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SPECIAL ISSUE

The Southeast in 1985

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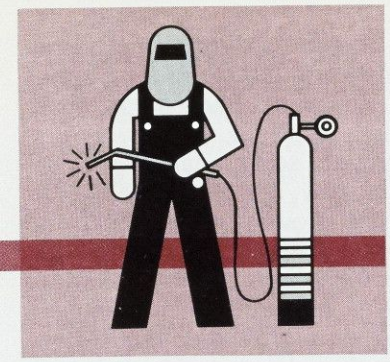
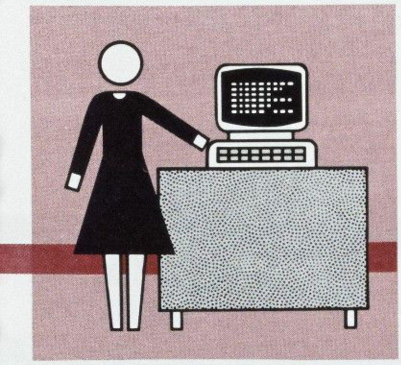




Overview

SOUTHEASTERN ECONOMIC OUTLOOK

Will the southeastern economy continue to grow in 1985? The answer to that question depends on the national economy. Because most of the region's products rely on national and even international markets, growth in demand at those levels is vital to the Southeast's economic performance. We expect that the region will experience moderate growth in the new year, following the lead of the national economy.

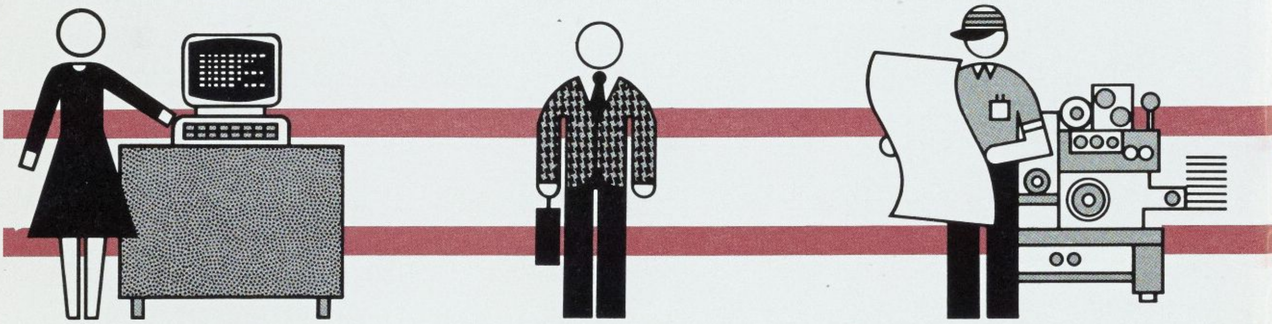
By the close of 1984, the southeastern economy had begun to regain momentum after a slowdown during the second half of the year. Total employment resumed its growth in November, more than recouping October's downturn. The number of unemployed also declined and the jobless rate was retreating again as the year ended. Even though weaknesses persisted in the energy, export marketing, textile and apparel, and agricultural sectors during 1984 and apparently will carry over into 1985, strengths in other areas should be sufficient to maintain the regional economy's upward growth through coming months.

After surging forward early in 1984, the Southeast's economy slackened in the summer when rising interest rates quickly depressed residential housing sales and construction. The building materials industry soon felt the drop-off in activity as inventories accumulated. In turn, the Southeast's substantial lumber-producing sector began to lay off workers and close down operations in response to declining demand.

As the summer wore on, a slump in consumer demand for a broad array of products besides housing became apparent. Because a lull in consumer spending typically occurs after a period of rapid growth, some analysts feel the slowdown was merely a normal consumer reaction to the brisk growth of late 1983 and early 1984. However, it is also possible that the interest rate spurt made consumers hesitant to obligate themselves for additional purchases when faltering economic growth could threaten the income stream they depended on for credit payments.

In addition to reductions in home purchases, softening began in sales of furniture, appliances, and other household furnishings. Eventually automobile sales, unusually brisk early in the year, began to falter as well. The changeover in models and brief auto strikes that accentuated shortages of certain popular vehicles apparently contributed to the slack sales. However, rising credit costs also may have caused consumers to delay auto purchases. Fortunately for the region's auto-related manufacturing plants, employment held up and activity has remained relatively vigorous in anticipation of continuing strong markets for automobiles during 1985.

Despite the abatement in economic activity, retail sales in the Southeast fared better than in the nation as a whole. The Sixth-District states continued to outperform the national average, with Florida and Georgia leading the way. In the first ten months of the year, for instance, Florida posted a 14 percent gain over the same months of 1983, compared with an 11 percent gain for the nation as a whole. Tennessee was running slightly ahead of the national average for those ten months, while Louisiana lagged slightly behind. Holiday shopping apparently also ran ahead of 1983 in all six District states, with Florida, Georgia, and Tennessee again taking the lead.



Thanks to the manufacturing expansion along with continuing growth in service-related employment, the region's total employment grew at a rate averaging nearly 4 percent during 1984 as compared with only 2 percent the previous year. During 1984 the number of jobs increased by more than a half-million, while slightly fewer than 300,000 workers were added during 1983. Although job growth continued through most of the year, the rate dropped in the fourth quarter, no doubt reflecting a slackening of the economy's overall growth during the second half.

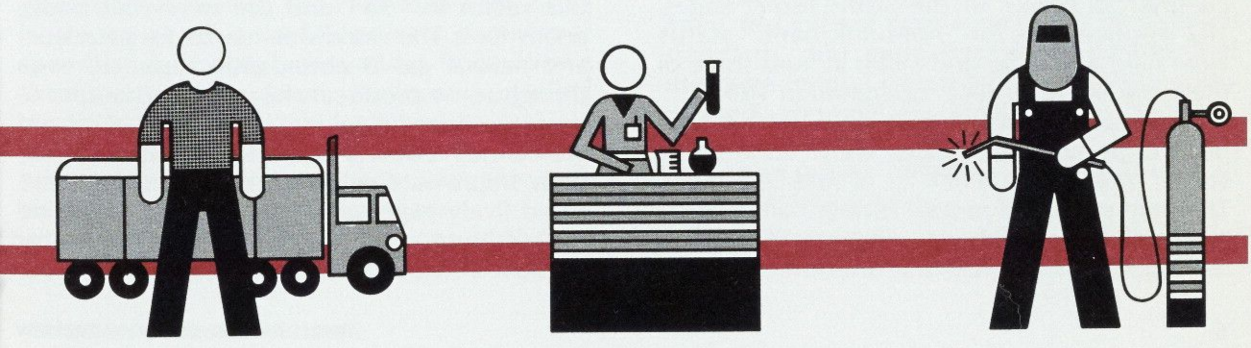
The region's unemployment also mirrored these developments. The rate dropped to 8 percent in February 1984, after averaging nearly 10 percent during 1983. Despite small month-to-month variations, the average jobless rate held near the 8 percent level from February forward. Average rates for Georgia and Florida slipped well below the region's, but Mississippi and Alabama continued to experience double-digit jobless rates throughout the year. Continuing problems in Mississippi and Alabama, plus weak growth in Louisiana, probably will make it difficult for the region to reduce its jobless rate for 1985 much below the current level, even though continuing overall economic growth is expected.

The region's anticipated economic strength in 1985 will differ sharply among individual states and sectors. Unless mortgage interest rates turn up again, the construction sector is expected to continue invigorating the Southeast's economy. Following the rise in the second quarter of 1984, rates had begun to edge back downward by late summer. Realtors reported increased residential housing sales once rates had returned to the levels of early 1984. Even though much of the pent-up demand for housing had been satisfied by late in the year, the construction industry expects activity to remain reasonably strong during 1985, barring further setbacks. Thanks partly to tax incentives directed toward multifamily housing, 1984's residential construction reached a post-1973 peak. Just maintaining that pace in 1985 would constitute an impressive performance.

Nonresidential construction also grew energetically in 1984 despite the upturn in interest rates. In this sector, too, the past year's activity peaked at a level not exceeded since the early 1970s. Accelerated depreciation write-offs and other tax laws favorable to investment no doubt stimulated this burst of construction activity. Clearly, some markets have been saturated with new buildings and, in fact, may now be overbuilt. Although growth is unlikely to maintain its current rate through 1985, nonresidential construction may remain near recent peak levels if economic expansion continues. For example, public works spending on highways and bridges will be helped by an influx of matching funds from a 1983 increase in the federal gasoline tax.

Strong performance is anticipated in the service sector in the year ahead. The flow of businesses and residents into the region should heighten demand for service industries, particularly in Florida and Georgia. Moreover, business and tourist travel to the region seems likely to advance during 1985. An expansion of convention facilities in several cities will accommodate numerous business travelers, and new facilities apparently are being booked nearly as quickly as they become available.

The region's plane-passenger traffic grew more slowly in 1984 than in 1983, but airports maintained their positive position in spite of lackluster performance in the tourist sector. Competition from the Los Angeles Olympics, a strong dollar that encouraged U.S. citizens to travel abroad and discouraged foreign visitors to this country, consumer belt-tightening during



the summer, and special problems at some regional attractions all combined to depress the Southeast's tourist activity in 1984. The New Orleans World's Fair, once envisioned as the focal point of the region's tourist activity for 1984, proved to be a disappointing moneyloser instead. Tourist flows are expected to revert to more normal patterns during 1985 if the nation achieves the moderate economic growth projected.

The financial segment of the services sector underwent significant upheavals in 1984 that seem certain to affect both the industry and its customers in the new year. Geographic banking frontiers were broadened with the opening of Georgia's Avail, an automated teller machine network modeled after Florida's Honor system; with passage of a Louisiana bill permitting multi-parish bank holding companies; and most importantly, with the creation of a regional reciprocal interstate banking pact among Florida, Georgia, North Carolina, and South Carolina. The legislatures of these states agreed that their institutions could be acquired by those headquartered in reciprocating southeastern states, and that banks from outside the region would be barred from such acquisition. As a result, Sun Banks of Florida and Trust Company of Georgia, both among the top three banks in their home states, have proposed a merger. The reciprocal pact probably will generate considerable activity in 1985 unless the Supreme Court prohibits such agreements in ruling on a similar pact in New England.

Early in 1984, Citicorp of New York, the nation's largest banking organization, gained entry into one of the fastest-growing markets by acquiring the failed New Biscayne Federal Savings and Loan Association of Miami. Also in Florida, U.S. Trust Corporation of New York received approval to convert its trust office into a "nonbank bank," an insured and regulated institution that, because of its limited services, circumvents the geographic constraints of commercial banks. In the Sixth-District states, 102 applications for "nonbank bank" status were filed as of year-end 1984; at least some of these are likely to begin operation in 1985.

While some financial institutions were seizing new opportunities, others were confronting severe problems in 1984. As of mid-December, 16 commercial and mutual savings bank failures occurred in the Southeast, notably in Tennessee as it continued to feel the aftereffects of the Butcher organization's collapse. The coming year may begin to ease the plight of that state's ailing institutions.

This year's manufacturing activity in the Southeast depends heavily on the auto and building sectors. Defense-related manufacturing, especially electrical and electronic machinery and equipment, also should exhibit solid growth as will the region's substantial paper manufacturing industry. Unfortunately, not all the region's manufacturing will fare as well. Much of the apparel and textile manufacturing sector has undergone a dismal year because of keen competition from imported products that realized a substantial price advantage from the dollar's unusually high exchange value. Unless the dollar declines sharply in value against other currencies, pressures on the domestic textile industry will continue to mount. The displacement of low-skilled textile workers poses an absorption problem for the southeastern economy for years to come.

The textile industry is not the only sector troubled by intense foreign competition. Virtually every industry that depends on foreign markets for a significant share of its output has seen that market share shrink during the past year. For instance, the agricultural sector has been especially beset by reductions in foreign demand. Weather-related problems have kept crop yields below expectations, but farm production generally has attained levels far in excess of those needed to satisfy domestic demands. Low prices for farm products, heavy indebtedness, and persistently high credit costs remain major hurdles facing southeastern producers. Prospects appear unpromising for substantial early relief as the new year begins. Failures and liquidations of deeply indebted farming operations seem likely to continue in 1985.

The Southeast's energy-producing sector also remains stressed. Little recovery reached this sector in 1984 and the new year bodes poorly for it. The worldwide market for petroleum and natural gas is abundantly supplied, even though some producers have slashed output to shore up prices. Regional production of oil and gas cannot rebound until global market conditions improve. Coal producers, who have enjoyed lively export markets in times past, find their current opportunities limited by similar surpluses. In addition, they are plagued by the high-valued dollar, which reduces the competitiveness of domestically produced coal in international markets.

Southeastern seaport facilities and businesses dependent on export marketing find themselves stricken with the aggregate effects of declining exports suffered in all major sectors. Rising imports have offset the downslide somewhat for a number of trade-related businesses; yet the value of total trade remains below levels attained at the beginning of the decade. A realignment of the dollar with other world currencies appears to be a prerequisite to restoring the health of most of the Southeast's international trade sectors.

In summary, moderate economic growth—signaled late in 1984 by an upturn that brightened a dull second-half economy—is expected for the Southeast throughout the year. Not all sectors of the region's economy will participate in this growth, but construction, services, and manufacturing of auto parts, building materials, defense equipment, and paper should enjoy a good year. Textiles, apparel, and other manufacturing sectors handicapped by the reduced prices of imported products will continue to struggle in 1985. Nor are domestic industries that depend on export markets likely to see much growth in market shares. Agriculture, energy, and export-related businesses will fare better as 1985 progresses only if the dollar declines to a substantially lower exchange value against other major currencies of the world. Even if such realignment should occur, the lag in adjustments is likely to delay any favorable impact on regional manufacturers.

NATIONAL ECONOMIC OUTLOOK

The fundamentals seem to be in place for healthy, though slower, growth in 1985. Consumer purchases, investment by businesses, and expenditures by the government all should contribute to making this a good year, with real gross national product (GNP) probably advancing in the range of 3 to 3½ percent. Consumer spending is already rebounding from 1984's third-quarter slowdown. Business spending on capital goods should continue to fuel expansion, even though the growth rate in business investment, like that of consumer spending, probably will fall short of last year's.

In 1984, legislative modifications of the tax treatment of business investment did little to alter the favorable climate for spending on capital goods that had been established by Congress and the administration a few years ago. Recently, the Treasury Department proposed tax reform to eliminate many special provisions legislated earlier to spur investment. Ironically, such reform could catalyze investment in equipment this year, as businesses try to take advantage of the provisions before they are rescinded. On the other hand, uncertainty about potential tax changes may cause some businesses to defer planned investment.

Another source of short-term strength is government fiscal policy, which remains highly stimulative. Defense expenditures, in particular, should help maintain substantial momentum in the nation's factories, even if cuts are applied to defense as well as other federal programs. Military projects approved in the past few years should foster strong activity at least through 1985 and possibly into 1986.

An additional stimulant to the economy is the interest rate decline of late 1984. Reduced credit costs should spark at least a temporary revival in residential housing by attracting buyers back into the market and making it relatively cheaper for builders to undertake new projects. Finally, while monetary growth did weaken for several months, particularly in the case of M1, recent numbers show a substantial rebound. M1 is a monetary measure of the most liquid assets, including cash, checking accounts, and travelers' checks from nonbanking institutions. M2 and M3, broader measures of the money supply, have been expanding very rapidly in the past few months.

Of course, some potential problems and weaknesses loom in the months ahead, and certain economic sectors are less likely to thrive in the coming year. At this mature stage of a business expansion, the anticipated resurgence of growth possibly could produce a somewhat higher rate of inflation, probably in the neighborhood of 4 1/2 to 5 percent. Furthermore, real interest rates remain high by historical standards, and most forecasters believe that the huge federal deficit will continue to apply upward pressure on rates. If this happens, capital investment could suffer as businesses and other private investors are crowded out of the market for funding.

The construction industry may show mixed patterns in 1985, since much of the pent-up demand for housing has been filled. Consequently, we are unlikely to see a return to the booming single-family housing construction that emerged during the early recovery. The remaining housing demand probably will be rather sensitive to mortgage rates. Multifamily building may have grown faster than demand in 1984, as apartment vacancy rates and the stock of unsold condominium units are substantial in many areas. Nonresidential construction should continue its momentum, but office vacancy rates are worrisome in many cities.

A final area of continuing weakness, and perhaps one of the most important, is the international sector. The high exchange value of the dollar and the slower recovery abroad have weakened markets for American manufacturing. Producers of textiles, apparel, lumber, and other goods sensitive to foreign competition experienced weak growth in 1984, and their prospects probably will not improve in 1985. In addition, industries heavily dependent on exports, such as agriculture and machine tools, cannot hope for much stimulus from foreign demand.

Because of these weaknesses and the likelihood of slower growth in consumer spending and business investment, unemployment probably will decline much less this year than it did in 1984. Still, we believe it could fall below the 7 percent mark. Moreover, the weakness in certain sectors, such as construction, should not be exaggerated: we are now entering the mature phase of an expansion, in which construction typically contributes much less to growth than it does earlier. Overall, then, we look for respectable economic growth consonant with this stage of the business cycle.

Our projections for the new year are based on the course of the recovery and expansion since the end of the nation's last recession. The U. S. economy has experienced an impressive rebound since the recession reached its cyclical low in November 1982. During most of the expansion, growth in broad measures of aggregate economic activity, such as real GNP, industrial production, and employment, has been more rapid than in most recoveries since the Korean conflict. Aggregate economic growth, however, decelerated last summer and trends are now about equal to those of the average recovery.

This slowdown should not have been surprising. First, sizable demands for both consumer durables and business investment had built up during the years preceding the current expansion. As the recession ended and the recovery gained momentum, the fulfillment of these pent-up demands gave a one-time boost to economic growth, raising it to better-than-average rates. Once these demands were satisfied, though, growth rates slowed. A second factor in the slowdown is that lagged effects of spending, spurred both by the substantial stock market rally of mid-1982 to mid-1983 and by capital gains related to the appreciation of owner-occupied housing, dissipated. Inventory adjustments of the type experienced in late 1984 thus were predictable. Accordingly, a moderation in growth from the rapid pace registered in early 1984 should have been no surprise.

