federal employment remains fairly static and other sectors expand. If a recent proposal to phase down the use of regional administration centers is enacted, federal employment in Atlanta could decline significantly over the next three to four years.

State and local government employs 13 percent of the Atlanta work force, not surprising since Atlanta is the state capital. But state and local government payrolls carry 19 percent of Georgia workers outside of Atlanta. The large number of counties (159) largely explains this surprisingly high percentage.

Atlanta has a stronger service industry than the rest of Georgia. With 21 percent of its work force, services are seven percentage points ahead of the city's second largest employer, manufacturing. In the rest of the state, service firms employ 13 percent of the workers, behind both manufacturing and state and local government in relative proportions of the work force. The service employment in Atlanta reflects this industry's tendency to concentrate in metropolitan areas. The state's rural areas are likely to be weak in future services growth, although such employment in the rest of Georgia expanded by 3 percent from 1970 to 1980. In addition, service jobs tend to be either high paying or low paying, with little in between. Thus, the many service jobs opening up in Atlanta find ample qualified applicants for lower level positions, but offer few opportunities for advancement.

Not only does Atlanta have a strong service sector relative to the rest of the state, but it has been expanding at a much faster pace. Atlanta service employment ballooned from almost 15 percent in 1970 to almost 21 percent of the city's employment in 1980, while the remainder of Georgia grew only from 9.5 percent to 12.5 percent. The growth in the city has been roughly double that in the rest of the state.

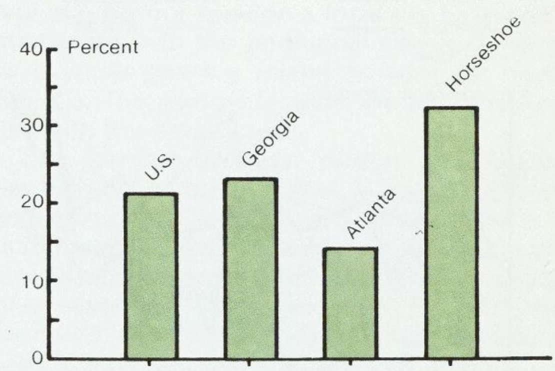
Atlanta is not a microcosm of Georgia. The structure of its income and employment is unique. And the rest of Georgia, though more rural, has considerable manufacturing employment, several cities and a large share of the state's income.

The Manufacturing Horseshoe

As we have seen, Atlanta is distinctly underrepresented in terms of manufacturing employment. Yet the state actually has a higher percentage of manufacturing employment than the nation — 23.8 percent versus 22.1 percent (Chart 5).

Most of the manufacturing activity is packed into a horseshoe surrounding Atlanta, running clockwise around the map from Macon through

Chart 5. Manufacturing Employment Percentage of Nonagricultural Employment



Source: U. S., Georgia and Atlanta: Federal Reserve Bank of Atlanta. 1983. Horseshoe: Estimated from 1980 data. **Georgia Descriptions on Data**. U. S. Dept. of Commerce. Bureau of the Census. 1980 Census of Population and Housing.

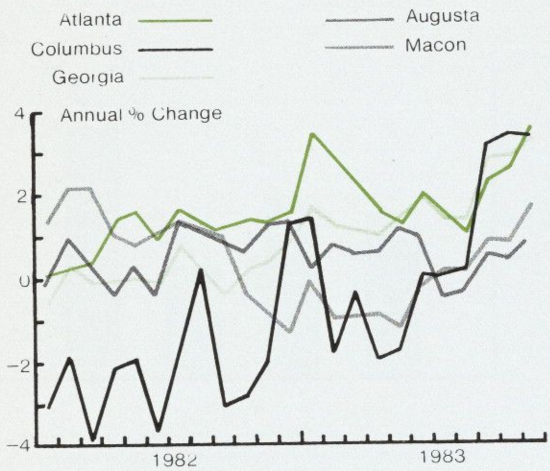
Columbus to Rome, around the northern rim of the state to Athens, and ending in Augusta. This area contains 34 percent of the state's population, but 44 percent of its manufacturing employment. Within this horseshoe, about 32 percent of the nonfarm employment is in manufacturing, 4 percentage points higher than Michigan, Ohio, or Pennsylvania. About 250,000 manufacturing workers are employed in the horseshoe.

For example, in Fulton and Dekalb Counties (Atlanta), there are approximately three workers in retailing and professional occupations for every worker in manufacturing. In Floyd County (Rome) the ratio is approximately one-to-one. In Whitfield County (Dalton), there are twice as many manufacturing workers as workers in retailing or professions — fully six times the concentration in Fulton-DeKalb.

Even though the manufacturing concentration exceeds the average for the industrial Midwest, the type of manufacturing is much different. Relatively few smokestack industries operate in Georgia; the concentration is instead on manufacturing of nondurable items in general, and of textile and apparel goods in particular. About 35 percent of Georgia's manufacturing employment is in these two sectors. Apparel plants (two-fifths of that) are scattered around the state, but textile factories are concentrated in the horseshoe.

These textile and apparel firms moved South from New England during the 1930s and again

Chart 6. Employment Growth in the Horseshoe



Source: Federal Reserve Bank of Atlanta

after World War II, in search of cheaper nonunion labor.[18] It is not uncommon for smaller towns in the horseshoe to be dominated by a single apparel or textile plant. During the 1970s, the growth and prosperity of nondurable manufacturing enabled most of the counties in the horseshoe to post moderate to strong gains in population, even while many counties in south Georgia, less successful in generating manufacturing employment, were losing population.[19]

Today the manufacturing concentration introduces two distinct vulnerabilities. The first is vulnerability to the business cycle. Nondurable manufacturing generally is less volatile than the durable smokestack industries, but distinctly more volatile than the service-and-government orientation that characterizes the Atlanta area.[20] The tufted carpet industry in northwest Georgia, however, is extremely subject to changes in housing demand. This region, which accounts for three-fifths of U.S. carpet production, is particularly dependent on sales of new homes.

Reflecting this dependence, the economies surrounding Columbus, Macon and Rome have bounced back sharply in response to the sharp upsurge in national housing demand through the fall of 1983 (Chart 6). Since the near-term outlook is for continued strength in the housing market, 1984 promises relative immunity from the business cycle vulnerability. For the longer term, the national demographics for housing, and for textiles and apparel generally, are quite good, as the baby boom generation enters the 25-to-45 age group that has traditionally spent a high proportion of its income on housing, home furnishings, and apparel.

The big unanswered question for the rest of the 1980s is finance. Families wanting to borrow for new homes will find their demands conflicting with the enormous deficit financing needs of the federal government, and with the business sector's need to finance its own revitalization.

However, the manufacturing-intensive horseshoe section's greatest vulnerability is to foreign competition, particularly in textiles and apparel. More than 14 percent of the U.S. textile market is now being supplied through imports. Almost 6 percent of apparel sales is foreign-produced. These numbers are growing, simply because foreign production can produce stock textile items with much lower labor cost. Some help may come from new federal regulations that will restrict import growth if imports are disrupting the market.

Southern textile firms, however, appear to be fighting back by rethinking their advantages and substituting new technology to reduce costs and enhance responsiveness to the market. Southern textile mills have reduced the labor content of what they produce from the 25-30 percent once characteristic to less than 20 percent in many cases. Still, these developments put pressure on the traditional labor relationships of Georgia textile and apparel firms and require extensive investment in both training and technology.

The vulnerability of manufacturing in the horseshoe was demonstrated during the recent recession. Between the beginning of 1982 and July 1983, fully 43 plants employing more than 100 persons each closed in Georgia (Map 2). Twenty-one were in the horseshoe area, including four of the six closed plants that used to employ more than 500 persons. Four of the six large closed plants produced textiles, and a fifth produced apparel.[21]

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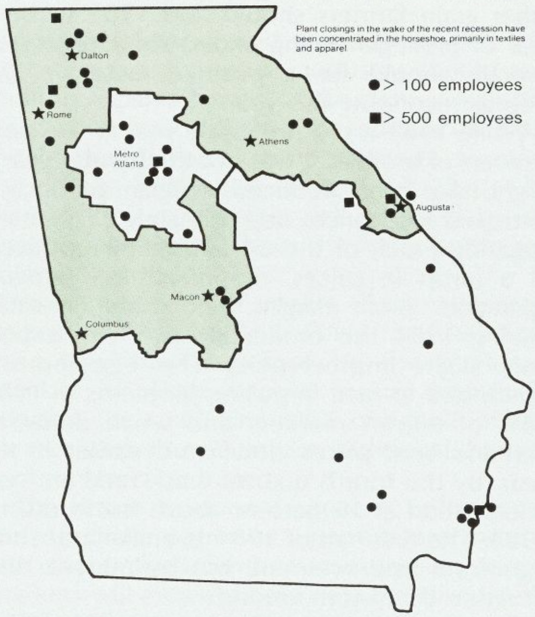
[18]See John S. Hekman, "What Are Businesses Looking For? Survey of Location Decisions in the South," this **Review**, (June 1982), p. 6.

[19]See James W. Clay and Alfred W. Stuart, "Uneven Growth: Southern Population Change at the County Level," this **Review**, (June 1982), p. 43.

[20]See Bobbie H. McCrackin, "Services: Key to Current Stability and Future Growth," this **Review**, (July 1983), p. 36.

[21]See David Avery and Gene D. Sullivan, "Keys to Success: Why Some Textile Producers Will Prosper," this **Review**, (December 1983), p. 11.

Map 2. Manufacturing Plant Closings
1-1-82 through 7-15-83



Shaded area shows manufacturing horseshoe.
Source: Georgia Department of Industry and Trade

Many successful textile firms across the state have shown how to fight this vulnerability. The state Department of Industry and Trade, under new leadership, is shifting some of its traditional emphasis on recruiting outside firms toward helping existing industries redirect their markets and production methods.[22]

Traditionally, the manufacturing-intensive section of the state has not been tied too closely to Atlanta. That will probably change. Success in the new manufacturing environment places a premium on knowledge, access and responsiveness to changing markets, and application of new technology. These strengths of the area immediately surrounding Atlanta will become increasingly valuable to producers and workers in the horseshoe.

Northeast Georgia, one of the poorest and most sparsely populated parts of the state, faces its own set of peculiar problems. Because of the area's lakes and mountains, it is becoming increasingly popular for second homes, retirement homes, and recreational activities. Much of this activity emanates from Atlanta, and particularly from the more affluent northern suburbs. The problem is that these activities typically do not provide a local tax base commensurate with the additional demands on it, so it could prove a mixed blessing for north Georgia. The prospects again are for increased ties with the Atlanta area.

The corridor between Athens and Atlanta has high economic potential. Currently, Athens and Atlanta are separate economies. Athens is dominated by the University of Georgia, with few Atlanta commuters. But the high-tech activity now spreading northeast from DeKalb and Gwinnett counties promises a natural link-up with Athens, perhaps enhanced by some of the "super-computer" developments in the educational center. This is Georgia's most obvious opportunity for a high-tech corridor, anchored by Atlanta and Georgia Tech on the other end, because of the "critical mass" of technicians and facilities demanded by high-tech industry.[23]

The Farm Outlook

Farm employment will continue to decline in the future. Dry years in 1977, 1978, 1980, 1981 and 1983 have left Georgia farmers in worse shape than most in the nation. The unfavorable weather has left farmers unable to pay back money borrowed to operate their farms. One source places the total debt outstanding at around $5 billion. The debt requires in excess of $500 million just to make annual interest payments—more than Georgia farmers clear in most good years.

Adding the typical vagaries of weather and commodity prices to this heavy load of debt, the problems of the Georgia farm community are approaching a kind of critical mass. Although the droughts began the difficulties, debt is now the focus of the problem. And more debt in the form of low-interest disaster loans may only postpone the resolution. A major credit source for Georgia farmers, the Farmers Home Administration (FmHA), lists almost three-fifths of Georgia's 9,200 borrowers as delinquent. Seven hundred of these loans are now slated for foreclosure, although a court injunction has delayed such action.

[22]See Avery and Sullivan, *op. cit.*
[23]See Donald L. Koch, William N. Cox, Delores W. Steinhauser, and Pamela V. Whigham, "High Technology: The Southeast Reaches Out for Growth Industry," this **Review**, (September 1983), p. 4.

Because of farmers' inability over the last three years to turn crops into profits with which to repay loans, those who have been able to operate out-of-pocket with as little debt as possible have fared better than those who borrowed heavily. Large farms tend to be more heavily leveraged than small ones. In Georgia, the largest farms are around Albany. As a group, these farms have been in the worst shape financially.

Because of the drought and their financial plight, Georgia farmers participated in the federal payment-in-kind program (PIK) to a greater extent than expected. The state's grain producers were particularly enthusiastic. While the PIK program served as a temporary reprieve for many farmers in 1983, it was not a lasting solution for marginal, debt-burdened farmers.[24] The program, utilizing government crop reserves, gave each participating farmer a pro rata portion of a commodity based on his idled acreage. Farmers could dispose of their PIK commodities as they pleased, including selling it, which many did.

The end of the PIK program in 1983 could cause as much as one million additional acres to be planted in Georgia in 1984, stimulating at least three areas of farming-related business. First, more operating credit will be required by the farmers enlarging their planted acreage. That means more business for lending institutions. Second, farm suppliers will be selling more fertilizer, herbicides and pesticides. And third, there will be a greater demand for support services needed to plant, harvest, transport, store and utilize a larger volume of the crops affected by the end of PIK. This will mean more employment and higher incomes in the farm belt compared to last year, whether or not the farmers do well.

In spite of their general difficulties, some growers have done better than others. In the relative order of their success at selling a crop at a profit are the tobacco, peanut and soybean growers. Grain producers, primarily corn and wheat producers in Georgia, have been the least profitable.

At the start of 1983, Georgia corn farmers were receiving the lowest price in five years for their commodity. By the year's end, though the price was close to a record high. The explanation for this radical change lies in the government farm programs and a severe drought that gripped many major corn-producing states. Corn and other grain farmers should find 1984 to be a year of profit-generating prices. The crop sector, overall, should be a positive factor in the Georgia economy this year.

While 1983 was a profitable year for efficient growers of broilers, it was not the banner year it might have been. Reduced feedgrain production increased feed prices approximately 15 percent, negating much of the advantage to producers of a jump in prices. For marginal, high-cost operations, profit margins were extremely small. During 1984 the broiler industry can expect only slight improvement. The egg industry continued to face imposing problems in 1983. Loss of export markets and weak domestic demand sent prices downward earlier in the year. By the fourth quarter, both feed and egg prices stood at 15 percent above fourth quarter 1982. The first half of 1984 is unlikely to show significant improvement, but by midyear that situation could turn around.

Georgia apple production was buffeted once again in 1983 by late spring cold snaps, although damage was much less than in 1982. Apple production remained approximately 40 percent below normal although it was five million pounds more than the year before. Peach production, on the other hand, fell sharply as late frosts and freezes cut production to nearly half the normal crop size.

Although agriculture occupies most of the land in the farm belt, manufacturing employs the most people by far. Even in such hard core agricultural counties as Calhoun, Marion, Quitman and Randolph, manufacturing employment exceeds that of any other type of work. Counties closer to interstate highways generally have even higher levels of manufacturing employment.

The farm belt will continue the economic expansion into 1984. Manufacturing employment will continue to grow, although at a slower pace than in 1983. Those who sell to farmers should have a much improved year because with the end of the PIK program more acres will be planted.

The Coast

Georgia's coastal region extends roughly 100 miles inland from Effingham County in the

[24] W. Gene Wilson, "The PIK Program's Mixed Effects," this **Review**, (June 1983), p. 24.

north down to the Georgia-Florida border. The area is strongly influenced by the coastal timber belt, its seaports, its tourist appeal, and military bases.

Georgia's lumber and wood firms, part of a $7 billion forest products industry, should continue to expand. Home construction is expected to grow, at least until mid-decade, as the post-World War II baby boom continues to reach the prime home-buying ages of 25 to 35. Longer-term growth may be curtailed by the leveling of demand from the baby boom and subsequent "baby bust" generations. The increased popularity of smaller homes also spells decreased demand for building materials; however, this may be offset by the increasing number of single people buying homes. In addition, the continuing influx of people moving to the sunbelt will mean additional housing and construction activity.

The return to normal capacity utilization in the domestic paper and paperboard industry and the limited lumber resources in foreign markets will increase pulp demand through the 1980s. Paper and pulp will experience stiff competition from plastics. Traditional brown paper grocery sacks, for instance, have met competition from new plastic bags.

Georgia's Savannah port increased its share of U.S. shipments during the recent recession and will continue to undergo expansion and growth. Both the Savannah and rapidly growing Brunswick ports offer excellent highway and rail facilities and ready access to Atlanta's distribution services. Savannah's modern and flexible facilities, part of a 10-year, $500 million expansion, are in fact attracting cargoes from areas much closer to other ports.[25]

As the recovery progresses and inventories are depleted, raw material exports to industrialized nations should step up; increasing personal incomes likewise should boost consumer exports to foreigners. Revived competitiveness of the textile, apparel and food processing industries also will stimulate exports through Georgia's ports. On the other hand, continued recession in developing countries and the strong U.S. dollar may dampen some export shipments during 1984.

Tourism along Georgia's I-95 corridor, including Savannah, Brunswick, St. Simons, and Jekyll Island, will continue strong if gasoline prices remain low. However, summer pass-through traffic may be off if the Louisiana World's Fair and the Los Angeles Olympics draw visitors away from Florida's EPCOT Center.

Effects of the $1.4 billion Kings Bay Trident submarine base expansion will range from beneficial diversification of local economies and tax base expansion to shortages of schools and sewage facilities.

Camden County, home of the submarine base, will absorb approximately 60 percent of the Trident-related population. Growing pains will also be most severe in Camden County, with capital costs for roads, schools, sewage systems and public services amounting to over $42 billion by the 1988 completion. Much of the cost, however, is to be absorbed by federal funds. Neighboring Nassau and Duval Counties in Florida will absorb approximately one-third of the new population.

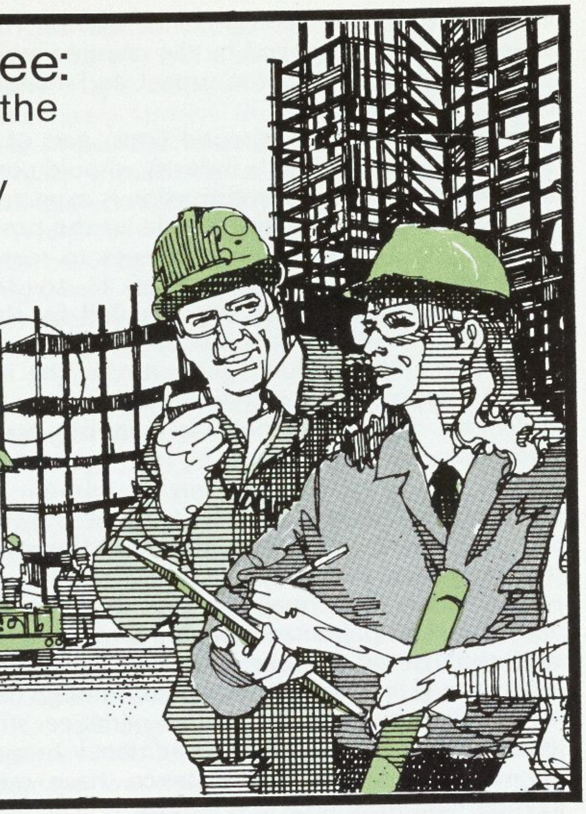
Conclusion

Georgia's economic outlook for 1984 remains bright. Strong population inflows and business development should continue to drive rapid growth in the Atlanta area. The "manufacturing horseshoe," still vulnerable to recessions and foreign competition, is likely to gather strength this year. With the exception of the still-recovering farm sector, Georgia's diverse economy should be in for more solid growth in 1984.

—William N. Cox,
Leigh Watson Healy,
Ruth Hughes
and Joel Parker

[25]**Georgia Anchor Age** (September/October, 1983) p. 5.

Tennessee: Continuing the Momentum of Recovery



Business cycle trends make the outlook for Tennessee's economy brighter than in several years, but such structural factors as the balance of manufacturing and service employment will influence the degree of improvement felt in different regions of the state. Certain sectors, such as construction and consumer spending, which typically lead the expansion during the early phases of recovery, already have experienced a strong rebound in Tennessee and in the nation. Building-related manufacturing also has registered substantial employment gains.

Tennessee's interest-rate sensitive industries bounced back well in 1983, but the state's continuing dependence on manufacturing poses structural problems for the near future.

Industries that tend to trail the initial recovery because they are oriented to demand from capital investment should experience more improvement in 1984. Since capacity utilization had fallen to low levels during the recession, many employers were able to increase output in the early phase of recovery without adding plants or equipment. A rise in the utilization rate reported by the Federal Reserve Board from 70.1 percent in November 1982 to 79.2 percent in November 1983 and sharp increases in U. S. corporate profits foretell substantial expansion of plants and equipment, thereby boosting demand for Tennessee's basic and intermediate industries.

The state's unemployment rate, which remained in the double-digit range through November, should fall in 1984 because of cyclical dynamics. During early phases of recovery the labor force typically increases as formerly discouraged workers reenter the labor market in search of jobs. However, employers, still cautious, tend to increase hours of employees already on their staffs before hiring new workers. A rise in average weekly hours in Tennessee from 39.5 in November 1982 to nearly 41 by last November suggests employment growth on the horizon.

Continuation of recovery may stimulate exports as foreign economies begin to strengthen. In addition, demand for exports could grow if the foreign exchange rate of the dollar declines from its current level, 30 percent higher on a trade-weighted basis with major trading partners than it was three years ago. Increased exports would boost Tennessee's agricultural and manufacturing sectors. Exports are unlikely to increase sharply, though.

Finally, state and local government spending should increase, providing an additional stimulus. The effect of recovery on government revenues came too late to be reflected in fiscal year 1984 budgets, prepared in the spring, but should be in evidence by the third quarter of 1984. Although expansion of the housing industry may slow as the recovery matures, general increases in employment and growth in commercial construction and industries that have yet to improve should maintain a strong momentum. An Atlanta Fed poll of Tennessee businesses in late 1983 revealed considerable optimism for 1984.

Structural Factors

Nonetheless, the state's continuing dependence on manufacturing poses structural problems that may slow Tennessee's return to prerecession peaks. Manufacturing accounts for 27 percent of Tennessee's nonfarm jobs but only 22 percent of the nation's, despite the rapid growth of service jobs in Tennessee over the last decade. From 1971 to 1982, Tennessee gained 56,000 jobs in health care, 18,000 in miscellaneous business services, and 37,000 in restaurants, compared with a net gain of 18,000 nondurable manufacturing jobs and 40,000 durable manufacturing jobs.[1] Similarly, while the share of personal income attributable to nondurable manufacturing declined by one percentage point, miscellaneous services' share rose by two.[2]

Moreover, Tennessee's manufacturing base is concentrated in labor-and energy-intensive industries that may be undergoing secular declines. These will not be reversed by the present recovery. Over the last decade pressures from lower-cost foreign producers have whittled employment in apparel and chemical manufacturing, Tennessee's largest industries in terms of jobs. Increasing power costs in the 1970s denied Tennessee's energy-intensive industries, such as aluminum and pulp and paper, one cost advantage that had brought them to the state initially.

Related changes in the energy sector exacerbated another structural problem in Tennessee manufacturing: its concentration in credit-sensitive durable goods, especially those tied to construction and transportation. During the 1970s, the Tennessee Valley Authority's (TVA's) nuclear power plant construction engendered rapid growth that offset the volatility of durable goods employment and helped keep Tennessee's unemployment rate below the nation's. Termination of this expansion program over the past few years has removed an important buffer, and as in the 1960s, the state's unemployment rate is higher than the nation's.

Tennessee has shown signs of strength in attracting more diversified business and industry with higher profit, less cyclical products. Tennessee ranked 13th in a rating of state manufacturing business climates; six of its southeastern neighbors ranked higher, though.[3] The state's high ranking on a national scale was influenced by its relatively low taxes and wages and its formerly rapid population growth. Weaknesses included high energy costs, frequency of work stoppages, and a comparatively low percentage of high school educated adults. A recent poll of the nation's 30 largest cities indicates that Nashville and Memphis have the second and third lowest residential utility rates, but industrial rates are no longer relatively cheap.[4]

The potential for diversification to more profitable kinds of manufacturing has begun to be realized. An estimated 85 advanced technology firms with 30,000 workers operate in the Oak Ridge/Knoxville area of East Tennessee. Government installations, such as the Oak Ridge National Laboratory, two other Department of Energy (DOE) facilities involved in uranium enrichment for nuclear plants and nuclear weapons production, the University of Tennessee, and the TVA, form the bulk of the state's high-technology base. The product strengths of this area include energy systems, instrumentation, measurement, and biotechnology.

The growing technological influence on Tennessee manufacturing is found in the private

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[1] U. S. Department of Commerce, **County Business Patterns**, Tennessee, 1971, p. 11, and p. 1 of the 1981 issue.

[2] Computed from data in State Survey Tables, Bureau of Economic Analysis, U. S. Department of Commerce (not published).

[3] **The Fourth Study of General Manufacturing Business Climates of the 48 Contiguous States of America**, Alexander Grant and Company, 1983, p. 4.

[4] "Cost of Electricity in Major Cities Compared," **Public Power** (November-December 1983), pp. 22-24.

sector as well. Tennessee Eastman has spent more than $500 million on a coal gasification project that will convert coal into chemical building blocks used to make photographic film, plastics, cigarette filters, and synthetic textiles among other products. This project was tested last fall and is scheduled to be fully operational early this year. In addition, Tennessee is a leader in the Southeast in Japanese investment. More than 20 Japanese companies have invested over $1 billion in the state. The largest, Nissan, is pioneering in the application of modern management techniques to traditional industry. Nissan's newly opened plant south of Nashville is a model of congenial labor-management relations. The emphasis on shared responsibilities for quality products and the utilization of advanced technologies make this plant a paradigm of the attributes some analysts believe are necessary to restore America's industrial prominence.

Although these examples imply future strength in large manufacturing operations, the future for small businesses appears less bright. Tennessee ranked 24th among states' climates for small businesses. Low ratings in capital resources, labor, and general business activity (population, employment, and personal income growth) offset the effect of the state's low tax structure. The state has a loan-to-asset ratio below the median of 51.6 percent and lacks a state-sponsored venture capital program.[5] These factors could deter the growth of private high technology firms and other small businesses.

Sharp Geographic Differences

A noteworthy structural factor pertains to geography. Statewide averages and even SMSA data often overlook the typical experiences of the majority of Tennesseans who live in smaller cities and rural areas. Only 45 percent of Tennessee's 4.6 million residents live in cities of 50,000 or more, and 40 percent live in rural areas of fewer than 2,500 people. Only 26 percent of Americans live in such areas.[6] Moreover, Tennessee has three regions, with distinct economic as well as cultural and political traditions that will help determine the course of developments in 1984. West Tennessee accounts for 27 percent of the state's population. Per capita income there averaged $9,232 in 1981 (see map). Middle Tennessee had 31 percent of the state's population and average per capita personal income of $8,970. East Tennessee had 39 percent of the population; per capita income averaged $8,070.[7]

West Tennesee's economy is based largely on agriculture, especially soybeans and other food crops, which have proven as amenable to extensive cultivation in the plateau extending from the Tennessee River to the Mississippi as cotton once was (see map). Farm cash receipts exceeded $30 million in five of west Tennessee's 21 counties; only one of Tennessee's other 74 counties enjoyed such a high dollar volume of agricultural products.[8] Memphis has long been a trade and transportation center for farm products from Tennessee and neighboring states. As shown in Table 1, Memphis continues to depend more on services than on manufacturing. The concentration ratios in this table measure under- and over-representation of various sectors in Tennessee cities. Memphis's concentration ratio of 1.54 for transportation indicates its share of jobs in this sector is more than 50 percent greater than its overall share of the state's jobs. However, the city's meager 2 percent projected population growth for the 1980s portends slow growth in construction, retail trade and other services. The State Planning Office conservatively projects population growth of 8-19 percent in other Tennessee SMSAs.

In east Tennessee, mountainous terrain makes farming difficult, but burley tobacco is an important cash crop. However, the mountains' abundant natural resources have led to a concentration of durable goods manufacturing and heavy industry. Coal in northeastern Tennessee attracted heavy industry after the Civil War and still provides energy supplies to the TVA. This mountainous area's extensive hardwoods drew Tennessee Eastman, DuPont, and other chemical manufacturers there half a century ago to convert cellulose and other lumber products into chemicals needed by industry and consumers. The region's abundance of

5 **Inc.** (October 1983), pp. 140ff.

6 **Population Characteristics**, Series P-20, No. 374, U. S. Department of Commerce, Bureau of the Census (September 1982), p. 12.

7 Computed from data in U.S. Department of Commerce, Bureau of Economic Analysis, **Local Area Personal Income, 1976-81, Southeast Region** (June 1983), pp. 246-271. (Percentages do not add to 100 because of rounding.)

8 U. S. Department of Commerce, Bureau of Census, **1978 Census of Agriculture**, Tennessee (April 1981), p. XVI.

Table 1. Tennessee SMSA Concentration Ratios

SMSA	Goods: Const.	Goods: Manu.	Services: TCPU	Services: FIRE	Services: Trade	Services: Misc. Serv.	Services: Govt.	Total Services
Chattanooga	0.84	0.97	0.93	1.28	0.99	0.95	1.09	1.01
Knoxville	1.10	0.87	0.81	0.90	1.02	0.98	1.25	1.05
Memphis	0.82	0.57	1.54	1.18	1.26	1.21	1.02	1.20
Nashville	1.19	0.77	1.08	1.46	1.09	1.14	0.94	1.10

Source: Computed from data in U.S. Dept. of Labor, Bureau of Labor Statistics, **Employment and Earnings**, May 1983, pp. 122-123.

zinc and pyrites used to make sulfuric acid helps Tennessee lead the United States in production of these minerals.[9]

The institution of the TVA in the 1930s made cheap energy readily available, and public officials encouraged energy-intensive industries such as aluminum to locate in the area. Yet the future of many east Tennessee industries is clouded by the rapid growth in energy costs in recent years and foreign competition. Moreover, east Tennessee's major cities, Knoxville and Chattanooga, have been slow in the transition to services (see Table 1). Consequently, the recessions effects were more devastating, and current growth is from a lower relative base as seen in higher unemployment rates (see map).

In middle Tennessee the rolling terrain of the Cumberland Plateau lends itself to a more diversified economy. Livestock complements food and tobacco crops in importance in rural areas. Nashville has become a service center (see Table 1), offering not only distributive services (trade and transportation) like Memphis but also many business and consumer services, such as health care, insurance, private education, and finance. Moreover, the largest local source of manufacturing jobs, printing and publishing (see Chart 1), involves the dissemination of information, which many analysts consider the underlying cause of services sector growth. One sign of the city's prosperity is its booming commercial construction and its ability to fill new office space relatively quickly. Nonetheless, middle Tennessee has pockets of poverty and unemployment, particularly in certain rural counties that have relied on a few manufacturing firms to sustain local employment and trade.

General Business and Labor Conditions

New incorporations through the first half of 1983 were 7 percent ahead of 1982.[10] Bankruptcies declined 12 percent in the 17-county area of southeastern Tennessee including Chattanooga during the first 11 months. Bankruptcies declined 11 percent in the Nashville district and 7 percent in the Memphis district. However, in the 24-county area of northeast Tennessee including Knoxville, bankruptcies were nearly on a par with the 1982 level.[11]

Improvement in labor market conditions was more belated.[12] After falling 2.1 percent in 1982, nonfarm employment statewide began increasing in late 1983,and by November reached 1.7 million, or 3 percent more than the year before but 72,000 less than in 1979. Jobless Tennesseans numbered 34,000 fewer in late 1983 than late 1982, but the labor force grew more rapidly than employment. By November

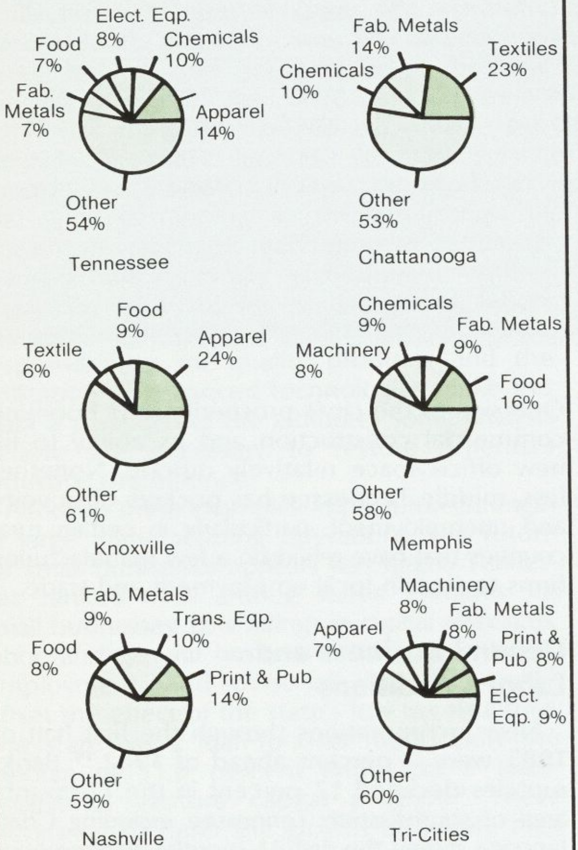
[9]**Minerals Yearbook**, Vol. II (Washington, D. C.: Bureau of Mines, U. S. Department of the Interior, 1983), pp. 457-469.

[10]Computed from data in Dun and Bradstreet, **Monthly New Incorporations.**

[11]U. S. Bankruptcy Courts of Chattanooga, Knoxville, Memphis, and Nashville.

[12]Changes in the labor market were computed from data published by the Tennessee Department of Employment Security. Unless otherwise indicated, data are preliminary and not seasonally adjusted and changes are relative to year-earlier levels.

Chart 1. Distribution of Manufacturing Employment by Largest Industries



Source: Computed from data in Annual Survey of Manufactures Bureau of the Census

the percentage of Tennesseans out of work had declined to 11.4 percent (seasonally adjusted) from a peak of 12.8 percent in February 1983, whereas the U.S. rate had fallen to 8.4 percent by that time.

In east Tennessee, labor market conditions remained depressed throughout most of 1983. Chattanooga's employment stood at 166,000 in October, 7,600 fewer than in 1979 and only 2 percent more than in October 1982. However, unemployment began falling relative to year earlier levels in May and by November had reached 9.1 percent. Knoxville had fewer employed through the first three quarters of 1983, and the unemployment rate remained in double-digits through the first half. In contrast, the World's Fair helped hold the 1982 unemployment rate at 8.8 percent. Tri-Cities had the highest jobless rate, 9.3 percent, in October. The unemployment rate for East Tennessee as a whole was 10.3 percent in September (see map). Memphis continued to lose jobs through the first nine months, with 347,000 employed there by October. However, the unemployment rate began dropping in June. West Tennessee's unemployment rate was 9 percent in September. In Nashville employment declined by small margins through the first 10 months of 1983, and the 368,000 employed there in October numbered 10,000 fewer than in 1981. However, Nashville's unemployment rate was only 6.9 percent in November. Middle Tennessee's jobless rate was the lowest of the three regions.

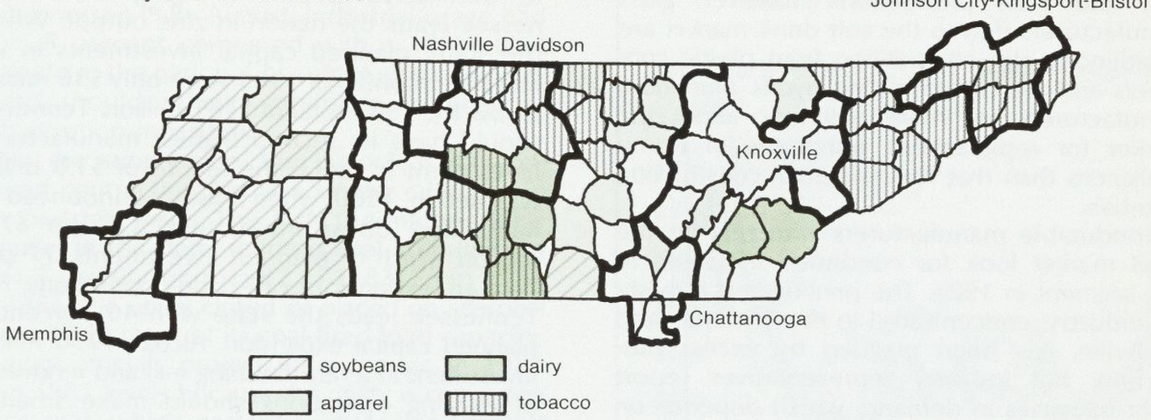
The apparent paradox between employment gains statewide and losses in the cities is attributable to the concentration of manufacturing, which experienced the largest growth in jobs, outside urban areas. More than half the work force in 23 non-SMSA counties is employed in manufacturing. The labor market outlook for 1984 is positive, but the rate of improvement will vary from one sector of the economy to another.

Manufacturing

Manufacturing employment has been edging higher since mid-1983 and by November had generated nearly 29,000 more jobs than a year earlier. Durable manufacturing improved more robustly than nondurable manufacturing. By November the rate of increase in durable goods employment reached 10 percent, but that in nondurable goods had advanced only 4 percent. Durables added over 19,000 jobs to reach a total of 215,000, whereas nondurables added 9,000 jobs to reach 270,000. Durables and nondurables employment remains below historical peaks of 1979 and 1973, respectively.

The strong recovery in housing and in replacement purchases of household durables stimulated building-related industries. Stone, clay, and glass employment led the growth with a November increase of 25 percent. Lumber and wood employment was up almost 8 percent. These high growth rates in part reflect the low levels to which these industries fell in 1982—the lowest in over a decade. Machinery employment declined through June but rose 11 percent in November. Refrigeration equipment

Key Economic Activities



	West	Middle	East
Percent of Population+	27	31	39
Tourist Receipts (%)	27	37	36
1984 Capital Expansion			
Projects (%)	34	20	46
Jobs (%)	39	33	28
Per Capita Personal Income	$9,232	$8,970	$8,070
1983 Unemployment rate*	9.0	8.6	10.3

*September

+Figures do not add to 100 because of rounding.

accounts for 35 percent of nonelectrical machinery employment and value-added, and household appliances, TVs, and radios account for over 40 percent of electrical machinery jobs and value-added.[13] In response to growing nationwide auto sales, transportation equipment (automobiles and parts) employment began to rise in midyear and by November was 14 percent ahead of last year. Primary and fabricated metals production began to recover later in the summer, achieving 8 and 2 percent respective advances in jobs by November.

Because of lingering weaknesses in the paper, chemicals, and food industries, nondurable manufacturing employment growth was sluggish. In the paper industry employment declines were in the double-digit range in most of 1983. Jobs in chemicals fell throughout 1983 although the rate of decline narrowed in each successive month except August. Chemical manufacturing accounts for a larger share of value-added (17 percent) than any other industry and ranks second in the share of industrial jobs (10 percent) (see Chart 1). Apparel and textiles employment began to increase last spring and by November had achieved growth rates of 8 and 7 percent, respectively, after declining substantially in 1982. The growth in apparel employment to 69,000 is significant because in terms of jobs it is the largest industry (see Chart 1). Apparel factories are the leading source of employment in 21 of the 39 counties for which such data are available. Textile producers began to recover in 1983 because of increasing demand for apparel, carpets, and auto upholstery.

A poll of Tennessee businesses revealed considerable optimism about the outlook for durable goods manufacturing in 1984. Transportation equipment production should continue to improve in 1984 because Detroit automakers have scheduled a substantial increase in auto assemblies. Growth in lumber industry orders and employment may slow in concert with an expected deceleration in home-building, but the normal three-to-six month lag in commercial

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[13]Computed from data in 1978-79 **Annual Survey of Manufactures**, Tennessee U. S. Department of Commerce, Bureau of the Census (January 1983), Section 6, pp. 243-7.

construction should continue to boost stone, clay, and glass production. However, glass manufacturers tied to the soft drink market are experiencing stiff competition from plastic containers and are contemplating layoffs. Aluminum manufacturers are more optimistic about the market for replacement purchases of home appliances than that for residential construction materials.

Nondurable manufacturers who rely on the retail market look for continued increases in that segment in 1984. The printing and publishing industry, concentrated in the Tri-Cities and Nashville, has been plagued by excess production, but industry representatives report slight increases in demand, which depends on consumer spending, and forecast a good year in 1984. However, chemical manufacturers, such as Tennessee Eastman, are looking for generally slow improvement. Foreign demand for chemicals is likely to remain slack. Chemical exports accounted for $1.6 billion of the state's $5.6 billion export-related manufactures and almost one-fourth of chemical manufacturing employment in 1981.[14] Manufactured exports, particularly chemicals and textiles, declined sharply in 1982 and 1983. Demand for chemicals may not strengthen substantially in 1984 because, even if the exchange rate of the dollar declines, exports normally respond slowly. Moreover, almost 40 percent of Tennessee's chemical production supplies synthetic fibers to textile producers; thus, it is subject to the same long-term constraints as that industry.

Developments in the chemical industry will have a greater effect on Chattanooga and Memphis than on other cities. Chemical production, which accounts for 18 percent of the value added by manufacturing and 10 percent of industrial jobs in Chattanooga, ranks among the top three local industries in a city heavily dependent on manufacturing (see Chart 1). In Memphis, only food outranks chemicals in terms of jobs or the share of value added by manufacturing, but manufacturing comprises a smaller portion of the local economy.

One positive sign for manufacturing is the extent of capital expansions on the horizon. Increased capital spending nationally should boost demand for zinc by 38 percent, according to Commerce Department projections. Tennessee leads the nation in zinc output. Within the state, planned capital investments in the first nine months of 1983 were only $36 million below the 1982 total of $761 million. Tennessee should have its second highest manufacturing investment in 1983; the record of $1.8 billion was set in 1980 when Nissan announced its half-billion dollar investment. Of the $725 million worth of planned investments, 77 percent are expansions of existing operations. East Tennessee leads the state with 46 percent of planned capital expansion. Alcoa's $250 million investment in a new finishing mill and renovation of existing operations should make smelting operations there among the most advanced in the world. Rising energy prices, which represent one-fourth of the cost of producing aluminum, have had a smaller impact on Alcoa than on other Tennessee aluminum manufacturers because it produces 40 percent of its electrical needs through a subsidiary.

West Tennessee accounts for 34 percent of capital expansion plans and middle Tennessee for 20 percent. New job opportunities created by this capital investment should surpass last year's level by 13 percent. Potential new jobs totaled more than 12,000 through September 1983 compared to the 1982 annual level of 10,000. Although east Tennessee will garner the largest share of capital investment, its proportion of job opportunities from this investment are least, comprising only 28 percent of the state's total. West Tennessee's capital investment accounts for 39 percent of the new jobs, and middle Tennessee's accounts for 33 percent.[15]

Energy

Tennessee's recovery is reflected in changes in demand for electrical power in 1983. By August, kilowatt hours increased 6 percent in Tennessee, although U.S. usage had climbed 9 percent. However, aggregate demand is well below peak 1979 levels. The revival of Tennessee's industries, especially durable goods, should spark continuing upturn in demand. This trend

[14] "Origin of Exports of Manufactured Products," **1981 Annual Survey of Manufactures** (May 1983), pp. 16, 29.

[15] Third quarter 1983 Economic Growth Report, Tennessee Department of Economic and Community Development.

is significant because industrial customers account for almost half of all energy consumption in Tennessee.[16] By August, industrial usage had risen 8 percent compared with a 10 percent increase in the nation. Consumer-generated demand should remain moderate because of conservation measures.

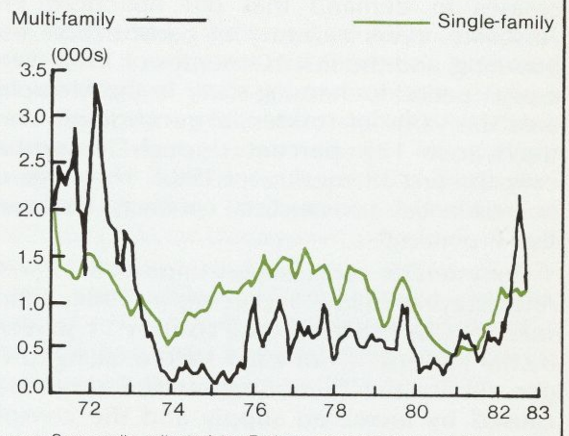
On the supply side, the outlook is for continued contraction but at a slower rate than in the past few years. The TVA, the major energy supplier in the state, reduced coal consumption by 4.5 percent from 1982 to 1983. From 1981 to 1983, the utility closed or placed on seasonal status 17 percent of its coal-fired load capacity. Agency officials project little change in 1984 from 1983 levels because the utility is converting from coal, which costs 2.3 cents per kilowatt hour, to nuclear power, which has an operating cost of 1.4 cents. In 1983, fully 55 percent of the TVA's capacity came from coal-fired units and 18 percent came from nuclear; ultimately, it plans to rely on coal for only 47 percent of its capacity and on nuclear energy for 30 percent. Thus, coal production and mining employment should experience only slow growth in 1984.

Moreover, the TVA has been attempting for several years to bring capacity more closely in line with demand by cancelling plans for nuclear power plants. Congress terminated funding for the Clinch River breeder reactor, near Oak Ridge, in November. The TVA plans to spend $1.3 billion on power-generating projects in fiscal 1984, $300 million less than in fiscal 1983. TVA employment, already reduced from a regional total of 52,000 in 1980 to 37,000 in late 1983, should continue to decline by 4,000 over the next five years albeit at a rate set largely by attrition rather than layoffs. The impact will continue to be greatest in east Tennessee, where two of the six coal-fired plants affected by the shift to nuclear power are located. Of the 24,000 TVA employees in Tennessee, Chattanooga and Knoxville each has around 5,000. Coal mining is concentrated in upper East Tennessee.

Construction

The building industry led other sectors of the state's economy in recovering from the recession.

Chart 2. Tennessee Building Permits 3-Month Moving Average, S.A.



Source: Seasonally adjusted by Federal Reserve Bank of Atlanta from Bureau of Census data.

The dollar value of construction contracts, on a 12-month rate, had reached $3.6 billion by November, 44 percent higher than the year before.[17] This was the first year since 1979 that the value of construction increased significantly. Residential construction, which comprises half the value of construction spending, led this growth. Single-family building permits doubled in the summer after declining since 1978 and remaining flat in 1982 (see Chart 2); multifamily permits were up 125 percent in November. These rates surpassed those of Georgia and Florida, which did not decline so sharply in the recession. Nonresidential building permits, which did not begin to recover until mid-1983, were 24 percent above 1982 levels by November. In this category, office buildings and stores showed the most strength.

Chattanooga's residential building has been reviving. By November, single-and multifamily building permits had risen over 65 percent (12-month rate) from 1982 levels. The value of nonresidential construction grew at a slower rate, attaining a 49 percent increase through November. Knoxville's growth has been tempered by multifamily permits, which declined almost 60 percent below 1982 levels. The

[16] U. S. Department of Energy, **State Energy Data Report**, 1960 through 1980, (July 1982), p. xi.

[17] Construction figures were obtained from the Bureau of the Census, the Middle Tennessee Home Builders Association, Aladdin Resources, RCM interests, Baptist Hospital, Southeast Venture Companies, and various government agencies.

World's Fair spurred construction of hotels and motels as well as condominiums, apartments, and offices in anticipation of sustained increases in demand that did not occur. In Nashville, every category of construction was booming, and the first 10 months of 1983 were a peak period for housing starts. In the Memphis area the value of residential construction contracts rose 125 percent through November over the first 11 months of 1982. The value of nonresidential construction contracts increased by 10 percent.

Commercial construction improved as well. After staying below 5 percent in 1982, office vacancies in Nashville rose to over 13 percent by the second half of 1983 before falling to 11 percent by the third quarter. The surge was caused by increased supply and the consolidation of office space between two local insurance companies. Most of Memphis's large inventory of industrial space was absorbed. Despite the overall improvement in construction, employment continued to decline relative to year-earlier levels. At 72,000 in November, building-related employment was only 1,400 below the November 1982 level but 21,000 below peak 1979 levels.

The outlook for Tennessee construction is bright even though the rate of growth in home building may decelerate. The Nissan truck plant in Smyrna should generate substantial building nearby. Construction of more than six million square feet of office space in Nashville from 1983-1985, an increase of 50-80 percent over existing inventory, should buoy employment and demand for building materials. Major projects include a $25 million renovation of office and retail space on Second Avenue, a $25 million Washington Square complex, the $50 million One Nashville Place office tower, a $38-$40 million office complex to house Northern Telecom's headquarters, and Baptist Hospital's continuing expansion. Despite this veritable explosion in office construction, industry analysts expect a high rate of absorption because of Nashville's diversified, service-based economy.

Chattanooga city officials are seeking $4.6 million in Urban Development Action Grant funds for a $28 million multi-use mall near the TVA's $180 million Office of Power complex. This project would help integrate the revitalized areas of Chattanooga's central business district by connecting the Chattanooga Choo-Choo hotel/entertainment complex with the TVA office center. Both projects should be complete by mid-1984. Major new construction projects in Memphis include a $46 million, 406-room convention center hotel, the $32 million One Memphis Place, and the $42 million Morgan Keegan building.

Consumer Spending

Consumer spending patterns are determined largely by trends in personal income and population. Tennessee's total personal income growth has accelerated after sluggish performance during the recession years. For the 12-month period ending in mid-1983, personal income increased 6.3 percent, slightly higher than the nation's 6 percent gain. By the first half of 1983, Tennessee's personal income amounted to $43.7 billion. Population growth, which slowed to .6 percent per annum in the April 1980-July 1982 period, should accelerate as recovery continues and migration rises. However, resumption of the growth rates of the 1970s is unlikely.[18]

Growth of retail sales in Tennessee trailed the increase in personal income, and employment in retail and wholesale trade declined slightly through the first eight months of 1983, but increased thereafter. Through August, taxable sales rose less than in 1982, when World's Fair visitors raised consumer spending to exceptionally high levels. However, the rate of growth accelerated in the third quarter of 1983. From July through November, total sales tax collections rose 13 percent. Building materials, auto dealers, and home furnishings registered the strongest increases of 30, 36, and 18 percent, respectively. Sales tax collections for the Tennessee SMSAs were up in all areas except Knoxville, where they declined 4 percent from the same period last year. Collections rose 9 percent in Chattanooga, 14 percent in Memphis, 16 percent in Nashville, and 6 percent in the Tri-Cities.[19] By the Christmas shopping season, department store merchants in Nashville were registering double-digit increases in sales over

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[18] U. S. Department of Commerce, Bureau of the Census, **Provisional Projection of the Population of States, by Age and Sex: 1980 to 2000**. Current Population Reports, Series P-25, No. 937, (August 1983), p. 11.

[19] **Monthly Statement of Revenue Collections**, Tennessee Department of Revenue, November 1983.

year-earlier levels, and most were optimistic about the holiday season. However, reports from retailers in the Tri-Cities indicated more modest performance and even some declines, in part because of a substantial decrease in the tobacco harvest.

Retail sales should continue to grow briskly in 1984. Faster employment, income, and population growth would further increase consumer spending. A $60 million shopping mall, the second largest in Tennessee, should strengthen Nashville's status as a regional center for retail trade and could generate $120 million in annual sales when completed in 1987. Construction may begin in the second half of 1984. Two new malls, each over 800,000 square feet, have opened near Memphis in the past two years. Wholesale traders in the locally important farm supplies market expect considerable improvement in 1984 because increased acreage should boost production substantially and continuing recovery should sustain demand. A $50 million mall in Knoxville should boost that city's retail sector when it opens this summer.

Public Sector

The outlook for Tennessee's state and local government appears brighter than a year ago. By November, public sector jobs numbered 300,000, or 3,000 more than in November 1982 after declining since 1981. No other nonmanufacturing sector generated so many new jobs. Revenue collections exceeded estimates in the first four months of the fiscal year. Sales tax receipts in 1983 more than offset the shortfall in franchise and excise tax collections. The latter are Tennessee's counterpart to other states' corporate income taxes. Many corporations had filed for a six-month extension, from April to October, and receipts were less than expected.

Unlike prior years when hiring freezes and budget cutbacks were common, state government is likely to contribute to growth in 1984. The governor has proposed a $5.1 billion budget for fiscal 1985, 14 percent higher than the 1984 budget. This increase would give state workers their first raise in 2 years and reward high-performance teachers through an incentive program. Financing would come from a 1 cent hike in the 4½ cent sales tax and other tax increases. Whether or not this budget wins approval, continuing recovery should boost individual and corporate incomes, thereby fostering higher tax receipts, government hiring and spending.

However, the traditional stimulative role of the federal government in Tennessee's economy has diminished. Federal government employment declined 6 percent through the first three quarters. Defense expenditures for military functions in Tennessee (especially personnel costs) declined by 10 percent to $1 billion in 1983; the Defense Department projects a mere 2 percent increase in 1984, the lowest of any southeastern state.[20] Federal civilian employment also is unlikely to rebound significantly. The TVA has been implementing cutbacks for several years, and more are likely in 1984.

Finance

Tennessee's commercial bank deposits were up 10 percent in November from the same month in 1982, an increase well below the 15 percent experienced by southeastern banks but slightly above the national increase. Savings placed in money market deposit accounts (MMDAs) paced this expansion by growing 127 percent. Federal Home Loan Bank Board figures indicate that bank time deposits declined by 9 percent. Savers were reluctant to place money in time deposits because market rates were rising and MMDAs offered a more liquid and attractive alternative.

Tennessee savings and loan associations posted double-digit deposit gains from March to November relative to year-earlier levels. By November, Tennessee thrifts had $7.3 billion in deposits. MMDAs accounted for the majority of this growth. In response to the surge of home buying, Tennessee thrifts lent a healthy volume of mortgages in 1983. Commitments were up 70 percent from November to November. The 4 percent decline in mortgages outstanding since November 1982 reflects the trend of Tennessee S&Ls to discount in the secondary market a high proportion of the mortgages they made. Credit unions, outperforming both banks and S&Ls, registered a 14 percent deposit gain.

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[20] U. S. Dept. of Defense, **Estimated Expenditures for States and Selected areas**, Fiscal Years 1983 and 1984.

Although depository institutions for the most part had a good year in 1983, a number of Tennessee banks failed in a crisis triggered by the February 14 collapse of the United American Bank of Knoxville. Bad loans, loss of loan participations with failed banks, and lack of confidence in some Tennessee banks caused the subsequent failures. Employment was virtually flat in Tennessee's financial sector. Slight declines occurred in the first eight months, but in November the number of jobs advanced slightly to 80,000. The performance of Tennessee's financial sector will be determined largely by developments in other state economic sectors.

A challenge facing the state's financial institutions is the growth of interstate banking. After focusing on the fast-growing Georgia and Florida markets, out-of-state banks, such as NCNB and Citicorp, have recently turned to Tennessee to offer consumer and housing loans and other financial services. Some Tennessee banks have begun to consolidate across county lines in response to state legislation enacted in 1983 to prepare them for interstate banking.

Tourism.

Travel accounted for $3 billion of Tennessee's $52 billion gross state product in 1981. In 1982 tourism generated 80,000 jobs, or 4.3 percent of total employment.[21] The direct economic impact of Tennessee's tourism industry exceeds the $1.8 billion generated by agriculture and roughly equals that of construction and finance in terms of jobs. Nashville had one-quarter of the state's travel-related employment, and middle Tennessee received 37 percent of travel expenditures. Memphis and mountainous east Tennessee are also important travel destinations. Memphis's Cook Convention Center, with 200,000 square feet of exhibit space, is the largest convention center in the state. West Tennessee received 27 percent of travel expenditures in 1981, and east Tennessee 36 percent.

Air travel statewide in 1983 was slightly above 1982 levels. However, Knoxville's plane passenger arrivals through November were off 11 percent. Chattanooga posted a 16 percent increase through November, and Nashville a 3 percent increase. Auto travel, as reflected in visitor center registrations, also declined. Through December, 2.1 million visitors registered at state welcome centers, 6 percent fewer than in the same period of 1982. Major private attractions had lower attendance than in 1982. Many of Tennessee's tourism indicators for 1983 were down because the World's Fair in Knoxville buoyed year-earlier figures to unusually high levels, new tourist attractions such as Disney's EPCOT Center in Florida offered intense competition, and the pace of recovery in Tennessee was slower than elsewhere. Less expensive attractions and those that rely more on local travel did show improvement in 1983. Tennessee National Park Service sites had 7 percent more visitors through October, and state parks registered a .2 percent increase through November.

Lodging tax receipts through November were down 15 percent from 1982 but up 9.9 percent over 1981 levels. Many Tennessee hotels and motels benefited from EPCOT-related travel along interstate corridors to Florida. However, Nashville's occupancy rate declined 3 percent to 67 percent, and Knoxville's plummeted 33 percent to 50 percent. Chattanooga's occupancy fell 5 percent to 62 percent through October. In contrast, Memphis's occupancy rate, 65 percent through October, was 2 percent better than in 1982.[22]

Continuing recovery should lower unemployment and raise personal income, thereby fostering more discretionary spending for travel. Another important factor will be the 1984 New Orleans World's Fair. It should increase auto traffic, especially along Tennessee's interstate highways, boosting business at many hotels and motels. However, the World's Fair may command so much money and time that visitors will have little left for Tennessee attractions. As a hub between the Midwest and New Orleans, Memphis stands to gain the most traffic. Advance bookings for bus tours are very strong. The city is undergoing a revitalization that should boost its appeal to tourists. The historic Peabody

[21] Travel figures from **The Economic Impact of Travel on Tennessee Counties, 1982**, U.S. Travel Data Center (April 1983); gross state product estimates from **An Economic Report to the Governor of the State of Tennessee**, Center for Business and Economic Research, University of Tennessee (January 1983), p. 95.

[22] Pannell, Kerr, and Forster.

Hotel reopened in 1982 as a 450-room luxury hotel. Beale Street, the "birthplace of the blues," reopened in October after an $11 million rebuilding program. The Mud Island attraction has drawn around 1 million visitors annually since it opened in 1981.

Refurbishing and promotion of the Natchez Trace Parkway should draw many fair visitors through middle Tennessee. The U. S. Department of the Interior has appropriated $9.2 million for improving sections of the parkway in Tennessee. New or expanded attractions should also enhance the area's appeal to travelers. The Opryland theme park will open a $3.7 million bobsled-type ride in June. Music Village USA, an ongoing entertainment complex, will add two country music museums this spring.

Nashville's convention business should improve with the $50 million expansion of the 470-room Opryland Hotel, completed in 1983. A $25 million convention center is under construction, but financial problems have stalled plans for a related hotel and renovation of Union Station into a retail complex. Of the major conventions already booked this year the American Society of Association Executives (ASAE) in March is widely regarded as the most important. One-fifth of the members of this organization, heads of 6,000 leading trade and professional associations, normally schedule subsequent meetings of their respective organizations in the host city. New and expanded carrier service implemented at year-end should boost Nashville's airport volume.

In east Tennessee, celebration of the 50th anniversary of the Great Smoky Mountains National Park should spur tourism. Scott County residents are awaiting the completion of a local national park site, the Southfork Recreation Area. This facility, begun four years ago, is opening in phases leading to completion in 1987-1988. The area's main attraction is a gorge with rapids for rafting. Also, hunting, banned in nearby National Park Service facilities, will be open to the public. Knoxville and Chattanooga convention representatives are intensifying their marketing efforts. The renovated Knoxville Exhibition Hall will provide additional facilities to the area, but no new hotels are planned because of soft demand in 1983. Convention and city officials in Chattanooga are negotiating with a developer to construct a $45 million hotel, parking garage, and trade center development to be completed by February 1985. White-water rafting should continue to boost Polk County's economy since the TVA agreed to refrain from diverting water from the Ocoee River throughout the tourist season.

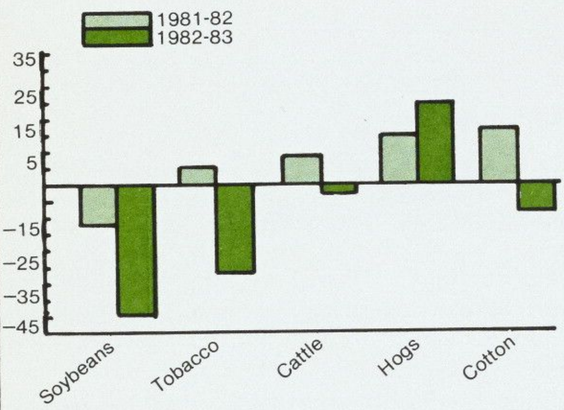
Agriculture

The leading products for Tennessee's 92,000 farmers are soybeans, dairy and meat cattle, and tobacco. Together, these account for almost two-thirds of Tennessee's $1.8 billion in farm cash receipts.[23] The dairy industry in middle and east Tennessee (see map) accounts for approximately 13 percent of Tennessee's farm revenue. The levy of milk assessments on production reduced the effect of price supports, and higher feed costs eroded profits in 1983. Many dairymen suffered losses severe enough to force liquidation. November's enactment of new dairy legislation, introducing financial incentives to reduce production, could improve the industry's prospects. Efficient producers are most likely to benefit, but high feed costs in the first half threaten to lower their profit margins. Marginal operations are likely to cease or cut back. Industry analysts believe milk production may have peaked in 1983.