Despite this slowdown, however, fundamental factors underlying the longer-term outlook remain healthy. We see no imbalances of the type that normally presage a recession, for instance, severe inventory imbalances or balance sheet distortions. Furthermore, the interest rate declines that took place last fall should set the stage for improved monetary and economic growth. Consequently, economic activity should maintain its forward momentum in 1985.

Our outlook for 1985 is premised on several key assumptions about monetary and fiscal policy. We assume, for example, that monetary growth will remain around the middle of the tentative ranges adopted by the Federal Open Market Committee. Additionally, we assume an essentially unchanged growth of government expenditures and receipts, which necessarily implies a federal deficit in the neighborhood of $200 billion for fiscal 1985. Since last year's deficit also was large, and since the composition of both government spending and tax revenues generally is expected to remain about the same in fiscal 1985, it is reasonable to assert that fiscal policy will not contribute to any change in the 1985 outlook.

Consumption

Although consumption expenditures slowed substantially in the second half of 1984, they should regain some of their earlier strength this year, because the fundamental factors influencing consumption expenditures are positive. Real personal income growth, for example, should continue at moderate rates through

1985, and employment gains are unlikely to be reversed. On the other hand, those increases in wealth attributable to stock market gains and to capital gains from appreciation of owner-occupied homes that helped propel consumer spending in 1983 and 1984 probably will not play as much of a role in 1985.

Specific consumption categories should reflect these considerations. Purchases of both consumer durables (autos and major appliances, for example) as well as nondurables (such as food and clothing) are expected to show reasonable growth. Auto sales, in particular, have already begun to rebound from the lower, strike-related levels of last autumn, when shortages in the supply of autos depressed sales. While showing improvement, spending on housing-related items will track housing. Services expenditures—the most stable category of consumption—have become a growing portion of total household spending. Such expenditures (for instance, owner-occupied housing services, utility consumption, medical care, education, and transportation) should continue to provide stable growth during the year.

Business Investment

Business fixed investment contributed significantly to economic activity in 1984, with both its major components—expenditures for producers' durable equipment and for plant facilities—advancing at rates faster than experienced in the average recovery since the Korean conflict. This investment boom was fueled by a number of factors. Technological innovations in areas such as information processing and communications encouraged many businesses to increase their investment in equipment. Moreover, rising capacity utilization, healthy profits, stock market advances in 1983, and changes in tax laws favorable to investment in plant and equipment provided sufficient incentive and means to invest, despite historically high real interest rates.

Not all these favorable factors, however, will be bolstering investment in 1985. Consequently, growth of business fixed investment this year likely will slow from 1984's pace. Many of the influences promoting investment in 1984 already have weakened or expired. Capacity utilization, for example, actually fell during some months in the latter half of the year. The decline was partly strike-related, but it also was attributable to inventory corrections that occurred at that time. This adjustment, and the more moderate overall growth expected for 1985, should lessen capacity shortages and thus moderate investment needs.

Similarly, because vacancy rates of office buildings increased in 1984, fewer office buildings may be constructed in 1985. Profits declined in mid-1984 and are expected to continue deteriorating, since cost pressures normally build up at this stage of the business cycle. Such profit deterioration typically works against the stock market, which remained flat throughout 1984. Profit increases and stock price advances thus may not work to reinforce investment as they did in early 1984. As a result, investment in plant and equipment is likely to be somewhat weaker in 1985. Nonetheless, moderate overall growth will encourage some further growth in business fixed investment.

Inventories

Inventory adjustments played a major role in the modest growth experienced in the third quarter of 1984. Retailers, and subsequently wholesalers and producers, were left with unwanted inventory when consumers slowed their spending somewhat unexpectedly at midyear. Fortunately, improved inventory control procedures allowed rapid adjustment before substantial imbalances developed.

In the past, because of longer response times, changes in sales led to proportionately larger adjustments in inventories and production levels. Now, a combination of improved physical controls of inventory stocks (made possible by new computerized information systems, for example) and higher costs of inventory financing have worked to keep inventory-to-sales ratios relatively low compared with past expansions. In addition, low inflation rates have reduced incentives for speculative inventory accumulation, reinforcing the impact of higher carrying costs that normally accompany a period of disinflation.

The lower inventory-to-sales ratios for this year's outlook hold some important implications. Specifically, while inventory investment may provide less stimulus to GNP than in the past, it also should not create the imbalance that it has historically. In short, inventory cycles are likely to be less important in the future than previously. Inventory adjustments, therefore, should have little impact on economic activity in 1985. Nonetheless, as household and business spending expand, inventory investment should add modestly to GNP growth over the course of the year.

Housing

Housing activity declined steadily during 1984, with both the single-family and multi-unit categories showing weakness. Contributing to the decline were increases in mortgage rates at midyear and the previous satiation of pent-up demands for housing. Despite these adverse factors, other considerations should bode well for housing and contribute to stabilizing activity in 1985. First, mortgage rates declined during the latter part of last year, which may foster additional growth in 1985. Second, with the removal of most interest rate ceilings, the sort of classic credit crunch often associated with sharply declining housing activity is unlikely to develop. Innovative mortgage financing methods such as adjustable rate mortgages have worked to stabilize housing activity as well. Generally, housing will be weaker than it was in early 1984, but is expected to stabilize at moderate levels.

The International Sector

During 1984, U. S. exports remained in the doldrums while imports, lifted by strong demand in this country, soared. As a result, the nation registered a record deficit in its balance of trade.

Two factors appear to have caused the sharp increase in imports and slow growth of exports: the strength of the dollar in foreign exchange markets, and the unbalanced nature of the current world recovery. During 1984, the trade-weighted value of the dollar skyrocketed to its highest level in the foreign exchange markets in over a decade, increasing 14.3 percent. The strong dollar stimulated imports by lowering the prices of foreign-made goods in U. S. stores, and also reducing the cost to Americans of vacations abroad. At the same time, the strong dollar dampened U. S. exports by rendering American-made goods more expensive in foreign markets.

The current world recovery is unbalanced: aggregate demand and employment have recovered fairly sharply in the United States and in certain Asian countries (such as Japan, South Korea, and Taiwan), but the rebound has been disappointingly slow in Europe and Latin America. Strong demand in the United States has helped to stoke the surge in imports to this country, while weak demand in our traditional Latin American and European markets has tended to hold down U. S. exports.

For the past two years, many analysts have been predicting that the dollar would weaken; some even have predicted its sudden collapse. A decline in the dollar would, after a lag, stimulate U. S. exports and make foreign goods less competitive in U. S. markets. However, the dollar has held firm moving into the new year.

The 1985 outlook is for another troubling deficit in the U. S. balance of trade. A decline in the dollar, even if it comes, would have a substantial impact on U. S. exports and imports only after a time lag of many months. Given the continuing strength of the dollar recently, it seems safe to predict that imports into this country will remain heavy and exports weak during 1985.

Inflation

Price increases were moderate during 1984 as measured by all general gauges of inflation. Consumer prices rose 4 percent on a year-over-year basis, while the GNP deflator ended the year with an average increase of less than 4 percent. Producer prices were even more subdued, merely rising less than 2 percent above the 1983 average. The only sector showing significant price increases was services, which are less vulnerable to import competition than merchandise.

Although inflation is determined primarily by average long-run growth in the money supply, other forces unrelated to the money supply may temporarily displace prices from trend. In the mid- and late 1970s, for example, adverse shocks in the supply of goods, an undervalued dollar, and a series of bad harvests produced more inflation than the trend in monetary growth indicated. More recently, the strength of the dollar—which has experienced greater appreciation than fundamental factors would suggest—has worked to moderate price increases in several ways.

First, dollar appreciation directly lowers import prices and, consequently, also constrains price increases for import-competing goods as well as prices of the materials and components that go into them. Second, since dollar appreciation also makes U. S. exports more expensive to foreigners, it reduces foreign demand for these products and thus exerts downward pressure both on the products' prices and their inputs. Third, because the prices of raw materials and other industrial commodities traded in world markets (such as oil) often are denominated in dollars, dollar appreciation increases the prices of these commodities in terms of foreign currencies, thereby lowering demand in foreign countries. Recently, this relationship has been especially important in curbing European demand for commodities, which in turn has helped weaken the dollar price of important commodities, notably oil. Finally, abundant harvests and agricultural surpluses in the United States and elsewhere have kept food and food-related prices low, and productivity increases that have matched or equaled wage increases have restrained unit labor costs. As a consequence, during the past year we experienced somewhat less inflation than implied by the trend in monetary growth.

Certainly, a continuation of the within target monetary growth of 1984 will help keep price increases modest in 1985. The inflation outlook for the year is therefore quite favorable. On the whole, we anticipate moderate inflation during 1985 consistent with slowly rising capacity utilization, mid-target monetary growth, and a healthy dollar. Price pressure in the services component likely will continue to be higher than in sectors subject to direct import competition. Nonetheless, overall price increases will remain tempered by import competition.

The Atlanta Fed's regional economics team, headed by Gene Sullivan, is responsible for this special issue. William J. Kahley served as its coordinator. Members of the financial and payments system team and the macropolicy team also contributed.

Florida: Sunny With Few Clouds

David Avery and B. Frank King

Sizable employment gains and income growth seem likely to maintain Florida's expansion at a rate surpassing the nation's. Expected improvements in Latin American economies promise to reinforce this trend by stimulating the state's international trade and tourism.

Despite some troubles in important parts of Florida's economy, the state's recent record of relatively fast growth is likely to extend through 1985. The rapid movement of people into the state should boost incomes, consumer spending, and construction. Florida's manufacturing sector will profit from continued national growth and from liberal defense expenditures, and a healthy public-sector fiscal position will promote construction spending further. These factors should largely overcome weakness in the tourism, manufacturing, and agricultural sectors induced by the high foreign exchange value of the dollar, overbuilding, and a plague of troubles in the citrus industry including last month's freeze.

Key Economic Sectors

Florida's major income generators historically have constituted an interesting mix of volatility and stability. Tourism, touted as Florida's largest industry, is highly sensitive to the overall health of both the national and international economies and to the value of the dollar. Employing an estimated 9 percent of the state's payroll workers, tourism cuts across sector categories and represents a prominent income source for various retailers and transportation companies as well as for the familiar recreational and lodging service groups.

Migration, which provides a major portion of the state's income growth and demand, rises and falls with the nation's economy. Construction, another important underpinning of Florida's economy, likewise reacts in concert with the nation, partly because of its close relationship to migration and partly because it is influenced by interest rates and income. In addition to residential and commercial builders and developers, the financial community, real estate workers, and the state's many manufacturers of building products are affected directly by changing factors in the construction industry. The industry has been an engine of growth in Florida's economy, particularly during the past year. As of November, construction employment stood at 36,200 jobs above the level of a year earlier. International trade also is a leading component of the state's economy, especially for south Florida. The $18 billion sector is linked closely to Latin American countries and reacts quickly to their economic health.

Florida's economy has some major stabilizing influences as well. Much of the state's income is in the form of retirement pay. At 11.3 percent of total personal income, Florida's retirement income outranks that of any other southeastern

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state and is 3.6 percentage points above the national figure. Retired citizens, finding Florida amenable to their needs, continue to move to the Sunshine State from other areas of the country. The steady employment and payrolls of the state's many military bases provide for further stability.

Florida's agribusiness constitutes another significant and relatively stable component of the economy. About 11 percent of statewide income flows from agribusiness, with fruits and vegetables accounting for most of the farm revenue. The food processing industry, an additional stabilizer, employs approximately 48,000 workers; because imported goods can make up for crop shortfalls, the industry does not hinge on domestic production.

Finally, Florida's industrial sector has shifted from being a construction-driven and therefore volatile sector to one driven by technology closely allied to the recession-immune defense industry. Although defense spending is volatile from the political side, it tends to be less volatile than construction in terms of economic development. In 1983, the state ranked among the top three in the value of Department of Defense prime contract awards for missile and space systems and aircraft engines. The largest sources of manufacturing industry employment in Florida, at 122,000 workers, are the electrical and electronic and machinery industries, which typically list defense contractors as their largest customers.

Most of Florida's key sectors should contribute to continued growth in 1985 unless the national economy slows markedly. Migration to the state probably will accelerate as people, especially retirees, find themselves able to sell their homes in other parts of the country more easily. In-migration is expected to boost the state's population 2.5 to 3 percent, or 250,000 to 300,000, further strengthening housing and retail sales as personal income growth outpaces that of the nation. Also, military payrolls and retirement pay to Florida residents, which rose 16 percent from 1982 to 1984, are expected to post notable growth in 1985.

Military spending will exert a powerful influence on the state's economy this year and should engender further growth in its defense-related manufacturing sectors. Defense-generated growth also will stimulate migration into the state as corporate transferees arrive to fill positions in expanding businesses. For the second year in a row, Alexander Grant and Company of Chicago ranked Florida first in the nation for business climate, a fact that will not be overlooked by firms conducting location studies for new or expanding industries.

The vigorous construction industry is expected to slow somewhat this year, but activity will remain high by historical standards, especially if mortgage interest rates do not turn up significantly. Increased government spending on public facilities will bolster the construction sector and ancillary industries. A projected surplus in the state's treasury should encourage spending for public works projects. The boom in office space construction will slow, however, in part because of high vacancy rates.

The tourist sector should show renewed growth this year. The growth could be quite strong if exchange rates become more favorable to foreign tourists and less so to Americans traveling abroad. A number of competing events, such as the World's Fair, lured visitors away from Florida's attractions last year, but higher attendance can be expected in 1985. Economic recovery in the Latin American countries should boost tourism and the international trade sector and encourage visits by Latin American business people.

The agricultural sector received a shock with the outbreak of citrus canker following two years of damaging freezes. As a result, imports from Brazil are taking a greater share of the state's $1 billion citrus industry. In 1984, the orange crop remained 30 percent below the last normal year of production. Another severe freeze in mid-January and the relatively long period required to return to full production dim prospects for citrus producers in 1985.

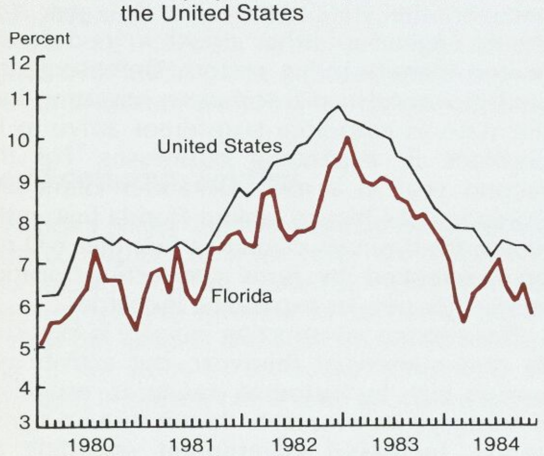
Florida's economic performance during the 1981-83 recession bettered that of the nation. Its unemployment rate was lower, and the downturn in the rate of change in personal income and nonfarm employment was less severe (Chart 1). The superior performance of Florida's key sectors was largely responsible for the state's favorable showing compared with the national economy during the recession and in the expansion of 1984 (Table 1). This year, the state's major income generators are expected to record continuing strength in most areas.

Population, Income, and Consumer Spending

Typically, Florida's economy is the fastest-growing among the states of the Southeast. In the 1981-82 recession, Florida's personal income growth led the region's, and rose faster than the national average. Since 1982, the state's economic growth has accelerated, outpacing the nation's by a substantial margin and standing second in the region only to Georgia. Florida's strong and rapidly advancing economy now accounts for more than one-third of the region's income.

So far in the 1980s, the state's pattern of economic growth marks a break from its usual cyclical volatility. Florida generally has entered into and emerged from recessions later and has varied more than the nation. This lag and greater variability are linked to the importance of population migration, tourism, and construction to the state's economic well-being. Migration and tourism, major sources of Florida's income growth and demand, rise and fall with the

Chart 1. Unemployment Rates, Florida and the United States



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

Table 1. Change in Nonagricultural Employment, Florida and the United States, November 1983 to November 1984

	Percent Change	
	Florida	United States
Total Nonfarm Employment	5.7	4.1
Construction	12.8	8.4
Transportation	0.3	4.1
Trade	6.7	5.1
Finance	7.2	3.5
Services	5.2	5.1
Government	3.3	1.3
Manufacturing		
Durables	7.0	5.3
Nondurables	3.7	1.1

Source: U.S. Department of Labor, Bureau of Labor Statistics, and Florida Department of Labor and Employment Security.

nation's economy, affecting both the state's volatile construction sector and its dominant service industries. (Chart 2 clearly illustrates the importance of the employment shares of the service and construction sectors to Florida relative to the nation.) Since 1980, however, Florida manufacturing jobs in recession-immune defense and related industries, such as electronics, have grown rapidly, perhaps making the state's economy more resistant to national business cycles.

Florida's economy did slow sharply in the 1981-82 recession, for migration dropped just as it had in previous slumps. By 1984, however, migration again was providing a strong boost to the state's economy. Moreover, the outlook for a growing national economy in 1985 points to accelerating population gains for Florida, which suggest continued vigorous growth of personal income, construction, and retail sales in the Sunshine State.

Florida's strong population and income growth over the past two years was reflected in unusually robust spending by consumers. From late 1983 to late 1984, monthly increases in retail trade, compared with the previous year's, were about double the increases nationwide. Within the state, however, south Florida lagged in the growth of population, income, and retail trade. If the Latin American economies rebound in 1985 as expected, and if effects of the Caribbean Basin Initiative prove to be stimulative, the Miami area should catch up with the rest of the state this year.

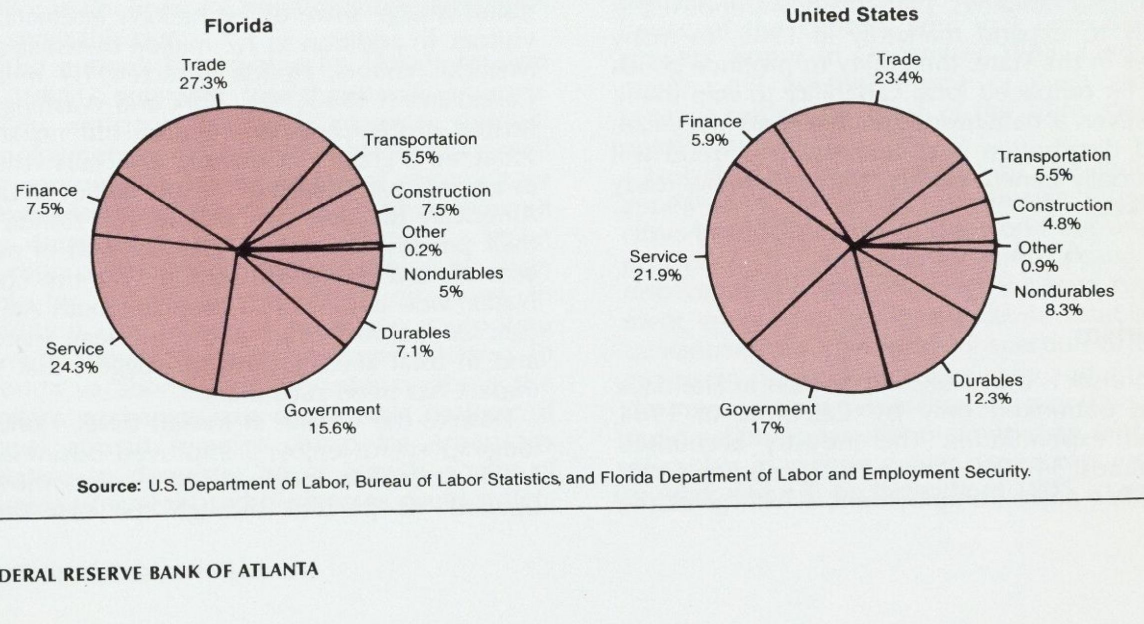
Heavy migration also has magnified the importance and volatility of construction in Florida's economy. High interest rates and poor economic conditions in other parts of the country slow home sales and tie more potential migrants to their current locations. Slack in Florida's economy may diminish its pull on working-age migrants as well. As the overall economy improves, however, potential migrants are able to loose their ties to home and seek housing and other services in Florida.

Construction

Residential. With the return of rapid, migration-induced population gains, the overall construction and real estate outlook for Florida is excellent. A major national recession or sharply higher interest rates would cloud this outlook, but most forecasters expect neither.

It is doubtful that residential construction activity in the Sunshine State will outpace the rapid growth of last year. Prospects for a surge in demand as potential homebuyers rush to make purchases postponed by the recession are minimal. Rather, it is more likely that growth will be driven by advances in current income, employment, and population.

Chart 2. Nonfarm Employment Share by Sector, Florida and the U.S., November 1984



Source: U.S. Department of Labor, Bureau of Labor Statistics, and Florida Department of Labor and Employment Security.

Nonresidential. Florida is in the midst of an office construction boom that we expect to moderate in 1985. Through the first nine months of 1984, the overall value of office building permits increased by 21 percent over the previous year. Miami recorded a 25 percent rise in this category, while Tampa's office building permit dollars rose a whopping 80 percent. Florida's strong economic growth has created expansion opportunities for existing businesses and fertile ground for new ones. The growth is heightening demand for white-collar professionals (doctors, lawyers, and so forth) who also need offices for their work.

However, the state's commercial construction is likely to slow in 1985 for two important reasons. A key feature of recent federal tax legislation lengthened the average depreciation period on commercial structures, decreasing income coverage and increasing the potential tax liability to owners and investors. In addition, all major Florida cities have a large stock of unleased office space that will deter some developers, especially in the unexpected event that business expansion falters. In Miami, for instance, despite an increase in commercial activity the downtown vacancy rate is around 18 percent, up 3.5 percent from 1983. Local experts project that it will take three to five years to lease fully the office space being constructed today. Even so, commercial developers often have proved willing to suffer through periods of sparse leasing and slow cash flow if the local business climate promises—as Florida's does—demand for their structures in the near future.

On the brighter side, the construction of new industrial buildings, particularly warehouses, is likely to expand markedly in 1985. In many cities in the state, the ability to produce goods has far outpaced local capability to ship them; however, a nationwide move toward decentralized distribution is continuing. This trend will especially benefit Florida, with its sizable, ready markets.

Tourism

Tourism is a $15 billion business in Florida, a state outranked only by California in 1984 travel expenditures. The industry accounted for almost 340,000 jobs in 1982, or 9 percent of Florida's payroll employment, which gives the state nearly twice the average share of travel-related jobs nationwide and places it sixth among the 50 states. Tourism also generated almost $700 million in state and local tax revenues, a figure exceeded only by those for California and New York.[1] Two of Florida's attractions are among the top six in North America in terms of attendance.[2] Florida ranked eleventh in national park visitations, and Miami's airport handled more passengers than all but seven other U.S. cities.

In 1984, the advantages of strengthened business and convention travel were largely wiped out by reduced foreign travel to the state and competition from the Olympics, the World's Fair, and foreign vacation destinations made cheaper for U.S. tourists by the persistently high value of the dollar. The result was a mixed year for Florida's tourist industry. Auto travel, as reflected in welcome center registrations, was up 6 percent through the first three quarters. Air travel increased sharply in most major cities after the first quarter, offsetting early declines that occurred in the wake of discount fare cutbacks. This increase is all the more notable since, nationally, plane-passenger volume was virtually flat for the year owing to losses in the first quarter.

Miami's weak 1984 performance was attributable primarily to reduced foreign travel. International departures slumped 3 percent through August and foreign arrivals were down 1 percent, while domestic volume was almost unchanged. The economic impact of reduced foreign travel to Florida is difficult to estimate, but it clearly has been important since the state claims a large share of the nation's international visitors. In addition to 1.7 million overseas and Mexican visitors, Florida attracted 1.4 million Canadians in 1983. New York and Washington hosted more Canadian tourists, but no state attracted a greater number of overseas visitors as a primary destination.[3] Nearly half of all Latin American travelers are bound for Florida as their primary destination, and one-fifth of overseas air arrivals in the nation visit the state. Nationwide declines in Canadian, South American, Central American, and Caribbean visitors, and in total alien air arrivals, suggest that the impact has been substantial.[4]

Despite the decline in foreign travel, Florida's lodgings sector enjoyed improved business in 1984. Statewide lodgings tax receipts moved upward 12 percent through the first three quarters. Occupancy rates generally rose as well, with the upturn being most noticeable in the south Florida market, which has experienced several successive years of declining or flat occupancy rates. In this respect, the state's experience follows the nation's, where occupancy increased through midyear after declining for several previous years.[5]

Orlando, however, experienced declining occupancy rates in 1984, reflecting a supply of hotel rooms that has grown by 9,000 in the past year to around 44,000—more than Atlanta or Chicago. Thousands of these rooms have opened recently and, although the number of rooms occupied has grown 4 percent, attendance at nearby attractions has not risen sufficiently to match demand with the new supply. Tampa faces a similar situation.

Attendance at Florida's principal tourist attractions was mixed in 1984. Walt Disney World's attendance through the first three quarters was down 7 percent; total state park attendance was up 8 percent, but overnight stays declined more. Other private-sector attractions reportedly did at least as well as in 1983, if not better, and national park visitations increased 21 percent through the first three quarters, a rise that is quite significant since park attendance was nearly flat in the nation as a whole.

Miami's cruise ship business expanded as large increases in the number of ships and berths have prompted some lines to offer substantial discounts. Cruise lines serving Miami, the nation's busiest cruise port, have increased their capacity more than one-third in the last two years, to two million passengers in 1983; major lines are building more large ships to serve this port.

The outlook is favorable for Florida tourism in 1985. Continuing, though gradual, improvements anticipated in total economic output, employment, and personal income bode well for consumer spending, including spending for travel. Moreover, as consumers' pent-up demand for durables approaches satisfaction, a larger portion of household budgets should be available for discretionary spending on travel. In addition, the absence of major competing events should stimulate renewed interest in Florida vacations. Only uncertainty about the dollar's exchange rate clouds this outlook: if travel abroad remains cheap for Americans relative to domestic travel growth, many of Florida's travel-related businesses could suffer.

The outlook for foreign travel to Florida also hinges largely on the exchange rate of the dollar and on the pace of recovery in Latin American countries, which account for the majority of the state's international travelers. Improved economic performance is expected in most Latin American countries. Whether that will translate into increased vacation or business travel is uncertain, because currency controls in many countries make it difficult for travelers to bring money out. The Commerce Department projects no growth in South American visits to the United States in 1985; however, it foresees a 2 percent increase in Canadian travelers and a 7 percent rise in Western European arrivals. If these projections prove accurate, international travel to Florida should advance, but only moderately.

South Florida should benefit from expected continuing growth in convention and business travel, with Greater Miami's convention bookings up around 20 percent for 1985. The area's longer term outlook as a convention center has been revived by plans to expand Miami Beach's convention center to a half-million square feet. Jacksonville's convention center should be completed in 1986, boosting tourism in that city.

Agriculture

Recent years have been unkind to Florida's agricultural sector, whose largest revenue earner, citrus production, has experienced considerable adversity. The industry suffered severe freeze damage in 1981 and 1982, and then the worst freeze of the century until that time dashed growers' hopes in December 1983. Only last month, still another freeze of even greater severity settled on most of the state, causing untold damage.

Last August, a new threat to the industry appeared. Citrus canker, a disease found in citrus-producing parts of the world but unseen in Florida for approximately 60 years, was discovered in a major nursery. The state government imposed shipping restrictions, established quarantines, and mandated inspection of citrus groves. In the end, nurseryowners and growers destroyed nearly five million nursery trees. The rapid action apparently prevented an outbreak of canker in mature groves. Inspectors are still at work and will be throughout 1985 to ensure containment of the disease. Officials are hampered by the sale of many trees for residential use, which are almost impossible to trace. Whether the disease will reappear cannot be determined for many months.

The outlook for the important citrus industry was mixed even before the latest punishing cold wave. The orange crop, while exceeding earlier expectations, was expected to remain approximately 30 percent below the last normal production year, 1980-81. Grapefruit production, on the other hand, seemed likely to increase substantially above 1983-84 before the freeze clouded producers' prospects for this year. The grapefruit industry has been suffering from over-production in recent years, but 1985 production remains uncertain as a result of the freeze. Orange growers in southern Florida, who experienced only minimal damage from the 1983 freeze, did not escape the mid-January 1985 blast. Even so, they may fare relatively well as higher prices improve revenue prospects for the remaining crop. Growers farther north, however, may have little crop to harvest and could find prices too low to offset their lost production.

The state's second major "off-season" crop, vegetables, earns Florida's farmers approximately $800 million each year. Vegetable farms suffered severe damage from the harsh freeze that stretched all the way into south Florida late in 1983. Fortunately, vegetables can be replanted to produce another crop quickly. For growers able to replant, the higher prices received helped balance the earlier losses incurred. Other growers found it more difficult to raise the necessary capital to replant.

Prior to the latest freeze, prospects for this season appeared favorable, with vegetable prices running approximately 5 percent higher than a year ago. The volume of imports from Mexico seems certain to increase to offset the second consecutive loss of Florida's winter vegetable crops. The strong dollar makes such imports cheaper and increases their competitiveness even when crops are normal.

Although sugar cane provides only a small portion of Florida's agricultural revenue, it is especially important in the south Florida counties of Palm Beach, Martin, Hendry, and Glades. The sugar produced from cane earns growers there approximately 5 percent of the state's farm revenue. Yields in 1984 were up moderately, production was 2 percent greater than the year before, and prices remained stable because of government support. Growers should have earned profits based on yield and price. Prospects for 1985 are clouded by the uncertainty of the extent of cold weather damage.

The cattle industry comprises an important part of Florida's agricultural economy, earning over 10 percent of all cash receipts. The industry benefited in the early months of 1984 from a seasonal rise in prices, but the balance of the year saw prices fall. Even though the average 1984 price exceeded that of 1983, cattle producers likely still found profit margins tight. In 1985, a decline in beef and pork production nationwide should give additional support to cattle prices, increasing revenue prospects slightly. No substantial increase in profitability is likely, however.

Industrial Activity

Far fewer manufacturing jobs were lost in Florida during the 1981-82 recession than during the mid-1970s slump, most probably because of the shift away from construction-related manufacturing and toward "high-tech" manufacturing. Florida's manufacturing employment grew faster than that of the nation for each of the first nine months of 1984. Most of the state's manufacturing sectors have posted considerable employment growth, far outperforming other southeastern states, since the 1981-82 recession. Employment in durable goods manufacturing registered particular strength, led by a double-digit growth rate in machinery employment. As of last September, machinery employment, which includes electronic and high-tech industries, stood 12,800 workers above the September 1983 level. Employment by producers of computer systems and equipment and communications equipment reached all-time highs. Military contracts in the assembly stage added significantly to these contractors' employment rolls.

Electrical equipment production ranks as Florida's largest manufacturing employer, with components such as electrical instruments, computers, missiles, and other space equipment exhibiting the fastest growth. Defense contractors such as McDonnell Douglas and United Technologies provide ready markets for electrical equipment produced by firms including Martin Marietta in Orlando, Harris Corporation in Melbourne, IBM in Boca Raton, and Honeywell in Tampa.

In 1983, Defense Department awards of prime contracts totaling more than $25,000 in Florida

Table 2. Net Value of Defense Department Prime Contract Awards Over $25,000, Sixth-District States and U.S., Fiscal Years 1981, 1982, and 1983

State	1981	1982	1983	Percent Change 1981-83	Absolute Change 1981-83
Alabama	847,752	953,011	1,127,027	32.9	279,275
Florida	3,169,443	4,118,823	4,650,187	46.7	1,480,744
Georgia	1,334,188	1,700,689	2,449,101	83.6	1,114,913
Louisiana	3,045,133	1,621,600	1,484,285	−51.2	−1,560,848
Mississippi	1,442,704	1,410,735	1,840,321	27.6	397,617
Tennessee	521,071	701,438	828,315	59.0	307,244
United States	87,761,000	103,858,000	118,744,000	35.3	30,983,000

Source: Department of Defense, Directorate for Information Operations and Reports.

accounted for nearly 40 percent of all such contracts awarded in the six District states (Table 2). With 22 percent of the U.S. total, the state ranked second only to Connecticut in the value of contracts for aircraft engines and related spares; it ranked third behind California and Massachusetts in missile and space systems, with over 6 percent of the national total. Florida, with 400 defense-related businesses, will draw about $6 billion in government defense spending this year, when a 5 percent growth rate is projected for such firms in the state.

Employment reached record highs in the transportation equipment industry, helped especially by space vehicle production. Building materials industries such as lumber and wood also surged in response to expanding housing starts. The printing and publishing industry has added significantly to job rolls, as have paper producers responding to packaging needs for items such as auto parts and forms used with computers.

Notable exceptions to the rapid manufacturing employment growth have been the food processing and phosphate mining industries. The strength of the dollar has sapped food exports, and the general maturity of that industry limits prospects for future growth. Troubles in the phosphate industry have hampered the state's producers in generating new jobs. The federal Payment-In-Kind program (PIK) reduced domestic demand for phosphate fertilizer; however, the termination of that program is currently stimulating domestic demand for fertilizer as farmers return to former planting levels. Likewise, phosphate exports appear to be regaining lost momentum.

The outlook is positive for further manufacturing growth, primarily because of expansion in the electronics sector. Large companies continue to expand near the Kennedy Space Center on the east coast, where one aerospace firm is building a satellite assembly plant and another is gearing up to produce cruise missiles. The Space Shuttle program plans on one launch a month, ensuring activity in nearby support industries. Near Orlando, construction of a $400 million semiconductor plant—on hold since 1981—has been resumed. When complete, this plant will employ 2,500 workers.

Public Sector

While national lawmakers sought ways to resolve the federal budget deficit, Florida's lawmakers convened in January with revenues anticipated to exceed expenditures by a margin of $122 million at the end of fiscal 1985. That surplus comes in the aftermath of a combined $282 million surplus in fiscal 1984 and 1983.

Florida's fiscal house is sound even though state spending rose 13.6 percent in fiscal 1984 and is expected to climb 12 percent in fiscal 1985. The favorable financial position has occurred on the revenue side of the income statement. In 1983, the state raised its general

Table 3. Full-Time Equivalent Public-Sector Employment in Florida

	Number			Per 10,000 Population		
Year	Total	State	Local	Total	State	Local
1983	467,821	110,085	357,736	438	103	335
1982	467,396	111,787	355,609	449	107	341
1981	461,614	106,410	355,204	453	104	349
1980	458,804	104,664	354,140	471	107	364
1979	441,350	104,037	337,313	498	117	381
1978	438,682	101,846	336,836	510	119	392
1977	429,709	97,371	332,338	508	115	393
1976	406,796	96,675	313,121	487	115	372

Source: U.S. Department of Commerce, Bureau of the Census, *Public Employment in 1976-83.*

sales and gross receipt tax from 4 percent to 5 percent. The projected $12 million surplus for fiscal 1985 assumes that strong economic growth also will boost revenues from the sales taxes.

Florida's strong revenue growth and demand for public services are reflected in government hiring. Unlike other states in the Southeast, whose public employment declined during the 1981-82 recession, Florida's public work force continued to grow. That growth occurred at the local level while state payrolls declined. Nearly three-fourths of all public-sector workers in Florida are now with local governments, compared with about two-thirds for neighboring Alabama and Georgia.

Florida's population has grown even faster than its public employment, reducing the ratio of public workers per capita. In October 1983, for instance, there were 438 public employees per 10,000 residents, a figure 16.4 percent below the 510 employees per 10,000 five years earlier (Table 3).

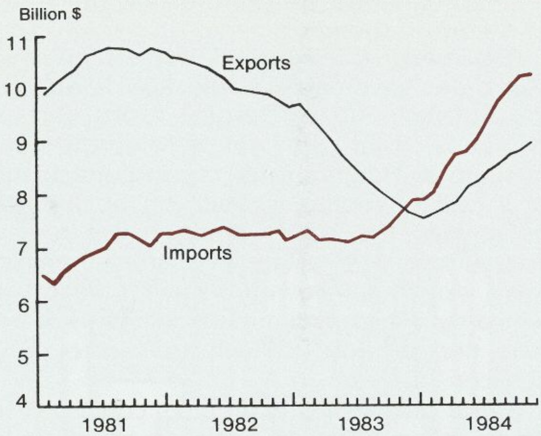
Aside from public-sector job growth, another primary beneficiary of Florida's strong fiscal position is public works projects. State and local governments began borrowing heavily at the end of the 1981-82 recession, but they held onto the funds until the winter of 1983. In the first half of 1984, however, they apparently began making up for lost time.