Some 50,000 middle and east Tennesseans grow burley tobacco (see map) although most produce small volumes, averaging 1,300 pounds per farm, according to University of Tennessee Extension Service data. Tobacco production, of which 80 percent is burley, generates approximately 12 percent of the state's farm income. Tobacco is among the top three export commodities in Tennessee. Thus, the extreme damage to the drought-stricken tobacco crop in 1983 dealt a severe blow to Tennessee's economy. Over one-third of the 1983 crop was lost because of adverse weather; farmers had the worst yields in three decades. Much of the remaining tobacco was of an inferior quality and earned low prices, which were only slightly offset by the modest price supports granted to inferior tobacco. Preliminary estimates of income indicate a sharp decline (see Chart 3). The

[23] **Economic Indicators of the Farm Sector, State and Income Balance Sheets Statistics**, 1981, (October 1982) USDA Economic Research Service, pp. 121-122.

Chart 3. Percent Change in Farm Revenue



Source: Federal Reserve Bank of Atlanta estimates

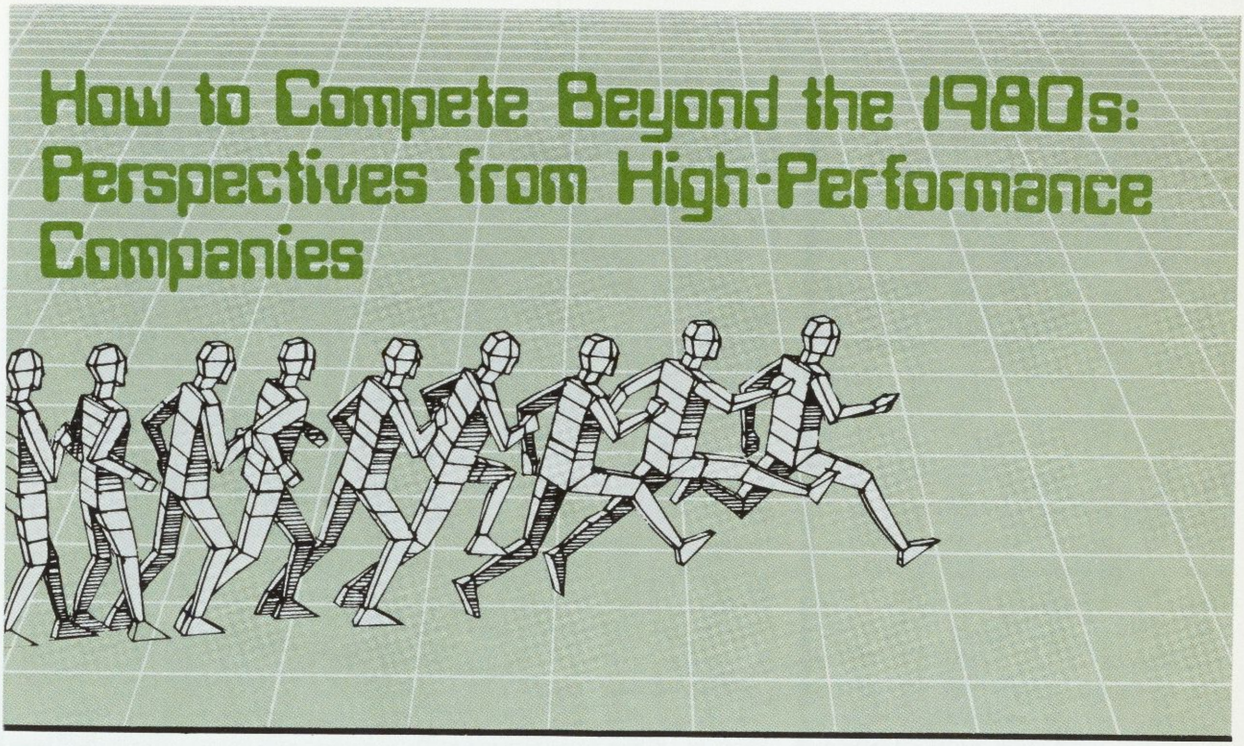
possibility of more favorable weather is the sole source of optimism for 1984. Tobacco growers face increasing pressure for major revisions in the tobacco program. High taxes and changing habits will continue to temper domestic consumption, and exports are unlikely to increase.

In west Tennessee, where production of soybeans, wheat, corn, cotton, pork, and cattle is concentrated (see map), farmers began 1983 in better financial condition than farmers in most other southern states. However, Tennessee experienced more severe crop damage than any southeastern state. Yields of soybeans, which contribute one-fifth of the state's farm cash receipts, fell 40 percent from a recent five-year average; cotton, 30 percent; and corn, 44 percent. The sharp drop in soybean yield was especially harmful since soybeans were not included in the payment-in-kind (PIK) program. Crop incomes are expected to fall (see Chart 3). Livestock farmers suffered from declining prices. Crop shortages motivated cattle and pork farmers to rush their stock to market to avoid soaring feed costs. The resulting surfeit caused meat prices to fall. Nonetheless, some farmers may end the year with a profit (see Chart 3). Farmers enrolled in the PIK program will receive commodity payments, and those who increased crop insurance will receive additional assistance. Cattle prices should revive by mid-1984 as beef supplies grow tight.

Conclusion

Tennessee should see continued improvement in 1984. Employment gains in many industries have already served to lower the unemployment rate and should continue to do so in 1984. The rate of growth in residential construction may slow, but commercial construction should continue its healthy pace. Capital expansion plans for many of Tennessee's manufacturing operations will help maintain economic growth. However, nondurables manufacturing, especially chemicals, should improve modestly at best as foreign competition and export problems plague the industry. Personal income growth should stimulate consumer spending and tax revenues. Tennessee's financial community should continue to stabilize from 1983's problems and begin to consolidate for increased competition. Increased personal income and the World's Fair should stimulate tourism. The outlook for agriculture is more mixed; much will depend on foreign economies and the weather.

—Bobbie H. McCrackin and Paula Johannsen



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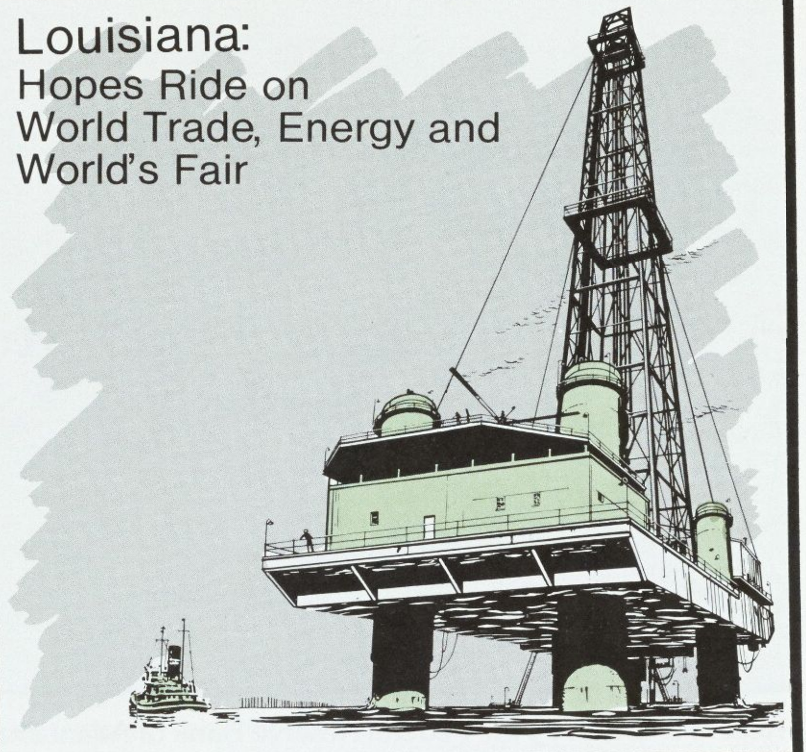
Louisiana:
Hopes Ride on World Trade, Energy and World's Fair



Louisiana's economy entered into the most recent national recession in 1982—later than most states—and emerged from it later than other states in 1983. In the 10 years before 1982, Louisiana's energy-dependent economy had enjoyed rapid economic growth. World oil prices increased dramatically over that span to fuel the state's growth and help it avoid the national recession in 1980. But high energy prices also helped to spark a worldwide recession that hit the United States in 1981. As the recession deepened, world oil prices dropped significantly in 1982 and 1983 as an energy glut spread out over the globe. In response, Louisiana energy producers curtailed their exploration and development activities and the state joined the nation in recession in 1982.

Energy and international trade, central to Louisiana's economy, both suffered in 1983. This year should see some improvement and a needed boost from the New Orleans World's Fair.

The long and deep global recession that extended into 1983 in many countries also slowed world trade. Louisiana's economy benefited more than most states from rapidly expanding trade activity in the 1970s. It also has suffered more from the decline in world trade since 1980 because so many of the nation's imports and exports flow through the state's ports. In part, Louisiana's economic recovery was slow to arrive in 1983 because U. S. trade flows grew weakly over the year. Louisiana's dominant energy-related industries were also slow to recover in 1983.

The energy and trade outlook for 1984 was still cloudy, but brightening, as the new year began. Neither of these activities is likely to grow at the lofty rates registered by both in the 1970s. But there are signs that they will add to the pace of Louisiana's recovery in 1984. Additionally, tourism should provide a particularly strong boost in 1984 as the state prepares to host a World's Fair in New Orleans that will run from May 12 to November 11 and attract an expected 11 million visitors. Altogether, 1984 promises to be a more prosperous year than 1983 for most Louisianians.

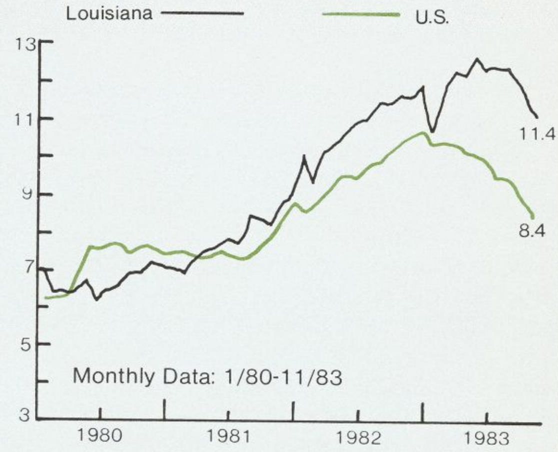
Table 1. United States and Louisiana Labor Force* (Thousands)

Area & Employment	November 1983	November 1982	November 1981
United States			
Civilian Labor Force	112,147	110,855	109,179
Employed	103,018	99,379	100,502
Unemployed	9,129	11,476	8,676
Rate (percent)	8.1	10.4	7.9
Louisiana			
Civilian Labor Force	1,920.7	1,874.7	1,859.5
Employed	1,716.2	1,654.3	1,707.3
Unemployed	204.5	220.4	152.2
Rate (percent)	10.6	11.8	8.2
Alexandria			
Civilian Labor Force	77.8	74.9	72.2
Employed	70.2	65.9	65.0
Unemployed	7.6	9.0	7.2
Rate (percent)	)9.8	11.9	9.9
Baton Rouge			
Civilian Labor Force	244.7	234.0	231.7
Employed	223.3	210.4	214.4
Unemployed	21.4	23.6	17.3
Rate (percent)	8.8	10.1	7.5
Lafayette			
Civilian Labor Force	102.6	102.1	95.3
Employed	94.9	95.4	91.6
Unemployed	7.7	6.7	3.7
Rate (percent)	7.5	6.6	3.9
Lake Charles			
Civilian Labor Force	76.9	75.4	79.4
Employed	65.4	63.7	72.1
Unemployed	11.5	11.7	7.3
Rate (percent)	14.9	15.5	9.2
Monroe			
Civilian Labor Force	58.2	58.5	57.7
Employed	52.1	51.2	51.6
Unemployed	6.1	7.3	6.1
Rate (percent)	10.5	12.4	10.6
New Orleans			
Civilian Labor Force	529.7	518.1	518.6
Employed	478.9	463.3	477.0
Unemployed	50.8	54.8	41.6
Rate (percent)	9.6	10.6	8.0
Shreveport			
Civilian Labor Force	168.2	164.8	162.1
Employed	151.0	145.1	149.3
Unemployed	17.2	19.7	12.8
Rate (percent)	10.2	12.0	7.9

*Data not seasonally adjusted

Source: Louisiana Department of Labor

Chart 1. U. S. and Louisiana Unemployment Rate 1980-Present (Seasonally Adjusted)



Source: U. S. Department of Labor, Bureau of Labor Statistics.

Labor Market Developments

When the nation slipped into recession in mid-1981, Louisiana's economy was still growing. Employment in the state expanded throughout 1981. It then dropped sharply in 1982 before beginning its recovery in mid-1983. By November, total employment in the state stood at 1.7 million, up 3.7 percent over the previous November (Table 1). But nonfarm employment was still 11,800 below the number employed a year earlier. In that same span, the state's labor force grew 2.4 percent and the unadjusted unemployment rate fell 1.2 percent, to 10.6 percent. Still, Louisiana's unemployment stood significantly above the nation's rate.

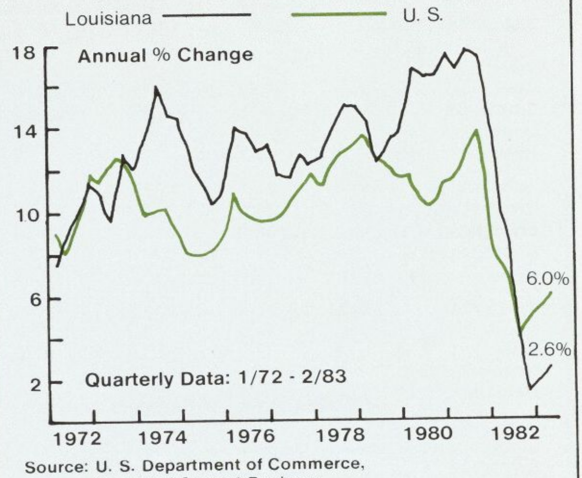
For the most part, the Bayou State's unemployment has been above the nation's rate since 1981. Louisiana also suffered more than the nation in the 1981-1982 recession from a higher peak unemployment rate, 12.8 percent, than the nation's 10.8 percent (Chart 1). Furthermore, the national recovery was late in coming to Louisiana. The nation's unemployment rate peaked in December 1982. In Louisiana, the unemployment rate peaked last May.

Within the state, developments in major state labor markets in the recession reflected their somewhat different industrial dependencies. New Orleans and Baton Rouge, the largest labor markets in the state, had mixed experiences in recession. Both labor markets registered unemployment rates during the recession that were about one percentage point below the average for the state. The downturn in the petrochemical industry and the decline in world trade had a strong negative impact in Baton Rouge and New Orleans. But these areas boast other industries that helped them weather the national recession. In Baton Rouge, government and education provided support while preparations for the World's Fair and service industries helped New Orleans.

The local economy of southwest Louisiana, centered in Lafayette and Lake Charles, suffered a severe jolt in 1982 and 1983, largely as a result of the oil glut and the downturn in the petrochemical industry. Lake Charles' unemployment rate reached the highest level of any major labor market in the state. It's unemployment rate finally dropped below the level for the comparable year earlier month in October 1983 for the first time since late 1980. Even so, at 14.9 percent in November, its unemployment rate was 5.7 percentage points above the level two years earlier and was barely below the level in November 1982. Meanwhile, the cutback in energy drilling activity stopped the economic boom in Lafayette, but that area's unemployment rate, 7.5 percent in November, remained the lowest in the state.

Alexandria, in central Louisiana, and Shreveport and Monroe, in north Louisiana, fared about the same in recession as the state as a whole. Their unemployment rates peaked at 12.7 to 12.8 percent in the first half of 1983. By the end of 1983, there was evidence that a full recovery was underway in these areas.

Chart 2. United States and Louisiana Personal Income



Source: U. S. Department of Commerce, Survey of Current Business

Income and Trade

The spread of economic weakness in Louisiana caused by the energy bust and the downturn in world trade activity is reflected in the movements of population, income, and consumer spending in the state last year. For example, personal income grew by only 2.6 percent in the year ending in the second quarter of 1983 (Chart 2). That growth rate was the lowest in the Southeast and trailed far behind the 7 and 6 percent gains for the Southeast and nation, respectively.

The dramatic slowing of income growth in the state in 1982-1983 is in marked contrast to gains of the previous years. Prosperity associated with the energy-boom years of the 1970s carried over into the early 1980s to rank Louisiana among the top states in the growth of income and per capita income. Louisiana's personal income grew by 335 percent in the 1970s compared to 275 percent for the nation. That fast growth pushed the state's per capita income to 90 percent of the national average in 1980 from 77 percent a decade earlier. Louisiana's income continued to grow faster than the rate nationally until mid-1982.

The continuing fast growth of income in the early 1980s, while other state economies were languishing, lured out-of-state workers to Louisiana's booming oil and gas fields. In the 27-month period ending in mid-1982, the state gained 22,700 people from migration. Among southeastern states, Louisiana and Georgia were the only states that gained more from migration in this period than the yearly average gain expected in the decade by the U. S. Bureau of Census. Although migration data are unavailable after mid-1982, it is likely that the state lost population from migration when its economy went into a tailspin in 1982-1983.

The slowdown in population and income growth since mid-1982 is reflected in Louisiana's retail trade data. Consumer spending bounced back later and more slowly than spending in other parts of the nation. Retail sales in the first half of 1983 were flat compared with the same months of 1982 while the nation posted healthy comparable increases. Monthly retail sales growth for the state continued to fall short of the nation's after midyear, but the spending pace picked up. By October, the monthly increase over the previous October reached 8.9 percent, and healthy gains were reported by the news media for the Christmas season.

Looking ahead to 1984, the growth of consumer spending in the state should catch up with the nation as economic recovery spreads and grows in the state. Louisiana retailers were much more optimistic at year-end 1983 than they were a year earlier. They anticipated that the strong holiday sales they were experiencing would spill over into 1984's retail sales.

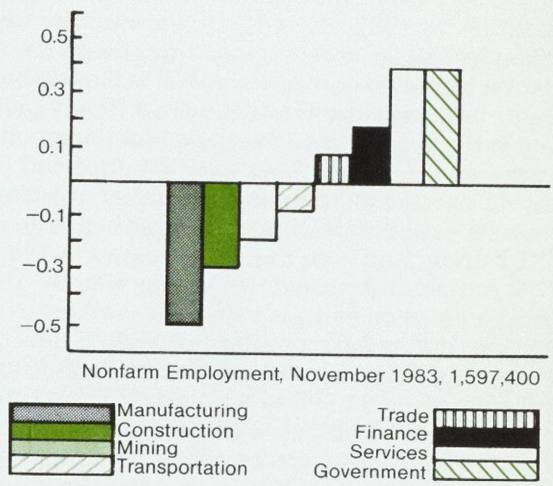
Nonfarm Employment

State nonfarm employment was off 11,800 in November 1983 from a year earlier, but the bulk of the jobs lost during the recession had been regained. Job losses became noticeable in the state in mid-1982; May 1982 was the first month in the 1980s that nonfarm employment declined in Louisiana from the comparable month in the previous year. When the recession deepened and spread around the state in 1982, this employment shortfall climbed from 8,200 in May to a peak of 55,000 in December 1982. The shortfall then dropped slowly in the first half of 1983 and then more rapidly as the recovery quickened in the fall.

Employment shares among broad economic sectors usually change slowly. However, changes that did occur in these shares in the year ending last November suggest the severity of the recession in Louisiana. The number of jobs and employment shares fell for the state's goods-producing industries—mining, construction and manufacturing—and its transportation and public utilities industry (Chart 3). In the same period, employment and employment shares increased in wholesale/retail trade, services, government, and finance, insurance and real estate.

The distribution of Louisiana's employment worked against the state in the recession. A larger share of Louisiana's work force is concentrated in the goods-producing and transportation and public utilities industries than is the case nationally. Unfortunately, these industries suffered most in the recession. Nationally, goods-producing industries registered a 10.3 percent decline in employment during the recession and jobs in the transportation and public utilities industry fell by 3.4 percent. Furthermore, employment rose nationally in the recession only in the services and finance sectors—the only service-producing sectors that account for below-national-average shares of employment in Louisiana.

Chart 3. Change in Percentage Share of Employment, 1982-83



Source: Louisiana Department of Labor

Major improvements in employment are expected in 1984 for important sectors of the state's economy. Continuing economic recovery will generate jobs in wholesale and retail trade. Workers added in other industries will spend their paychecks, stimulating retail sales. The World's Fair also will provide a major boost to retail sales and to the gamut of services industries associated with the hospitality industry. A rebound in world trade and stabilized energy prices would additionally stimulate both the state's goods and services-producing sectors, but there is uncertainty over the pace of recovery in world trade and the course of the price of oil. The likely strength of construction spending in 1984 is also open to debate, and developments in the government sector will depend on actions taken recently to address the state's fiscal crisis that emerged in the recession.

Oil and Gas

The poor performance of Louisiana's oil and gas industry in 1982 continued through midyear 1983 before showing signs of improvement in the second half of the year. One popular indicator of energy sector activity is the Hughes Tool Company count of working drilling rigs. By that measure, activity peaked in July 1981 with an average of 477 rigs working, although 470 rigs were still active in January 1982. The number of active rigs (seasonally adjusted) dropped dramatically in 1982. By last July, the number had fallen to 250, its recessionary low. The rig count then rebounded to reach over 300 in November. Some industry experts believed that steady gains late in the year signaled the hoped-for turnaround in the energy sector. That view is buttressed by the 45 percent increase in the number of drilling permits issued statewide in the fourth quarter of 1983 compared with the same quarter in 1982.

A turnaround would be welcomed by the thousands of oil and gas extraction workers who lost jobs during the recession. But workers directly employed in the oil and gas extraction industry still numbered 91,500 in November. The oil and gas industry combines with the petrochemical industry in Louisiana to employ one out of four workers, directly or indirectly. It is also the state's largest source of income; oil and gas severance taxes totaled more than $859 million in the fiscal year ending last June. These taxes accounted for nearly one-third of Louisiana's tax collections. Lease and royalty income provided the state with an additional $545 million in fiscal year 1983. Severance taxes and lease income together provided $1.4 billion, or roughly half of all state revenues.

Oil and gas producers, drilling contractors, and oilfield equipment suppliers welcome even the modest recovery that seems to be underway in the energy sector, fueled by the national economic recovery. Even if the rebound proves to be real, though, the recent energy bust triggered a wave of bankruptcies still evidenced physically by piles of repossessed drilling pipe and other oilfield equipment. (The glut of equipment idled by the energy bust has benefited some companies by lowering the cost of drilling a well.) Troubles in the oil industry also have caused some problems in state government because of the unanticipated drop in tax revenues that threatened to wreck the state's budget in fiscal 1984.

Manufacturing

Although the recession in Louisiana slowed oil and gas operations, that activity remains the dominant force in the state's economy. Its abrupt retrenchment caused widespread layoffs and plant shutdowns in 1982 and 1983 in diverse manufacturing plants across the state that supply the industry. Jobs in durable manufacturing industries such as fabricated metals and electrical and nonelectrical machinery disappeared for at least a while in recession. Nearly 4,000 fewer workers held jobs in these three industries in October 1983 than even a year earlier when manufacturing employment was in the middle of its decline.

Total manufacturing employment in Louisiana dropped almost 16 percent in the recession, to 191,000 in the second quarter of 1983, from its peak of 227,000 in September 1981. Manufacturing jobs in November 1983 remained 9,400 below the level of a year earlier (Table 2). Lost jobs in manufacturing accounted for four-fifths of the November shortfall in nonfarm employment from a year earlier. Most of the lost manufacturing jobs are attributable to weakness in the broad petrochemical industry or to weakness in shipping activity.

The chemical industry operated at 65 percent capacity in 1982. Even with economic recovery, the utilization rate was only 75.9 percent in the third quarter of 1983. The chemicals and allied products industry employed 30,300 workers in Louisiana in November compared with 32,700 a year earlier and 34,900 at the peak employment level for the industry in December 1981. Louisiana's large chemical industry, about equal to that of Japan, produces predominately cheap bulk chemicals. Ammonia and ethylene, with their derivatives, account for more than 70 percent of the value of the state's production. Chemical and allied products include other products used to produce synthetic fibers, plastics, and pigments, as well as finished chemical products such as drugs, cosmetics, and soaps. Other products are used to produce paints, fertilizers, and explosives.

Companies flocked to Louisiana in the 1960s and 1970s to build petrochemical plants. They were lured by low transportation costs because of the Mississippi River, the low cost of electricity, and the abundant supplies of natural gas feedstocks for the chemical plants. Unfortunately, those competitive advantages have eroded, particularly in export markets.

Louisiana's Department of Natural Resources (DNR) warns in a 1983 report that portions of the state's petrochemical industry face a "bleak" future. The DNR says the industry is undergoing a shakeout of excess capacity created by reduced demand and increased foreign competition. In 1983, ammonia and ethylene production

Table 2. Louisiana: Manufacturing Wage and Salary Employment
(Thousands)

	November 1983	Percent Change from Nov. 1982
Manufacturing	193.1	−4.6
Durable Goods	89.1	−5.7
Lumber and Wood Products	13.5	4.6
Furniture and Fixtures	0.7	0
Stone, Clay and Glass Products	7.9	1.3
Primary Metals Industries	3.5	−20.4
Fabricated Metals Products	16.3	3.0
Machinery, except Electrical	12.0	−11.1
Electric and Electronic Equipment	8.2	−15.5
Transportation Equipment	24.8	−6.1
Other Durable Goods	2.2	−4.3
Nondurable Goods	104.0	−3.7
Food and Kindred Products	26.7	−3.9
Apparel and Other Textile Products	8.4	0
Paper and Allied Products	11.9	−1.6
Printing and Publishing	9.9	1.0
Chemicals and Allied Products	30.3	−7.3
Petroleum and Coal Products	12.7	−3.8
Other Nondurable Goods	4.1	2.5

Source: Louisiana Department of Labor, **Louisiana Labor Market Information**, various issues.

capacities were expanding worldwide. These expansions amount to four times the state's ammonia capacity and double its ethylene capacity. Producers in Canada, Mexico, and the Middle East are building plants to run on gas that is presently flared off as surplus. In Louisiana, by contrast, gas supplies are becoming expensive. Utility rates for the electricity used so intensively by the industry also are rising.

The new foreign competition probably will shift bulk chemical production to lower-cost producers in Mexico and other countries. Louisiana's longer-run hope for the industry lies with specialty chemicals or related products that are more technology intensive. The hope for 1984 is that continuing economic recovery nationally will enable the industry to continue the cyclical rebound that began in 1983. But investments to improve efficiency during the recession practically insure that previous employment levels will not be attained in the current recovery and hoped-for subsequent expansion. A state industrial development program has been proposed to attract light industry users of the basic chemicals produced in Louisiana to take up the employment slack.

A slowdown in shipping activity is reflected directly by a drop in employment in the transportation equipment industry. Louisiana transportation equipment manufacturers are comprised largely (about 85 percent) of firms engaged in shipbuilding and repair. The decline in foreign and domestic waterborne commerce, along with the decline in the energy sector, helped reduce jobs in this important manufacturing industry from a peak of 31,600 workers in December 1981 to 24,600 in May 1983. By November, few of these jobs had been regained, because the market for river barges, towing and supply boats for offshore drilling rigs, tugboats, and other workboats remained depressed. Reduced international commerce also helped slow Louisiana's food processing plants.

Some year-end 1983 developments brighten the outlook for the transportation industry in 1984 in addition to the benefits from the expected improvement in the energy and international trade sectors. In particular, increased aerospace and defense spending will bolster employment in New Orleans. Avondale Shipyards was awarded contracts to build a dock-loading troop ship and two fleet oilers. An option to build up to four more dock-loading ships could bring the value of all the work to about $1 billion. Also, Martin-Marietta Aerospace received a $133 million contract from NASA to increase the production rate of external fuel tanks for the Space Shuttle.

Manufacturing industries in Louisiana that fared well in 1983 were those strongly affected by construction activity. The revival in residential construction stimulated construction-related sectors such as Louisiana's lumber, wood, stone, clay, and glass industries. Logging camps, sawmills, and planing mills enjoyed increased activity and employment for the lumber and wood products industry. Producers of concrete, gypsum, and plaster products also added workers to their payrolls. If the housing industry continues to grow in 1984, as expected, these supplying industries will prosper even more.

Government

State legislators ended 1983 by sitting in a special session called by Governor Treen to consider fiscal measures to balance the state budget. The legislature repealed part of the state's 1980 income tax cut to raise $136.5 million and prevent a $240 million budget deficit for the 1984 fiscal year that ends in June. The governor also ordered all state agencies to cut spending by about 1.6 percent for the rest of the budget year. An official of the state's Division of Administration said the cuts would not require extensive layoffs or reductions in state services.

The fiscal crisis in Louisiana represents a deepening of the spending revenue gap that emerged in 1982. The budget crunch is largely attributable to falling oil and gas severance tax receipts. Actual revenues have been less than the estimates on which expenditures were based. In the first five months of fiscal 1984, severance taxes were off $37.1 million from the comparable period a year earlier, or 10.4 percent. For all of fiscal 1983, severance taxes were off $112 million, or 11.5 percent, from the previous fiscal year. The state avoided a deficit in 1983, in part, by changing to an accrual accounting system that counted certain revenues in the year they were earned (fiscal 1983) rather than received (fiscal 1984). Governor Treen also cut state agency budgets 4.4 percent midway through fiscal 1983.

Construction

Construction in Louisiana in 1982 and 1983 was marked by sharp reversals in residential building and other construction activity. In 1982, residential construction sputtered while nonresidential building and nonbuilding construction boomed. Those situations were reversed in 1983.

Louisiana's housing industry responded strongly last year to the decline in mortgage rates that began in 1982. The value of residential construction contracts soared 50 percent in the first 11 months of 1983, according to F. W. Dodge data. In 1982, the nominal value of all residential construction declined 4.3 percent, and the amount of space 10 percent, from the same 11-month period in 1981. The state's rebound in housing activity in 1983 was less robust than the nation's 61 percent increase through November, largely because the recession lingered longer in Louisiana. However, because the state's economy also entered into recession later than the nation, its 1982 decline in housing activity was less severe.

Nonresidential building and nonbuilding construction slowed dramatically in 1983 from an exceptionally fast pace in 1982. Nonresidential construction was up over 80 percent in the first 11 months of 1982 compared with the same period in 1981. In 1983, this construction slumped 55 percent. The shift of nonresidential construction spending from strength in 1982 to weakness in 1983 accounts for the 24 percent decline in total construction spending in the first 11 months of 1983 from a year earlier. It also accounts for the comparable 46 percent increase in construction spending in 1982 when such spending had fallen slightly in the nation.