State and local government spending to improve public facilities tripled from $15 million in the first seven months of 1983 to $45 million in the same period last year. In Orlando, perhaps the fastest growing area in the Southeast, spending for public works increased from $625,000 in 1983 to almost $8 million in 1984. Sharp increases also occurred in Miami, Ft. Lauderdale, Daytona, Melbourne, Tampa, and West Palm Beach. Public works spending slowed, however, in Tallahassee, Sarasota, and Jacksonville.

International

The strengthening of the U.S. dollar in world currency markets and sluggish global trade influenced the state's international trade performance during 1984. Import growth at the ports of Miami, Tampa, and Jacksonville reached an all-time peak, helping to make up for lost export sales to Latin America. In Miami, the state's main seaport, export activity for the year ending last December was off 2.5 percent from depressed 1983 levels. The economic weaknesses of Florida's major trading partners have altered the structure of the state's international trade substantially. While total trade volume in 1984 was about the same as in 1981, its composition has changed with slackening exports and surging imports (Chart 3). South Florida ports and airports exported over $10 billion worth of goods during the 12-month period ending September 1984.

Much of the deterioration of export activity was concentrated in shipments to Latin America of machinery, electrical and electronic products,



Source: U.S. Department of Commerce, *Highlights of U.S. Export and Import Trade.*

transportation equipment, and other manufactured products. Together, these shipments accounted for more than one-third of Miami's exports in 1984.

Phosphate and allied products, comprising nearly 90 percent of Tampa's export tonnage, carried much of Port of Tampa's improved performance in 1984. But in large part, the invigorated trade activity at Tampa and the Port of Jacksonville was credited to rising import demand. The strong U.S. recovery greatly favored automobile, steel, and lumber imports, which posted additional gains from rising 1983 levels.

The state's $18 billion international trade sector should continue to grow during 1985. Unless the dollar weakens substantially, a continued import drive will be fueled by a growing domestic economy. State exports should experience a mild recovery even if the dollar remains steady. State exporters are comforted by recent reports of better economic conditions in Latin America resulting from the renegotiated debts, and by improving financial and economic conditions of some major trading partners. The favorable impact of the U.S. economic recovery, already expressed in strong import demand, should also gradually brighten the new year's trade outlook.

The state's foreign commerce has had a significant impact on other sectors of Florida's economy. During the last decade, for example, trade activity facilitated the establishment of an international banking center in Miami, bringing the city new commercial construction development and investment. In recent years, Miami's international banking has burgeoned into a diversified network serviced by a conglomerate of local, regional, and major domestic and foreign money center banks. The nearly 100 banking institutions involved in international activities should greatly benefit from expanded trade in 1985, particularly as Latin America emerges from its financial crisis.

Another factor enhancing the state's international outlook for 1985 is increasing foreign investment, which provides more than 30,500 jobs and $500 million in annual wages. Currently, there are 342 foreign companies in Florida involved in manufacturing and commercial operations. Besides taking advantage of the state's wide marketing opportunities, these companies use its six foreign trade zones and diversified port facilities.

The flow of new and expanding international firms to Florida is expected to accelerate with the Florida legislature's recent repeal of the controversial unitary tax, which had taxed the worldwide earnings of companies and their units.

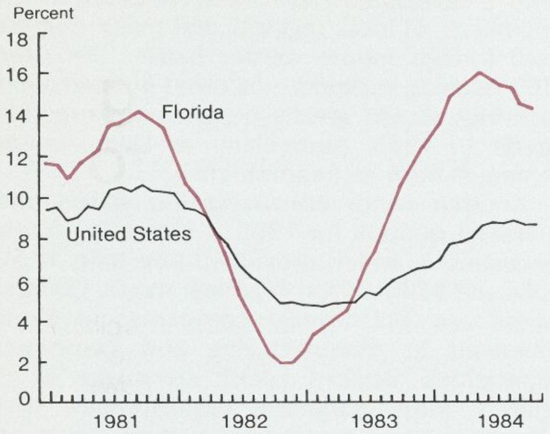
Labor Market

Continuing strength in migration and electronics manufacturing and moderate growth in tourism and some other industries will usher more jobs into most sectors of Florida's economy in 1985. Last year, the second year of economic expansion, Florida's labor market experienced steady improvement. The state's employers added 229,900 more workers to their payrolls, not only absorbing new entrants into the work force but also finding jobs for 86,800 of the 406,800 who were unemployed at the end of 1983. Strong employment growth reduced the statewide jobless rate from an annual average of 8.6 percent in 1983 to 6 percent late in 1984.

Persisting advances in construction will be another important factor this year. Throughout 1984, construction employment grew five times faster than the year before. Since the end of the 1981-82 recession, more than 75,000 new construction workers have been added to the state's labor force.

Florida's attractive markets both for savings and for lending continue to encourage growth of its financial services industry, while sizable advances in home sales and businesses have provided solid job expansion for the insurance

Chart 4. Annual Percent Change in Retail Trade, Florida and the United States



Source: U.S. Department of Commerce, *Monthly Retail Trade.*

and real estate industries. These sectors have added over 25,000 new jobs since 1983 and yearly growth through much of 1984 was twice the 1983 rate. Migration, which had slowed in 1981-82, will be stronger in 1985 and construction jobs should continue to rise as employers try to fill the needs for more business services and housing.

As Floridians went through a second year of expansion, consumer spending remained strong (Chart 4), providing more jobs in the retail sector. Trade employment grew 8 percent on average in 1984, well above the 4.5 percent increase in 1983, and added 72,400 new jobs to the state's economy. Automobile dealers, eating and drinking places, furniture stores, and general merchandise stores enjoyed a positive year. Growth of consumer durables spending is expected to slow this year as most of the pent-up demand for these goods is satisfied. We anticipate that retailers and wholesalers will add fewer jobs in 1985 than last year.

Florida's marked growth in services has been concentrated primarily in the medical and health-care fields. Continuing in-migration of elderly citizens virtually will ensure employment advances in these sectors. However, potential drawbacks for health-care workers inhere in programs aimed at containing medical costs and in impending federal legislation designed to slow the growth of Medicare spending.

Apparently, the wave of interest in downsizing the government's role also is affecting the Sunshine State. Despite strong gains in revenues from the one-cent-on-the-dollar increase in Florida's sales tax and anticipation of a budget surplus by the end of the 1985 fiscal year, the state's hiring policy remains conservative. At the state level, at least, employment growth has been too small to keep pace with a rapidly growing population. Thus residents may find it more difficult to secure public services this year.

At the local level, the problem could be even more severe. Although public employment has continued to increase in absolute terms, it has declined relative to the population growth. Local government seems to be the area where public services are needed most to service a rapidly expanding elderly population.

Conclusion

Florida should continue to experience greater-than-national growth in most of its major income-producing sectors in 1985. Employment gains will keep the jobless rate low, and income growth will stimulate many of the state's service and service-related industries. Although 1984's manufacturing job growth will be difficult to sustain, the durable goods sector producing military equipment and supplies should continue to bolster manufacturing employment. Other sectors seem poised for renewed growth. For example, improvement in the economies of the Latin American countries should foster higher levels of international trade and tourism. Also, migration to the state is expected to pick up, stimulating retail trade and residential construction. The outlook for Florida agriculture is clouded, with still another freeze compounding the troubles of vegetable, sugar cane, and especially citrus producers who already faced a rebuilding process in 1985.

NOTES

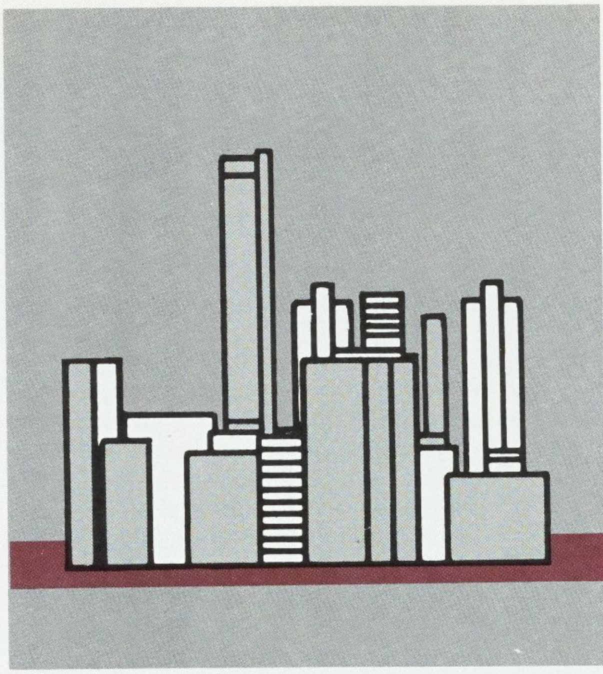
[1] *Economic Impact of Travel on State Economies, 1982*, (Washington, D. C.: U. S. Travel Data Center, 1984), pp. 8, 31, 40.

[2] *Tourism's Top Twenty* (University of Colorado and U. S. Travel Data Center, 1984), p. 86.

[3] U. S. Department of Commerce, U. S. Travel and Tourism Administration, *In-Flight Survey*, Table YOS1, pp. 9-A, 13-A, idem, *Summary and Analysis of International Travel to the United States*, p. 29; Don Wynegar, "International Travel to and from the United States, 1985 Outlook," U. S. Department of Commerce, U. S. Travel and Tourism Administration, September 14, 1984.

[4] *Summary and Analysis of International Travel to the United States*, June 1984, Table A.

[5] Hotel occupancy data are provided by Laventhol and Horwath; Pannell, Kerr, and Forster, and the Orlando Chamber of Commerce.



Georgia: Strong But Moderating Growth

Joel Parker and Mehmet Ilgaz

In-migration, an appealing business climate, and an extensive defense establishment point to continuing though somewhat slower growth for Georgia this year.

Georgia's economy is expected to build on its fine 1984 performance this year, even though all major state industries are likely to experience somewhat slower growth. Commercial construction and retail trade could face the most abrupt adjustments, while residential construction and services should expand at slightly reduced rates. The restructuring of Georgia's textiles industry will continue to burden manufacturing, but the public sector should perk up this year with tax coffers replenished. Georgia's farm outlook is barely better than last year's mediocre showing. Still, Georgia's overall economic momentum should remain among the strongest in the Southeast, and in the national context the state should continue to make relative gains.

Georgia and the Nation

The Georgia and U.S. economies differ substantially, but in some ways are remarkably similar (Table 1). Georgia's single largest area of employment, like that of the U.S., is in the wholesale and retail trades. However, the wholesale segment employs 7.5 percent of Georgia's nonagricultural workers, compared with 6 percent for the nation. Atlanta's role as a regional distribution center partly explains the state's relatively high proportion of employment in wholesale trade. Georgia and the nation have comparable proportions of workers in retail trade, but the state, and particularly Atlanta, has experienced explosive growth in this area over the past year.

It still may surprise some that Georgia's 22 percent of workers in manufacturing exceeds the countrywide average of 21 percent. The majority of Georgia manufacturing is in nondurables such as textiles and apparel, compared with a much higher concentration of U.S. manufacturing in the production of durable goods such as automobiles and machine tools. From 1979 to 1984, the percentages of jobs in manufacturing in the nation and in Georgia both fell almost 3 percent. The national proportion of jobs in durables manufacturing fell faster than in Georgia, and the state's percentage of nondurables manufacturing jobs dropped off more quickly than the nation's. Manufacturing employment is expected to continue declining as a proportion of total jobs in Georgia and the nation during 1985.

Government employs a larger percentage of Georgians than of workers nationwide. Nearly 4 percent of the state's nonagricultural workers are employed by the federal government compared with 3 percent for the whole country. Like many southern states, Georgia has welcomed large

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The authors are, respectively, economist and student intern on the Research Department's regional team.

Table 1. Georgia and U.S. Employment, 1979 and 1984
(in percent)

Nonfarm Employment	1979* Georgia	1979* United States	1984* Georgia	1984* United States
Mining	–.4	1.0	.3	1.0
Construction	4.8	5.0	5.5	4.6
Manufacturing	25.0	23.5	22.0	21.0
Durables	9.0	14.0	8.4	12.4
Nondurables	16.0	9.0	13.8	8.5
Transportation & Public Utilities	6.4	5.7	6.4	5.5
Trade	23.0	23.0	24.5	23.0
Wholesale	7.3	5.7	7.5	6.0
Retail	15.7	16.7	17.0	17.0
Finance	5.0	5.5	5.3	6.0
Services	15.4	19.0	17.6	22.0
Government	20.0	17.4	18.1	17.0
Federal	4.0	3.0	3.7	3.0
State & Local	16.0	14.0	14.5	14.0

*Employment percentages as of October of the year.

Sources: Georgia Department of Labor, and United States Department of Labor, *Survey of Current Business.*

federal military complexes as steady sources of jobs and income. Atlanta serves as a regional center for several federal government agencies, further boosting government employment in the state. The relatively high state and local government employment may be partly attributable to the abundance of counties in Georgia, each requiring separate government services. Georgia's nonfederal public sector employment stood at 352,000 in November 1984 and is expected to grow in 1985.

Georgia's relatively large construction work force is certainly consistent with its reputation as a rapidly growing Sunbelt state. During the first nine months of 1984 the percentage of Georgians in construction grew at two to three times the annual rate of the U.S. construction work force.

Service employment in the state is decidedly smaller than in the nation. Although the state encompasses Atlanta, Savannah, and other metropolitan areas, Georgia also has a sizable rural agricultural-based area, which tends toward self-sufficiency in the service market. Around 80,000 people live and work on farms in the state according to one estimate. City dwellers such as Atlantans are heavier consumers of service-sector products than those in rural areas. Probably because of the size of the rural economy, Georgia's service growth lagged behind the nation's from 1979 to 1984. However, the proportion of service employment should approach that of the nation as metropolitan areas become a more prominent part of Georgia's economy.

The Atlanta metropolitan area's significant contribution to Georgia's economy helps explain some major employment differences between the state and nation. The Atlanta area is home to almost 40 percent of the state's populace, has nearly half of the state's nonfarm jobs, and generates 43 percent of its personal income. Yet Atlanta is not necessarily a barometer of job markets in the rest of Georgia.

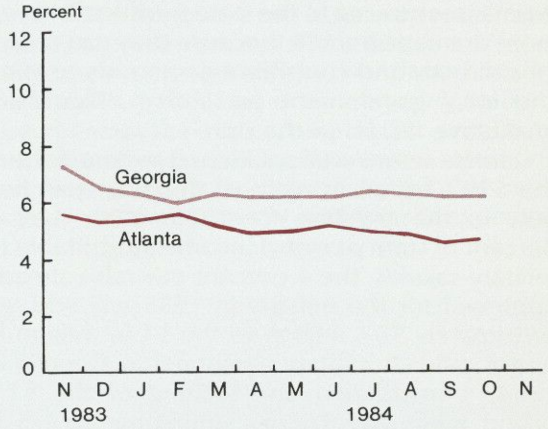
White collar and service jobs predominate in Atlanta, making the metropolitan area's economy faster growing and more recession-resistant than that of the rest of the state and the nation. In large part, the rapid service industry employment growth in Georgia has been caused by this sector's large size and quick expansion in Atlanta. Manufacturing jobs are more heavily concentrated in Georgia outside of Atlanta, making the rest of the state relatively less resistant to national business cycle slowdowns. The strength of Atlanta's labor market tends to pull up the state's employment growth relative to the nation, sometimes masking employment weakness in the rest of Georgia.

Because of strong in-migration, a favorable business environment, and a wealth of defense installations and industries, Georgia's economy likely will grow faster than the nation's in 1985, and probably beyond. For the last decade or more, the state, and particularly its capital, Atlanta, have been a magnet for in-migration, surpassed in the Southeast only by Florida. Net in-migration to the state is estimated conservatively to have been 50,000 people in 1984, or almost 1 percent of the state's population.[1] Another study found that from last April 1 to October 1, the Atlanta Metropolitan Statistical Area gained 52,453 residents from natural increase plus migration, making it the nation's third fastest-growing MSA over this period.[2] Half or more of Georgia's total in-migrants settle in the Atlanta metropolitan area and the remainder locate mostly in other population centers. Atlanta also attracts new residents from other Georgia locations.

The 50,000 or more in-migrants to Georgia settled into about 17,000 houses, condominiums, or apartments, substantially magnifying the housing need that would have resulted simply from natural increase in the population. The many new households' total spending greatly stimulated the state's economy, generating more demand for goods and services, indirectly creating more jobs, and in turn generating more income that fed back into the economy. Migration will remain a primary factor in the state's faster-than-national growth. However, as growth of the state's economy moderates and the rate of new employment opportunities slackens later in 1985, the strength of the migrant flow also may begin to subside.

Georgia's economy showed an almost unparalleled ability to generate jobs for its fast-growing population during 1984. While its labor force increased about 3 percent, total employment forged ahead at a 4 percent annual rate, more than double the 1983 pace. Georgia and Atlanta absorbed the new workers with relative ease, registering seasonally adjusted unemployment rates of about 6 and 4.5 percent, respectively, late last year. The rates mark a significant improvement from Georgia's 7 percent and Atlanta's 6 percent unemployment figures in effect at the close of 1983. Georgia unemployment seems to have bottomed-out at about 6 percent (Chart 1). The state's jobless rate is expected to decline little in 1985 because of continuing in-migration and slower employment growth in the construction, retail sales, and manufacturing sectors. But Atlanta's unemployment rate could come down somewhat with continued strong employment gains by the metropolitan area's large service sector.

Chart 1. Georgia and Atlanta Unemployment Rates (seasonally adjusted)



Source: Georgia Department of Labor, seasonally adjusted by the Research Department, Federal Reserve Bank of Atlanta.

An excellent business climate also should enable Georgia to exceed the national employment and personal income growth rates in 1985. A 1984 study placed the state fourteenth from the top in overall business climate, but ranked it sixth according to its level of business activity.[3] Although such rankings are highly subjective, they do indicate that those polled felt the state was a better site for their businesses than most other states. Georgia's rankings also suggest that businesses outside the state have more interest in expanding into or wholly relocating in Georgia than in most other states. The number of out-of-state firms incorporating in Atlanta increased in fiscal 1984 by 17.5 percent over 1983, and was still increasing late in 1984.[4]

Georgia's attractiveness to out-of-state businesses and business people, including foreign investors, contributes to its rapid growth. Employees transferring to Georgia, who account for an important segment of in-migration, are generally well above average in skill level and income compared with the native population, and usually contribute positively to the state's economy. Businesses moving to the state produce an even more dramatic benefit, because they can create jobs directly and contribute generously to state and local government tax coffers. These are qualitative factors in the state's favor.

Georgia seems well positioned to benefit from the $292 billion in national defense spending now in the pipeline for 1985. With over 2 percent of state personal income attributable to military salaries, the 4 percent pay raise already approved for the military in 1985 will add approximately $67 million to the $1.67 billion in wages paid to military personnel in Georgia in 1984. Construction and staffing of the $1.4 billion Kings Bay Trident submarine base will continue in 1985. Production of C5-B military airlift jets by Lockheed-Georgia in Marietta will pump additional dollars into the state this year.

Commercial Building To Abate

Employment expansion in construction led all Georgia industries last year, with almost 15 percent growth. Much of the added employment was in Atlanta, where commercial construction has been booming while residential construction has held steady. There are two principal reasons why this rate of employment growth probably cannot continue through 1985. First, both residential and commercial building are expected to grow more slowly this year. Second, with most skilled construction labor already on the job somewhere, most additions to the work force must come from workers now employed elsewhere. The limited mobility of these skilled workers from other states points to a tapering off in the growth rate of the Georgia construction work force into 1985. Upward pressure on construction wages can be expected if the building industry continues its 1984 growth pace.

Reductions in the Accelerated Cost Recovery System (ACRS) write-off provisions and other tax changes in the Tax Reform Act of 1984, rising vacancy rates in office buildings, and expected moderation of growth in the national economy account for the anticipated slower pace of commercial construction activity. The Tax Reform Act provides for an increase from 15 to 18 years in the ACRS depreciation write-off period for real property. This provision will reduce the incentive to own or invest in commercial real estate and could lead to the shelving of marginal projects made less attractive by lower after-tax profits. Although this three-year extension and other changes in the act will have a less overwhelming effect, they will inhibit investment in commercial structures.

Last year, office building permits in Georgia were strong, as evidenced by the phenomenal rate of office construction in Atlanta and elsewhere. The dollar volume of permits in 1984 was 42 percent above its level of a year earlier (Table 2).[5] Most Atlanta office construction took place in the suburbs, resulting in a climb in suburban office vacancy rates from about 7 percent at midyear 1983 to over 10 percent by mid-1984.[6] Atlanta's overall office vacancy rate likely will rise in 1985 because commercial construction will remain strong, and office space absorption probably will moderate as the rate of new business incorporations and expansions declines.

Institutional investors are bullish on the Atlanta office market because of its excellent business climate. They believe that within 18-24 months of a building's completion they will be able to lease or sell their investment at an acceptable rate of return. A cooling national economy could lessen office construction by slowing leasing schedules and thus reducing expected return. Although developers and leasing agents remain optimistic about near-term opportunities in the market, Atlanta office construction could begin slowing in the second half of 1985.

Last year, the value of nonresidential construction in Georgia was 25 percent above its 1983 level. Among Georgia's major cities, only in Savannah and Columbus was nonresidential construction relatively weak. Atlanta experienced a strong 30 percent increase, which was greatly assisted by the office boom. In particular, the Perimeter Crescent area, ranging along I-285 from I-85 to I-75, is growing rapidly. Some developers are buying properties currently zoned residential, expecting to construct office complexes on the land after the properties have been rezoned to commercial status.

The industrial leasing and construction market also is vigorous in Atlanta, as it has been for the past year. If its normal performance lag relative to the general economy holds, activity will be even stronger this year. Especially in the bulk warehouse market, the historically low vacancy rates of less than 2 percent will facilitate the translation of expected new demand into new construction or higher rents. The business park market reports vacancy rates of 5 to 6 percent, which approximate historical averages.

Home Market Growth Likely

The residential real estate market probably will advance in 1985, but at a reduced pace. Most of the ingredients for a healthy housing market appear intact: strong in-migration, declining mortgage rates in late 1984, expanding personal income, and a low level of unsold new home inventory. However, the expected slower expansion of Georgia's economy and of in-migration late in 1985 probably will hold residential construction growth below 1984's rate.

Robust in-migration drives the Atlanta housing market and, to a lesser extent, housing markets elsewhere in the state. A significant portion of that migration is due to businesses relocating here from out of state, bringing employees with them. The flow of people and firms is expected

Table 2. Construction in Georgia

	Value of Nonresidential Building Permits ($000)	Value of Nonresidential Construction (Millions $)	Residential Construction Units
Augusta			
Total 1984	49,343	80.1	3,849
Percent change*	9.7	25.5	15.2
Atlanta			
Total 1984	1,306,150	1,136	42,877
Percent change*	54.0	30.4	6.8
Columbus			
Total 1984	62,110	51.2	1,409
Percent change*	62.8	−12.9	10.1
Macon			
Total 1984	52,508	100.5	2,711
Percent change*	62.3	58.5	29.7
Savannah			
Total 1984	51,978	39.7	1,337
Percent change*	−3.0	−21.9	−6.1
Georgia			
Total 1984	1,712,121	1,998.3	66,493
Percent change*	41.6	25.7	5.4

	1984**	1983**	Percent Change*
Atlanta			
Single-family building permits	28,898	27,034	6.9
Multifamily building permits	17,413	13,689	27.2
Georgia			
Single-family building permits	41,275	39,120	5.5
Multifamily building permits	25,138	23,321	7.8

$$\text{*Percent change from '83} = \frac{\text{Total between January and November 1984}}{\text{Total between January and November 1983}} - 1.$$

**The figures for each year are January-November cumulative.

Sources: U. S. Department of Commerce and F. W. Dodge-McGraw Hill.

to diminish slightly this year as a result of the slower growth rate foreseen for the Georgia and U.S. economies.

Declining mortgage rates in the last five months of 1984 will help stimulate market demand by enabling more potential homeowners to qualify for loans. From mid-July to early December, the effective interest rate on conventional 25-year fixed-rate mortgages made in Atlanta declined by more than a full percentage point. The rate on adjustable-rate mortgages (ARMs) has retreated as well, but to a lesser extent. Some new housing demand also has arisen from the rapid increase in personal income in Georgia. Housing demand sparked by in-migration and higher personal income should manifest itself in faster home sales in the first half of 1985.

Despite their decline, construction financing rates remain high enough to inhibit builders from increasing their now moderate home inventories for speculative purposes. The speed with which houses can be built today—often within the span of a month—combined with high carrying costs apparently encourages builders to build to order. With the resulting low inventory of unsold new homes, construction will accelerate quickly if housing sales pick up as expected in the first half of the year.

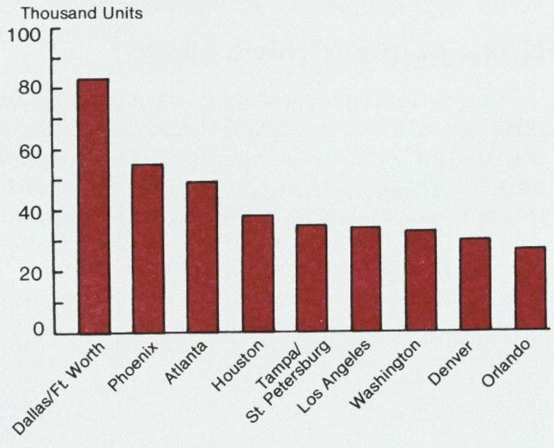
Residential construction units, the gauge of actual housing construction activity, increased in all major Georgia cities in 1984 except Savannah. Macon led the way with a 30 percent increase in units for the first eleven months over the same period in 1983.

Atlanta also has been doing well in adding single-family housing. Through the first nine months of 1984, total single-family starts in the Atlanta area were exceeded by only two U.S. metropolitan areas (Chart 2). This activity was spurred by declining home prices in Atlanta: the average price for new and existing homes for the metro area in the second quarter of 1984 was $96,000, 7.8 percent below the level a year earlier.[7] Both the moderation in housing material costs and last summer's soft housing market contributed to this decline in average sales price.

Brake on Trade Sector Growth

Georgia's retail sector growth could slow significantly in 1985. From January through August 1984, state taxable sales grew at an average annual rate of 17 percent compared with state personal income growth of 12 percent through midyear. Growth in Atlanta convention attendance contributed to Georgia's taxable sales surge but was not its primary cause. Sales growth cannot continue indefinitely to exceed personal income growth by such a margin, and so sales advances can be expected to line up more closely with income gains during the first half of 1985.

Chart 2. Housing Starts in Major U.S. SMSAs (January - September 1984)



Source: Chicago Title Insurance Company.

Strong 1984 retail employment gains were attributable partly to the opening of two large shopping centers in Atlanta; two more will follow in 1985. However, experienced retail personnel are, for the most part, already employed. In 1985, high-quality sales people for new Atlanta-area retail establishments probably will command higher wages than were offered to similar new workers in 1984.

Georgia trade employment grew at an 8 percent annual pace in 1984, or roughly double the national rate. Much of this growth was in the Atlanta area, where retail sales strength has achieved a high national ranking. Retail employment expanded in response to more generous spending in the state. Atlantans and Georgians have been spending a high proportion of their personal incomes, which have grown faster than in any other southeastern state over the last two years.

Services: Steady Ahead

With Georgia's economic growth expected to moderate and in-migration likely to taper off, 1985 service employment growth is projected to slow, but probably less than that in the construction and retail sectors. Staffing of major additions to Atlanta's convention facilities will contribute to some growth as several hundred service jobs are added.

Services is the state's third fastest expanding employment category, averaging 7 percent annual growth for the first ten months of 1984. The increase in Atlanta's service employment has outpaced the rest of the state because of the city's mushrooming tourism and convention trade and the many service professionals, such as doctors and accountants, required to meet the needs of its surging population and businesses.

Georgia's service sector tends to maintain its momentum when other components of the economy are slowing, thus enhancing the total Georgia economy's recession resistance. Service professionals and hotel and convention workers constitute a major proportion of Atlanta's service employment. Legal and accounting firms are less likely to lay off staff during a business slowdown than are manufacturing concerns. Similarly, the army of service workers required to run a business such as a large hotel cannot be reduced drastically if the establishment is to run at all. The service industry thus carries considerable forward inertia.

Banking and Finance Revolution

The same growth, diversification, and integration that characterized the 1984 banking and finance industries could well continue this year. In fact, 1985 could also bring a siege of bank mergers and acquisitions, both within the state and with institutions in Florida and North Carolina.

Unquestionably, Georgia's passage of a reciprocal regional interstate banking law in 1984 altered strategic thinking among the state's financial institutions more than any development since the Monetary Control Act of 1980. The merger of Trust Company Bank of Georgia with Sun Banks of Florida proposed last year christened the new Southeast banking region. Suddenly, every banking organization in the state felt compelled to decide whether it would serve its stockholders better if it survived as a distinct organization or if it was absorbed by merger or buy-out in the future. Once the interstate consolidations begin in earnest, they could run their course fairly quickly. Industry analysts believe that institutions absorbed first will command substantially more than those selling out later, which could create a strong incentive for institutions to be among the first to do so.

Avail, the state's new automated teller machine (ATM) network, will enhance intrastate financial integration, just as Georgia's interstate banking law promotes integration across the state line. The 800-machine system, operating since October, ranks fifteenth in size nationally. The network was expected to exceed 700,000 transactions per month by year-end 1984, a rate that compares favorably with larger and longer-established networks elsewhere in the country.[8] Avail links the ATMs of 79 Georgia financial institutions; over 10 percent of the participating ATMs belong to nonfinancial institutions. The number and proportion of Avail-affiliated ATMs at retail locations could expand dramatically in the years ahead.

Consistent with Atlanta's role as a financial and business center in the fast-growing Sunbelt, both total loans and deposits in Georgia expanded more rapidly than the national rate in 1983. Preliminary information for 1984 indicates that Georgia extended its growth rate advantage over national averages for both categories. In 1984, mortgage lending at state savings and loan associations has been particularly strong compared with the nation's.

Employment expansion last year among Georgia finance, insurance, and real estate (FIRE) firms has not been surpassed since 1973. A substantial proportion of 1984 FIRE growth reflects hiring by financial institutions to service new products and to market old ones more intensively. Without a massive bank or S&L consolidation wave in 1985, financial institutions employment in Georgia likely will continue 1984's strong pace. A series of consolidations could slow employment growth in this industry, as some redundant functions are merged within combining institutions.

Leisure Travel: An Uncertain Year

Georgia's tourism industry turned in a good performance last year, with visitor center registrations, lodgings tax receipts, and air travel in 1984 all up over 1983, in contrast to a relatively flat year-over-year performance nationally. The 1985 outlook will be poorer in Georgia, however, if slower growth of the national economy persuades households to postpone vacations or spend less on their trips.

Transportation, the linchpin of any tourism industry, will be generally cheaper and more efficient in Georgia in 1985. The price of regular gasoline in Atlanta hovered around $1 a gallon for most of 1984, and prospects are good for some continuing decline. This is good news for tourist attractions positioned away from commercial air service, such as much of the coast, Callaway Gardens, and the north Georgia mountains. Air fares rose substantially in 1984, as most airlines reduced or eliminated discounts that had caused them financial trouble. Early in 1985, however, air carriers again offered discount fares on a large scale, from which Georgia tourism will benefit. Airline connections to Atlanta are among the easiest to make in the country because of Hartsfield International Airport's role as a national air transportation hub. Less expensive gasoline and bargain airline tickets will boost the number of tourists and business people traveling to Georgia this year.

Atlanta, the state's most popular destination, will be easier for out-of-town visitors to traverse for shopping and sightseeing because of recent improvements in its mass transit system. The city's subway system extended its north and south lines in December, facilitating fast and inexpensive access to shopping and cultural activities in north Atlanta. Although incomplete, improvements to Atlanta's interstate highway system will make travel more convenient for visitors to the city.

The expected slowdown in personal income growth nationwide in 1985 could limit both household vacation plans and the growth of business travel budgets. Throughout the recovery, leisure travel never regained the priority from households that the recovery's strength should have warranted. Some analysts have suggested that "make-up" purchases of household durables deferred during the recession may have derailed household vacation expenditures temporarily.

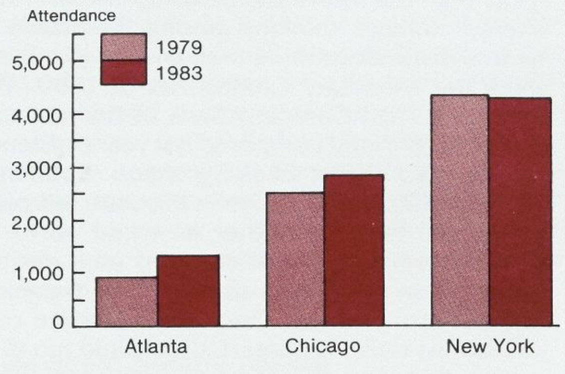
Atlanta Advances As Convention Center

Atlanta has moved firmly into third place among U.S. convention centers with 1.3 million delegates in 1983, following only Chicago with 3 million and New York with 4.3 million (Chart 3). The Atlanta convention trade should improve in 1985 if the national economy achieves the generally expected moderate growth rate. A significant national slowdown would cut convention attendance across the country.

Although other locations in Georgia have convention facilities, Atlanta alone has the lodging and meeting capacity as well as the air transportation necessary to snare large, national-draw conventions. The city's convention infrastructure will expand markedly in 1985 when almost 2,000 new hotel rooms will become available in the central business district, mostly at the new Marriott Marquis Hotel. This development, coupled with an expansion that doubled the World Congress Center's floor space, will permit Atlanta to host more large meetings, which in the past had no choice other than New York or Chicago. Over the long haul, hundreds of jobs and millions of dollars will accrue to the state's economy from this growth. Over the short term, the expanded meeting and lodging space may cause some excess capacity and lower hotel occupancy, particularly at older properties that rely on spillover from prime convention facilities.

While Atlanta will boast plenty of hotel rooms, meeting-room space, and good restaurants in 1985, it still can be criticized for lacking a high-quality attraction, such as San Francisco's Fisherman's Wharf or Baltimore's waterfront, for the amusement of convention visitors. The Rouse Company's proposed $120 million redevelopment of Underground Atlanta could help fill this void and, if successful, assist in bringing more and larger conventions to the city. However, financing arrangements for the project were still a question mark at the beginning of 1985.

Chart 3. Convention, Trade Show, and Corporate Meeting Attendance in Atlanta, Chicago, and New York (in thousands)



Source: Atlanta, Chicago, and New York Convention and Visitors Bureaus.

Public Sector: A Positive Force

Georgia's public sector, one of the largest in the country in comparison with state population, experienced a surge in 1984 tax revenues and seems poised to make larger outlays in 1985. The state exercised tight spending controls in 1982 and 1983. But last year, the maturing expansion rewarded the state with an almost 15 percent increase in sales tax receipts over 1983. The revenue from personal income taxes expanded by slightly over 9 percent because of the 5 percent increase in nonfarm employment and 6 percent rise in average wages.

The state's $4 billion budget for the 1984 fiscal year, which ended last June, was only 7.7 percent more than the $3.7 billion appropriated for fiscal 1983. With the tax windfall gained last year, Georgia can be expected to replenish a reserve fund depleted during the recession and to fund more programs.

Georgia has a large menu of new programs requiring funding. Spending on education will increase sharply as the state strives to raise the quality of its schools in order to attract industry. But the major thrust of 1984-85 state and local spending will be in public works. Statewide spending on infrastructure projects, such as parks, water and sewage treatment plants, electric utilities, and state and local office buildings, totaled $29 million in the first seven months of 1984, compared with $5 million in the same period of 1983. Although the lion's share of public works spending is confined to the Atlanta metropolitan area, and mainly to MARTA (the Metropolitan Atlanta Rapid Transit Authority), other areas increased spending as well. Columbus spent $312,000 from January to July of 1984, compared with nothing in the first half of 1983; Savannah doled out close to $900,000, compared with nothing the previous year; and Augusta spent $61,000 in the first seven months, compared with nothing in the same period a year earlier.

Wage increases for most Georgia public sector employees were modest in 1983 and 1984, although educational employees fared slightly better. Employment, particularly in education and private jobs to expand highways and other projects, will rise sharply in 1985. Moreover, federal government grants will help boost spending on Georgia roads and bridges this year. The state's budget, which calls for an 8 percent increase in the 1985 fiscal year, should enter fiscal 1986 with a hefty surplus despite all of these spending increases.