The strength shown by nonresidential construction in 1982 was due to large and expensive power plant and oil refinery projects that were well into the planning stage when the recession hit. In addition, an office building boom was underway in the state, particularly in New Orleans. These activities slowed in 1983 as excess industrial capacity grew in manufacturing plants and vacancy rates for commercial office and warehouse space climbed. That is why employment in the construction industry in November (115,300) was 5,400 less than a year earlier and 28,800 less than its August 1981 peak.

Many realtors and developers believe the outlook for industrial and commercial construction is poor for 1984. New office and industrial complexes around the state have added space that has not been fully absorbed, exerting downward pressure on leasing rates and dimming the financial prospects of new ventures. Both developers and lenders appear more cautious. In New Orleans, the impetus of the World's Fair on construction activity will be missing after midyear.

Despite the expected slowing of residential building after the completion of several New Orleans hotels this year, the overall outlook for residential construction in 1984 is good. Building permits increased substantially each month in 1983 over the comparable levels in 1982, suggesting that the housing rebound will continue this year. Activity may pick up noticeably in south and central Louisiana cities that saw little evidence of the housing rebound in 1983, but it may slow in areas that experienced rapid increases such as Baton Rouge and New Orleans.

International Trade

A dramatic increase in foreign trade shipments flowing through the Mississippi River system during the 1970s complemented energy-related economic development at important Louisiana port cities. New Orleans, in particular, is an important center for international commerce in energy products and their chemical derivatives, agricultural commodities, and other bulk products. The New Orleans Customs District, which encompasses the state's largest ports, is the nation's number one customs district in items of the value of exports. In 1982, nearly $19 billion in waterborne exports were shipped to foreign markets from the district.

Unfortunately, shipping activity in the district slowed significantly in the recession. At the huge Port of New Orleans, shipping activity in the first 11 months of 1983 was down 10 percent from even the depressed level for the same period in 1982. Much of this decline is from lower grain shipments, which accounted for more than 70 percent of the port's total export tonnage. Coal exports, which grew rapidly in the late 1970s and into the 1980s, also dropped sharply. The slowdown is reflected in declining customs duty collections and employment at the port. The port's level of employment in late 1983 was about 17,000, down more than 1,500 from the year-earlier level and 6,000 since mid-1981.

Most of the nation's ports have been hurt by declining international trade but the mix of New Orleans' cargo shipments makes it especially vulnerable to changes in world commodity markets. The Port of New Orleans specializes in the export of bulk commodities and market conditions for farm commodities deteriorated rapidly in recent years. The dramatically increased foreign exchange value of the dollar has raised the price of U. S. exports to foreign countries. The strength of the dollar, combined with declining incomes abroad, has reduced the volume of exports, idling ships and the men who load them.

The outlook for trade activity at Louisiana ports in 1984 is questionable. Some forecasters foresee an increase in exports, largely because they believe the dollar will depreciate relative to other currencies. They expect foreign demand to increase with economic recovery and growing world income. Record foreign production of most grains in 1983, however, could largely offset these anticipated advantages for U. S. farm exports and delay a major turnaround in Louisiana port activity in 1984. Weather and potential changes in trade policies in some countries also cloud the outlook for agricultural exports. Other exports, and imports, are likely to show modest growth.

Tourism

According to the U. S. Travel Data Service, tourism was a $3.2-billion-a-year business in Louisiana in 1982. But its share of domestic travel expenditures by Americans was only about 1.8 percent of the national total, the same as the state's share of the nation's population. The 71,500 jobs generated by tourism represented 4.3 percent of the state's employment, slightly below the U. S. average of 4.8 percent. Tourism is much more important economically in New Orleans than in the state as a whole. Convention delegates and business and vacation travelers provided more than $2.1 billion in 1982 to New Orleans' economy, generating 47,000 jobs. The New Orleans hospitality industry ranks with the petroleum industry in importance to New Orleans' economy, trailing only the port.

Louisiana's tourism industry was unimpressive in 1983. Air travel increased in New Orleans and Baton Rouge relative to year-earlier levels, but the volume of air passengers remained below peak 1979 levels. More visitors registered at the state's welcome centers and attendance at National Park Service sites was higher in 1983 than in 1982. However, state park visitations dropped. The New Orleans Superdome also lost more money in 1983 than in 1982, and the performance of the higher revenue-generating lodging segment of the industry was generally lackluster. In New Orleans, hotel/motel occupancy rates were down from 1982's levels. Some conventioneers and tourists probably postponed visits to the Crescent City until the 1984 World's Fair.

The Louisiana World Exposition in New Orleans is expected to draw 11 million visitors and wield an economic impact as high as $2.6 billion (see Box). Although the economic benefits will be concentrated in New Orleans, the state is trying to spread the added tourist income throughout Louisiana. State Tourism Department officials have mapped alternative travel corridors to channel tourists off the expressways and into various localities. It is likely that the Tourism Department's budget for the year, smaller than the fair's promotional funds allocated by neighboring Mississippi, will yield a huge return.

Agriculture

Unlike 1982, last year was relatively kind to Louisiana's crop farmers, who suffered much less drought damage than farmers in other states. The soybean crop yield, for example, declined only 7 percent from 1982's yield compared to a drop of 25 percent elsewhere in the Southeast. Furthermore, the drought-reduced supply inflated the price of the state's most important crop sharply. Soybeans ended up generating a $70 million increase in revenue for the state's farmers. Prices are likely to remain high enough in 1984 for efficient growers to earn acceptable profits.

The Louisiana rice crop fell 35 percent in 1983 as a result of an acreage-limiting government farm program and bad weather. The price of rice increased only modestly despite the curtailed crop because of weak exports and large stocks from 1982. But supplies will be lower in 1984, suggesting further price increases. Rice producers should be better off in 1984.

The two important Louisiana livestock sectors, beef and dairy cattle, experienced difficult times in 1983. Cattlemen and dairymen watched feed costs shoot upward while net revenue fell. On average, beef prices were a little stronger than in 1982 but only the most cost-efficient cattlemen earned a profit for the year. Dairymen lost money despite a government-support price for milk because milk assessments combined with higher feed costs to produce a cost-price squeeze. In 1984, beef prices should move upward in response to reduced meat supplies, helping cattlemen, and new legislation should help dairymen.

The shrimp industry, an important source of income in coastal areas, had another unfavorable year in 1983. A large fresh water runoff during flooding reduced the shrimp harvest. How well the industry fares in 1984 will depend on weather conditions and other environmental factors.

Altogether, though, Louisiana's battered agricultural sector should find 1984 to be a second year of recovery.

Conclusion

Louisiana expects a modest recovery in its oil and gas industries and a needed injection of tourist dollars from the world's fair. Consumer spending should catch up with the national average, and increased defense spending will boost jobs and income. International trade through the state's ports remains a question mark. Louisiana's farmers should fare better this year than last.

—William J. Kahley
and Gustavo Uceda

World's Fair in "Fun City"

New Orleans is one of America's greatest fun cities, with football at the Superdome, world-class restaurants, jazz music, carousing on Bourbon Street, and Mardi Gras. These attractions project the Crescent City, so named because it lies nestled in a bend of the mighty Mississippi River, as a festive and continental place. That image is likely to grow in 1984 as the city hosts a six-month party known formally as the 1984 Louisiana World Exposition.

The city "that care forgot" promises to be the ultimate attraction in 1984, despite competition from the Olympics in Los Angeles, EPCOT Center at Disney World in Orlando, and upcoming World's Fairs in Vancouver (1985) and Toshiba (1986). The 82-acre fair site lies alongside the Mississippi River, adjacent to the city's central business district. Part of the site is constructed on wharves temporarily on loan from the Port of New Orleans. The wharves will be returned to the port at the conclusion of the fair, forming part of a revitalized warehouse district. Other parts of the Fair site will be converted into a center of marketing, entertainment, condominiums, and offices. The Rouse Corporation, a major national developer of central business district renovation projects, is to build a market district; the Hershey Corporation plans to add an entertainment center.

Louisiana's slogan for the Fair is "Reaching for More in '84." The state is reaching high in its presentation of this event and hopes for even more when it closes. According to the state's World Exposition Visitors Information Guide:

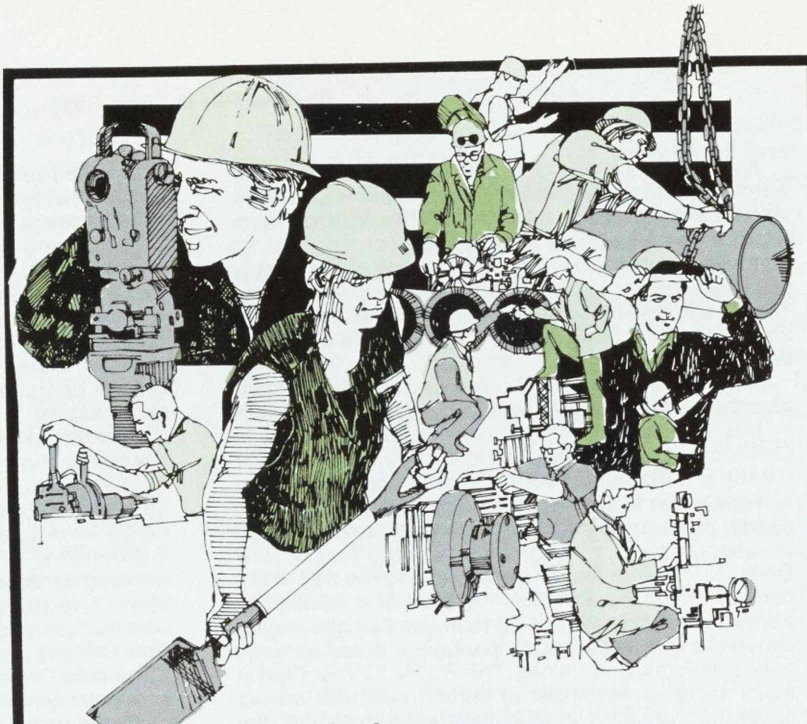
> "The United Nations has designated the 1980s as the decade dedicated to the problems and opportunities involved with providing sufficient fresh water for the people of all nations. This is the theme of the 1984 Louisiana World Exposition. The fair will spotlight the rivers and ports of Louisiana and the world..."

By January 1984, a total of 24 international exhibitors, including the Vatican, had signed up to participate in the fair and a couple more may eventually be added to the list. Features include a 1.4 mile monorail transportation system around the exposition grounds and access to the fair via a gondola ride across the Mississippi River. Pavillions will feature everything from religious art and sculpture from the Vatican to a NASA Space Shuttle. Some other features are an international trade pavillion, a 6,000-seat amphitheater, and 3,500 seat aquacade. A half-mile long "Wonderwall" (one to three stories high and 12 to 18 feet deep) will provide stages, shops, restaurants, arcades, and other diversions. Numerous private industry contributions are also included in the Fair, such as a 150-foot oil derrick sponsored by the oil industry. There will even be a 500-foot long floating dredge operation on the Mississippi River containing two theaters.

The state expects to gain over $2 billion from staging the fair for the 11 million visitors likely to pass through the turnstiles. The bulk of these economic benefits will be concentrated in New Orleans. In preparation, 11 new hotels have been constructed that add 6,000 rooms and bring the city's total to 25,000. Meanwhile, the fair will employ about 8,000 workers during its run, from May 12 to November 11. Other downtown business construction and fair-related buildings are also giving New Orleans a new look.

The New Orleans Convention and Exhibition Center, a recently completed $95 million building, will be used as the state's pavilion during the fair. State tourism officials anticipate that the 15-acre, 350,000 square feet of exhibition space also will assure New Orleans' long-term success as a convention center. Together with the Superdome and the Rivergate convention facility, New Orleans will have the capacity to host all but the nation's largest trade shows and conventions. To upgrade the city's tourism infrastructure and help assure the fair's success, the city also committed $55 million for the renovation of some of downtown New Orleans' streets and sidewalks and the upgrading of the city's International Airport.

According to an impact study for the fair, 70 percent of the expected 11 million visitors will come from within a 150-mile distance. Since most of these travelers will drive to the fair, special fairway routes have been designed to help direct visitors through natural corridors in Louisiana. Visitors will be encouraged to visit the Cajun country, the cotton country, fishing and hunting areas, and other attractions. In this way, backers hope, the fair's benefits will spread throughout the state.



Alabama: Prospects Brighten for 1984

A resurgence in new car sales helped Alabama's manufacturing-based economy last year. This year should see some soft spots but modest growth overall.

Our outlook for Alabama's economy is somewhat more optimistic than it has been for the last few years. Inundated with plant closings and layoffs in its steel, textile, lumber, and auto parts industries during the 1981-82 recession, the state's economy made a sharp turnaround in 1983 and is expected to gather momentum this year. Although demand for steel remains weak, the industry already is recovering moderately and many plants have recalled laid-off workers. Employment in durable manufacturing has climbed 3.0 percent in the last year. Furthermore, strong demand for automobiles is expected to continue in 1984, bringing new orders to the state's important auto parts industry.

The upturn in Alabama's economy was so pronounced at midyear that Governor George Wallace reduced a scheduled cut in the education budget from 10 percent to 5 percent, and the Alabama legislature is contemplating rescinding a temporary increase in the oil production tax. U. S. Steel Corporation began production at its modern $700 million seamless pipe plant in late 1983 and is reopening its steelmaking facility this year. The state is unusually optimistic over prospects for tourism this year. Four major arteries, I-20, I-65, I-10, and I-85, crisscross the state and are expected to draw visitors bound for Louisiana's World's Fair from the populous Eastern Seaboard. Finally, if the value of the dollar should fall relative to currencies of major U. S. trading partners, exports of Alabama's agricultural products, manufactured goods, and coal will become more competitive in international markets.

But 1984 will pose its share of difficulties. Unemployment is still high. The state's coal industry remains soft because of continuing weak demand from domestic and foreign chemical and utilities industries. Two large mines closed in 1983 and mining employment fell 6.7 percent over the year. Second, falling oil prices have weakened the state's oil and gas industry. Crude oil production fell 20 percent last year. Natural gas prices have been stable for two years

Table 1. Alabama's Recovery Slower than the National Economy (thousands)

Industry	United States November 1982	United States November 1983	United States Absolute Change	United States Percent Change	Alabama November 1982	Alabama November 1983	Alabama Absolute Change	Alabama Percent Change
Total Nonfarm Employment	89,466	92,128	2,662	3.0	1,312.3	1,323.4	11.1	0.8
Goods Producing	23,348	24,540	1,192	5.1	402.1	411.4	9.3	2.3
Manufacturing	18,299	19,253	954	5.2	326.9	335.2	8.3	2.5
Durables	10,610	11,344	734	6.9	151.1	155.7	4.6	3.0
Nondurables	7,689	7,909	220	2.9	175.8	179.5	3.7	2.1
Construction	3,984	4,251	267	6.7	59.3	61.3	2.0	3.4
Mining	1,065	1,036	−29	−2.7	15.9	14.9	−1.0	−6.3
Services Producing	66,118	67,588	1,470	2.2	910.2	912.0	1.8	0.2
Trade	20,549	20,901	352	1.7	268.3	271.0	2.7	1.0
Wholesale	5,231	5,306	75	1.4	68.9	68.5	−0.4	−0.6
Retail	15,318	15,595	277	1.8	199.4	202.5	3.1	1.6
Finance & Banking	5,335	5,500	165	3.1	59.0	58.9	−0.1	−0.2
Transportation	5,051	5,048	−3	−0.1	71.6	71.1	−0.5	−0.7
Government	16,003	16,018	15	0.1	293.3	294.6	1.3	0.4
Services	19,180	20,121	941	4.9	218.0	216.4	−1.6	−0.7

Source: U.S. Department of Labor, Bureau of Labor Statistics, and the Federal Reserve Bank of Atlanta.

in a row and industry experts expect no noticeable firming of prices in 1984. This outlook could further weaken Alabama's energy and mining sectors in 1984.

In summary, 1984 will not be a spectacular year for Alabama, but neither will it be a repeat performance of dreary 1981 or 1982. The state's unemployment rate had declined to 13 percent by November 1983 from 16.3 percent in February as recovery gained momentum. We look for a single-digit unemployment rate late this year and continued improvement in labor market conditions.

Employment and Industry Developments

Recession-sensitive industries have begun to recover in Alabama from the 1981-82 downturn, and the overall outlook for 1984 is upbeat generally. Nonfarm employment rose 0.8 percent last year and manufacturers added 2.5 percent to their work forces. As of November, the average workweek in manufacturing was 1.2 hours longer than it was the previous November, and factory income was up 9.7 percent from the third quarter of 1982 to the third quarter of 1983. Manufacturing employment has grown by 8,300 since November 1982, a marked contrast to the November 1981-November 1982 period when manufacturing employment fell by 29,800.

A great deal of Alabama's rebound can be attributed to the nationwide recovery in the housing and automobile industries. After losing workers in 1980 through 1982, the state's lumber and sawmills added 4.7 percent more workers to their payrolls last year. Although many mills have not yet returned to full capacity, employment and lumber production are notably better than in 1982 when many mills were left idle because of slack demand for lumber and building materials. Employment in Alabama brick, cement, and glass industries also rose last year after declining in the prior four years. General Electric is enlarging its Decatur refrigerator facility, adding 400 jobs to the economy of north Alabama. Machinery employment, which includes electronic equipment, has recently been gaining strength due primarily to the fast-growing electronic equipment sector. New government contracts are expected to stimulate hiring in Alabama's high-technology industry. Alabama defense expenditures are expected to increase 9 percent in 1984, according to Department of Defense estimates. Huntsville firms have received contracts to produce rocket motors for defense and space use,

Table 2. Employment Gains Exceeded Labor Force Growth in Alabama's Larger Cities in 1983

SMSA	November 1982 (000s)	November 1983 (000s)	Absolute Change (000s)	Percent Change
Anniston				
Labor Force	45.7	47.1	1.4	3.1
Employment	40.0	41.6	1.6	4.0
Unemployment	6.1	5.5	−0.6	−9.8
Rate (percent)	13.3	11.6		
Birmingham				
Labor Force	388.2	393.0	4.8	1.2
Employment	329.2	345.7	16.5	5.0
Unemployment	59.0	47.3	−11.7	−19.8
Rate (percent)	15.2	12.0		
Florence				
Labor Force	56.8	59.2	2.4	4.2
Employment	47.2	50.0	2.8	5.9
Unemployment	9.6	9.2	0.4	−4.2
Rate (percent)	16.9	15.5		
Gadsden				
Labor Force	43.5	42.4	−1.1	−2.5
Employment	33.8	35.7	1.9	5.6
Unemployment	9.7	6.6	−3.1	−32.0
Rate (percent)	22.3	15.6		
Huntsville	151.3	161.2	9.9	6.5
Employment	131.7	145.6	13.9	10.6
Unemployment	19.7	15.7	−4.0	−20.3
Rate (percent)	13.0	9.7		
Mobile				
Labor Force	194.9	200.1	5.2	2.7
Employment	166.0	173.3	7.3	4.4
Unemployment	28.9	27.4	−1.5	−5.2
Rate (percent)	14.8	13.6		
Montgomery				
Labor Force	122.4	129.1	6.7	5.5
Employment	107.0	114.7	7.7	7.2
Unemployment	15.4	14.4	−1.0	−6.5
Rate (percent)	12.6	11.1		
Tuscaloosa				
labor Force	54.9	57.4	2.5	4.6
Employment	48.6	50.8	2.2	4.5
Unemployment	6.2	6.6	0.4	3.5
Rate (percent)	11.4	11.4		
Alabama				
Labor Force	1737.9	1771.8	33.9	2.0
Employment	1469.8	1551.0	81.2	5.5
Unemployment	268.1	220.8	−47.3	−17.6
Rate (percent)	15.4	12.5		

Source: Alabama Department of Industrial Relations, Research and Statistics Unit

munitions, B-1 bomber parts, and cruise missile components. The 180 high-tech companies in and around Huntsville have 18,000 employees and a payroll of over $380 million. The University of Alabama at Birmingham, pioneering in biotechnology and genetic research, has spun off several private firms hoping to capitalize on the expanding industry.

Primary metals employment has stabilized following three years of steep declines. After peaking at slightly over 45,000 employees between late 1978 and early 1979, employment rolls fell 46 percent by July 1983. However, as early as November, hours worked in the industry were up 11.5 percent from November of 1982, indicating that the state's basic industries were also on the path of recovery.

U. S. Steel opened its seamless oil pipe facility in December, a $700 million mill purported to be the most technologically advanced in the world. Although there are differing schools of thought on demand for the pipe because of slack oil production, company officials think that commitments from oil companies to buy from the mill and recent sales of drilling sites in the Gulf make the outlook optimistic. The new mill employs 900 workers. In addition, more than 3,000 people will be working this year at the Fairfield works. Late last year, U. S. Steel decided to restart steelmaking at Fairfield to make rolled and flat steel sheets.

The resurgence in domestic auto sales has stimulated Alabama's auto parts and tire industry. In fact, tiremakers in the state are expanding capacity. Alabama has the capacity to produce nearly 17 percent of the nation's tires, ranking first among the states. A company that makes electronic ignition systems for cars has added about 700 employees in reaction to increased auto sales.

Alabama apparel and textile mills, responsible for 6.8 percent of national shipments, also have reaped the benefits of increased consumer demand. Employment rose 3.7 percent in these industries after falling 2.2 percent a year earlier. Improved efficiency and a stronger economy should keep conditions favorable in 1984. Manor Corporation, one of the largest manufacturers of tailored slacks, plans to double the size of its plant in southwest Alabama and Russell Corporation in Alexander City, a producer of sports apparel, intends to invest $30 million for updated production equipment in 1984. The company has added 1,000 people to its payrolls in the last 18 months and expects to add more jobs in 1984.

The Scott Paper Company plant in Mobile is building an energy complex that will use coal and wood wastes instead of relatively expensive oil and gas to produce energy. Scott executives say that the $300 million project will provide long-term viability for the mill and will bring job security to its 4,000 employees.

The Tennessee-Tombigbee Waterway, scheduled for completion in less than two years, is expected to spur industrial growth along its path. The "Tenn-Tom" is a less expensive route to the Gulf of Mexico for coal, steel, timber, and grain produced or mined in middle Tennessee and north Alabama. The savings in transportation costs are expected to generate a great deal more economic activity, and to that end millions of dollars are being spent on industrial parks and ports. The waterway will be especially beneficial to industries that depend on foreign trade.

Income Scores Healthy Gain

Personal income grew three times faster than the Consumer Price Index from mid-1982 to mid-1983, providing Alabamians with a healthy increase in purchasing power. The state's gain in real purchasing power surpassed the nation's and was in line with the rest of the Southeast. The state's sharp gain is especially impressive in light of personal income's slow growth in the last few years. The relatively strong income growth in 1983 probably exceeded population growth, meaning that income per capita rose last year. From April 1980 to July 1982, Alabama's population grew by only 0.6 percent per year. Net outmigration of 12,000 since the 1980 Census accounted for the below-average growth.

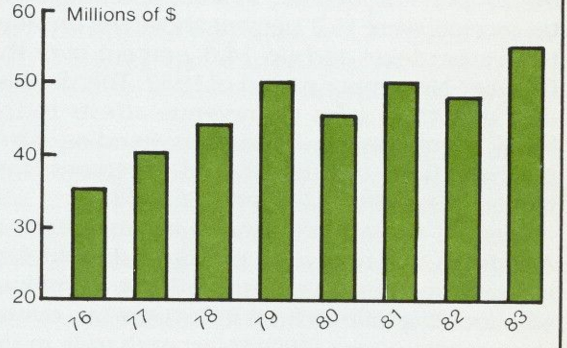
Consumer spending normally parallels population and income growth, and Alabama's consumers began to spend more freely last year. Taxable sales rose by 14.8 percent in November compared with November 1982. That increase compares quite favorably with the 5.6 percent increase for the rest of the Southeast and a 4.4 percent decline in the state the year before. To some degree, the sharp increase in consumer spending reflects the recession's severity in Alabama.

The uptrend in employment, income, and consumer spending is expected to continue in 1984 as Alabamians satisfy pent-up demand for homes, automobiles, and consumer goods. If the nation's economic recovery continues through this election year, increased spending on capital equipment around the country should spur above-average growth of employment, income, and spending in the state's important capital goods sector.

Public Sector: Encouraging Signs

The prospect for Alabama's public sector is more encouraging than it has been in several years. During fiscal 1983 (October 1982-September 1983), revenue collections barely matched expenditures even with unprecedented reductions in spending on education and in other public services. Indeed, state receipts from all sources rose only 6.6 percent in fiscal 1983. This was well short of the expected 10 percent increase that the 1983 appropriations were based on and below the 10.2 percent growth registered in fiscal 1982. Unprecedentedly high unemployment placed heavy demands on the state's Unemployment Insurance Trust Fund, forcing Alabama to borrow from the federal government. Furthermore, sales and income tax receipts were sluggish through the first half of 1983 and receipts from the oil and gas privilege tax declined as excess supplies of oil and gas continued into 1983.

Chart 1. Alabama Sales and Use Tax Collections (Nov-76 to Nov-83)



Fiscal year 1984 (October 1983-September 1984) got off to a good start. By November 1983, revenue collections were racing ahead of the previous year by 27 percent, due largely to a 1,000 percent increase from November 1982 to November 1983 in the oil and gas privilege tax. The state collected $34.1 million from the controversial tax in November 1983 alone. During November 1982, the state collected $2.8 million. But this large gain is a one-time occurrence. Court decisions paved the way for Alabama to get $28.9 million in severance tax revenue that had been locked in escrow accounts because of a lawsuit filed by oil companies. Revenue from the 2 percent oil and gas production tax, which many feel is a barometer of oil and gas production, decreased 4.4 percent over the year.

But November's sharp inflow from the oil and gas privilege tax was not entirely responsible for the 27 percent increase in state revenue. Sales tax receipts were 15.2 percent above the previous November level and up 14.8 percent over the October-November period of 1982. This double-digit growth in sales tax revenue attests to the sharp turnaround in consumer spending. Sales tax collections had declined 3.1 percent from November 1981 to November 1982.

Overall, we expect general improvement in Alabama's economy to produce double-digit increases in sales tax receipts in 1984. Combined with growing inflows from its income tax, overall state revenues are likely to grow sharply in the state this year. This should give rise to an uptrend in the state's spending on its infrastructure and help support a statewide recovery in 1984.

International Trade

Prospects for the state's economy depend more on national and international developments than do the prospects in most other states. Almost a third of the nearly 22 million tons of coal mined in the state last year was exported. The remainder went to utilities and steel mills. The state's high concentration of companies producing industrial equipment makes Alabama's economy particularly vulnerable to high interest rates and the dollar's strong foreign exchange value. Given these factors, it is not surprising that the international value of the dollar is of unusual concern in Alabama.

The decline in world trade in 1983 had a substantial impact on the Port of Mobile. Like other ports around the nation, Mobile was hurt by weak foreign demand for coal, grain, and petroleum. Mobile's total shipments in the January-October period were off 12.6 percent from the same months of 1982.

The economic slowdown in Japan and western Europe severely curtailed the flow of coal shipments. Coal exports, through September, were 21.5 percent below the level in 1982. The sharpest decline was in shipments of metallurgical coal to large industrial buyers in Europe and Japan. Demand for steam coal from factories and electric plants was reduced significantly by the worldwide recession. A large amount of Alabama's coal is sold to Asian countries. In response to weak demand for coal, two large mines announced layoffs in 1983. Drummond Coal Company laid off 300 miners at its Kellerman mine in late August, and Alabama By-Products Corporation left 330 coal miners jobless when it closed its Maxine mine near Praco in mid-September.

The Alabama State Dock will be handling far less than its potential for several years. By year-end, port handling facilities were operating at only 60 percent capacity. The McDuffie Coal Terminal expansion earlier in the year raised the port's annual export handling capacity to 23 million tons. According to Alabama State Dock officials, only eight million tons of coal were exported out of Mobile last year. This implies that the McDuffie Coal Terminal operated at only 35 percent of exporting capacity in 1983. In the longer term, completion of the Tennessee-Tombigbee Waterway will enhance Alabama's export capacity further.

The 1984 outlook for trade flows through Mobile hinges upon world demand for coal and grain and the value of the dollar. Economic recoveries in Europe and Japan should boost trade as the year progresses. According to the traffic manager of the port, exports and imports handled at the state and private docks in Mobile are expected to reach 37.5 to 38 million tons in fiscal 1984 (October 1983-September 1984). While this would be less than the record 42.3 million tons handled in 1982, it would be up from 1983 when the value of the dollar limited shipments to 36.2 million tons. Dock officials expect coal shipments to reach the nine-to-ten million ton range, up from eight million last year. Officials from Taiwan have signed an agreement to buy two million bushels of Alabama soybeans for $18 million this year.

Banking and Finance

Inflows into Alabama's thrifts exceeded those into S&Ls in other states in the Southeast and the nation, with a year-to-year increase of 14 percent last year. Mortgage commitments rose 491 percent last year, the highest increase in the Southeast. Also, unlike residents of other states, Alabamians placed 8 percent more money into time deposits. NOW account balances grew 33 percent but still account for only a small portion of total deposits.

Commercial bank deposits increased 10 percent last year. As in other states, NOW accounts increased by a hefty margin, 30 percent, while bank time deposits declined 8 percent. Savings deposits, mostly money market demand deposit accounts (MMDAs) authorized in December 1982, increased sharply. However, this sharp increase was below those of the other Sixth Federal Reserve District states (Florida, Georgia, Louisiana, Mississippi, and Tennessee) and that of the nation.

While credit unions elsewhere in the region posted deposit growth rates from 18 to 47 percent last year, larger credit unions in Alabama managed only a 5 percent increase. This slow growth is attributable in part to the weakness in Alabama's steel industry, the primary employer for a large number of Alabama's credit union members.

Construction Shows Upturn

Last year was a good year for construction in Alabama. Building permits authorized for single-family homes totaled 7,497 through November. New home construction increased 69 percent last year, the highest level in Alabama since 1979. Home building's strong growth was not limited to single-family housing. Multifamily building permits were up 85 percent over the year, with 7,688 apartments and condominiums under construction.

Although industrial growth fell sharply in Alabama from 1981 to 1982, conditions improved significantly in the latter part of 1983, suggesting that 1984 may prove to be a year of strong industrial growth. New domestic incorporations in Alabama increased 11.2 percent between fiscal 1982 and fiscal 1983. This upturn follows a 9 percent drop from 1981 to 1982. Most of Alabama's 50,000 corporations are small businesses such as professional practices or small merchandise stores.[1] The recent jump in business starts can be attributed to the growing confidence of entreprenuers and others that the new economic environment will help promote their success instead of causing hardships.

Several large projects will be under construction in the state this year. In the town of Tallassee, where hundreds of residents have been laid off by the town's largest employer (Mt. Vernon Mills) in the past year, United Technologies is building a $20 million plant to manufacture reinforced plastic parts. Estimates of the number of workers the plant will employ range from 250 to 2,000 by 1985. In addition to spending $15 million on Alabama's third greyhound racing track, Tuskegee anticipates two new industries this year—a poultry production plant that will employ 300 people and a garment factory that will hire between 100-110 people. In the commercial construction area, a 1.2 million square foot shopping mall, touted to be the largest in the state, will be under construction in the Vestavia area.

The mix of new and expanding industrial developments in 1983 indicates a continuing shift toward potentially high-growth industries. For example, several plans for electronic or computer-related plants have been announced. Defense-related plants to manufacture missile parts, rocket motors, and hardware for the Space Shuttle are also leading contenders for expansion. To accommodate increasing consumer demand in anticipation of continuing economic growth, tire-makers and appliance producers in the state are adding to capacity. Table 1 lists these and other important new plants or expansions for 1984.

Energy

Officials hope that the August 1984 oil lease sale will be as lucrative as the 1981 sale, when Exxon, Mobil, Gulf, and Shell paid $449 million to the state to lease tracts of the state's tideland. The oil companies have been asked to review 300,000 acres of submerged state-owned lands off the Alabama coast and to nominate tracts on which they would like to bid in the summer. The 1981 monies were put into a state trust fund and were used indirectly to improve the state infrastructure.

Agriculture: In Transition

Two dramatic changes have occurred in Alabama's agriculture sectors over the last few years. First, the product mix has changed. Traditional crops such as cotton and corn have taken a back seat to broilers, eggs, cattle, and soybean. Second, the northern part of the state has emerged as the top farming area in the state. Cullman is by far the state's leading farm county with $165.4 million in gross farm income in 1983. The $97.2 million earned from the sale of broilers and another $28.3 million from eggs comprise over three-fourths of farm income in the county. The half a billion broilers and 3.3 billion eggs produced by Alabama's 4,000 broiler growers and egg producers place the state third in the nation in

[1] **The Birmingham News**, December 11, 1983, p. F-5.

Table 3. Capital Spending Plans - Alabama*

Company Name	Location	Investment	Product	Employment
Rohr Industries	Foley	$5 million	Defense related	N/A
United Space Boosters	Huntsville	$20 million	Cruise missile, space shuttle	400
Independent Kraft Corp.	Tuscaloosa	$250 million	Box plant	300
ACUREX	Huntsville	N/A	Aerospace, electronics	N/A
CIBA-GEIGY	McIntosh	$20 million	Chemicals	50
Uniroyal	Opelika	Multimillion	Tires	150
General Electric	Decatur	Multimillion	Appliances	400
Morton-Thiokol Corp.	Huntsville	$7.5 million	Rocket motors	N//A
United Technologies	Tallassee	$20 million	Composites	250
HADCO Corp.	Huntsville	$20 million	Printed circuit board plant	500
Scott Paper Company	Mobile	$300 million	Paper plant modernization	N/A
CMI, Inc.	Athens	N/A	Ceramics	50
Spicer	Montgomery	$8 million	Trailer axles	100
Manor Corp.	Bay Minette	$1.5 million	Slacks	150
Georgia Kraft	Cottonton	N/A	Wood products	230

*Spending plans of selected firms announced in 1983; employment projections may not be for near-term.

broiler production and seventh in egg production.

Egg prices recovered part of the ground lost since early 1982 but remained below their average of the late seventies and early eighties. Rising feed costs also offset much of the price rise on profit margins. It likely will be well into 1984 before profit margins show much improvement. By late 1984, the financial condition of egg producers definitely should be better.

If feed costs had not climbed in 1983, Alabama's broiler industry would have had a much improved year. As it was, broiler prices rose nearly 25 percent but feed costs climbed approximately 20 percent. Profit margins, therefore, were slightly stronger in 1983 and conditions may improve further in 1984. Reduced supplies of beef and pork may cause a further strengthening in broiler prices throughout the year. In addition, feed costs should moderate in the last half of the year as production grows. The broiler industry might find 1984 better than the previous two years.

Alabama's crops consist largely of peanuts and soybeans. Soybean production in 1983 fell nearly 50 percent from 1982 as drought and idled acreage took its toll. Likewise, peanut production declined approximately one-fifth. The damage to Alabama's soybean crop was exceeded in the Sixth District only by Tennessee. For indebted Alabama farmers, last year provided little assistance in reducing their debt burden. The prospect for 1984 is somewhat better. The supply-demand situation for soybeans is much better than for other major crops and the price is likely to remain high through 1984. Thus, Alabama's crop farmers should find 1984 to be moderately beneficial.

The livestock industry faced unfavorable conditions in 1983. Pork producers entered the year with weakening prices although profit margins remained satisfactory with the help of low feed costs. With pork production increasing as the year progressed, prices continued to fall from the record high reached in mid-1982 and by the fourth quarter of 1983 were 28 percent below the year-ago price. As if falling prices weren't enough, the industry saw feed costs spiral upward in response to drought and government programs. At yearend, feed costs were approximately one-fifth higher than in late 1982. Profit margins were curtailed by the sharp rise in costs and lower returns.

For 1984, the pork industry should see profit margins remain weak or nonexistent through the early months and then possibly begin an upturn for the balance of the year. Production will have been substantially lowered, indicating rising prices in the face of small supplies. Similarly, the supply of feed should increase in light of expanded feed grain acreage, thus lowering the cost. The last quarter, therefore, should bring favorable profits for pork producers.

Alabama cattlemen also experienced a lackluster year although perhaps better than pork producers. Cattle and calves generate a full 20 percent of the state's farm cash receipts, earning an important position in Alabama's farm economy. Cattle prices generally remained weak throughout the year although some strengthening occurred in the second quarter. By the fourth quarter, cattle prices were essentially the same as at the end of 1982. The prospect for 1984 is for prices to strengthen slightly in the first half and then gain speed as the year progresses. Whether prices rise enough to earn cattlemen substantial profits remains doubtful.

Alabama's fishing industry was hurt in 1983 by the same flooding that swamped other Gulf Coast states. About $500,000 worth of oysters was lost as fresh water saturated Mobile Bay. In fact, the flooding was so intense that the bay was transformed almost entirely into fresh water for the first five months of the year. In addition to oysters, the financially important shrimp crop was severely damaged. Therefore, Alabama fishermen experienced the second year in a row of poor fishing. The oyster crop is likely to remain poor in 1984, but the shrimp crop could return to normal if environmental factors are favorable.

Tourism: Going to the Fair

Although Alabama is relatively less dependent on tourism than many southeastern states, the planned 1984 World's Fair in New Orleans has prompted Alabama's legislature to spend $800,000 to lure fair-bound travelers. Estimates of travel-related employment in the state run as high as 65,000, or slightly less than 5 percent of the state's nonfarm jobs. Alabama garnered from $1.2 billion to $2.5 billion in domestic travel expenditures from its 24 million out-of-state visitors in 1982.

The World's Fair is the major factor in the outlook for Alabama tourism in 1984, and state officials estimate that 3.5 million fair-bound travelers will pass through Alabama. Although Alabama trails Mississippi in funding to take advantage of this event, Alabama tourism officials and private businesses are making plans to reap substantial "spillover" benefits. Instead of building and maintaining an exhibit at the fair, the state will use most of its $800,000 promotional budget to draw tourists traveling to and from New Orleans. The state's campaign will focus on tourist spots in Alabama including the Space and Rocket Center in Huntsville, Montgomery's First White House of the Confederacy, and Mobile's Bellingrath Gardens and the Battleship Alabama.[2]

In addition, Governor Wallace has pledged state funds for an Amtrak train that would shuttle fair visitors along the Gulf Coast from New Orleans to Mobile if funding is approved by neighboring states. Mobile tourism industry representatives have formed a special task force to reap the fair's benefits. They are targeting the tour bus market and already have booked $2 million in tours. Bus tours helped cities such as Asheville, North Carolina, enjoy substantial increases in tourist trade during the Knoxville World's Fair.

Both Birmingham and Mobile are on major interstate arteries between the heavily populated northeastern United States and New Orleans, and local hotels and restaurants should benefit from the increased volume of auto travelers. The 400-room Riverview Plaza Hotel, the city's first convention-type hotel, is expected to spur convention business in 1984 and beyond. Birmingham contacts expect a 15 percent jump in hotel occupancy this year. Construction of two new hotels in Birmingham will add 350 rooms to the area by January 1985. The $10.4 million, 144-room Bainbridge Hotel will cater to the upscale business travelers visiting Birmingham rather than to conventions.

Air travel in the state should improve in 1984. Delta introduced four daily flights between Atlanta and Mobile in October 1983 and is contemplating using Mobile as a connecting flight to New Orleans, Houston, and Dallas. Eastern is also reintroducing a flight to Atlanta through Huntsville.

Conclusion

Alabama's economy should continue to gather momentum this year as the state's manufacturing plants recall workers and automobile demand remains strong. Tourists bound for New Orleans should help Alabama's hospitality industry. Weak spots in coal and oil production remain, but the state's overall performance should improve.

—Charlie Carter and David Avery

[2] **Sunday Advocate**, Baton Rouge, Louisiana November 27, 1983, pp. 4-6.

Mississippi's economy ended 1983 in better shape than it began the year. By year's end, conditions definitely had improved, with unemployment falling sharply. Despite a vigorous national recovery, however, the Magnolia State's citizens have endured slow economic growth. In 1984 economic growth will continue, although progress will remain slow. Employment prospects should improve throughout the year as a number of positive economic factors come into play.

The forest products industry may anticipate an active, though not exuberant, year. Several new plants will impact the economy favorably. Apparel and textile mills should benefit from continuing growth in consumer demand. The whole state will gain from a heavy influx of tourists on their way to the World's Fair in New Orleans. In sum, the state's economy should continue to expand moderately for the balance of the year.

After a late recovery, Mississippi's economy should improve slowly throughout 1984. Lumber, textiles and tourism should be bright spots.

A Longer Term Outlook

The year of 1984 could well represent the beginning of a new era for the state of Mississippi. Long relegated to the bottom, or near bottom, of lists indicating economic and social well-being, the state may have reached a turning point. A new emphasis on upgrading the education of Mississippi children, financed by additional taxes, will, in time, prove to be of immense assistance in the state's struggle to grow.

More immediately, however, there are other signs of the potential for growth. An influx of forestry firms accentuates an abundant resource that will be important to the state's economy for many years into the future. The state is also increasing its efforts at attracting industry. In 1983 legislation authorizing "enterprise zones" within the state was enacted. The program allows tax credits to be offered by certain counties to attract industry. Approximately 25 such zones should be established by 1987.

In addition, work is proceeding on a new computerized information system to assist industry in site selection. The system, the combined effort of various state agencies, could provide interested parties with almost immediate information and may prove valuable in attracting industry to the state.

In 1983, projects were initiated to encourage the development of foreign trade. The establishment of a Foreign Trade Zone on the Gulf Coast could prove to be a valuable long-run plus for the state in attracting industry and expanding foreign trade. Last April, Mississippi participated in the creation of the Mid-South Trade Council. The purpose of the Council, composed of various southern states, is to assist industry in making contacts among foreign buyers and giving exposure to southern industrial products.

There seems to be a renewed commitment in many parts of the state toward expanding economic growth. Efforts by both public and private sectors may be combining to lay the groundwork for the future. In the short-run, however, the lingering effects of the past recession continue to be felt.

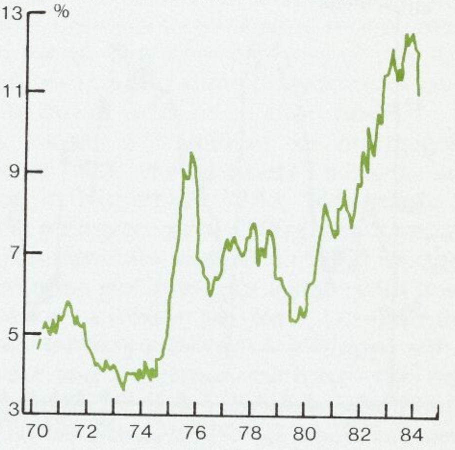
Recession's Impact

The recession's relatively severe impact on Mississippi is reflected amply in the state's recent pattern of population, income, and consumer spending growth. In the 27-month period ending last June, the state's personal income grew by 8 percent per year, or 5 percent below the average growth rate for the nation and nearly 1 percent below the Southeast's average. For the 12 months ending last October, Mississippi's personal income grew by 5 percent compared to 6 percent for the nation and 7 percent for the Southeast.

The income growth pattern of the Magnolia State since 1980 resembles the growth registered by Alabama and Tennessee, two other states hard hit by the successive recessions of the early 1980s. These three states also shared .5 to .6 percent average annual population growth rates for the April 1980-July 1982 period, one-third of the average for the region.

Mississippi's retail sales performance mirrors its weak growth in income and population. Furthermore, spending grew slowly compared to most other states in the region. In the first ten months of 1983, consumer spending, as measured by taxable sales, increased by only 3.7 percent over the same months of 1982.

Chart 1. Mississippi Unemployment Rate



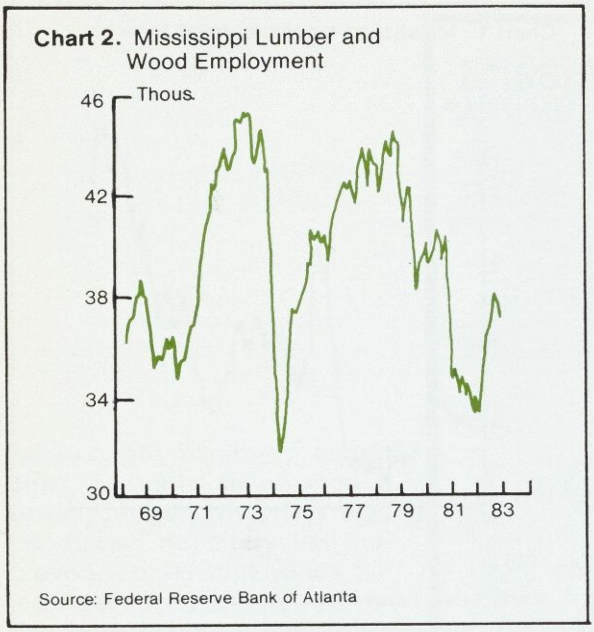
Source: Federal Reserve Bank of Atlanta

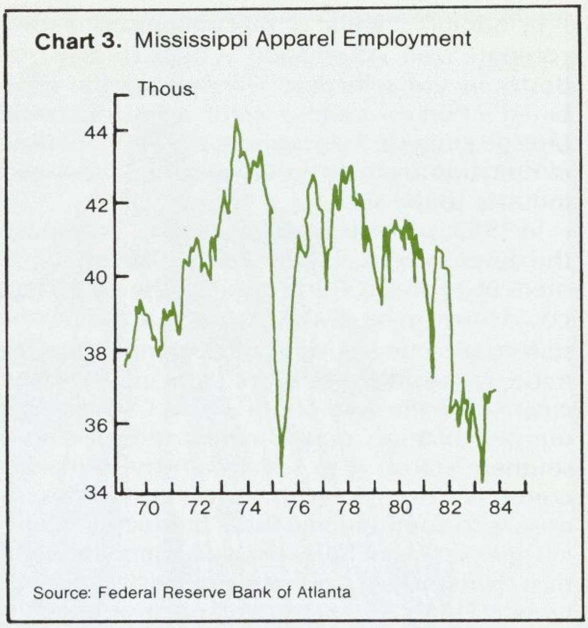
The outlook for Mississippi's personal income and retail sales growth in 1984 is gloomier than for some other states in the Southeast and for the nation. As the national economy improves, Mississippi's economy will also brighten, but at a slower pace. The relatively slow and weak rebound in the state's economy limits income and spending growth.

Labor Struggles

Mississippi's labor force grew by only 0.2 percent last year, even slower than the 0.3 percent growth rate the year before. Job opportunities remain scarce. The number of jobs declined last year, marking the third consecutive year that Mississippi employers have pared their payrolls. However, the state gradually began to emerge from the prolonged recession late last year. Unemployment remained high, at 11.2 percent in November. Yet manufacturing employment, which ended 1982 at its lowest level since the depths of the 1974-1975 recession, was up 2 percent from the year before, with hefty increases in most industries.

Lumber and plywood industries have 11 percent more employees on their payrolls than in late 1982. Manufacturers of industrial machinery and household appliances are pacing the state's recovery, with jobs up 12.3 percent over the year. After falling in 1982 and through the first





seven months of last year, apparel employment, centered in the northeastern corner of the state, jumped nearly 4 percent in September over the same month 1982. Textile employment, which also declined in 1982 and through July 1983, grew in September and October, only to fall again in November. Most sectors in the state are registering job growth in contrast to declines the year before.

We expect continued improvement in labor market conditions in 1984. Employment growth, which began to exceed labor force increases late in 1983, should continue into 1984, reducing the state's unemployment. Machinery employment will contribute to growth as industries install new equipment to reduce labor costs. The state's building materials manufacturers can anticipate improvement throughout the year if mortgage rates remain stable. Producers of automobile parts and accessories should benefit from a good auto sales year.

Energy Remains In Slump

The oil and gas industry in Mississippi experienced hard times in 1983 because of soft demand and flat oil prices. As a result, state drilling activity last year slumped below even 1982's depressed level, with the state's rig count for the first half of 1983 nearly 35 percent below the previous year. Only about 550 wells were completed during the year, a 12 percent decline from 1982's poor record.

The industry slump contributed to the depressed state economy; lower industry output led companies to cut employment. During the first ten months of 1983, the average employment level was 10,200, a 12 percent decline from the previous year. Severance tax revenues, which generate nearly one-tenth of the state's revenue, also fell. In recent months, severance tax collections were consistently below state projections. For the fiscal year ending last June, state severance tax collections were off 2 percent from a year earlier.

For 1984, the industry foresees the possible reintroduction of a tax proposal, defeated in 1982, to increase the severance tax rate from 6 to 9 percent, based on the volume of oil and gas produced. But the industry's overall outlook is brightened by a projected increase in energy demand resulting from the national rebound in industrial production. Crude oil prices, however, are expected to remain stable through 1984, thus limiting the prospect for revenue growth. Competitive pressure from oil and coal is likely to restrain the rise of natural gas prices in 1984. In turn, stable natural gas prices will limit incentives for gas drilling activities, particularly for the vast, but deep and costly, deposits discovered recently in the state.

Turmoil in the Public Sector

As the 1984 fiscal year matures, prospects for ending the fiscal year without a deficit look brighter. Tax collections fell $57 million short of projections for the first four months of the 1983-84 fiscal year, prompting outgoing Governor William Winter to cut $43.6 million from the budget in September. As November revenue collections also fell short of estimates, the governor took unilateral action to balance the budget by using a $10 million cash reserve appropriated by the 1983 legislature.

In mid-November, the governor and state budget commission attempted to develop a tax plan to ease a projected $122 million budget deficit for fiscal 1984. Cuts of $53.6 million had already been made, leaving a projected shortfall of $68.4 million. The governor argued that additional budget cutting could impair the state's ability to provide basic services. Consequently, in a special session held in November, the legislature decided to add one-half percent to the sales tax, and required that corporate income taxes be paid quarterly instead of annually. If revenue equals expectations, then this year's budget deficit problem should be resolved.

The public sector will not be a positive force in the state's recovery this year. During most of 1983, state employees worked under a freeze that prevented promotions or transfers, and available jobs in the public sector will remain scarce.

Finance

Commercial banks enjoyed a good year in 1983; savings and loan associations did less well. The money market deposit account (MMDA) proved to be a bigger boon for Mississippi banks than it did for most banks in the region. Through August, the banks were relatively flush with funds that the sluggish state economy afforded few profitable means of investing. The money was channeled into investments such as government securities, but the demand for loans, the traditional outlet for a bank's funds, was not strong.

Mississippi banks increased their deposit holdings by 9 percent as of December from the same month of 1982. The popularity of MMDAs contributed to a 201 percent growth in the savings category. The growth of MMDAs came partly at the expense of each bank's own time deposits, but attracted considerable new funds, as is evidenced by the gain in total deposits.

Savings and loans ended the December-to-December period with 4 percent more deposits than at the beginning. MMDAs contributed to a 106 percent boost in the S&Ls' savings deposits, but the gain was more than offset by heavy losses from time deposits to banks and money market mutual funds. The slow progress of the state's recovery also caused some drawdown of savings by those out of work or on short hours.

S&Ls loaned $19 million for mortgages in November 1982; when the state's housing market was flat. In November 1983, S&Ls made $57 million in mortgage loans, a 200 percent improvement. This translates into 700 to 1,000 mortgages in November, not many for a state with a work force of over a million people. A comparison of mortgage lending activity in Mississippi with the Southeast and the nation reinforces this point. Mississippi S&Ls made mortgage commitments in September amounting to 1.9 percent of savings capital compared with 5.6 percent for the Southeast and 5.3 percent for the nation.

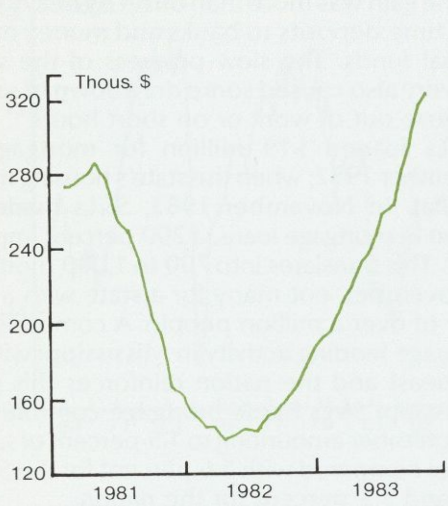
Mortgage brokers and bankers from California, Louisiana, and Texas recently have shown interest in acquiring S&Ls in Mississippi. S&Ls in the state, typically small, were weakened further by their low profitability in the early 1980s. Thus, S&Ls in need of capital infusions and mortgage brokers planning to expand their business seem to be complementary enterprises. A few state S&Ls have actually been purchased by out-of-state mortgage companies.

The near future probably will not bring a significant expansion of employment at Mississippi depository institutions. In-migration provides the most fertile environment for an expansion among depository institutions. But the kind of population growth that fueled the expansion of Florida's financial institutions is unlikely in Mississippi within the next five years. The groundswell toward interstate banking will cause some mergers and acquisitions of the state's financial institutions. Many such consolidations could reduce employment because of the centralization of certain functions and the elimination of others.

Construction: Growing But Weak

Although residential housing construction and sales improved tremendously through the third quarter of last year, Mississippi's construction recovery remains the weakest in the Southeast. Jackson has been the state's strongest area for construction and sales of single-family residences. Realtors also report an unusual level of condominium activity on the Gulf Coast.

Chart 4. Mississippi Residential Building Permits



Source: Federal Reserve Bank of Atlanta

Employment in the construction industry, in late 1983, has not yet returned to the 1982 level. As of November, the construction sector counted 37,800 employees, about 7 percent below construction employment in November of 1982. The proportion of construction employment to total nonagricultural employment has been trending down since mid-1979. An easing of this trend began late in 1982, but a reversal is not yet in sight.

Growth of construction permits in Mississippi has been primarily in residential structures and is divided almost evenly between single-family and multifamily units. An increase in mortgage rates would threaten Mississippi's construction recovery because it is concentrated in the highly interest-sensitive single-family residential area.

The revival of the state's construction industry has pulled along the closely allied lumber, forest products, and furniture industries. Based on anticipated demand, mostly from construction, several new forest products plants are planned. By one estimate, these operations would create 1,000 jobs over the next two years. Although new employment of this magnitude is not to be scoffed at, many taking these new jobs may find their job security tied to the prosperity of the housing industry. Some fear these plants may increase the recession-related risk of the state's job portfolio rather than lessening it.

The value of construction contracts should grow moderately in 1984, but the foundation for this growth is not solid. With a relatively high proportion of its work force in manufacturing, Mississippi is vulnerable to the malaise that has afflicted all U. S. manufacturing since 1979. A new economic slowdown would likely cause greater unemployment in the state than in the nation as a whole. And this translates into high risk for the state's residential construction industry. Those without jobs, or in fear of losing them, are hesitant to buy homes.

The Ports: A Bright Future?

A successful export trade is important to the economy of Mississippi. For example, one-eleventh of the state's manufacturing jobs reportedly depends upon export sales. The agricultural sector relies heavily on foreign demand for its health and well-being.

Falling U. S. agricultural exports slowed the flow of commodities through Mississippi ports in 1983. The Port of Pascagoula handles about 90 percent of Mississippi's foreign commerce. From January to November, exports of corn, wheat, sorghum, and rice were off sharply from a year earlier. That decline is attributable, in part, to rising domestic farm commodity prices that were pushed even higher for export customers by the strong value of the U. S. dollar. Furthermore, record crops produced outside the United States offered stiff competition.

A rising volume of incoming shipments, however, more than offset the reductions in Pascagoula's export tonnage. During the first ten months of 1983, a large increase in imports of rubber and chemical products spurred business growth at the port. Port revenues in the fiscal year ending in September were up 12.5 percent from the year before. The volume of trade from January to November increased by 9 percent over the same period in 1982.

In contrast, fiscal 1983's trade volume at Gulfport, the state's other major port, was about 8 percent below 1982's level. Gulfport is the nation's major port of entry for bananas and tropical fruits imported from the Caribbean and southeast Asia. Port officials reported that, in spite of the promotional efforts of Central American and Caribbean countries, trade failed to improve in 1983 as had been expected. One study does indicate, however, that banana imports through

Gulfport are expected to increase an average of 2 percent per year until the end of this century.[1]

While Gulfport handles a much smaller portion of the state's foreign trade than Pascagoula, its capabilities and prospects are improving. Port renovation, begun in 1982, was virtually completed last year with improved roads, rebuilt storage, and a variety of other changes. In addition, port authorities are aggressively seeking new business for the port. A major plus, and good news for its workers, was an announcement last February that United Brands, a major banana importer, would greatly increase the size of its operations at Gulfport.

State officials are increasing their efforts at promoting Mississippi's goods to foreign buyers. In November, the Magnolia State was one of a group of southern states to undertake a trade mission to various Latin American countries. Approximately 40 in-state companies participated.

The trade outlook for Mississippi ports in 1984 is linked closely to the prospects for U. S. agricultural exports. Major impediments to improved agricultural exports are the strong dollar, increased foreign competition, and financial distress in many Third World countries. While the dollar is likely to remain strong, its value may decline slightly in 1984 relative to major foreign currencies. If crops are normal, the combination of higher production and a slightly less expensive dollar should make farm products more competitive in international trade. Increased foreign competition will be most effective during the early months of the year as foreign production of several commodities reached record levels in 1983. Third World financial distress will continue to hold down that source of demand for farm products. Even so, the more developed countries of Europe and Asia, major importers of U. S. agricultural goods, are experiencing a recovery. It appears, therefore, that exports of farm products from Mississippi ports, after a slow start early in 1984, have the potential for increasing activity as the year progresses. Overall, moderate growth in farm exports is probable for the year.

One factor that may impact on foreign trade and industrial development at Gulfport was the approval in late 1983 of a foreign trade zone (FTZ). The impact will be determined by the success in attracting to the zone industries that would benefit from duty-free importation of goods for further processing. The FTZ, the only one in Mississippi, should prove a boon over time to the Gulfport area.

Tourism a Plus in '84

Tourism is increasing in importance in Mississippi although it has been a minor segment of the state's economic activity. Representatives of the state's government and business recently have recognized the potential of the tourist industry to attract revenues from outside the state to generate jobs and stimulate economic development. The Magnolia State leads its southern neighbors in plans and funding to take advantage of the 1984 World's Fair in New Orleans.

Mississippi's tourist industry experienced a better year in 1983 than in 1982. Although plane passenger arrivals have yet to reach peaks attained in the 1970s, they increased throughout the year in both Jackson and Gulfport-Biloxi. Economic recovery spurred more air travel and encouraged carriers to offer services to smaller cities that had lost airline service in the wake of deregulation.

Auto travel is up as well. Economic recovery stimulated consumer spending on travel nationally, and the slight decline in gasoline prices through the summer encouraged auto travel. Approximately 7 percent more visitors, mostly from out of the state, registered at state welcome centers during the first three quarters of 1983 relative to the same period in 1982. Visits to the state's National Park Service facilities increased 14 percent on a year-to-date basis. The Natchez Trace Parkway accounted for 86 percent of this use and, concomitantly, much of the increase, but the Gulf Islands National Seashore also attracted 12 percent more visitors than in 1982. State parks in Mississippi also enjoyed a 28 percent increase in attendance through September relative to the first nine months of 1982.

The outlook for Mississippi's tourist industry is quite promising for 1984, largely because of the World's Fair, which will continue from May 12 through November 11. In order to achieve the fullest potential from this event, the state appropriated $4 million to promote Mississippi's tourist attractions through a pavilion at the fair and increased advertising. The fair should draw 1.4 million visitors through Mississippi on their way to New Orleans. They are expected to generate $200-$280 million in new business, add $11-$15 million to sales tax revenue, and create as

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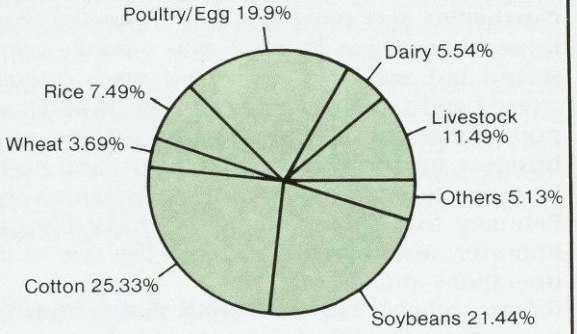
[1]A 1982 study by Wilbur Smith and Associates of Columbia, S. C., cited in Mike McCall, "The Port of Gulfport is Flexing Its Muscle," **Clarion Ledger-Jackson Daily News**, Nov. 13, 1983, pp. 1 & 2F.

many as 8,800 new jobs in the state. Mississippi's potential gains are largely a result of demographics and geography: the majority of those who visit the fair by car are likely to pass through the state.

However, the future of tourism in Mississippi does not hinge exclusively on the New Orleans World's Fair. Jackson recently created a Convention and Visitors Bureau to capture a portion of the multibillion dollar nationwide convention trade. Several new hotels being planned or built will expand Jackson's current stock of lodgings from the present level of almost 5,000 rooms. A $16 million, 300-room Ramada Inn is to be built, a $3 million Best Western is under construction, and several other inns are under consideration. A planned $50 million resort and marina development at Bay St. Louis (near Gulfport) is expected to be finished within three years. Another developer is working on plans for a resort community with golf and possibly horse racing at Eagle Lake, north of Vicksburg.