Fairer Weather for Georgia Farmers

Georgia's 1985 farm outlook can be viewed optimistically as "better" or conservatively as "unchanged." Either description is an improvement over the last few years when, owing to droughts, rising farm loan delinquency rates, and the end of the federal Payment-In-Kind (PIK) peak. In addition, owing to bountiful soybean production nationwide, prices have been weak. the resulting lower prices for crops will depress farm revenues to Georgia farmers as they did last year.

The most encouraging trend is that Georgia's farm economy as a whole saw some improvement in 1984. True, the financial viability of some farmers either failed to improve or deteriorated last year. Yet many farmers were able to reestablish credit, which had tightened in several earlier years, to reduce some loans, and to refurbish or replace aging plant and equipment. From this firmer foundation, these farmers have the liquidity to take advantage of opportunities to cut costs and improve revenues.

Peanuts, the Georgia farm economy's largest revenue producer, showed record yields in 1984, following a severe drought in 1983. This crop generates as much as 15 percent of the state's farm receipts. Farmers can expect firm peanut prices in 1985, primarily because of an effective U.S. government price support program. With careful management and some help from the weather, peanut farmers can expect another good year.

Georgia broiler producers also profited in 1984, assisted by higher prices and declining feed costs. Crops aside, broilers produce the most revenue for the state's farm economy. Feed costs are expected to decline. Weak production by chicken's primary competitors, pork and beef, could pull up broiler prices through mid-1985. Possible overproduction in the second half of the year poses the primary risk to profitability; however, the overall prospects for Georgia's broiler industry are good.

Soybeans tell the major disaster story for 1984. This crop, which is planted on more Georgia acres than any other, was curtailed severely by drought in the late summer and fall. In fact, Georgia soybean farmers have lost so much yield in the past few years because of drought that many have either quit growing the crop or reduced their acreage planted. As a result, 1984's soybean acreage dropped 17 percent from 1980's peak. In addition, owing to bountiful soybean production nationwide, prices have been weak. The price picture is unlikely to be brighter in 1985, further dimming prospects for improvement for soybean producers.

Manufacturing Growth To Decrease

Georgia's manufacturing sector probably will bear the brunt of any slowing of economic growth within the state in 1985. Employment growth will lessen for durables manufacturers, such as the state's auto assembly plants and lumber mills, as smaller increments to national personal income moderate the growth of demand and as the general economic expansion matures. Nondurable goods producers, accounting for 14 percent of the state's jobs, could be especially hard hit. Foreign markets for the state's textile output are already weak, and softening domestic markets could test textile producers' ability to maintain their year-end 1984 employment levels.

Manufacturing employed 22 percent of Georgia's nonfarm workers last year, down 3 percentage points from 1979. However, this sector's work force grew by 5 percent from September 1983 to September 1984, with most of the additions going to durable goods producing industries such as automobile assembly plants, and lumber finishing and paper mills. Transportation equipment manufacturers increased their manpower at an 18 percent annual rate as Atlanta's Ford and General Motors plants recalled virtually all furloughed workers. Lockheed-Georgia, the Marietta-based contractor for the Air Force's C5-B cargo plane, added to its staff of engineers and technicians steadily through 1984. Hiring at Lockheed will slow in 1985 as the airplane goes into actual production. The lumber and wood industry thrived on the strong 1983-84 housing market but recently has begun to face severe competition from Canadian imports.

The state's chemical industry, which employs fewer than 20,000 people, cut back on its employment growth as the year progressed. Chemical firms started the year hiring at a 5 percent month-over-month rate that tapered almost monthly, declining to slightly over 2 percent growth late in the year. In 1985, Georgia chemical producers can expect slower growth of demand for their output, since the national manufacturing sector is expected to buy chemical inputs at a slower pace.

Foreign Competition

Competition from imported goods helped by the strong dollar and the relatively high wages of some U.S. producers will continue to harry the Georgia textiles and apparel industries, employers of 7.4 percent of the state's work force. The value of all foreign goods imported into the state soared last year, with a January-through-September import value of $3.5 billion matching the activity for all of 1983.[10] Textiles and apparel are restructuring industries in the United States, as lower wage structures have shifted the comparative advantage to such countries as South Korea, Taiwan, and China. Georgia textile operations spent an estimated $225 million on productivity-enhancing improvements last year alone.[11] However, the upgrading of textile plant and equipment over the last few years has only slowed the industry's employment decline. The long-run employment trend in these industries seems to be down, reflecting both the substitution of capital for labor in domestic manufacturing and a loss of world market share.

Foreign competition also has limited growth in Georgia's agriculture, wood products, and domestic tourism industries. The strong dollar has stifled foreign demand for Georgia's crops, keeping down domestic prices and, thus, farm revenue. Georgia's wood products suffered from slackened demand when the housing industry weakened in the summer of 1984. In addition, Canadian competition in lumber and other building materials has added to the sluggishness of this sector.

While tourism in the state did well in 1984, its performance did not equal that of the rest of the economy. Part of this lost performance probably was owing to vacationers taking advantage of the favorable exchange rate by traveling abroad instead of domestically.

Certainly, Georgians who export have had a harder time doing so with the dollar at current levels. But the high dollar also makes imports relatively cheaper. Foreign exporters are exploiting this advantage to market their goods successfully in Georgia. A trade delegation including Governor Joe Frank Harris recently traveled abroad to enlist foreign industries to join the many other foreign-owned businesses that have located in Georgia in recent years. Many of the same qualifications that make the state an attractive site for a foreign-owned business also make it a desirable market for goods manufactured abroad.

Even if the dollar weakens in 1985, foreign producers using the strong dollar to gain greater access to Georgia markets would not disappear from the state. This is particularly true of foreign exporters who were able to expand production and market penetration significantly through the favorable exchange rates. Some will be able to continue marketing in the state without the exchange rate advantage and will become a permanent part of Georgia's economy.

Conclusion

Georgia can expect strong economic growth in 1985, but at a slower pace than last year. The state has maintained a high level of economic momentum for the past two years. The current forecast anticipates a somewhat diminished impetus this year due to maturation of the business cycle and a growing weight of foreign competition faced by Georgia industries. In-migration, an attractive business climate, and a large defense establishment will continue to spark the state's growth.

The authors are grateful to Elizabeth Boyd for her research assistance.

NOTES

[1]Estimated by the Research Department, Federal Reserve Bank of Atlanta.
[2]Population Research Service, Austin, Texas.
[3]Bruce G. Posner, "Report on the States," *INC.*, vol. 6 (October 1984), pp. 110-12.
[4]Office of the Secretary of State of Georgia.
[5]U. S. Department of Commerce.
[6]Coldwell Banker.
[7]Public Affairs Division, National Association of Home Builders, *Housing Backgrounder*.
[8]Peter Mantius, "Use of Avail Far over Projections," *The Atlanta Constitution*, November 15, 1984, p. 10.
[9]PIK is a U. S. Department of Agriculture program that distributed government-held surplus farm commodities to participating farmers in proportion to their own acreage in each commodity.
[10]Census Bureau, Microfiche Series IA254.
[11]Textile Manufacturers' Association of Georgia.

Tennessee: Slower Growth Ahead

Bobbie McCrackin

Manufacturing, trade, and perhaps construction should buttress Tennessee's anticipated 1985 growth. Further stimulation may be provided by public works spending, tourism, and agriculture.

Tennessee's economic performance in 1985 should resemble the anticipated U.S. pattern of respectable but slower growth. The state's economy is similar to the nation's except that manufacturing is relatively more important, accounting for over one-fourth of Tennessee's employment compared with just over one-fifth nationally. In addition, production of interest-sensitive consumer durable goods and certain nondurable products especially vulnerable to foreign competition comprises a larger share of Tennessee's manufacturing sector than the nation's. Consequently, developments that affect manufacturing industries will play a greater role in determining the near-term future of Tennessee's economy.

Most sectors of Tennessee's economy probably will experience moderate growth in 1985. Manufacturing should continue to expand somewhat through most of the year because of macroeconomic strengths expected from consumer spending, business investment, and, at least early in the year, residential construction. As a result, continuing advances are likely in the state's personal income, and retail sales should continue to grow, albeit at a slower pace than in 1984. State and local governments are financially sound and have contracted so sharply in recent years that some expansion seems inevitable. The primary effect of such a trend would be to boost personal income, especially that of teachers and public works construction. These three sectors—manufacturing, trade, and government—account for two-thirds of the state's employment, and so their expected growth should spur healthy economic expansion across the state.

Tennessee's construction, agriculture, and tourism industries face encouraging prospects for 1985. Multifamily and commercial construction seems likely to maintain considerable momentum in Tennessee for at least another year. Continuing economic growth augurs increased deposits and loans for the state's financial institutions. Tennessee farmers have been less troubled financially than many of their southeastern peers. Although reductions in prices received for farm products make it unlikely that profitability gains will equal those achieved in 1984, the state's agricultural sector probably will prosper again this year. Finally, tourism also may strengthen as ongoing advances in personal income and the satisfaction of pent-up demand for some items leave more room in consumer budgets for discretionary purchases such as travel and entertainment. However, each of these sectors is small and their joint effect will be less than that of manufacturing.

The chief danger on Tennessee's economic horizon pertains to interest rates. If the federal

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budget deficit begins to exert renewed upward pressure on rates, the adverse impact will be felt severely in Tennessee, whose manufacturing sector is heavily oriented toward the consumer and producer durables that thrive on expanding housing and auto industries. Much of the earlier surge in housing was occasioned by demand deferred during two proximate recessions and an extended period of high nominal interest rates. Since such demand may be nearly exhausted, a return to the levels attained earlier in the recovery is unlikely even though some resurgence is probable. Moreover, residual demand will remain quite sensitive to changes in credit costs. The bleak outlook for international trade also will be troublesome to Tennessee since one-tenth of its manufacturing jobs are export-related, an even larger share are in industries vulnerable to import competition, and the overall portion of export-related jobs in Tennessee is greater than in the nation.

These projections have different implications for each of the state's three major geographic divisions. West Tennesseeans and east Tennessee tobacco growers will be particularly affected by agricultural developments, especially movements in the exchange value of the dollar and their attendant effects on farm exports. Conditions in the international sector as well as interest rate movements will be most significant for middle and east Tennessee because manufacturing is concentrated in these areas. Middle Tennessee should have the best year since its diversified economy will benefit most from expected strength in consumer spending, agriculture, and services. Middle Tennessee also will benefit disproportionately from in-state capital investment: almost three-fifths of the new jobs and almost half the dollar value of investment plans announced in the first nine months of 1984 were in middle Tennessee.

Labor Market Conditions

Labor markets improved substantially in 1984 although the pace slackened in the second half. Nonfarm employment grew at an annual rate in excess of 5 percent for the first eight months and stood at 1.8 million in November, a record level. Tennessee's jobless rate fell from almost 13 percent in the spring of 1983 to 8.4 percent in March 1984. Since then, however, employment growth has slowed while labor force growth accelerated. Tennessee's jobless rate stood at 8.7 percent in November, by which time the national unemployment rate had fallen to 7.2 percent (Chart 1).

Unemployment dropped by the largest margin in Tennessee's major cities—Chattanooga, Knoxville, Memphis, and Nashville; the decline was smaller in the Tri-Cities (Johnson City-Kingsport-Bristol) and in nonmetropolitan areas (see Table 1). More than one-fifth of the work force in seven of Tennessee's 95 counties was unemployed in

Table 1. Tennessee Labor Markets, November 1984

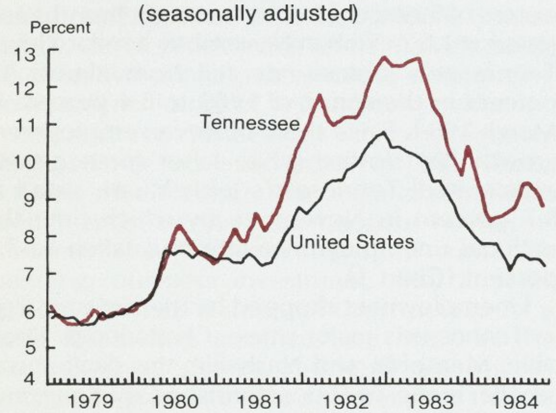
	Nonfarm Employment (in thousands)	Labor Force (in thousands)	Unemployment (in thousands)	Unemployment Rate (in percent)
Tennessee	1,822.9	2,258.1	185.6	8.2
Percent Change*	3.3	2.8	−7.6	
Chattanooga	173.0	202.5	14.4	7.1
Percent Change*	3.2	2.8	−14.8	
Knoxville	203.9	232.6	17.1	7.4
Percent Change*	−0.7	0.4	−13.6	
Memphis	364.0	417.6	27.9	6.7
Percent Change*	2.0	−4.0	−22.5	
Nashville	402.0	477.8	22.7	4.8
Percent Change*	4.1	5.1	−21.2	
Tri-Cities	154.2	214.5	16.4	7.6
Percent Change*	3.5	5.6	−3.2	

*Relative to November 1983.

Source: Tennessee Department of Employment Security, *Tennessee Labor Market Report* (November 1984); data are preliminary and not seasonally adjusted.

November. Employment growth held up best in Nashville and Chattanooga as the year progressed. Nashville's diversified economy accounts for its healthy labor market conditions. For Chattanooga, which had yet to return to its previous peak of nonfarm jobs, gains in 1984 reflect a belated recovery from a sharply reduced level of activity.

Chart 1. Unemployment Rate, Tennessee and United States (seasonally adjusted)



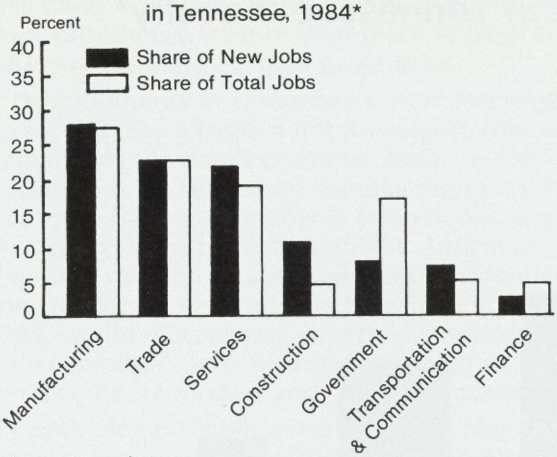
Source: U. S. Department of Labor, Bureau of Labor Statistics, and Tennessee Department of Employment Security; Tennessee rates seasonally adjusted by Federal Reserve Bank of Atlanta.

One-fourth to one-third of the employment in east Tennessee's three major cities is in manufacturing, and labor market conditions largely reflect the strengths and weaknesses of particular industries concentrated in each. For example, textiles and apparel, which comprise almost one-third of Knoxville's industrial jobs, have been affected adversely by foreign competition.

In Memphis job growth was slow during 1984 and as of November had not regained its earlier peak. Indeed, according to a separate employment survey that canvasses households and includes the self-employed as well as those working for establishments, employment declined in Memphis in 10 of the first 11 months of last year. Memphis' weaker performance bespeaks the agricultural orientation of its many transportation and distribution businesses and the troubled condition of farming nationally.

Manufacturing created the largest number of new jobs in the state in 1984 (Chart 2), and even in relative terms it outdistanced most other major sectors. Twenty-eight percent of all new employment through the first 11 months was in factories, slightly more than manufacturing's portion of total jobs. Services, transportation, and construction also contributed a disproportionate share of new jobs. Government and finance, in

Chart 2. Distribution of New and Total Jobs in Tennessee, 1984*



*Through November

Source: Computed by Federal Reserve Bank of Atlanta from data released by Tennessee Department of Employment Security.

contrast, accounted for a much smaller employment boost than their share of total employment.

Conditions are ripe for improved labor markets in 1985, even though job growth and unemployment rate declines probably will take place much more slowly than in the first half of 1984. Producers were able to trim inventories when consumer spending decelerated in 1984, and inventory-to-sales ratios remain low by historical standards. Hence, layoffs are unlikely, and still-expanding industries and services should create new jobs.

Industrial Activity

Manufacturing employment growth in Tennessee outpaced the nation's in the first quarter of 1984 but slowed more sharply than elsewhere in the second and third quarters. The durable goods sector's employment grew in the double-digit range for the first seven months. Boosted by the first-quarter strength of residential construction, Tennessee industries associated with building materials, home furnishings, and appliances posted especially good job gains. Through November, employment in stone, clay, and glass manufacturing was up 11 percent from the year-earlier period (Chart 3).