Chart 5. Percent of Cash Receipts by Commodity



Source: Federal Reserve Bank of Atlanta

Drought vs. Payment-in-Kind

For Mississippi agriculture the outcome for 1983 rests on a test of strength between the positive effects of the federal payment-in-kind (PIK) program and the negative impact of drought. At year's end, the farm economy appeared to be divided between farmers heavily involved in the PIK program and those not. For the former, sharply higher net incomes were the rule, while the success of the latter related directly to the extent of drought damage. The success or failure of individual farmers varied considerably by product.

As with many of its neighboring states, one of Mississippi's most important cash crops is soybeans, which account for over a fifth of farm cash receipts (Chart 5). Also like many other states in 1983, Mississippi experienced substantial drought conditions; soybean yields fell by nearly one-third statewide. Despite an approximate 40 percent rise in price, the state's soybean farmers endured an overall reduction in revenue as a result of the large decline in production. Conditions varied considerably throughout the state, however, with some areas performing better than others. Southeast Mississippi, for example, enjoyed almost normal yields, and farmers in that area earned a comfortable profit. For 1984, soybean farmers are likely to receive a profitable return on their crops as high prices and a reduced supply favor producers.

Cotton, of prime importance to the state's farm economy, generates approximately 25 percent of Mississippi's farm income. Unlike soybeans, much of the cotton crop is concentrated in the Delta area. In contrast to the record yields of 1982, cotton productivity in 1983 was much below normal. Adverse spring weather, which delayed planting, combined with midsummer drought to knock down the average yield by 20 percent. Fortunately for some farmers, however, cotton was included in the PIK program and farmers who participated received payments in cotton for idling acreage. As a result, net revenue is estimated to have risen in 1983 by almost 15 percent.

The outlook may not be as bright in 1984. World production last year remained stable with increases in foreign production offsetting declines in U. S. production. With the absence of a PIK program in 1984, cotton acreage is likely to increase, returning production to near normal levels. The potential for weaker prices by the last half of 1984 suggests the year is unlikely to be as good as 1983 for cotton farmers.

For Mississippi cattlemen, prices began to falter last spring. Higher feed grain prices severely squeezed returns. In response to higher costs, meat producers increased slaughtering to lower their inventories. Unfortunately, there is little likelihood of an improvement before mid-1984, if at all. In addition to continuing efforts to reduce herds throughout the first half of the year, cattlemen face the prospect of increased slaughter of cull dairy cows. Thus, revenue prospects for the state's cattlemen remain unfavorable.

For the forest industry, 1983 was a good year. The sharp pickup in demand experienced in the first half of the year led to a flurry of timber harvesting and increased mill operations. Demand for pine timber by the lumber industry was strong with prices rising. While demand for hardwood by the furniture industry also increased, the supply remained small. The recession thinned the number of hardwood mills, typically small operations, making it difficult for the industry to meet production needs. In 1984 conditions should not change substantially, with moderate demand for wood products as the recovery continues. Prices should move little in either direction, but downward movement is possible if inventories should accumulate.

Severe flooding in Louisiana and Mississippi in early 1983 triggered a large runoff of fresh water into the Gulf of Mexico. This seriously hampered shrimp development last spring. In turn, shrimp landings by Mississippi's fishermen fell 14 percent in 1983. Since shrimp are the major cash product for the state's fishermen, this was a serious decline.

Summary

The people of Mississippi have endured a serious economic slump that lasted longer than the national recession. Unemployment peaked at 13.8 percent in June before declining to near 10 percent by year's end. The precise impact of the recession varied greatly by location and economic sector. As the state moves into 1984, however, prospects have improved dramatically. Virtually every portion of the state's economy is in better condition than a year ago, though still generally behind other states in the region.

Perhaps the most significant trend is not the short-term economic recovery but the growing indications that the state is positioning itself for major advances in the future. Educational reform, greater interest in international markets, and the utilization of technology to assist industrial development are among the features which, over time, should prove of great benefit to the state's residents. The Magnolia State faces not only brighter economic circumstances in 1984, but a favorable economic future in the years beyond.

—W. Gene Wilson and Gene D. Sullivan

Here is a capsule look at how various regions of Mississippi are sharing in the recovery.

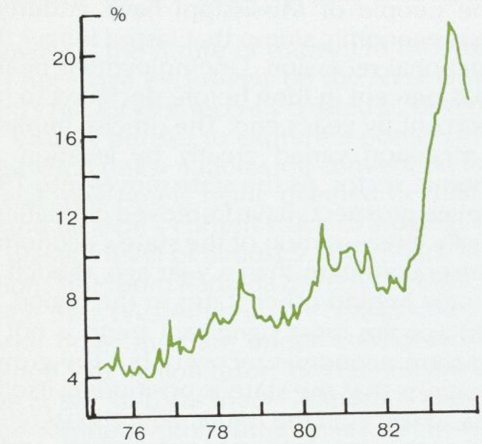
Southeast Mississippi. Although academic institutions protect some of the southeastern portion of the state against recession, unemployment still reached high levels in certain counties. Stone, for example, at one point in 1983 had an unemployment rate in excess of 20 percent. The area, benefiting from increasing demand for lumber and other wood products, more recently has experienced rising employment in the wood industry. Steady demand and new plants opening in 1984 are likely to continue a revival of this industry. Improving tourism and port activity will lend additional support to the area.

Next September, Great Northern Nekoosa Corporation is scheduled to open a new pulp mill at New Augusta in Perry County. The $560 million plant will employ about 400 people. In order to supply a portion of its timber needs, the company purchased 136,000 acres of southeastern Mississippi forest land.

For the oil and gas industry (important in the Laurel area), 1983 provided little good news. Demand remains weak, and prices give no indication of rising significantly. Exploration for energy resources seems unlikely to increase this year. Laurel did receive some good news. A refrigerator manufacturing company, Thermo-Kool/Mid South Industries, began expanding its existing facilities late in the year. The expansion, costing $1.5 million, will employ an additional 40 workers.

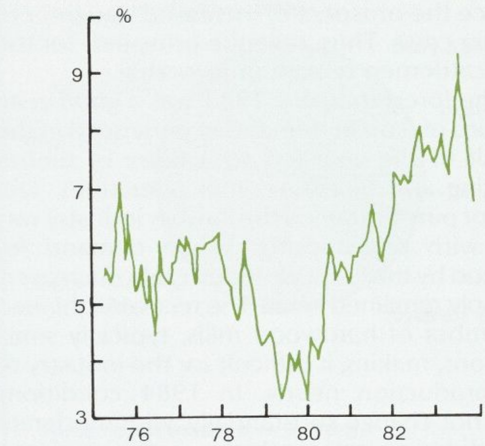
Northwest Mississippi. In northwest Mississippi, the base of the economy is agriculture, as this area includes the rich soil of the Mississippi Delta. Last year, widespread participation in government farm programs idled thousands of acres. The impact on farm suppliers was severe, with sharply reduced demand for fertilizer, chemicals, and other supplies. The many farmers who

Chart 6. Pascagoula-Moss Point Unemployment Rate



Source: Federal Reserve Bank of Atlanta

Chart 7. Jackson Unemployment Rate



Source: Federal Reserve Bank of Atlanta

participated in PIK or who made good crops despite the drought generally harvested much higher net income. For other farmers, profits were limited by drought damage.

As the 1980 census results became available, they dramatized a significant population trend in many Delta counties. Because of increased agricultural mechanization and poor returns to farming, substantial out-migration has reduced the population of most of the Delta significantly. Many residents have moved seeking increased opportunities in urban areas of the state.

Recently, this area has benefited substantially from the increased interest by wood product companies. Both Georgia-Pacific and Louisiana-Pacific began construction in 1983 on new plants in the Grenada area that together will employ over 400.

An upcoming film about the Mississippi River and its environs, heralded by the arrival of Jacques Cousteau's ship at Greenville, could cause a renewed interest in the river, possibly increasing tourism.

Southwest Mississippi. Southwestern Mississippi probably had more reason for cheer in 1983 than any other section of the state. Although flood damage in the millions of dollars occurred last spring, the area's economy was bolstered by considerable business activity.

Madison County, north of the state's capital city of Jackson, was the center of much economic action in excess of $75 million in business development occurred last year, creating new jobs rapidly. The Ridgeland area in the southern part of the county appears to have benefited the most, gaining a number of new businesses. As a result, residential construction in the county is proceeding at a vigorous pace. The county, lying north of Hinds and Rankin counties, also became part of the Jackson SMSA.

The Jackson area increasingly is benefiting from its location, which allows it to serve as a crossroads for much of the flow of goods in the South. An example is the opening in early 1983 of a freight distribution center in Madison County which will handle approximately 1.5 million pounds of freight each day. The center, operated by Consolidated Freightways Inc., employs over 100 people and may help attract other industries to the area.

Continental Woods Products plans to open a new facility in Jackson in 1984. The plant will make door and window fittings.

Southwestern Mississippi received additional good news in 1983 with the announcement by Crown Zellerbach of a new solid wood conversion plant near McComb. The plant, expected to employ 165 people with an annual payroll of nearly $3 million, should be a positive force in the area's economy in the years to come. Not only will its employment boost retail sales, but a host of other jobs will be created to provide the resources and transport the finished products. In addition, the plant's principal sources of timber will be privately owned forest land in the area.

Extensive flooding was a major problem for the region in 1983. Approximately 5,000 people were forced to flee their homes in the face of floodwaters last spring. Damage was estimated in excess of $20 million for Hinds County alone. Neighboring Madison and Warren counties saw property damage mount to over $13 million. A number of other counties also experienced flooding.

Northeast Mississippi. While the northeastern section of the state is perhaps more diversified than any other, it does possess a concentration of light industry. Much of the state's apparel industry, for example, is located in this area. This industry remained in the doldrums throughout much of 1983 but by year's end was showing considerable activity. Employment rose sharply in the last quarter of 1983. With strong consumer spending underway, the apparel industry should prosper in 1984.

The furniture industry, also important in this area, experienced a moderate comeback in 1983. As is typical, its growth lagged an upturn in residential construction. Yet improvement in the industry was clearly occurring by mid-1983 and should continue through 1984.

In the Columbus area the public sector plays a large role in the area economy. The Columbus Air Force Base and two educational institutions pump millions of dollars into the area, providing some security against economic recession.

This section of the state has experienced considerable growth since 1970 with at least three counties increasing population more than 22 percent. Almost every county in the region gained at least 10 percent in residents.

With the Tenn-Tom waterway due to open in 1985, attention will be devoted this year to the development possibilities it creates. The waterway may prove a boon to farmers in the area, giving their products less expensive access to Gulf ports and thus to major markets. It may also serve to encourage industry to consider the export market more seriously.

Note: Some of the information on specific businesses in this article comes from the **Clarion Ledger-Jackson Daily News.**

North Carolina:

Impressive Growth, Long-Term Questions

During 1983, the North Carolina economy rebounded vigorously from one of the most protracted recessions in recent years. The recession's trough for the state—the fourth quarter of 1982—roughly coincided with the trough of the recession at the national level. During that quarter, both manufacturing employment and real personal income in the state reached their cyclical low points and the state's seasonally adjusted unemployment rate peaked. For the first three quarters of 1983, virtually all of the state's economic indicators posted healthy increases over 1982. Consumer confidence, boosted by increased real personal income and rising employment, has been demonstrated by an unprecedented buying spree.

One sector that showed weakness was agriculture, which suffered from late spring freezes and the severe drought and high temperatures of the summer months. Yields of all major field crops were down. Tobacco, the state's most important cash crop, also suffered a year of decline. Yields of flue-cured tobacco slumped nearly 22 percent to the lowest level in over 30 years and burley tobacco production was down 29 percent. Also, tobacco prices were generally weak, which industry analysts attributed to the freeze in government price supports at the 1982 level of $169.90, lower leaf quality because of adverse weather conditions, and reduced demand resulting from the doubling of the federal excise tax on cigarettes.

The outlook for the state's economy in 1984 is good. While the impressive growth rates compiled last year in almost every sector of the economy will be difficult to sustain, the state's economy should continue its expansion.

The longer-term outlook for the state's economy is mixed, especially in two dominant industries, tobacco and textiles. In the tobacco industry, the major uncertainties have resulted from federal policies. In November, President Reagan signed into law major changes in the tobacco allotment program and a continuation of the freeze in price supports. Then, in December, the Department of Agriculture announced an 11.5 percent cut in the

Off-years for tobacco and textiles failed to prevent North Carolina's economy from rebounding solidly in 1983. The new year also looks good as the state continues efforts to reduce its dependence on these two major products.

Table 1. Historical Perspective on Growth in the North Carolina Population and Civilian Labor Force, 1967-1983

	Average Annual Growth Rate				
	1967-72	1972-77	1977-82	1981-82	1982-83[p]
Population	1.4	1.4	1.2	1.1	0.9
Civilian Labor Force	2.3	2.9	1.9	1.1	−0.0
Total Employment	2.2	2.5	1.1	−1.8	0.2

Source: Bureau of Economic Analysis, U.S. Department of Commerce and Employment Security Commission of North Carolina
[p]Preliminary

flue-cured tobacco quota. This reduction was nearly twice what many in the industry expected. Similarly, in the textile industry, the major uncertainties have resulted from a trade policy in flux. After months of negotiation, the United States and China reached a trade agreement in July which, in general, raised quotas in both textiles and apparel. Then, in December, the Reagan administration set new textile import rules which would be activated if the growth in imports creates market disruptions, or the threat of market disruptions.

Nevertheless, efforts continue to reduce the vulnerability of the state's economy resulting from a high concentration of these two traditional industries. The composition of industrial investment in 1983 furthered the diversification of the state's industrial base. Based upon data compiled by the North Carolina Department of Commerce, nearly 40 percent of total investment in the state during the first nine months of 1983 was in "high tech" industries.

Labor Force Developments

From 1967 through 1982, North Carolina's population grew at an average annual rate of 1.3 percent. Over the same period, the civilian labor force and total employment increased more rapidly at average annual growth rates of 2.4 and 1.9 percent, respectively. However, even in light of the fact that 1982 was a year of recession, growth rates in the latter half of this period were well below those experienced earlier in the period (see Table 1). Preliminary estimates for population, civilian labor force and total employment in 1983 indicated that growth continued to lag behind the 10 year—and even the most recent year's—historical averages. Cyclical factors as well as structural changes in the North Carolina economy should influence this progression into 1984.

Two important trends emerge from these growth patterns. First, the labor force participation rate, as measured by the ratio of the civilian labor force to the total population, has maintained a long-run upward trend, increasing from 44 percent in 1972 to 49 percent in 1982. Second, the differential between the growth rate in the civilian labor force and the growth rate in total employment has increased what might be considered the structurally unemployed.

More recently, however, these long-run structural trends have been overshadowed by the shorter-run cyclical patterns resulting from the recession in the state. During 1982, the civilian labor force increased by only 1.1 percent, while total employment decreased by 1.7 percent. As a result, the state's seasonally adjusted unemployment rate rose throughout the year, reaching a peak of 10.2 percent in November 1982. However, by this past November, the unemployment rate had fallen to 8.2 percent (see Chart 1).

The decline in the state's unemployment during the initial months of recovery represented real gains in employment; that is, the increase in the number of employed was at least matched by a decrease in the unemployed. However, as the recovery continued, further reductions in the unemployment rate may have somewhat exaggerated the improvement in the state's labor market. The decline in the state's civilian labor force—a result of a significant reduction in the number of unemployed without the concomitant increase in total employment—signaled an increase in the number of "discouraged" workers who simply dropped out of the labor market.

Chart 1. Seasonally Adjusted Employment Rate 1983

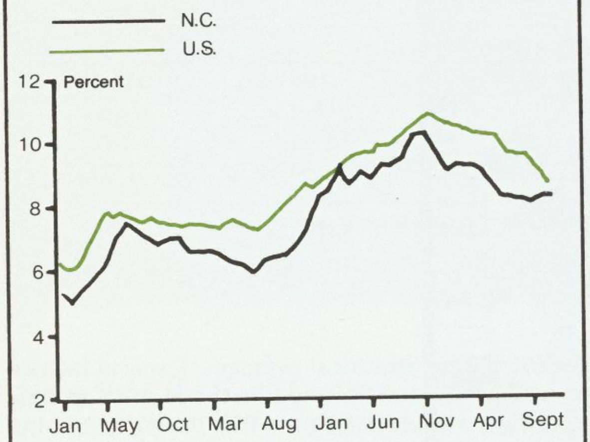


Table 2. The North Carolina Labor Force[1]

	1983.III	1982.III	Absolute Change	Percent Change
North Carolina				
Civilian Labor Force	2,958.3	2,975.2	−16.9	−0.0
Total Employment	2,722.2	2,698.0	24.2	0.9
Total Unemployed	236.1	277.2	−41.1	−14.8
Unemployment Rate (%)	8.0	9.3	−1.3	
Asheville SMSA				
Civilian Labor Force	94.4	93.5	0.9	1.0
Total Employment	88.2	86.1	2.1	2.4
Total Unemployed	6.2	7.4	−1.2	−16.2
Unemployment Rate (%)	6.6	7.9	−1.3	
Charlotte/Gastonia SMSA				
Civilian Labor Force	388.3	384.8	3.5	0.9
Total Employment	363.0	355.8	7.2	2.0
Total Unemployment	25.3	29.0	−3.7	−12.8
Unemployment Rate (%)	6.5	7.5	−1.0	
Greensboro/Winston-Salem/ High Point SMSA				
Civilian Labor Force	460.8	453.5	7.3	1.6
Total Employment	428.7	416.0	12.7	3.1
Total Unemployment	32.0	37.5	−5.5	−14.7
Unemployment Rate (%)	6.9	8.3	−1.4	
Raleigh/Durham SMSA				
Civilian Labor Force	329.6	317.5	12.1	3.8
Total Employment	315.3	302.8	12.5	4.1
Total Unemployment	14.3	14.7	−0.4	−2.7
Unemployment Rate (%)	4.3	4.6	−0.3	

Source: Employment Security Commission of North Carolina
[1]Seasonally unadjusted data for the civilian labor force, employment and unemployment, expressed in thousands.

In contrast, Asheville, Charlotte/Gastonia, Raleigh/Durham, and Winston-Salem/Greensboro/High Point, the state's largest four SMSAs, experienced disproportionate improvements in the recovery relative to the non-SMSAs. While nearly 75 percent of the reduction in the number of unemployed was accounted for in the non-SMSAs, there was an actual employment loss of 10,300 jobs outside of these four major SMSAs. This indicates that the "discouraged worker effect" has been felt more acutely in the areas outside these SMSAs (see Table 2). Moreover, after nearly nine months into the recovery, the unemployment rate in the state's least populated counties remained significantly above the unemployment rate in the state's most populated counties. This suggests that the pattern of geographic imbalance in employment growth between metropolitan and non-metropolitan areas, which apparently began at the onset of the most recent recession, has continued through this recovery.[1]

Employment Trends

Total nonagricultural employment increased, on a seasonally adjusted basis, by 62,500 jobs, or 2.7 percent, between November 1982 and November 1983 (see Table 3). Fifty-two percent of this increase occurred in the nonmanufacturing sector, with the largest absolute gains in services, trade and government. In terms of absolute employment gains, almost all of the increase in the manufacturing sector was in the textile and apparel industries (up 13,700), and in the furniture industry (up 4,200). The improvement in these industries was largely a result of the rapid growth in the national economy, especially in interest-sensitive industries like autos and housing. The strong rebound in U.S. retail sales also benefited these traditional consumer goods industries. Losses among nondurable goods were in tobacco and miscellaneous nondurable goods (petroleum and coal products and leather and leather products), while among durable goods manufacturing losses were confined to fabricated metal products.

Despite the yearly decline in employment for several industries in the statistics for last November, all industries, both in manufacturing and nonmanufacturing, gained during the third quarter compared to their low points in the recent recession.

[1]See Edgar Bergman and Harvey Goldstein, "North Carolina: Diversification Slowed by Recession," **Economic Review**, Federal Reserve Bank of Atlanta, February 1983, Volume LXVIII, Number 2.

Table 3. Employment Change by Industry in North Carolina[1]

	November, 1983 (000s)	November, 1982 (000s)	Percent Change
Manufacturing	795.7	765.4	4.0
Durable Goods	302.4	286.1	5.7
Lumber and Wood Products	33.6	31.0	8.4
Furniture and Fixtures	82.8	78.6	5.3
Stone, Clay and Glass Products	17.5	15.5	12.9
Primary Metals	8.9	8.1	9.9
Fabricated Metal Products	23.1	23.6	−2.1
Machinery, Except Electrical	51.4	49.6	3.6
Electrical and Electronic Equipment	53.9	51.1	5.5
Transportation Equipment	16.6	14.7	12.9
Other Durable Goods	14.6	13.9	5.0
Nondurable Goods	493.3	479.3	2.9
Food and Kindred Products	42.9	42.6	0.7
Tobacco Manufacturers	21.4	22.7	−5.7
Textile Mill Products	227.9	218.1	4.5
Apparel and Other Textile Products	89.5	85.6	4.6
Paper and Allied Products	21.6	21.6	0.0
Printing and Publishing	21.7	21.2	2.4
Chemicals and Allied Products	36.4	35.8	1.7
Rubber and Miscellaneous Plastic Products	26.4	25.4	3.9
Other Nondurable Goods	5.5	6.3	−12.7
Nonmanufacturing	1594.3	1562.1	2.1
Mining	4.9	4.6	6.5
Construction	105.7	102.1	3.5
Transportation and Public Utilities	115.5	115.0	0.4
Wholesale and Retail Trade	487.6	476.1	2.4
Finance, Insurance and Real Estate	100.7	98.4	2.3
Services and Miscellaneous	372.6	364.8	2.1
Government	407.3	401.1	1.5

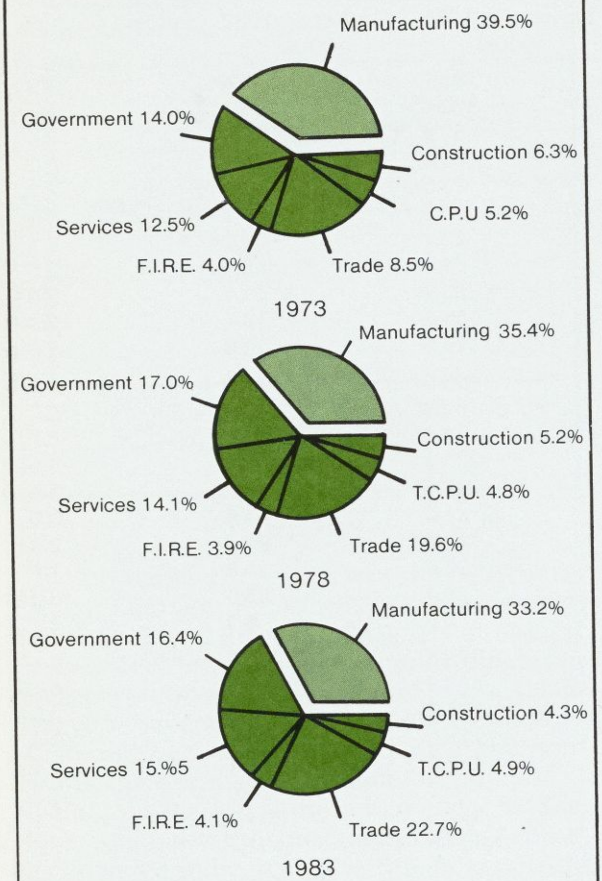
Source: Employment Security Commission of North Carolina
[1]Seasonally Adjusted

While nonmanufacturing employment grew less than 1 percent from its cyclical trough through November 1983, manufacturing employment grew nearly 5 percent. Five manufacturing industries (lumber, furniture, nonelectrical machinery, rubber and electrical machinery) had employment gains in excess of 5 percent of their troughs.

Based upon preliminary estimates, employment in the manufacturing sector during the fourth quarter of 1983 reached the average level of employment attained during the four years following the 1974-75 recession. Some impressive gains were made in printing and publishing (up 16 percent), electrical machinery (up 15 percent) and non-electrical machinery (up 30 percent). Nevertheless, this essentially no-growth situation in the manufacturing sector was a result in part of significant employment losses in two traditional North Carolina industries, textiles (down 11 percent) and tobacco (down 16 percent). In contrast, employment in the non-manufacturing sector rose 10 percent above the post 1974-75 recession average. Only one manufacturing industry, construction, failed to achieve its previous average (down 7 percent).

Although the manufacturing sector staged a strong comeback, as might be expected in a

Chart 2. Nonagricultural Employment by Sector



Source: Employment Security Commission of North Carolina

cyclical upturn, manufacturing's share of total nonagricultural employment continues to decline (see Chart 2). Approximately 64,000 jobs lost in textiles since the peak level achieved in 1973 have not been recouped by gains in other manufacturing industries. In the nonmanufacturing sectors, construction was the only industry with a steadily declining share. Sectors showing steady increases in employment shares include trade and services. While government's share of employment is beginning to level off, the finance, insurance and real estate sector is slowly beginning to increase.

Signs of recovery were also reflected in the reduced number of announced plant closings and permanent layoffs. During the first 10 months of 1983, some 104 firms announced plant closings or permanent layoffs involving a loss of over 10,500 jobs. This compares to a loss of more than 21,100 jobs in 217 plants during the same period in 1982. Losses continue in textiles and fabricated metals. In particular, the Wilmington SMSA was hard hit by the announced closing of the Babcock and Wilcox plant, a producer of heavy fabricated metals.

Investment activity in the state was up significantly in 1983. For the first nine months of the year, industrial investment totaled $1.3 billion, rising 45 percent over the same period in 1982. The new spending generated about 20,700 new jobs.

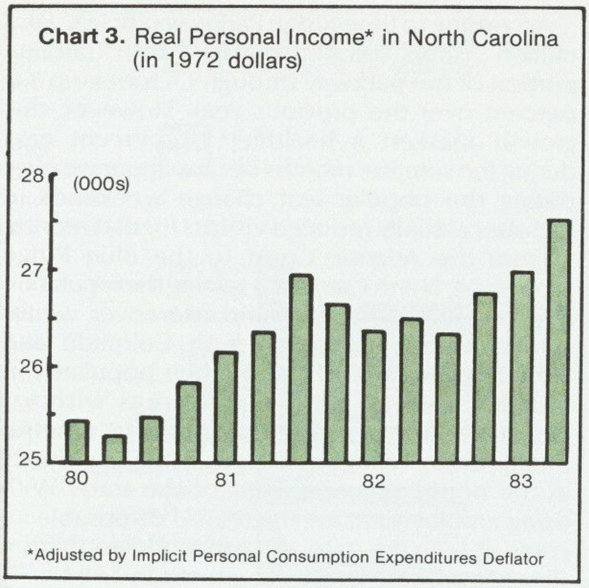
Personal Income

By mid-1983, North Carolinians were enjoying an increase in personal income of $4.5 billion, or 8 percent, compared with the second quarter of 1982. Over the same period, total personal income in the United States grew by 6 percent. Even more impressive for the North Carolina economy were the double-digit growth rates during the second quarter of 1983 in both durable and nondurable goods manufacturing relative to the modest single-digit gains for the nation.

Real personal income, which reversed its downward trend late in 1982, has posted gains in three successive quarters (see Chart 3). In fact, these gains were sufficient to raise real personal income to its highest level since the third quarter of 1981.

Growth in real personal income in North Carolina during 1984 should be healthy. Moreover, there are several reasons why it should exceed the growth in the nation's real personal income. First, steady growth in employment throughout 1984 will enhance wages, salaries and other labor income. Second, the diversification of nonagricultural employment from low-wage to higher-wage industries will be of particular importance. And third, efforts to modernize plants in the manufacturing sector, especially in textiles, will increase productivity, generating the potential for relative wage increases.

These economic factors, together with the realization of some anticipated changes in the occupational mix of the state's population, should reflect favorable growth in per capita income relative to the rest of the country. Since 1978,



North Carolina's per capita income relative to the nation and to the Southeast has steadily declined. By 1982, it had reached its lowest level, 81 percent of the U.S. and 94 percent of the Southeast, in over a decade. The new economic factors currently at work in the state's economy should have arrested that downward trend in 1983 and should provide for a modest increase in 1984.

Retail Trade

Buoyed by increased real personal income, lower interest rates and heightened consumer confidence, retail sales in the first nine months of 1983 posted their strongest real gains since 1976, advancing 10.8 percent over the same period in 1982. In September 1983, for example, constant dollar retail sales in North Carolina increased 17.5 percent from a year earlier while national retail sales posted a 7.3 percent gain. In addition, the rebound in the state's retail sales far outpaced the nation's in each month of 1983 when compared with the same month in 1982. Auto sales, as reflected in a 34 percent increase in new car registrations through September, represented a major component of these gains. Moreover, weather conditions remained favorable in the state during the Christmas season and Tar Heel merchants indicated no interruptions in this growth pattern in year-end sales. In general, they were delighted with the results, and were looking forward to a continuation of strong retail sales in the beginning months of 1984.

It now appears that the increased real disposable personal income, resulting from both the improving state economy and the last installment of the Reagan tax cuts, prompted a consumer spending spree during the second half of 1983. Increases in unit volume associated with the improvement in real retail sales have bolstered employment in the retail trade sector.

Retail sales should continue to enjoy strong growth in 1984, but at rates below last year. With scheduled tax cuts now history and with the implementation of tax increases at the state level, sustained growth in retail sales during 1984 will have to depend entirely upon growth in employment and real income.

Housing Activity and the Savings and Loan Industry

The steady decline in effective mortgage rates in North Carolina from an average of 15.5 percent in 1982 to an average of 13.1 percent through this past September sparked a recovery in housing. For the first nine months of 1983, single family construction authorizations totaled 30,381 units with a value of $1.13 billion. Compared with the first nine months of 1982, this represents an increase of 56 percent in the number of units authorized, and an 86 percent increase in the contracted value. In addition, multifamily authorizations totaled 11,000 units, up 60 percent, for a value of $234.4 million, up 51 percent.

The decline in mortgage interest rates coupled with increased economic activity in the state during 1983 stimulated mortgage lending activity at the state's savings and loan associations. For the first nine months of 1983, outstanding and new loan commitments increased 209 percent and 195 percent, respectively, over the same period of 1982. By comparison, outstanding and new loan commitments in the Fifth Federal Reserve District increased by 73 and 120 percent respectively.

The beginning of the 1980s, with interest rates at record level highs, has been a difficult time for S&Ls. While they were locked in on the asset side of the balance sheet, their liability side was plagued with increasing costs of funds and regulations that prohibited them from competing for savings. Profitability at the state's S&Ls was reduced sharply. Mergers became commonplace and, in North Carolina, the number of S&Ls

declined from 176 in 1981 to 160 in 1982. By November 1983, this number had decreased further to 151 institutions. However, these mergers should be viewed positively as a conscious effort by the S&Ls to strengthen their financial position as well as to expand their market services statewide.

In addition to the merger activity among S&Ls, the industry has benefited from financial deregulation, increased savings incentives and lower market interest rates. Through September, net savings flows into North Carolina S&Ls totaled $813.7 million compared with $263 million for the same period in 1982, up 209 percent. Another positive factor for S&Ls in North Carolina is that the spread between the mortgage yield and savings costs during the first half of 1983 was an annualized 0.47 percent, compared with -0.89 percent for the same period a year earlier. Nevertheless, net income before taxes during the first half of 1983 was -$1.76 million for member savings institutions in the state. This represented a marked improvement over the net income of -$11.45 million recorded for the first half of 1982. While the possibility of higher interest rates creates uncertainties for the S&L industry, industry analysts believe that thrift institutions will continue to strengthen as long as Treasury bill rates remain below 10 percent.

Tourism

Ranking third behind the textile and tobacco industries, tourism constituted a $3.5 billion industry in 1983 and should contribute $200 million in tax revenues. Employment directly related to travel and tourism totaled 154,000 jobs, or approximately 6 percent of the state's nonagricultural employment. In addition, each dollar in tourist expenditures turns over in the local economy an estimated 3.5 times.

North Carolina's tourist industry in 1983 showed strong gains over 1982. Visitors to the state's seven welcome centers totaled nearly 4.8 million, up 8 percent over 1982. Hotel and motel receipts for the first eight months of 1983 were up almost 12 percent to $378 million over the 1982 level. Even more significant was the fact that receipts for June, July and August, representing nearly one-half of the eight-month total, were up over 17 percent when compared to the summer months of 1982. This growth is particularly impressive following a year of double-digit increases in which many visitors traveled through the Tar Heel state en route to the World's Fair at Knoxville.

According to Blue Ridge Parkway officials, 10.5 million visitors traveled on the North Carolina portion of the parkway through October, up 3.6 percent over the previous year. However, this growth masked a healthier 12 percent gain during the summer months because poor weather during the popular leaf change weekends in October actually reduced visitors for that month.

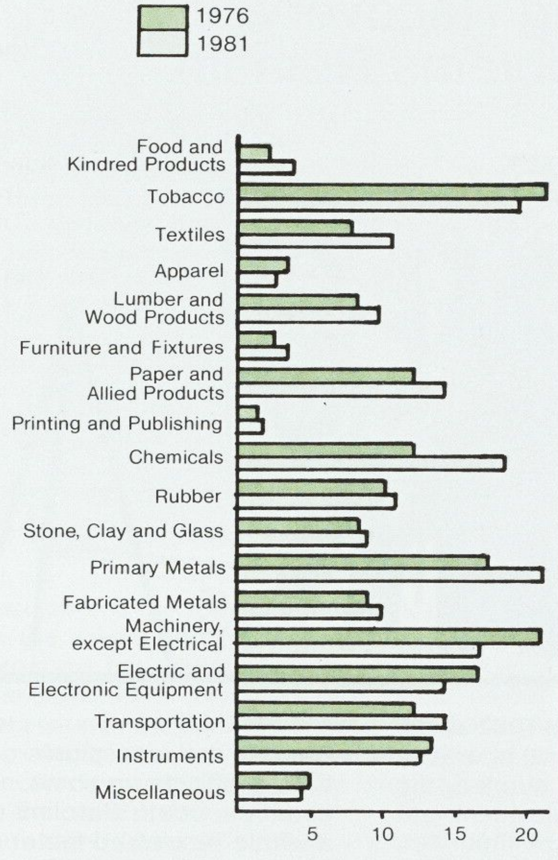
From the Atlantic Coast to the Blue Ridge Mountains, North Carolina is gaining the reputation as a four-season vacationland. Moreover, winter sports, usually associated with Colorado and New England, are increasing their popularity in North Carolina. With resort areas within a day's drive from many of the Southeast's metropolitan areas, skiing has become a major industry in the northwest mountains of the state. With rising employment and increased disposable income at both the state and national level, tourism should continue its strong growth in 1984.

State Revenues and the Public Sector

Perhaps the most dramatic evidence of the vigorous upturn in North Carolina's economy is in the growth in state general fund revenues. For the first quarter of the fiscal year, collections were 10.7 percent ahead of the same period in 1982. These increased tax collections were led by advances in income and sales tax revenues of 9.4 percent and 15.9 percent, respectively. Employment in the state government has increased since the beginning of the 1983-1984 fiscal year, and is up 2 percent in the third quarter of 1983 over the comparable period in 1982.

However, this growth in state revenues cannot be attributed solely to the improving state economy. It also reflects several major tax increases enacted by the 1983 General Assembly. The largest increases came from changes in the sales tax laws. The major elements included an increase in the tax rate on the sale of motor vehicles to 2 percent, up to a maximum of $300, and expansion of state sales tax coverage to include the rental of condominiums, cottages, and houses. Additionally, the state legislature gave county governments the option of enacting a one-half cent increase in the local sales tax, with a portion of the collections being used for capital needs of the public schools. By November, 85 of the state's 100 counties had enacted the increase. Other tax increases included the repeal of the $200 interest (paid by North Carolina financial institutions) exclusion, and the phase-in of quarterly income tax payments for

Chart 4. Export-Related Employment as a Percent of Total Employment, by Industry



Source: U. S. Bureau of the Census, **Annual Survey of Manufactures: Origin of Exports of Manufactured Products**, (various issues).

corporations with estimated tax liabilities of $5,000 or more. This action by the General Assembly is estimated to generate $242 million in additional state revenues.

International Trade

International trade has become increasingly important to the economy of North Carolina.[2] From 1976 to 1981, the export share of the state's manufacturing value of shipments rose from 10.3 percent to 12.5 percent. Over the same period, export-related employment in the state's manufacturing sector rose from 8.4 percent to 9.8 percent. Of particular significance is the fact that, in nearly half of the state's manufacturing industries, over 10 percent of the employment is related to exports. Moreover, the importance of exports is increasing as evidenced by the fact that, in all but six industries, this share has increased (see Chart 4).

The value of manufactured exports in 1981 rose nearly 6 percent from the 1980 level. However, total employment involved in export-related activity fell nearly 9 percent, a decline of 7,600 jobs. While decreasing employment was recorded in most industries, nearly three quarters of this decline was in the tobacco industry alone. Interestingly, the high-tech industries netted an increase of 1,000 new export-related jobs in 1981.

This slowdown in export activity was a result of both weakening foreign economies and the sharp appreciation of the U.S. dollar from early 1980 to early 1981. The continued high value of the dollar as well as the depressed economic conditions abroad suggest little improvement in the trade statistics for 1982. However, with the upswing in economic activity in foreign economies which began in 1983 and is forecasted to continue through 1984, exports from North Carolina began to show increases in some sectors of the state's economy during the second half of 1983 and should continue to strengthen in 1984. However, in addition to the concerns over the trade policies, the high value of the U.S. dollar relative to major foreign currencies continues to be of concern for all exporters. Any depreciation in the value of the dollar would be a positive factor and would tend to have a favorable impact on the state's exports.

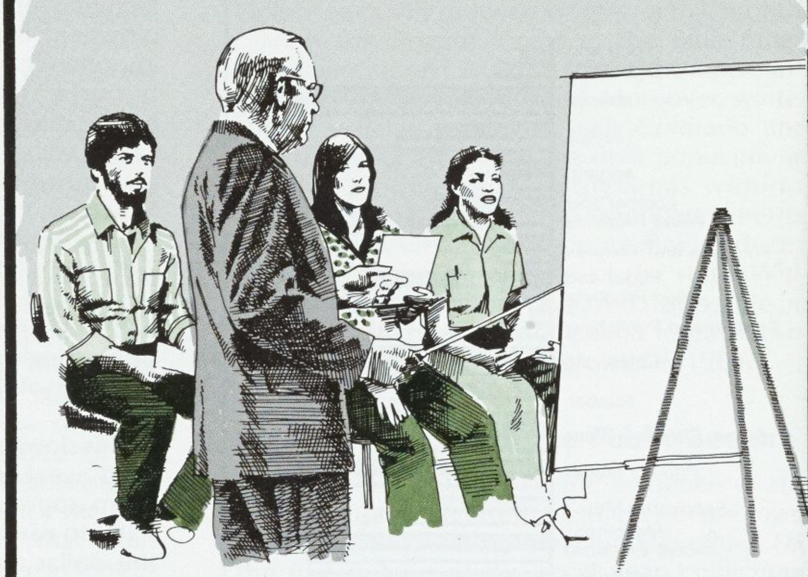
The timing of these gains is important in sustaining the strength of the economic recovery in the state. As the initial momentum of the recovery slows, then the continued expansion of trade will provide the state's economy with the added boost to sustain economic growth throughout 1984.

—**Rickey C. Kirkpatrick***

[2]See William J. Kahley and Gary W. Tapp, "Structural Changes in Southeastern States: The Road Ahead," **Economic Review**, Federal Reserve Bank of Atlanta, September 1983, Volume LXVIII, Number 10.

*Appalachian State University. The author wishes to acknowledge the helpful comments of Charles Spouill, associate professor of economics, Appalachian State University, and William J. Kahley.

South Carolina: A Strong Recovery, But Problems Remain



The extent of South Carolina's recovery from the recent recession has surprised many. However structural problems remain, and the state is seeking new sources of long-term economic expansion.

One year ago, the South Carolina economy was beset with significant structural as well as cyclical problems. The mainstay of the economy, textiles and related products, was in trouble, with more than 40 production facilities closed down in 1982 alone. Growth in personal income and retail sales was sluggish at best. State revenues had fallen substantially below expectations, requiring the state to cut spending across the board. The unemployment rate stood well above the national average and, perhaps most important, the anticipated recovery was expected to be modest in comparison with prior upswings.

Despite the recession's severe effects on some counties, South Carolina as a whole recovered faster than usual last year. The state's economy has been stagnating for three years, but signs of long-term improvement are on the horizon.

Fortunately, conditions brightened considerably in 1983. Whereas in past cycles the state has lagged national turning points by one to two quarters, this time the movements have been simultaneous. Moreover, the burst of consumer spending in the second quarter of 1983 brought the state's consumer-oriented manufacturing sectors a needed boost as retailers rushed to replenish inventories. In general, the historical "rule" that South Carolina fares worse than the nation during a recession and better in a recovery appears to be holding.

However, structural problems remain that cannot be neglected in the current optimism over the recovery. The state is moving aggressively to stabilize existing industries and attract new sources of employment. The lessons of 1982 have not been forgotten, and 1984 should be a year of general improvement.

The Recession and Recovery in South Carolina

The depth and duration of the 1981-1982 recession caused significant cyclical disturbances in the South Carolina economy and

Table 1. South Carolina Recession and Recovery 1981-1983

	Peak		Trough			Recovery[4] 1983:4		
Series	Date	Value	Date	Value	% Change	Date	Value	% Change
Composite Index of Coincident Indicators	81:3	168.8	82:4	145.7	−13.7	83:4	158.6	8.9
Total Nonfarm Employment[1]	81:3	1,207.4	83:1	1,148.4	−4.9	83:4	1,197.3	4.3
Manufacturing Employment[1]	81:3	393.9	83:1	349.1	−11.4	83:4	371.1	6.3
Textile Employment[1]	81:1	134.4	83:2	111.0	−17.4	83:4	114.4	3.1
Unemployment Rate	81:2	8.2	83:1	11.4	3.2	83:4	8.3	3.1
Real Per Capita Income	81:3	4,209.0	83:1	4,107.0	−2.4	83:4	4,167.0	1.5
Real Retail Sales[2]	81:2	8,970.0	83:1	7,695.6	−14.2	83:4	9,474.4	23.1
Housing Starts[3]	81:1	22,764.0	82:2	16,908.0	−25.7	83:4	26,409.0	56.2

[1]In thousands of workers
[2]In millions of dollars, annual rate
[3]Number, annual rate
[4]Forecasted values

Source: Division of Research, College of Business Administration, the University of South Carolina
Other Sources: South Carolina Employment Security Commission; BEA, U.S. Department of Commerce

exacerbated the structural problems, particularly in the textile and related sectors. The state's economy has essentially been stagnating since the end of 1979. Before the onset of the "official" recession in the third quarter of 1981, many key economic statistics had been in a period of decline for several quarters or longer (Table 1).

The state's composite index of coincident indicators "peaked" in the third quarter of 1981 at 168.8 (1972=100), below the level of 174.3 in the same quarter of 1979. The unemployment rate had risen from 4.8 percent to 8.2 percent over the same period. Manufacturing employment had declined from 401,900 jobs in the fourth quarter of 1979 to 393,900 in third-quarter 1981. Textile employment also had declined. Thus South Carolina was particularly vulnerable when the general economic downturn began.

The recession's costs to the South Carolina economy were high. The composite index of coincident indicators fell 13.3 percent. Total nonfarm employment plummeted by 60,000 jobs. The dominant manufacturing sector lost 45,000 jobs (75 percent of the total), with textile employment alone accounting for about half of the losses. Unemployment soared to a recessionary peak of 11.4 percent, well above the national rate. Real per capita income fell 2.4 percent, real retail sales were off by 14.2 percent, and housing starts dropped 25.7 percent. On a relative basis, the construction industry performed reasonably well. Vigorous activity along the coast for the resort market served to lessen the severity of the recession.

Despite their significance, these aggregate economic losses mask more serious conditions in some substate regions, particularly those that were affected by plant closures. The 1982 unemployment rate **averaged** over 15 percent in eight South Carolina counties, five of which are in the textile belt that had suffered many plant closings (Table 2). One county averaged 21.5 percent unemployment for the year. Fifteen additional counties had rates ranging from 12 percent to 14.9 percent. In contrast, only six counties averaged below 9 percent unemployed for the year. Not surprisingly, five of the six counties were located in the Columbia or Charleston SMSAs. The economies in these two areas benefit from the relative stability of large government sectors, trade, and services, and from reasonably diversified manufacturing. Note that the state's planning districts run roughly west to east, or from the textile belt to the coast. Table 2 also shows that most counties in the state should have significantly lower unemployment rates in 1984. However, the general state pattern remains

Table 2. Unemployment Rates in South Carolina Counties

	1982	1984 Projection
PLANNING DISTRICT I	11.0	8.9
Anderson	12.0	9.7
Cherokee	11.8	9.5
Greenville	10.1	8.1
Oconee	15.6	12.7
Pickens	10.8	8.8
Spartanburg	10.7	8.7
PLANNING DISTRICT II	13.4	10.8
Abbeville	13.2	10.6
Edgefield	9.7	7.7
Greenwood	12.4	9.9
Laurens	14.7	11.9
McCormick	17.0	13.8
Saluda	16.6	13.4
PLANNING DISTRICT III	14.3	11.8
Chester	16.9	14.0
Lancaster	14.9	12.3
Union	21.5	18.1
York	11.2	9.2
PLANNING DISTRICT IV	7.5	6.2
Fairfield	10.0	8.3
Lexington	7.6	6.3
Newberry	10.9	9.0
Richland	6.8	5.6
PLANNING DISTRICT V	12.2	10.1
Aiken	12.4	10.3
Allendale	16.4	13.7
Bamberg	11.9	9.8
Barnwell	12.3	10.2
Calhoun	9.3	7.6
Orangeburg	12.1	10.0
PLANNING DISTRICT VI	11.8	9.8
Clarendon	11.7	9.8
Kershaw	12.2	10.2
Lee	13.6	11.4
Sumter	11.1	9.2
PLANNING DISTRICT VII	12.9	10.6
Chesterfield	12.6	10.4
Darlington	12.0	9.9
Dillon	13.4	11.1
Florence	11.0	9.1
Marion	14.9	12.4
Marlboro	19.3	16.1
PLANNING DISTRICT VIII	12.3	10.7
Georgetown	16.4	14.3
Horry	10.6	9.1
Williamsburg	14.1	12.2
PLANNING DISTRICT IX	8.1	7.2
Berkeley	8.8	7.9
Charleston	7.8	6.9
Dorchester	8.4	7.5
PLANNING DISTRICT X	9.5	8.5
Beaufort	6.7	6.0
Colleton	13.0	11.7
Hampton	12.7	11.5
Jasper	10.8	9.8

Source: South Carolina Employment Security Commission, Research and Analysis

unchanged. Only two counties will exceed 15 percent, and nine will range between 12 percent and 14.9 percent. Furthermore, 12 counties will have an unemployment rate below 9 percent, double the number in 1982.

To comprehend fully the economic problems of the distressed counties, we need look only at employment trends in the textile industry (Table 2). Following a downturn in the early 1970s, textile employment expanded to a peak of 160,000 jobs by the end of 1973. Unfortunately, this level is unlikely to be realized again. Following the recessionary trough of 128,000 jobs early in 1975, textile employment bounced up to 150,300 in 1976's second quarter. From this point, however, the decline has been nearly continuous, and textile employment hit a low of 111,000 in last year's second quarter, or nearly 50,000 jobs below the 1973 peak. These losses, which have had their primary effect in textile-dependent counties, result from two primary factors:

First, textile imports from Latin America and Asia (most recently China) have risen substantially in the past decade. Since the domestic market for textiles is characterized by slow growth, domestic producers lost market share: accordingly, the least efficient operations were pared. The second factor is that domestic producers have invested heavily in new equipment to compete with imports. New air and water jet looms are several times more efficient than the old technology. The long-term result from this trend

Table 3 . Employment in Textile Mill Products (SIC 22, in thousands) / Employment in Apparel (SIC 23, in thousands)

	Textile I	Textile II	Textile III	Textile IV	Apparel I	Apparel II	Apparel III	Apparel IV
1970	150.8	148.1	148.1	147.3	43.1	44.7	44.7	44.5
1971	146.5	146.9	146.9	149.9	44.4	45.	44.4	44.4
1972	150.7	153.7	154.5	157.2	44.9	45.8	45.4	45.8
1973	157.1	158.1	156.7	160.0	46.	47.6	47.2	47.1
1974	158.0	159.1	156.7	148.2	46.2	45.1	43.5	42.4
1975	128.0	133.3	140.8	147.1	38.6	40.5	42.9	45.3
1976	149.3	150.3	148.6	149.9	46.1	47.1	45.8	45.8
1977	147.1	148.0	144.9	145.2	44.9	45.8	45.6	46.6
1978	144.5	144.1	141.6	143.2	47.4	48.3	48.2	49.3
1979	142.5	143.0	140.9	142.0	48.6	48.2	47.3	46.9
1980	142.3	137.0	133.2	134.9	46.3	46.8	46.1	46.3
1981	134.4	133.6	132.6	129.8	45.9	46.6	47.5	47.8
1982	124.7	117.3	112.9	113.5	45.2	45.	44.8	44.5
1983	111.9	111.0			44.1	44.6		

Source: South Carolina Employment Security Commission

promises to be a competitive, efficient, and profitable domestic industry, but one that requires fewer workers—a classic example of capital-labor substitution.

The apparel industry, also vulnerable to imports, has remained relatively stable over the past decade. Excluding cyclical variations, the employment level in this industry is about where it was in the early 1970s. Since apparel production is highly labor intensive, this might appear surprising. The primary reason for this relative strength is that manufacturers have placed an increased emphasis on marketing. The advantage of responding quickly to changing tastes has mitigated labor cost disadvantages. Fortunately, although this is a low wage industry, its stability has provided some support in counties where textile employment has declined. Despite substantial increases in textile production in the first half of 1983, textile employment continued to decline through the second quarter. Conversely, employment in the apparel industry had begun to increase in that quarter.

Therefore, the surprising strength of the recovery in South Carolina came despite continuing employment weakness in the textile and related sectors. Several factors account for this apparent contradiction. First, since the state's manufacturing sector is sensitive to national consumer spending, hours and earnings in manufacturing picked up sharply in 1983. Through October, the average manufacturing workweek averged 40.5 hours, in contrast to 38.2 hours in 1982. Accordingly, average weekly earnings in manufacturing rose a solid 8.5 percent. Comparable earnings for the nation grew only 5.4 percent.

A second factor is diversification of the state's employment over time toward national norms. Manufacturing employment in South Carolina totaled 40 percent of all nonfarm employment in 1970, and by 1983 this share had fallen to 31 percent, which only modestly exceeds the national share of 28 percent. The composition of manufacturing also has changed significantly over this period. The share of textile employment to total nonfarm employment has declined from 18 percent in 1970 to less than 10 percent in 1983, and from 44 percent of total manufacturing to 31 percent. Diversification has been concentrated in metals, machinery and chemicals. Thus, since the composition of employment in South Carolina more closely resembles national trends, it reflects the stronger than expected national recovery.

A final factor that should be noted is the development and growth of tourism and related activities in the state. Coastal development was strong even during the recession, and tourism has provided an important source of economic activity. Also becoming significant is the establishment of retirement-oriented communities that will moderate tourism's seasonal fluctuations.

These indigenous factors combined with a strong national recovery to boost substantially the state's economy in 1983 (Table 1). This is best illustrated by a rise of nearly 9 percent in the state's composite index of coincident indicators.

Total nonfarm employment followed a typical cyclical pattern and recouped about 80 percent, or nearly 50,000, of the jobs lost during the course of the recession. Manufacturing employment turned around in the second quarter and gained 22,000 jobs by the end of 1983. Although durable goods comprised only one-third of total manufacturing employment, that component accounted for nearly 13,000 of those new jobs. Fabricated metals and machinery showed most of the improvement. Although textile production recorded significant increases during the year, employment rose a slight 3,400 jobs compared with 24,400 jobs lost during the recession. With the updated and highly efficient equipment introduced into textile plants, increased product demand can be met without hiring additional workers or, in many cases, recalling those who have been laid off. Of course, this is the pattern of many basic industries in the nation.

Construction, trade and services accounted for the most significant employment growth in nonmanufacturing sectors, and the reasons for this are not difficult to ascertain. Housing starts in 1983 rose by 56 percent. This growth fell short of the national increase of around 65 percent, but housing starts in South Carolina had not fallen as much during the recession because of coastal development. The trade sector benefited from a surge in retail sales, which rose 23 percent on a trough to peak basis. Comparing annual totals, real retail sales were up 9 percent in 1983 over the previous year. This exceeds the national increase of approximately 7.5 percent after inflation. Finally, gains in the service sector were attributable to the general economic recovery, continued population growth, and strength in tourism and related sectors.

The expansion in employment pushed the state's unemployment rate down sharply. From a recession peak of 11.4 percent, the rate had fallen steadily to less than 8.5 percent by the end of 1983. This exceeded the improvement in the national unemployment rate, which fell from a peak of 10.8 percent almost to South Carolina's level.

Finally, increased earnings and employment boosted real total personal income by 3 percent. In per capita terms, the gain was 1.5 percent.

In summary, the South Carolina economy was hit hard by the recession, but it has rebounded rather well. Essentially, 1983 represented a recovery in the pure sense of the term in compensating for most of the aggregate economic losses. However, significant problems still remain, and the state is using this economic upswing to establish and implement policies designed to improve the state's relative position in the future.

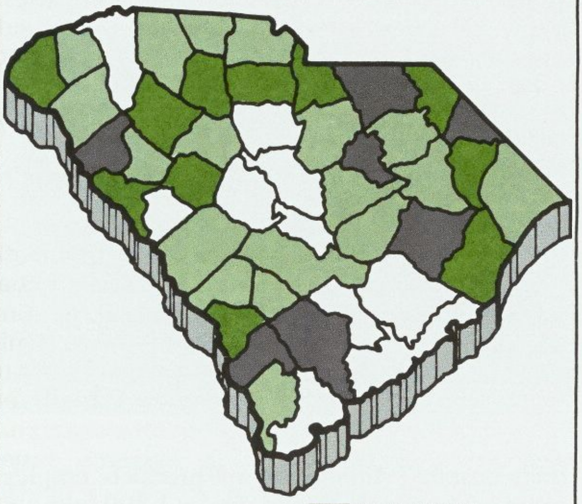
Diversification of Economic Development Efforts

This recovery is being viewed by many South Carolina leaders as a "breathing space" that provides an opportunity to assess both existing and potential new approaches to economic development. In the past, the major approach to expanding employment opportunities centered on industrial development. Industrial revenue bonds (IRBs), tax concessions, free labor training provided by the state's technical education system, and a world-wide advertising effort are some of the tools used in the effort to attract new manufacturing establishments. It appears, however, that manufacturing activity as a source of economic expansion may be less reliable now than it was in the past. First, it is likely that the Southeast's manufacturing boom will slow somewhat over the next decade because of national economic forces. Further, as this region loses its edge in terms of low-cost labor, housing and land, and as other states develop more competitive incentive packages for attracting industry, it will become increasingly difficult to encourage the location and expansion of industry in the state.

Recognition of these trends plus a continuing concern over the restructuring of the textile industry has resulted in a growing interest in a more diversified role for state government in the development process. Manufacturing employment is one area where recent discussions and activities have centered. The employment gains experienced during 1983 were not spread evenly over the various manufacturing sectors. The recession fell most heavily on textiles, with over 24,000 jobs lost. This resulted in many plant closings and very high unemployment rates in certain parts of the state. As Table 2 and Figure 1 show, unemployment rates of 14 percent and higher were common in 1982 for many of the textile-dominated northestern counties plus other rural counties throughout the state. With total textile employment growing by only 3,400 jobs

South Carolina Unemployment Rates by County

1982 Annual Average



Source: S. C. Employment Security Commission Research and Analysis/LMIA

in 1983 from the recession low, recent employment gains clearly are not developing where the jobs were lost. Thus, in spite of the healthy statewide recovery, unemployment remains a serious problem in many textile-dominated rural counties where marginal older mills have closed their doors.

Because of this problem, South Carolina leaders currently are developing a plan in which state government, led in a "team" approach by the State Development Board, responds to potential or actual plant closings with the hope of reducing or avoiding the impact of plant closings on local economies. This team effort would include: a) a central clearing house to give the State Development Board "early warning" signals of a potential plant closing, b) the Board's evaluation of that information to determine whether an effort to avert the plant closing would be appropriate or possible, c) deployment of state resources when efforts to avert a closing are appropriate and, d) when a plant does close, procedures to assist workers in finding new employment and conversion of the plant facility to new economic uses.

Projects also are underway to develop education, small and minority-owned businesses, and high-tech firms in South Carolina.

The Outlook for 1984

Given the consensus national forecast of continued growth and moderate inflation, prospects for the South Carolina economy are quite favorable. Most of the economic losses from the recession will have been regained by the end of 1983. Therefore, 1984 should be characterized by a broad-based expansion of the state's economy. Such a trend certainly would be welcome in perspective. For South Carolina, 1984 can be interpreted as the first year of general economic expansion since 1979, five years ago.

Several factors contribute to this positive outlook. First is the relative stabilization of the state's textile industry. This sector clearly is dependent upon consumer spending for apparel, but it is also sensitive to changes in housing starts and even automobile production, since it supplies carpeting and seating fabric. Although consumer spending will moderate in 1984, and housing starts may be slightly lower, the prospects are favorable overall with some gains in employment likely. Textile mill products employment rose by about 1,000 jobs over the past year. There should be an increase of another 7,300 jobs by the end of 1984 (Table 3).

A second favorable factor is the improved probability of capital investment in the state. With a threatened basic industry such as textiles, investment in new plants represents an important source of economic growth and diversification. In recent years South Carolina's attractiveness has been enhanced by the expansion and modernization of its sea ports. These facilities, in addition to a good interstate highway network, provide a solid transportation infrastructure. Furthermore, continued improvements in an already respected technical education system plus the development of the "high-tech" oriented industrial parks bode well for future capital inflows. Thus, the state is well positioned to participate in the expected cyclical rise in capital investment in 1984.

Finally, growth in tourist-related industries and coastal development has been robust and is expected to remain so. Tourism provided a buffer to the construction industry during the recession, and marketing efforts directed at Canada

Table 4. South Carolina 1984 Forecast of Key Sectors

Series	1983:4	1984:4	Net Change	% Change
Total Nonfarm Employment[1]	1,197.3	1,249.0	51.7	4.3
Manufacturing Employment[1]	371.1	403.7	32.6	8.8
Textile Mill Products Employment[1]	114.4	121.7	7.3	6.4
Unemployment Rate	8.6	7.6	-	−1.0
Real Total Personal Income[2]	13,661	14,063	402	2.9
Real Retail Sales[3]	8,885.6	9.438.0	552.4	6.2
Housing Starts[4]	26,409	24,091	−2,318	−8.8

[1]In thousands
[2]In millions of dollars
[3]In millions of dollars, annual total
[4]Number, annual total

Source: Division of Research, College of Business Administration, the University of South Carolina.

and northern states have paid off well. Moreover, retirement communities are becoming important in augmenting the tourist trade.

In general, the 1984 forecast of key economic sectors in the state is quite favorable. Total nonfarm employment is expected to rise by 51,700 jobs to just under 1.25 million, a gain of 4.3 percent. This will substantially exceed the previous number of just over 1.2 million jobs recorded in the second quarter of 1981. In contrast to 1983, the manufacturing sector should make a strong contribution of 32,600 jobs, which is almost a 9 percent increase. Moreover, the improvement in manufacturing employment is expected to be broad-based. To keep these gains in perspective, however, the level of manufacturing employment by the end of 1984 is projected to be approximately the same that prevailed in the fourth quarter of 1979 (403,700 versus 401,900).

On a relative basis, durable goods manufacturing will dominate the expansion with approximately one-half of the projected increase in jobs. As in 1983, the leading sectors will be fabricated metals (3,100 jobs), nonelectric machinery (4,800 jobs), and electrical equipment (2,500 jobs). The nondurables sector also is expected to improve in 1984, but the gains here are more tenuous. The anticipated rise of over 7,000 jobs in textile mill products depends upon continued increases in production. Yet, the threat of imports continues to grow, and the situation is quite unstable. After textile mill products, employment in chemicals should rise by 1,900 jobs and in apparel by 1,300 jobs.

The increase in nonmanufacturing employment of 19,100 jobs will again be led by trade and services, which together should increase by approximately 10,000 jobs. Growth in government employment should be modest at least because of restraints imposed during the recession. The construction sector ultimately should be flat since housing starts are expected to decline 9 percent to around 24,000 units. However, this is still a high rate by historical standards.

The state's unemployment rate, which fell dramatically from 11.4 percent to 8.3 percent in 1983, should decline to 7.6 percent by the end of 1984. This smaller reduction is based upon faster growth in the labor force. During 1983 many workers, particularly those affected by plant closures, remained out of the workforce. These discouraged workers are expected to reenter the labor force in greater numbers in 1984.

Spurred by a projected 8.6 percent increase in earnings in the manufacturing sector, real total personal income in 1984 should match the 3 percent increase in 1983. The combination of increased employment and income will continue to foster consumer spending in the state, and retail sales adjusted for inflation should rise by 6 percent.

Thus, the short term outlook is relatively bright for the South Carolina economy in 1984. The state should enjoy its first solid year of growth since 1979. If there is one area of concern, it is the fact that most of the expected capital inflows will be centered in the major metropolitan areas. Those distressed and vulnerable counties that truly bore the brunt of the recession will likely not participate in the expansion to the degree suggested by the aggregate statistics.