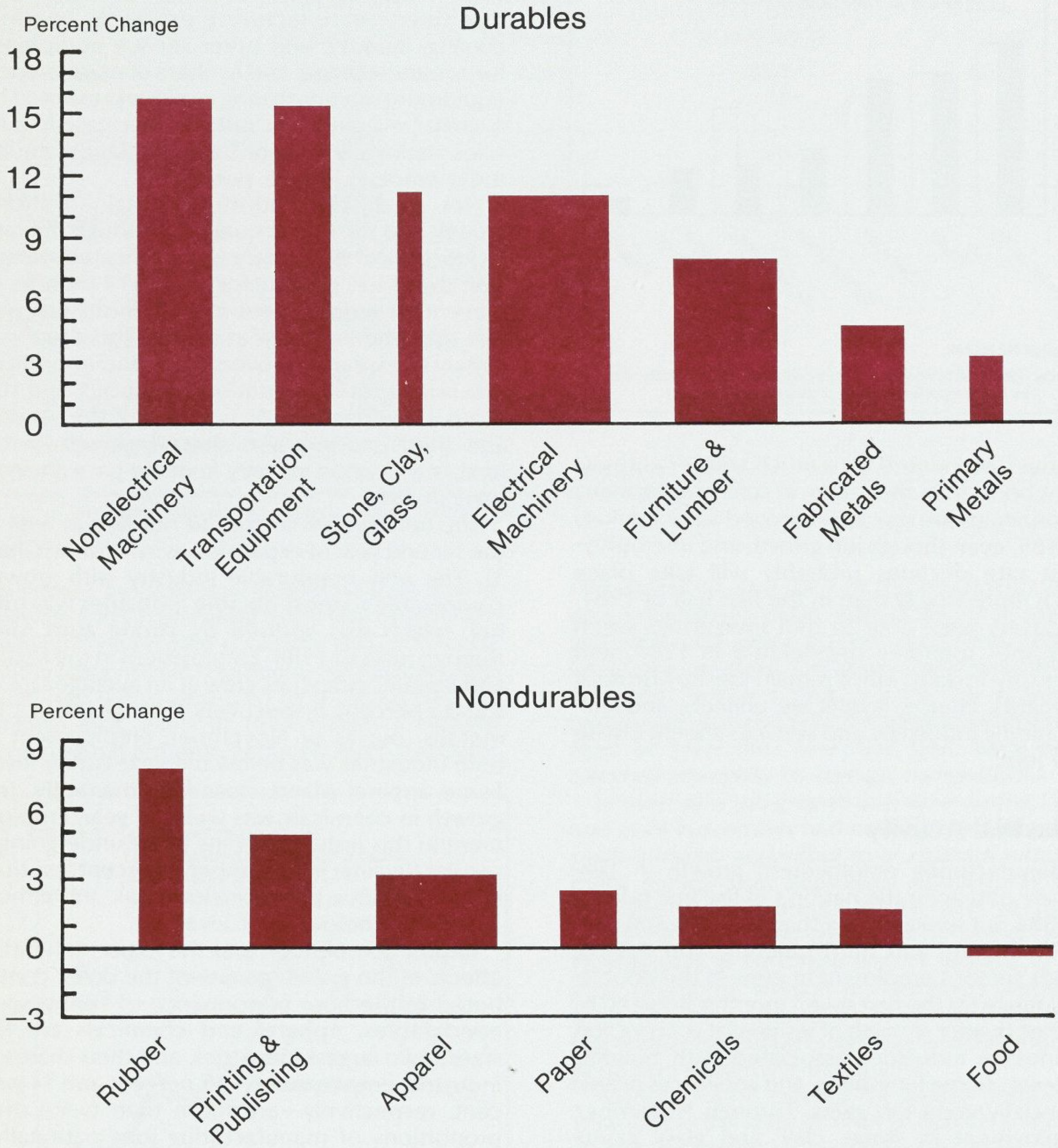
Increases of equal or greater magnitude in machinery employment were attributable to the strong nationwide growth in business fixed investment and the boom in housing construction. One of machinery production's largest components in Tennessee is household appliances. Its share of electrical and electronic equipment manufacturing is four times as large as in the nation. The other large component of Tennessee's machinery manufacturing produces heating, cooling, laundry, and other service equipment for commercial use, and its share of nonelectrical equipment manufacturing is overrepresented by a similar margin.[1] The sustained increase in auto sales nationally boosted transportation equipment employment 15 percent.

Not all durable industries sustained strong growth into the fourth quarter. Although the rate of job growth in primary and fabricated metals averaged 3 to 5 percent for the first 11 months, in November employment in both industries was less than the level a year earlier. This drop was largely a response to oversupply and imports of low-priced foreign aluminum. Imports and the sharp slowdown in housing during the second and third quarters also slowed growth in the lumber and wood industry from the pace attained early in 1984.

The nondurable sector did not fare as well in the second year of expansion as in the first (Chart 3). The only nondurable industry with growth comparable to most durable industries was rubber, which was spurred by strong auto sales through most of 1984. Employment in the textile and apparel industries grew at an average rate of 2 and 3 percent, respectively, through the first 11 months, but as of November, employment in both industries was below the year-earlier level. Some apparel plants closed permanently. Job growth in chemicals was weak all year. Employment in this industry seems to be undergoing a secular decline; jobs number 6 percent less than in the previous pre-recession peak and almost 15 percent below 1969 levels.

Import competition and the export-inhibiting effects of the exchange rate of the dollar contributed to the poor performance of Tennessee's nondurables. Apparel and chemicals are the state's two largest industries, and their shares of industrial employment—13 percent and 11 percent, respectively—are more than twice their proportions of manufacturing jobs nationally.[2] Moreover, large components of these two industries are concentrated in products especially vulnerable to competition from lower-cost foreign producers. One-third of the jobs in Tennessee's chemical industry involve production of synthetic fibers used to make textiles, which is three times

Chart 3. Employment Changes in Tennessee Industry*



* 1984 v. 1983, average through November. Bar widths denote relative size of industry.

Source: Computed by Federal Reserve Bank of Atlanta from data released by Tennessee Department of Employment Security.

the proportion nationally. The largest share of Tennessee's apparel employment, men's and boys' furnishings, is more than twice as large as the corresponding national proportion.

Developments in Tennessee's manufacturing sector will play a large, if not the largest, role in determining the state's economic health in 1985. The outlook for Tennessee manufacturing in the face of a slowing economy is less encouraging than last year but still fairly bright. Anticipated renewed strength in auto sales and residential construction, even at a lower level than in early 1984, would reaccelerate growth in many of the state's durable goods factories, although such a trend could be modest and of limited duration.

Continuing business investment probably will benefit Tennessee's machinery and industrial inorganic chemical producers. Moreover, business fixed investment within Tennessee should contribute to continuing expansion. The announcements of capital expansion plans and intended new investment in manufacturing during the first 11 months of 1984 promise over 17,000 new manufacturing jobs, 8 percent more than the number generated by investments announced in the 1983 period.[3] For example, Nissan's $85 million project to add car assembly to its Smyrna truck plant should boost the state's transportation equipment industry when production begins in 1985, and ultimately increase the company's local work force by 50 percent.

Despite worldwide competition, major Tennessee manufacturers are reaffirming their faith in the future of Tennessee's favorable economic environment by expanding into new product lines or retooling existing facilities. In Kingsport, for instance, Tennessee Eastman is adding a production unit for hydroquinone, a product used in film manufacturing. Operations are scheduled to begin by 1986. This Kodak division just completed a major capital investment in Tennessee to produce feedstock chemicals from coal for the first time on a commercial basis.

A growing world economy in 1985 could increase the state's bulk chemical exports moderately. A decline in the value of the dollar would bring some improvement, but the outlook is dim for a substantial gain in manufacturing exports or for a decline in imports. Even if exchange rates become more favorable to the United States, there is usually a lag of six months or so before demand rises substantially.

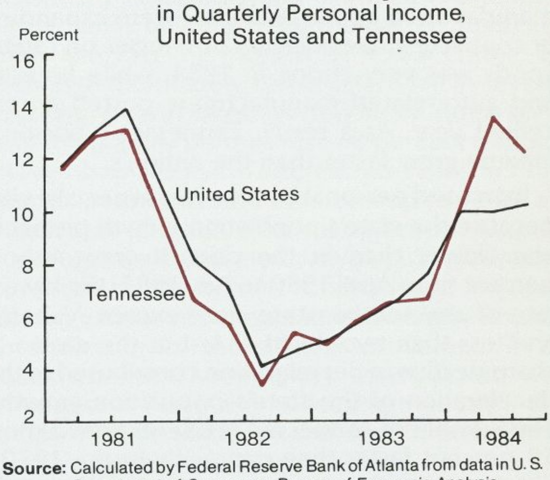
The discouraging international prospects may prove especially burdensome to Tennessee. Although the 10 percent share of manufacturing jobs attributable to exports is less than the nation's 13 percent, more Tennessee industries are vulnerable to foreign competition and 5.3 percent of total employment is export-related compared with 4.7 percent nationally.[4] One source of national strength that will be relatively limited in Tennessee is defense. From 1981 to 1983, Tennessee producers won less than 1 percent of all military contracts, a much smaller share in dollar value than any other southeastern state.[5]

Personal Income and Consumer Spending

Fast personal income growth in Tennessee during the last two years contributed to unusually robust consumer spending that boosted the state's second most important economic sector, trade. Tennessee's personal income grew at an annual rate of 12 percent in the third quarter compared with about 10 percent nationally (Chart 4).

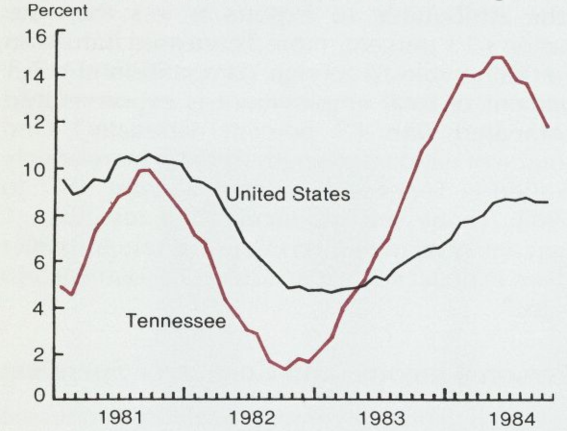
Retail trade activity on a per capita basis was even more impressive in relation to other southeastern states and the nation in 1984, reversing the state's performance in 1981 and 1982 (Chart 5). Through October 1984, the pace of Tennessee sales growth was well ahead of the rate nationally. Not surprisingly, furniture and home appliances

Chart 4. Annual Percent Change in Quarterly Personal Income, United States and Tennessee



Source: Calculated by Federal Reserve Bank of Atlanta from data in U.S. Department of Commerce, Bureau of Economic Analysis, *Quarterly Personal Income*, various issues.

Chart 5. Annual Percent Change in Retail Trade, U.S. and Tennessee, 12-Month Moving Total



Source: U.S. Department of Commerce, Bureau of the Census, *Monthly Retail Trade*, various issues.

posted the strongest sales gains during the first 11 months, but automobiles and building materials also advanced dramatically.[6] Reflecting this growth in consumer spending, trade employment expanded more rapidly than in 1983 (4 to 5 percent versus 2 percent) despite a contraction in wholesale trade jobs.

The rate of expansions and contractions in personal income, like that of unemployment, is greater in Tennessee than in the nation because of the state's heavier reliance on manufacturing. The most striking differences have occurred when Tennessee's cyclically sensitive durable manufactured goods industries were expanding or contracting. Spending by businesses on capital goods was very strong in 1984, while housing and auto-related manufacturers posted an excellent year. As a result, Tennessee's personal income grew faster than the nation's.

Increased personal income was especially vital because the state's population growth probably was slower than in the past. It grew only 2 percent from April 1980 to July 1983, the lowest rate of any southeastern state except Alabama and less than two-thirds as fast as the nation. A sharp decline in net migration contributed to the deceleration of the state's population growth.[7] The number of Tennessee residents grew almost 50 percent faster than nationally in the 1970s, although growth was concentrated in the state's middle and eastern urban and suburban areas.

Without the prop of population growth, prospects for income and spending gains in 1985 will depend largely on the national and international economic outlook and concomitant demand for Tennessee goods and services. If the national economy settles into a moderate, sustainable growth path this year as expected, Tennesseans can anticipate continued healthy income and spending growth, albeit at a less robust pace than in 1984. Ongoing gains in income and consumer spending should buoy the state's economy in general, and its financial, public, and service sectors in particular, by generating increased loans, deposits, tax revenues, and demand for personal and business services.

Public Sector

Tennessee's state government has been financially sound for several years, ending each of the last three fiscal years with a budget surplus. A one-cent increase in the state's sales tax and the broadening of its base swelled coffers last year. A $51 million surplus, the equivalent of 2 percent of expenditures, is projected for fiscal 1985.[8] The higher sales tax and an anticipated fiscal 1984 surplus have revived state and local government job growth. Government employment climbed about 2 percent through the first 11 months of 1984, reversing a downward trend during the previous three years. Nonetheless, the number of public sector workers still was below the peak attained in 1980. The per capita ratio of full-time equivalent state and local government workers is 9 percent lower than three years earlier and 2 percent below the national average.[9] Of the six southeastern states, only Florida has proportionately fewer state and local government workers than Tennessee.

It is likely that employment and spending in Tennessee's public sector, especially at the state and local levels, will increase in 1985. The fiscal 1985 state budget represents a nominal increase of 16 percent. Substantial job increases also may occur at the local level, where the decline has been greatest. A recent state emphasis on education also should stimulate local government employment. In fiscal 1984, the Tennessee legislature appropriated $1 billion over the next three years to improve the state's educational system. Much of the increased funding will improve financial incentives for teachers. Thus, this government stimulus should be felt mainly on personal incomes and concomitantly on consumer spending.

Table 2. Tennessee Construction, 1984 vs. 1983

	Single-Family Permits January-November			Multifamily Permits January-November			Value of Nonresidential Construction* January-November		
	1983	1984	Percent Change	1983	1984	Percent Change	1983	1984	Percent Change
Tennessee	13,059	12,622	−3.4	15,239	21,304	39.8	1,053.3	1,300.8	23.5
Chattanooga	1,016	1,128	11.0	795	585	−26.4	70.5	119.1	68.9
Knoxville	1,442	1,262	−12.5	660	601	−8.9	166.3	151.8	−8.7
Memphis	3,786	3,903	3.1	1,223	4,197	243.2	255.7	325.6	27.3
Nashville	3,866	3,894	0.7	6,854	12,754	86.1	349.6	468.7	34.1

*Millions of dollars.

Source: Computed by Federal Reserve Bank of Atlanta from data in U.S. Department of Commerce, Bureau of the Census, *Housing Units Authorized by Building Permits and Public Contracts* (C-40), and F.W. Dodge, *Dodge Construction Potentials*.

The recent end of a freeze on hiring further suggests that increased state spending will stimulate employment and income. However, improved productivity afforded by office automation as well as efficiencies achieved during an extended austerity period make it unlikely that government employment, which consists largely of white-collar workers, will rebound quickly to its previous peaks as a result of revenue and budget increases. Thus, government employment should grow only modestly, as should the attendant consequences of that job expansion on the rest of the state's economy.

Federal job growth averaged 4 percent during the first 11 months but seems unlikely to be a source of growth in Tennessee in 1985. The TVA, which employs one-third of Tennessee's federal workers, will increase its budget only modestly. Yet, at least until the start of the next federal fiscal period in October, neither should federal government employment shrink, as in the past, since most of the substantial cutbacks and layoffs the TVA began several years ago have been completed. Thereafter, proposed federal budget cuts could necessitate further paring of the TVA's staff.

Construction

After three years of sharp declines, Tennessee's construction industry improved considerably last year. The growth rate of construction employment averaged around 16 percent in the first half. Although the pace slowed toward the end of the year, construction accounted for more than one in 10 new jobs through the first 11 months, over twice the industry's share of jobs overall (Chart 2). Multifamily and nonresidential building sustained construction activity and employment after higher interest rates dampened single-family home building.

Single-family building permits soared in the first quarter but then began to decline, on a seasonally adjusted basis. Through November, single-family building permits declined 3 percent from the first 11 months of 1983 (Table 2). Although multifamily construction fell in several months, growth rates tended to be quite high, and multifamily permits rose 40 percent through November. The rise in interest rates early in 1984 made apartments and condominiums more attractive or affordable for many buyers. Duplex townhouses were an especially popular alternative to single-family homes. Chattanooga enjoyed the largest rate of increase in single-family houses, an indication of the sharp improvement in its labor markets. Multifamily construction was strongest in Nashville, reflecting that city's disproportionate share of the state's population growth, particularly of newcomers.

Nonresidential construction increased substantially statewide. Industrial construction in

Tennessee experienced strong and fairly steady growth. As a result of sharply increased manufacturing and consumer spending, many businesses required additional warehouse space to store inventory; others responded to the invigorated economy and tax incentives by investing in plant expansions. Office construction, which accounts for a larger share of nonresidential building, also rose considerably.

The strength of building in Nashville and Memphis helped to pull up the statewide average as fewer new projects were undertaken in Knoxville than in the first 11 months of 1983. Strong gains in manufacturing absorbed a 9 percent increase in Nashville's industrial space, and the occupancy rate rose from 77 to 84 percent.[10] However, absorption of the large volume of new office space has been slower, causing a drop in occupancy to 84 percent. Two years ago, only 5 percent of Nashville's office space was vacant.[11]

Total residential construction should increase, at least early this year, as a result of lower interest rates, which have reduced builders' costs and drawn customers back into the market. Construction of moderately priced single-family homes should be stimulated by the flow of $150 million in housing funds at 11 5/8 percent from a bond offering by the Tennessee Housing Development Authority. Applicants, who may earn no more than $30,000 a year, must apply the funds to single-family residences in the $40,000 range. Despite the bonds, single-family buildings are expected to grow more slowly than multifamily dwellings. Much of the deferred demand for single-family homes already has been met, and Tennessee has been experiencing modest population growth compared with the 1970s. Without the catalyst of population growth, especially by in-migrants, the demand for single-family homes at this mature stage of the business cycle is unlikely to equal that attained earlier in the expansion.

Growth in nonresidential construction probably will continue at a strong pace in 1985 because of corporate relocations. Memphis' central business district should increase its office space by one-third over the next few years, and Nashville has a large number of new office projects on the drawing boards. High vacancy rates may be a harbinger of a mild deceleration by the end of 1985. Commercial construction often is driven more by the availability of financing than by the market, and there is no reason to expect that institutional sources, which provide much of the capital for office construction, will stop funding prospective builders since offices remain a profitable long-term investment.

Government expenditures could stimulate construction, especially in the nonbuilding category. The state government's emphasis on improving water quality should spur construction of new sewage systems, and some bridge construction is contemplated. Expected growth in construction is likely to stimulate certain building-related industries, especially stone, clay, glass, lumber, and fabricated metals. However, considering the moderate growth anticipated and construction's relatively small share of the state economy, this industry's gains are unlikely to propel other economic sectors significantly.

Finance

Tennessee bank deposits showed moderate to strong growth throughout 1984. As of December, commercial bank deposits were 10 percent ahead of the year-earlier level of $22 billion.[12] Tennessee's deposit growth was only slightly less brisk than the nation's. Time deposits grew rapidly, in contrast to 1983, when rising rates led savers to favor money-market deposit accounts. After growing only modestly in the second half of 1983, loans closed by Tennessee banks increased sharply in 1984, standing 19 percent above the year-earlier level in September.[13] The statewide loan-to-asset ratios rose from 49 to 56 percent, reflecting the rapid growth in lending by Tennessee banks. In November, mortgage commitments by Tennessee thrift institutions were over 65 percent ahead of the comparable 1983 level.[14]

The strongest employment growth in several years in the state's financial services industry is further evidence of its underlying strengths. These measures point to Tennessee's energetic growth in personal income and industrial production in 1984. The healthy gains posted by all these financial services industry indicators is especially noteworthy in view of Tennessee's two-year spate of bank failures. Of more than 70 failures nationwide, 11 were in Tennessee, primarily in the central and eastern portions of the state.

The outlook for Tennessee's financial sector in 1985 hinges largely on the state's economic health. It is not likely on its own to contribute significantly to growth in other sectors. Since statewide economic prospects are for respectable advances, the financial services industry probably will experience continuing expansion. Healthy deposit growth should persist into 1985, given the anticipated increases in personal income. Loan volume and mortgage commitments also should strengthen as long as interest rates remain in their present range.