Conclusion

Like many states that are dependent on a basic industry, South Carolina has been beset with structural and cyclical problems for several years. The cyclical recovery has proven to be stronger than anticipated, and this has provided the state with an opportunity to address structural needs.

The shakeout in the textile industry has been in progress for the last decade. Firms that survived have emerged as competitive and profitable entities, and the intermediate-term outlook is brighter than in some time. However, the closing of less efficient plants and the introduction of sophisticated equipment have caused severe dislocations in many counties as the industry's workforce was reduced.

Therefore, efforts directed toward diversification are particularly crucial in South Carolina, and this diversification will take several forms. First is the typical effort to diversify away from the textile and related sectors. This type of industrial recruitment has been going on for a long time. A second effort is to devote additional resources to the development of small businesses so that more of the benefits of industrial development will remain in the state. A third aspect of diversification, and perhaps the most intractable, is geographic diversification. The state is making a concerted effort to encourage and promote development in distressed counties. Moreover, initiatives to upgrade the state educational system should benefit such areas in the long run.

None of these programs and proposed policies will result in overnight success. Many states in this region are engaged in similar activities. However, South Carolina is accelerating its efforts even as a general improvement in the economy takes hold in 1984.

—Richard W. Ellson*
and Randolph C. Martin*

*University of South Carolina

FINANCE

STATISTICAL SUPPLEMENT

$ millions	DEC 1983	NOV 1983	DEC 1982	ANN. % CHG.		DEC 1983	NOV 1983	DEC 1982	ANN. % CHG.
UNITED STATES									
Commercial Bank Deposits	1,304,962	1,298,909	1,197,213	+ 9	Savings & Loan**				
Demand	291,748	298,864	294,695	- 1	Total Deposits	595,999	586,027	541,817	+ 10
NOW	84,452	82,970	66,498	+ 27	NOW	17,865	17,785	12,670	+ 41
Savings	342,250	344,646	155,568	+120	Savings	167,402	163,094	96,764	+ 73
Time	603,462	603,985	701,700	- 14	Time	424,902	424,395	433,573	- 2
Credit Union Deposits	60,875	60,557	52,030	+ 17		OCT	SEPT	OCT	
Share Drafts	5,346	5,412	3,874	+ 38	Mortgages Outstanding	474,979	471,818	481,215	- 1
Savings & Time	49,828	49,834	43,329	+ 15	Mortgage Commitments	32,314	32,079	18,307	+ 77
SOUTHEAST									
Commercial Bank Deposits	148,526	146,684	128,634	+ 15	Savings & Loan				
Demand	34,600	34,474	34,163	+ 1	Total Deposits	N.A.	N.A.	N.A.	
NOW	10,847	10,641	8,700	+ 25	NOW	N.A.	N.A.	N.A.	
Savings	38,433	38,619	15,282	+151	Savings	N.A.	N.A.	N.A.	
Time	66,652	66,159	72,684	- 8	Time	N.A.	N.A.	N.A.	
Credit Union Deposits	5,943	5,933	4,932	+ 20		OCT	SEPT	OCT	
Share Drafts	450	474	345	+ 30	Mortgages Outstanding	68,128	67,566	67,400	+ 1
Savings & Time	5,022	5,066	4,153	+ 21	Mortgage Commitments	5,037	5,081	2,784	+ 81
ALABAMA									
Commercial Bank Deposits	15,636	15,388	14,215	+ 10	Savings & Loan**				
Demand	3,632	3,642	3,526	+ 3	Total Deposits	5,143	5,144	4,511	+ 14
NOW	996	966	766	+ 30	NOW	141	141	106	+ 33
Savings	3,138	3,160	1,609	+ 95	Savings	853	864	565	+ 51
Time	7,901	8,054	8,588	- 8	Time	4,184	4,186	3,874	+ 8
Credit Union Deposits	897	911	854	+ 5		OCT	SEPT	OCT	
Share Drafts	80	84	67	+ 19	Mortgages Outstanding	3,762	3,712	3,698	+ 2
Savings & Time	774	783	723	+ 7	Mortgage Commitments	242	272	49	+394
FLORIDA									
Commercial Bank Deposits	52,396	51,416	42,255	+ 24	Savings & Loan**				
Demand	12,292	11,951	12,170	+ 1	Total Deposits	53,337	53,379	48,051	+ 11
NOW	4,430	4,395	3,786	+ 17	NOW	2,152	2,029	1,416	+ 52
Savings	17,922	17,882	6,517	+175	Savings	15,008	15,337	7,941	+ 89
Time	18,454	18,041	20,504	- 10	Time	36,428	36,406	38,753	- 6
Credit Union Deposits	2,616	2,604	2,217	+ 18		OCT	SEPT	OCT	
Share Drafts	221	240	181	+ 22	Mortgages Outstanding	40,387	39,988	39,337	+ 3
Savings & Time	2,041	2,067	1,715	+ 19	Mortgage Commitments	3,502	3,468	2,235	+ 57
GEORGIA									
Commercial Bank Deposits	21,408	21,347	18,142	+ 18	Savings & Loan				
Demand	6,599	6,732	6,167	+ 7	Total Deposits	N.A.	N.A.	N.A.	
NOW	1,493	1,461	1,255	+ 19	NOW	N.A.	N.A.	N.A.	
Savings	4,785	4,815	1,709	+180	Savings	N.A.	N.A.	N.A.	
Time	9,348	9,382	9,737	- 4	Time	N.A.	N.A.	N.A.	
Credit Union Deposits	1,349	1,334	918	+ 47		OCT	SEPT	OCT	
Share Drafts	64	68	37	+ 73	Mortgages Outstanding	8,221	8,212	8,885	- 7
Savings & Time	1,186	1,191	818	+ 45	Mortgage Commitments	477	503	182	+162
LOUISIANA									
Commercial Bank Deposits	25,264	24,868	23,178	+ 9	Savings & Loan**				
Demand	5,644	5,661	5,759	- 2	Total Deposits	8,965	8,929	8,077	+ 11
NOW	1,409	1,383	1,174	+ 20	NOW	193	190	129	+ 50
Savings	5,328	5,361	2,478	+115	Savings	2,423	2,408	1,282	+ 89
Time	12,955	12,967	14,081	- 8	Time	6,424	6,407	6,692	- 4
Credit Union Deposits	200	201	163	+ 23		OCT	SEPT	OCT	
Share Drafts	23	23	11	+109	Mortgages Outstanding	7,870	7,886	7,404	+ 6
Savings & Time	189	194	154	+ 23	Mortgage Commitments	529	555	192	+176
MISSISSIPPI									
Commercial Bank Deposits	11,566	11,529	10,611	+ 9	Savings & Loan**				
Demand	2,288	2,287	2,311	- 1	Total Deposits	2,559	2,527	2,461	+ 4
NOW	808	777	636	+ 27	NOW	95	92	65	+ 46
Savings	2,294	2,440	762	+201	Savings	507	499	246	+106
Time	6,408	6,279	7,042	- 9	Time	1,997	1,960	2,171	- 8
Credit Union Deposits	*	*	*			OCT	SEPT	OCT	
Share Drafts	*	*	*		Mortgages Outstanding	2,026	2,029	2,100	- 4
Savings & Time	*	*	*		Mortgage Commitments	67	73	22	+205
TENNESSEE									
Commercial Bank Deposits	22,256	22,136	20,233	+ 10	Savings & Loan**				
Demand	4,145	4,201	4,230	- 2	Total Deposits	7,321	7,333	6,537	+ 12
NOW	1,711	1,659	1,083	+ 58	NOW	219	213	125	+ 75
Savings	4,966	4,961	2,207	+125	Savings	1,499	1,526	697	+115
Time	11,586	11,436	12,732	- 9	Time	5,608	5,636	5,722	- 2
Credit Union Deposits	881	883	780	+ 13		OCT	SEPT	OCT	
Share Drafts	62	59	49	+ 27	Mortgages Outstanding	5,862	5,739	5,977	- 2
Savings & Time	832	831	743	+ 12	Mortgage Commitments	220	210	104	+112

Notes: All deposit data are extracted from the Federal Reserve Report of Transaction Accounts, other Deposits and Vault Cash (FR2900), and are reported for the average of the week ending the 1st Wednesday of the month. This data, reported by institutions with over $15 million in deposits as of December 31, 1979, represents 95% of deposits in the six state area. The major differences between this report and the "call report" are size, the treatment of interbank deposits, and the treatment of float. The data generated from the Report of Transaction Accounts is for banks over $15 million in deposits as of December 31, 1979. The total deposit data generate from the Report of Transaction Accounts eliminates interbank deposits by reporting the net of deposits "due to" and "due from" other depository institutions. The Report of Transaction Accounts subtracts cash items in process of collection from demand deposits, while the call report does not. Savings and loan mortgage data are from the Federal Home Loan Bank Board Selected Balance Sheet Data. The Southeast data represent the total of the six states. Subcategories were chosen on a selective basis and do not add to total.

* = fewer than four institutions reporting.

** = S & L deposits subject to revisions due to reporting changes.

N.A. = not available at this time.

CONSTRUCTION

	NOV 1983	OCT 1983	NOV 1982	ANN % CHG		NOV 1983	OCT 1983	NOV 1982	ANN % CHG
12-month Cumulative Rate									
UNITED STATES									
Nonresidential Building Permits - $ Mil.					Residential Building Permits				
Total Nonresidential	51,321	50,568	45,460	+ 13	Value - $ Mil.	66,938	65,165	38,213	+ 75
Industrial Bldgs.	5,620	5,640	5,329	+ 5	Residential Permits - Thous.				
Offices	12,738	12,568	11,932	+ 7	Single-family units	884.0	870.2	518.4	+ 71
Stores	6,976	6,717	5,131	+ 36	Multi-family units	694.0	674.2	429.0	+ 62
Hospitals	2,108	2,062	1,775	+ 19	Total Building Permits				
Schools	876	878	800	+ 10	Value - $ Mil.	118,259	115,733	83,672	+ 41
SOUTHEAST									
Nonresidential Building Permits - $ Mil.					Residential Building Permits				
Total Nonresidential	8,028	7,845	6,262	+ 28	Value - $ Mil.	12,452	11,920	6,867	+ 81
Industrial Bldgs.	678	690	719	- 6	Residential Permits - Thous.				
Offices	1,833	1,797	1,343	+ 36	Single-family units	182.0	179.1	105.7	+ 72
Stores	1,280	1,248	952	+ 34	Multi-family units	156.7	149.3	83.8	+ 87
Hospitals	519	518	273	+ 90	Total Building Permits				
Schools	171	171	83	+106	Value - $ Mil.	20,407	19,692	13,129	+ 55
ALABAMA									
Nonresidential Building Permits - $ Mil.					Residential Building Permits				
Total Nonresidential	535	450	392	+ 36	Value - $ Mil.	424	397	236	+ 80
Industrial Bldgs.	28	26	81	- 65	Residential Permits - Thous.				
Offices	63	59	60	+ 5	Single-family units	7.9	7.7	4.6	+ 72
Stores	90	86	62	+ 45	Multi-family units	7.8	7.1	4.3	+ 81
Hospitals	25	23	23	+ 9	Total Building Permits				
Schools	9	8	8	+ 13	Value - $ Mil.	959	847	629	+ 52
FLORIDA									
Nonresidential Building Permits - $ Mil.					Residential Building Permits				
Total Nonresidential	3,988	3,933	3,135	+ 27	Value - $ Mil.	7,224	6,860	4,077	+ 77
Industrial Bldgs.	366	376	367	- 0	Residential Permits - Thous.				
Offices	878	852	640	+ 37	Single-family units	97.2	95.6	54.4	+ 79
Stores	713	701	509	+ 40	Multi-family units	86.6	82.5	50.3	+ 72
Hospitals	291	294	144	+102	Total Building Permits				
Schools	54	54	18	+200	Value - $ Mil.	11,211	10,793	7,212	+ 55
GEORGIA									
Nonresidential Building Permits - $ Mil.					Residential Building Permits				
Total Nonresidential	1,296	1,272	980	+ 32	Value - $ Mil.	2,398	2,314	1,300	+ 84
Industrial Bldgs.	181	176	135	+ 34	Residential Permits - Thous.				
Offices	362	352	223	+ 62	Single-family units	41.5	40.5	25.2	+ 65
Stores	147	138	90	+ 63	Multi-family units	25.4	24.1	12.0	+112
Hospitals	35	36	34	+ 3	Total Building Permits				
Schools	27	28	19	+ 42	Value - $ Mil.	3,694	3,586	2,280	+ 62
LOUISIANA									
Nonresidential Building Permits - $ Mil.					Residential Building Permits				
Total Nonresidential	1,207	1,210	939	+ 29	Value - $ Mil.	1,085	1,063	638	+ 70
Industrial Bldgs.	37	46	88	- 58	Residential Permits - Thous.				
Offices	366	365	296	+ 24	Single-family units	16.8	16.9	10.8	+ 56
Stores	134	129	147	- 9	Multi-family units	16.6	16.0	8.1	+105
Hospitals	123	123	29	+324	Total Building Permits				
Schools	70	69	24	+192	Value - $ Mil.	2,292	2,274	1,576	+ 45
MISSISSIPPI									
Nonresidential Building Permits - $ Mil.					Residential Building Permits				
Total Nonresidential	185	192	157	+ 18	Value - $ Mil.	317	310	167	+ 90
Industrial Bldgs.	7	8	14	- 50	Residential Permits - Thous.				
Offices	19	19	18	+ 6	Single-family units	4.9	4.8	3.3	+ 48
Stores	40	43	35	+ 14	Multi-family units	4.7	4.5	2.1	+124
Hospitals	18	18	5	+260	Total Building Permits				
Schools	7	7	3	+133	Value - $ Mil.	502	501	324	+ 55
TENNESSEE									
Nonresidential Building Permits - $ Mil.					Residential Building Permits				
Total Nonresidential	817	788	659	+ 24	Value - $ Mil.	1,004	976	449	+124
Industrial Bldgs.	59	58	34	+ 74	Residential Permits - Thous.				
Offices	145	150	106	+ 37	Single-family units	13.7	13.6	7.4	+ 85
Stores	156	151	109	+ 43	Multi-family units	15.6	15.1	7.0	+123
Hospitals	27	24	38	- 29	Total Building Permits				
Schools	4	5	11	- 64	Value - $ Mil.	1,749	1,691	1,108	+ 58

NOTES:
Data supplied by the U. S. Bureau of the Census, Housing Units Authorized By Building Permits and Public Contracts, C-40. Nonresidential data excludes the cost of construction for publicly owned buildings. The southeast data represent the total of the six states. The annual percent change calculation is based on the most recent month over prior year. Publication of F. W. Dodge construction contracts has been discontinued.

GENERAL

	LATEST DATA	CURR. PERIOD	PREV. PERIOD	YEAR AGO	ANN. % CHG.
UNITED STATES					
Personal Income ($bil. - SAAR)	2Q	2,709.1	2,650.6	2,556.1	+ 6
Taxable Sales - $bil.		N.A.	N.A.	N.A.	
Plane Pass. Arr. 000's		N.A.	N.A.	N.A.	
Petroleum Prod. (thous.)	DEC	8,619.3	8,634.7	8,619.8	- 0
Consumer Price Index 1967=100	DEC	303.5	303.1	292.4	+ 4
Kilowatt Hours- mils.	OCT	176.3	201.6	163.3	+ 8
SOUTHEAST					
Personal Income ($bil. - SAAR)	2Q	326.8	319.5	306.4	+ 7
Taxable Sales - $ bil.		N.A.	N.A.	N.A.	
Plane Pass. Arr. 000's	OCT	3,821.3	3,268.7	3,763.8	+ 2
Petroleum Prod. (thous.)	DEC	1,400.0	1,398.0	1,367.0	+ 2
Consumer Price Index 1967=100		N.A.	N.A.	N.A.	
Kilowatt Hours- mils.	OCT	29.0	33.5	27.7	+ 5
ALABAMA					
Personal Income ($bil. - SAAR)	2Q	36.2	35.5	33.9	+ 7
Taxable Sales - $ bil.	SEPT	28.6	28.1	27.2	+ 5
Plane Pass. Arr. 000's	NOV	109.2	111.6	97.9	+12
Petroleum Prod. (thous.)	DEC	51.0	52.0	52.0	- 2
Consumer Price Index 1967=100		N.A.	N.A.	N.A.	
Kilowatt Hours - mils.	OCT	3.7	4.5	3.6	+ 3
FLORIDA					
Personal Income ($bil. - SAAR)	2Q	122.0	118.8	113.4	+ 8
Taxable Sales - $ bil.	DEC	73.5	72.1	66.6	+10
Plane Pass. Arr. 000's	OCT	1,804.7	1,580.7	1,709.0	+ 6
Petroleum Prod. (thous.)	DEC	52.0	52.0	52.0	
Consumer Price Index - Miami		**NOV**	**SEPT**	**NOV**	
Nov. 1977 = 100		164.0	162.9	156.8	+ 5
Kilowatt Hours- mils.	OCT	8.6	9.8	8.1	+ 6
GEORGIA					
Personal Income ($bil. - SAAR)	2Q	58.2	56.6	53.5	+ 9
Taxable Sales - $ bil.	3Q	41.1	40.4	39.3	+ 5
Plane Pass. Arr. 000's	NOV	1,610.9	1,646.3	1,435.8	+13
Petroleum Prod. (thous.)		N.A.	N.A.	N.A.	
Consumer Price Index - Atlanta		**DEC**	**OCT**	**DEC**	
1967 = 100		307.3	304.4	296.1	+ 4
Kilowatt Hours- mils.	OCT	4.2	4.9	4.2	0
LOUISIANA					
Personal Income ($bil. - SAAR)	2Q	45.9	45.3	44.7	+ 3
Taxable Sales - $ bil.		N.A.	N.A.	N.A.	
Plane Pass. Arr. 000's	NOV	272.7	286.7	271.0	+ 1
Petroleum Prod. (thous.)	DEC	1,211.0	1,209.0	1,173.0	+ 3
Consumer Price Index 1967 = 100		N.A.	N.A.	N.A.	
Kilowatt Hours- mils.	OCT	5.0	5.7	5.0	0
MISSISSIPPI					
Personal Income ($bil. - SAAR)	2Q	20.8	20.4	19.8	+ 5
Taxable Sales - $ bil.		N.A.	N.A.	N.A.	
Plane Pass. Arr. 000's	NOV	31.4	35.3	28.8	+ 9
Petroleum Prod. (thous.)	DEC	86.0	86.0	90.0	- 4
Consumer Price Index 1967 = 100		N.A.	N.A.	N.A.	
Kilowatt Hours- mils.	OCT	2.0	2.4	1.9	+ 5
TENNESSEE					
Personal Income ($bil. - SAAR)	2Q	43.7	42.9	41.1	+ 6
Taxable Sales - $ bil.	NOV	37.7	36.9	34.8	+ 8
Plane Pass. Arr. 000's	NOV	148.6	160.7	153.6	- 3
Petroleum Prod. (thous.)	DEC	N.A.	N.A.	N.A.	
Consumer Price Index 1967 = 100		N.A.	N.A.	N.A.	
Kilowatt Hours- mils.	OCT	5.5	6.2	4.9	+12

	DEC 1983	NOV 1983	DEC 1982	ANN. % CHG.
UNITED STATES				
Agriculture				
Prices Rec'd by Farmers Index (1977=100)	140	135	127	+10
Broiler Placements (thous.)	80,140	73,141	79,861	+ 0
Calf Prices ($ per cwt.)	60.6	59.2	58.8	+ 3
Broiler Prices (¢ per lb.)	33.7	33.0	24.3	+39
Soybean Prices ($ per bu.)	7.61	7.80	5.46	+39
Broiler Feed Cost ($ per ton)	240	243	201	+19
SOUTHEAST				
Agriculture				
Prices Rec'd by Farmers Index (1977=100)	129	122	113	+14
Broiler Placements (thous.)	30,819	27,657	30,752	+ 0
Calf Prices ($ per cwt.)	58.0	55.6	54.5	+ 6
Broiler Prices (¢ per lb.)	33.9	32.1	24.1	+41
Soybean Prices ($ per bu.)	7.79	7.74	5.57	+40
Broiler Feed Cost ($ per ton)	234	229	189	+24
ALABAMA				
Agriculture				
Farm Cash Receipts - $ mil. (Dates: SEPT, SEPT)	1,419	-	1,443	- 2
Broiler Placements (thous.)	10,475	9,278	10,263	+ 2
Calf Prices ($ per cwt.)	62.1	55.7	54.2	+15
Broiler Prices (¢ per lb.)	32.5	33.0	24.0	+35
Soybean Prices ($ per bu.)	7.76	7.80	5.51	+41
Broiler Feed Cost ($ per ton)	270	255	197	+37
FLORIDA				
Agriculture				
Farm Cash Receipts - $ mil. (Dates: SEPT, SEPT)	3,305	-	3,166	+ 4
Broiler Placements (thous.)	1,853	1,755	1,863	- 1
Calf Prices ($ per cwt.)	63.9	58.8	57.1	+12
Broiler Prices (¢ per lb.)	33.0	31.0	24.0	+38
Soybean Prices ($ per bu.)	7.76	7.80	5.51	+41
Broiler Feed Cost ($ per ton)	260	250	210	+24
GEORGIA				
Agriculture				
Farm Cash Receipts - $ mil. (Dates: SEPT, SEPT)	2,146	-	2,140	+ 0
Broiler Placements (thous.)	12,387	10,928	12,338	+ 0
Calf Prices ($ per cwt.)	54.4	51.3	51.5	+ 6
Broiler Prices (¢ per lb.)	33.5	31.5	23.5	+43
Soybean Prices ($ per bu.)	7.58	7.51	5.36	+41
Broiler Feed Cost ($ per ton)	215	210	185	+16
LOUISIANA				
Agriculture				
Farm Cash Receipts - $ mil. (Dates: SEPT, SEPT)	817	-	904	-10
Broiler Placements (thous.)	N.A.	N.A.	N.A.	
Calf Prices ($ per cwt.)	58.7	56.5	57.2	+ 3
Broiler Prices (¢ per lb.)	36.0	33.0	24.5	+47
Soybean Prices ($ per bu.)	7.94	7.51	5.67	+40
Broiler Feed Cost ($ per ton)	290	290	250	+16
MISSISSIPPI				
Agriculture				
Farm Cash Receipts - $ mil. (Dates: SEPT, SEPT)	1,161	-	1,207	- 4
Broiler Placements (thous.)	6,153	5,695	6,288	- 2
Calf Prices ($ per cwt.)	55.2	57.9	52.9	+ 4
Broiler Prices (¢ per lb.)	37.0	32.0	25.5	+45
Soybean Prices ($ per bu.)	7.77	7.83	25.5	-70
Broiler Feed Cost ($ per ton)	195	205	161	+21
TENNESSEE				
Agriculture				
Farm Cash Receipts - $ mil. (Dates: SEPT, SEPT)	1,230	-	1,178	+ 4
Broiler Placements (thous.)	N.A.	N.A.	N.A.	
Calf Prices ($ per cwt.)	54.0	53.2	54.4	- 1
Broiler Prices (¢ per lb.)	32.5	30.0	23.5	+38
Soybean Prices ($ per bu.)	7.81	7.99	5.65	+38
Broiler Feed Cost ($ per ton)	225	225	193	+17

Notes:
Personal Income data supplied by U. S. Department of Commerce. Taxable Sales are reported as a 12-month cumulative total. Plane Passenger Arrivals are collected from 26 airports. Petroleum Production data supplied by U. S. Bureau of Mines. Consumer Price Index data supplied by Bureau of Labor Statistics. Agriculture data supplied by U. S. Department of Agriculture. Farm Cash Receipts data are reported as cumulative for the calendar year through the month shown. Broiler placements are an average weekly rate. The Southeast data represent the total of the six states. N.A. = not available. The annual percent change calculation is based on most recent data over prior year. R = revised.

EMPLOYMENT

	NOV 1983	OCT 1983	NOV 1982	ANN. % CHG.		NOV 1983	OCT 1983	NOV 1982	ANN. % CHG.
UNITED STATES									
Civilian Labor Force - thous.	112,147	112,042	110,855	+ 1	Nonfarm Employment- thous.	92,128	91,693	89,466	+ 3
Total Employed - thous.	103,018	102,659	99,379	+ 4	Manufacturing	19,253	19,212	18,299	+ 5
Total Unemployed - thous.	9,129	9,383	11,476	-20	Construction	4,251	4,297	3,984	+ 7
Unemployment Rate - % SA	8.4	8.8	10.7		Trade	20,901	20,738	20,549	+ 2
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	16,018	15,824	16,003	+ 0
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	20,121	20,032	19,180	+ 5
Mfg. Avg. Wkly. Hours	40.8	40.7	39.3	+ 4	Fin., Ins., & Real Est.	5,500	5,487	5,335	+ 3
Mfg. Avg. Wkly. Earn. - $	365	363	338	+ 8	Trans. Com. & Pub. Util.	5,048	5,065	5,051	- 0
SOUTHEAST									
Civilian Labor Force - thous.	14,703	14,683	14,373	+ 2	Nonfarm Employment- thous.	11,691	11,627	11,399	+ 3
Total Employed - thous.	13,338	13,295	12,838	+ 4	Manufacturing	2,224	2,217	2,138	+ 4
Total Unemployed - thous.	1,345	1,388	1,535	-12	Construction	657	656	638	+ 3
Unemployment Rate - % SA	9.6	9.7	11.0		Trade	2,801	2,762	2,712	+ 3
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	2,183	2,176	2,161	+ 1
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	2,311	2,302	2,250	+ 3
Mfg. Avg. Wkly. Hours	41.0	41.1	40.4	+ 1	Fin., Ins., & Real Est.	672	669	651	+ 3
Mfg. Avg. Wkly. Earn. - $	318	317	301	+ 6	Trans. Com. & Pub. Util.	701	702	700	- 0
ALABAMA									
Civilian Labor Force - thous.	1,772	1,775	1,738	+ 2	Nonfarm Employment- thous.	1,323	1,322	1,312	+ 1
Total Employed - thous.	1,551	1,554	1,470	+ 6	Manufacturing	335	335	327	+ 2
Total Unemployed - thous.	221	221	268	-18	Construction	61	61	59	+ 3
Unemployment Rate - % SA	13.0	13.0	16.0		Trade	271	269	268	+ 1
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	295	295	293	+ 1
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	216	217	218	- 1
Mfg. Avg. Wkly. Hours	41.0	41.6	39.8	+ 3	Fin., Ins., & Real Est.	59	59	59	0
Mfg. Avg. Wkly. Earn. - $	317	317	293	+ 8	Trans. Com. & Pub. Util.	71	71	72	- 1
FLORIDA									
Civilian Labor Force - thous.	5,064	5,003	4,899	+ 3	Nonfarm Employment- thous.	3,963	3,917	3,794	+ 4
Total Employed - thous.	4,656	4,571	4,435	+ 5	Manufacturing	488	483	459	+ 6
Total Unemployed - thous.	408	432	464	-12	Construction	262	261	243	+ 8
Unemployment Rate - % SA	7.8	8.2	9.3		Trade	1,074	1,053	1,013	+ 6
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	649	644	636	+ 2
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	948	937	917	+ 3
Mfg. Avg. Wkly. Hours	41.3	41.0	40.7	+ 1	Fin., Ins., & Real Est.	299	296	283	+ 6
Mfg. Avg. Wkly. Earn. - $	306	305	295	+ 4	Trans. Com. & Pub. Util.	234	234	233	+ 0
GEORGIA									
Civilian Labor Force - thous.	2,689	2,696	2,680	+ 0	Nonfarm Employment- thous.	2,289	2,279	2,217	+ 3
Total Employed - thous.	2,504	2,503	2,467	+ 1	Manufacturing	516	515	494	+ 4
Total Unemployed - thous.	186	193	213	-13	Construction	109	108	104	+ 5
Unemployment Rate - % SA	7.1	7.3	8.4		Trade	551	543	529	+ 4
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	442	441	442	0
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	395	395	378	+ 4
Mfg. Avg. Wkly. Hours	42.0	41.8	40.2	+ 4	Fin., Ins., & Real Est.	121	121	117	+ 3
Mfg. Avg. Wkly. Earn. - $	302	299	275	+10	Trans. Com. & Pub. Util.	148	148	145	+ 2
LOUISIANA									
Civilian Labor Force - thous.	1,921	1,934	1,875	+ 2	Nonfarm Employment- thous.	1,597	1,597	1,609	- 1
Total Employed - thous.	1,716	1,720	1,654	+ 4	Manufacturing	193	194	202	- 4
Total Unemployed - thous.	204	214	220	- 7	Construction	115	116	121	- 5
Unemployment Rate - % SA	11.2	11.5	12.3		Trade	370	368	370	0
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	315	315	311	+ 1
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	308	308	303	+ 2
Mfg. Avg. Wkly. Hours	40.4	40.2	42.9	- 6	Fin., Ins., & Real Est.	80	80	80	0
Mfg. Avg. Wkly. Earn. - $	394	393	399	- 1	Trans. Com. & Pub. Util.	124	124	128	- 3
MISSISSIPPI									
Civilian Labor Force - thous.	1,043	1,066	1,057	- 1	Nonfarm Employment- thous.	799	799	794	+ 1
Total Employed - thous.	934	948	939	- 1	Manufacturing	207	207	199	+ 4
Total Unemployed - thous.	109	118	119	- 8	Construction	38	39	41	- 7
Unemployment Rate - % SA	11.2	12.1	12.1		Trade	164	163	164	0
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	182	182	182	0
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	124	124	124	0
Mfg. Avg. Wkly. Hours	40.7	40.7	39.2	+ 4	Fin., Ins., & Real Est.	33	33	33	0
Mfg. Avg. Wkly. Earn. - $	279	277	253	+10	Trans. Com. & Pub. Util.	40	40	40	0
TENNESSEE									
Civilian Labor Force - thous.	2,214	2,209	2,124	+ 4	Nonfarm Employment- thous.	1,720	1,713	1,673	+ 3
Total Employed - thous.	1,977	1,999	1,873	+ 6	Manufacturing	485	483	457	+ 6
Total Unemployed - thous.	217	210	251	-14	Construction	72	71	70	+ 3
Unemployment Rate - % SA	11.4	10.5	12.6		Trade	371	366	368	+ 1
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	300	299	297	+ 1
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	320	321	310	+ 3
Mfg. Avg. Wkly. Hours	40.8	41.0	39.5	+ 3	Fin., Ins., & Real Est.	80	80	79	+ 1
Mfg. Avg. Wkly. Earn. - $	310	310	288	+ 8	Trans. Com. & Pub. Util.	84	85	82	+ 2

Notes: All labor force data are from Bureau of Labor Statistics reports supplied by state agencies.
Only the unemployment rate data are seasonally adjusted.
The Southeast data represent the total of the six states.
The annual percent change calculation is based on the most recent data over prior year.

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