No simple explanation exists for the large number of bank failures in 1984. Deregulation of the banking industry will make exit, by failure or merger, generally more common than in recent decades, but that does not account for the fact that Tennessee has had far more failures than other states with similar economic structures. Thus, it is difficult to forecast whether 1985 will bring more failures.

It is likely, though, that competitive pressures on Tennessee banks will intensify in the next few years. Passage of regional interstate banking laws by several nearby states will increase demands on the Tennessee legislature to do the same. The Tennessee Bankers Association has endorsed the governor's legislative proposal to allow statewide branching as well as reciprocal interstate banking with a number of regional states. The strong performance by the state's financial services industry last year suggests that the economic impact of any future failures will not be substantial. The main adverse effect of a smaller bank failure, aside from the loss to its stockholders, is the disruption of established relationships between loan officers and the businesses they have served, and this disruption is mitigated when a failure is resolved through acquisition rather than liquidation.

Services

Tennessee's service sector, like those of other states in the Southeast, has resumed steady growth after slowing during the 1981-82 recession. Miscellaneous services contributed more than one-fifth of the new jobs added to Tennessee's economy last year (Chart 2). Health services compose the largest component of this sector in Tennessee, accounting for slightly over a third of service employees. Another third work in hotels or provide business and personal services.

Tourism is an important service industry in Tennessee, accounting in 1983 for $3 billion in expenditures, 4 percent of all payroll employment, and over $150 million in state and local tax revenues.[15] Tennessee's state and national parks rank in the top 10 nationally in the number of visitors. Tourism is important not only in terms of size but also in its "export" quality, since two-thirds of all tourist revenues derive from out-of-state visitors. By bringing revenues to Tennessee from elsewhere, tourism fuels the local economy to supplement gains from population growth and increased personal income. In this respect, tourist-related services are more like manufactured goods, reaching a market far beyond the state's borders; markets of many services are limited to the needs of local consumers and businesses.

Tourist industry conditions in Tennessee were mixed in 1984, although somewhat better than in 1983. In the earlier year most indicators registered declines relative to 1982 levels, which were boosted by the World's Fair in Knoxville. Air travel increased substantially in most Tennessee cities, but declined in Memphis, by far the busiest airport. Judging by visitor center registrations, the level of auto travelers to the state dropped 12 percent through the first 11 months.[16] Most attractions had only slightly higher attendance than the previous year.

Hotels and motels enjoyed the strongest surge as lodgings tax receipts jumped 35 percent, a sharp rise even factoring out the sales tax increase.[17] Moreover, occupancies were up 8 percent through October.[18] This growth was primarily the result of a higher volume of business and convention visitors, who form a larger share of hotel guests than do vacation travelers. Competition from the Olympics, purchases of durable goods deferred for years because of recessions and high interest rates, and the strong dollar that reduced the cost of foreign travel for many Americans all helped tarnish the performance of vacation travel in 1984. In addition, Louisiana's World Fair in New Orleans failed to give Tennessee tourism the expected boost in bus tours; many travelers with intermediate stops in the state cancelled when the fair's shaky financial situation was published.

The outlook for Tennessee's tourist industry in 1985 hinges largely on macroeconomic factors, which appear more positive than negative. Tourism should benefit from anticipated increases in personal income and consumer spending. Indeed, vacation travel might increase considerably if consumers' pent-up demand for housing has been largely met, leaving more in household budgets for discretionary goods and services such as travel. The absence of major competing events also bodes well for 1985 tourism.

On the other hand, if the value of the dollar remains high, more Americans likely will travel abroad, possibly diminishing domestic travel.

The dollar's effects on foreign travel to the United States will have little impact on Tennessee, though, since foreign travelers typically compose only a small portion of the state's visitors.

Local factors will influence the performance of Tennessee tourism this year. A 27 percent increase in the state Tourism Department's budget should improve that agency's ability to market Tennessee's tourist industry. New attractions and convention facilities scheduled to open this year in Nashville, Chattanooga, and Memphis will enhance those cities' appeal as tourist and convention destinations. If tourism grows as expected, it will benefit the retail and public sectors by boosting merchandise and restaurant sales and generating tax revenues beyond those expected from in-state growth in personal income and spending.

The outlook for other major service industries should track in-state economic developments because their demand derives primarily from local markets. Since the statewide outlook is positive, services should continue to expand at a healthy pace. One service that might grow more slowly than in the past is health care. Many southeastern hospitals have excess capacity relative to local markets, and new federal and private-sector efforts to control costs already have led some to furlough employees.

Agriculture

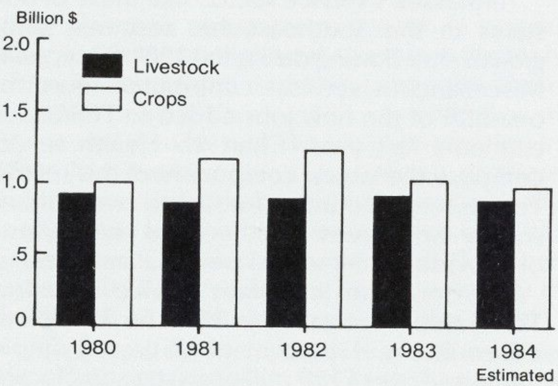
Tennessee has more farms (95,000) than any other state in the region, ranging from one- and two-acre burley tobacco farms in the mountains of east Tennessee to expansive cotton and soybean fields in the west. Although an estimated 80 percent of these are in small holdings that jointly produce less than 40 percent of the state's farm cash receipts,[19] such farms constitute an important auxiliary source of employment and income, especially in east Tennessee. Total revenue from farming varies from year to year but has approached $2.5 billion. Approximately 40 percent of that revenue typically is earned by the livestock sector, while nearly 60 percent is derived from crop sales.

Tennessee's farmers have remained in the best overall financial condition of all southeastern farmers, although poor weather in 1983 increased the financial plight of some. Last year appears to have been favorable, though, and the farm sector may be improving its financial health, even though Tennessee's agricultural sector is too small to be a significant driving force in the state's economy. If the state's farmers can avoid severe setbacks in 1985, most should remain in better financial shape than those elsewhere in the region. Improved profits are likely for corn, dairy, and pork farmers in 1985. However, the most important crops, soybeans and tobacco, as well as other crops and livestock are unlikely to repeat last year's strong performance.

Tennessee crop farmers experienced a relatively good year in 1984, as yields of every major commodity exceeded both the previous five-year average and the yield in 1983, when weather played havoc with productivity. Total revenue fell (Chart 6) as a result of lower prices and reduced acreage, but prices did not drop as low as in 1982. Tobacco, corn, soybeans, and cotton were especially profitable. With the exception of tobacco, these crops are grown largely in west Tennessee, whose economic conditions consequently were better than in recent years.

Yields of soybeans, the most important Tennessee crop with respect to share of cash receipts, returned to normal in 1984 from severely reduced 1983 levels; 1985 should reflect a general downward trend in soybean prices. Given large production nationwide, there is little indication soybean prices will strengthen substantially this year. Hence, the state's soybean farmers may find 1985 a more difficult year in which to profit.

Chart 6. Tennessee Cash Receipts from Farm Marketings (Crops, Livestock, and Products)



Source: U.S. Department of Agriculture, *Agricultural Statistics 1983*; 1984 figures estimated by Federal Reserve Bank of Atlanta.

Tobacco, a traditional mainstay of middle and east Tennessee agriculture and the state's second-ranking cash crop, produced a near-record yield in 1984, exceeding 1983 performance by one-third. Because of good quality, prices were also favorable, generating profits for Tennessee's 50,000 tobacco growers. Still, slack demand may cause a quarter of the crop to be purchased by the U.S. Burley Stabilization Corporation. Uncertainty concerning the value of the dollar clouds the outlook for tobacco growers this year since foreign markets constitute a large share of consumption.

Tennessee's farmers earn approximately 15 percent of their total revenue from the production of cotton, wheat, and corn. Despite probable further price declines in 1985, corn farmers still may be able to turn a profit provided the weather is favorable. Prospects for cotton farmers this year are dim. Supplies substantially exceed demand, causing prices to remain low. In addition, Tennessee cotton yields often fall below yields in other southeastern states, making it more difficult to profit from the crop. Wheat prices were mediocre in 1984 and are unlikely to improve in 1985, and so wheat farmers cannot expect substantial profits.

Despite marked increases in pork revenue, declining dairy and beef production led to an overall reduction in 1984 cash receipts from livestock (Chart 6). The dairy industry, concentrated in south central Tennessee, cut production approximately 10 percent as a result of government incentives to reduce output and the closing of unprofitable operations. Many in the industry have been experiencing financial difficulties in recent years as a consequence of high costs and poor returns. Because of substantial production cutbacks in the Southeast, consumer milk prices edged upward last fall. The current outlook for the dairy industry is improved over 1984, since lower feed costs and higher revenues should increase profits for most dairy producers.

Cattle production, concentrated in central Tennessee, fell roughly 5 percent in 1984 in response to mediocre prices. Reduced supplies of pork and beef may cause prices to edge upward slowly, but beef industry profits are likely to remain low in 1985. Declining feed costs and higher hog prices should give pork farmers a better return than in 1984, when profits were squeezed, but the impact will be minor since pork is the smallest of the three major livestock components.

Mining

Coal production in Tennessee rose 16 percent through November 1984 from the same period in 1983.[20] Much of the increased coal mining activity resulted from fears of a strike and heightened demand from electrical utilities. The number of kilowatt hours used in Tennessee rose 9 percent through the first three quarters of 1984 compared with a 7 percent increase nationwide. In 1983, total electrical power usage rose only 2 percent all year. The largest increases last year derived from residential and industrial use, which moved upward in the double-digit range in most months.[21] However, the growth rate of electrical power use slowed progressively in 1984.

Tennessee coal producers have been handicapped by regulatory inertia in taking advantage of recent stronger demand. Supervision of surface mines was returned to the states in 1982, but because the state government has lacked sufficient staff and other resources to assume the responsibilities formerly performed by the federal Office of Surface Mining, permits issued to Tennessee producers have been delayed.

The improved coal production of early 1984 is unlikely to continue in view of slumping world energy prices, which encourage the substitution of better quality energy sources for high-sulphur Tennessee coal. Opening of the Tennessee-Tombigbee Waterway probably will have only a limited initial impact on coal exports from Tennessee because nearby coal-producing states such as Alabama have a comparative advantage. In the longer term, Chattanooga's expansion of port facilities related to the Tenn-Tom promises to boost that city's employment and its share of exports upon the project's completion in 1986.

Local utilities will continue to be the main buyers of Tennessee coal, and demand is unlikely to increase from 1984, owing to the expected slowing of economic growth. However, energy no longer stimulates Tennessee's economy as it did when the TVA's hydroelectric-based power system's low rates attracted energy-intensive industries. Once the TVA reached the limits of local hydroelectric capacity and shifted toward greater reliance on coal and nuclear power, it lost much of its rate advantage. The state has a much smaller comparative advantage with respect to coal, and the cost of building nuclear power plants has risen dramatically since the early 1970s.

Summary

In conclusion, 1985 promises to be a year of respectable economic growth in Tennessee as in the nation. The factors contributing to the state's economic expansion are largely macroeconomic. Expected nationwide growth in consumer spending and business fixed investment should stimulate demand for Tennessee's important durable manufacturing industries and thereby fuel gains in employment and personal income. Lower interest rates should revive single-family building, at least early in the year, as well as reaccelerate growth in the production of building materials, furniture, and home appliances. Thus, the strongest sectors in Tennessee in 1985 probably will be manufacturing, trade, and perhaps construction, with the first two contributing most to the state's continuing expansion.

State and local governments may provide modest growth independent of national economic developments. Finance, services such as tourism, and agriculture probably will register a good year in 1985, but these sectors are too small to generate much statewide growth. Moreover, to a large extent the performance of finance and many services mirrors rather than drives changes in other economic sectors.

The weakest areas in Tennessee's economy probably will be import-sensitive nondurables, such as textiles, apparel, and chemicals, and divisions of manufacturing, trade, and agriculture that depend heavily on exports. Construction and related durable manufacturing also will suffer if interest rates rise substantially.

The author gratefully acknowledges the outstanding research assistance provided by Ms. Betty Bradfield.

NOTES

[1]Computed by Federal Reserve Bank of Atlanta from data in U. S. Department of Commerce, Bureau of the Census, *County Business Patterns*, 1981, Tennessee (January 1983) and United States (July 1983), Table 1-B.

[2]Ibid.

[3]Tennessee Department of Economic Development.

[4]U. S. Department of Commerce, Bureau of the Census, Origin of Exports of Manufactured Products," *1981 Annual Survey of Manufactures* (January 1982), pp. 14, 16.

[5]U. S. Department of Defense, Directorate for Information, Operations and Reports, *Prime Contract Awards by Region and State*, Fiscal Years 1981, 1982, and 1983, Table I-1.

[6]Tennessee Department of Revenue, *Monthly Statement of Revenue Collections*, January through November issues, 1983 and 1984; taxable sales in each of these categories grew by more than one-third, but some of that growth reflects a one-cent sales tax hike.

[7]U. S. Department of Commerce, Bureau of the Census, *Current Population Reports*, Series P-25, No. 944, (January 1984), p. 2; *The Number News*, April 1984.

[8]National Governors Association and National Association of State Budget Officers, *Fiscal Survey of the States*, Tables A-1, A-2, June 1984.

[9]U. S. Department of Commerce, Bureau of the Census, *Public Employment*, 1976-1983, GE80, No. 1.

[10]Aladdin Resources, Inc.

[11]Coldwell Banker, *Office Building Real Estate Data* (September 30, 1984), p. 11.

[12]Federal Reserve Board, *Report of Transaction Accounts, Other Deposits, and Vault Cash* (FR 2900).

[13]Federal Reserve Board, *Report of Condition*, June 30, 1983 and 1984; December 31, 1983 and 1984.

[14]Federal Home Loan Bank Board.

[15]*Economic Impact of Travel on Tennessee Counties, 1983* (Washington, D. C.: U. S. Travel Data Center, July 1984), pp. 9, 32, 41.

[16]Tennessee Department of Tourist Development.

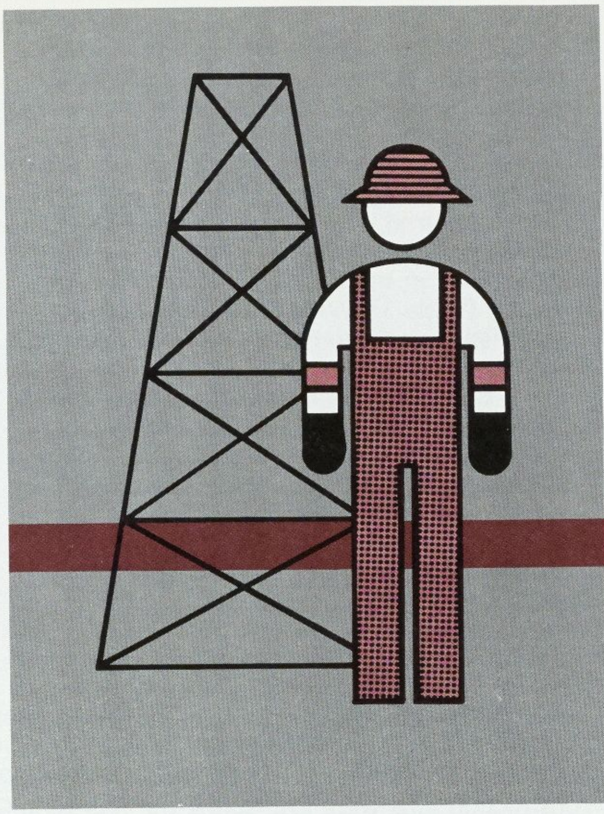
[17]Tennessee Department of Revenue.

[18]*Trends in the Hotel Industry* (Memphis, Tenn.: Pannell, Kerr, & Forster, November 1984), p. 2.

[19]George Smith, *Tennessee's Agriculture* (Knoxville: University of Tennessee Institute for Agriculture, 1984), p. 4

[20]U. S. Department of Energy, Energy Information Administration, *Weekly Coal Production*, DOE 1 EIA-0218 (84/50).

[21]U. S. Department of Energy, Electrical Power Division, Energy Information Administration.



Louisiana: Slow Speed Ahead

William J. Kahley and Gustavo A. Uceda

Chiefly because of the continuing decline in oil prices, Louisiana's economy partook only meagerly of the nation's expansion during 1984. The state likely will experience more robust growth in 1985, but soft energy prices threaten to sap the recovery's vigor.

Local and international trade growth are two important keys to Louisiana's economic prospects in the new year. A pickup of growth in these sectors, and perhaps in residential construction and manufacturing as well, will be needed to help offset the state's dependence on an energy sector likely to remain weak in 1985. Even with the expected acceleration of trade, housing, and some manufacturing industries this year, Louisiana's economy probably will expand more slowly than the nation's.

Early in 1984, the outlook for Louisiana's economy was cloudy but seemed to be brightening. The energy and international trade sectors, both crucial to the Pelican State's health, were expected to rebound moderately. With growth from these sectors, plus an expected rebound in manufacturing, housing construction, and a strong push from the Louisiana World Exposition, the state's economy was expected to gain momentum as the year unfolded. Yet, for a variety of reasons, actual growth turned out to be weaker than anticipated. Moreover, the state's economic advance began to reverse around midyear and showed continuing signs of weakness at year-end.

Sinking worldwide demand for energy, coupled with the price-depressing effects of new supplies, has cut deeply into Louisiana's oil-dominated economy. The worldwide oil glut largely explains the state's weak recovery relative to the nation's. A decline in oil demand, attributable to the global recession in 1981-82 and to conservation efforts following the early 1970s and 1979-80 jump in fuel prices, has reduced employment in industries directly and indirectly related to energy. Weak growth of the economies of major U.S. trading partners and continuing strength of the dollar also have limited growth of Louisiana's export-oriented economy relative to that of other states. Weak recoveries abroad limited the growth of world trade last year, preventing Louisiana's important seaport activity from contributing much economic strength. Furthermore, the strong dollar has favored import growth during the recovery relative to exports of domestically produced goods, stalling the growth of Louisiana-produced agricultural and manufactured exports.

Statewide Labor Market Developments

As has been noted elsewhere, the United States staged a powerful rebound in 1983 and 1984 from one of its worst recessions since

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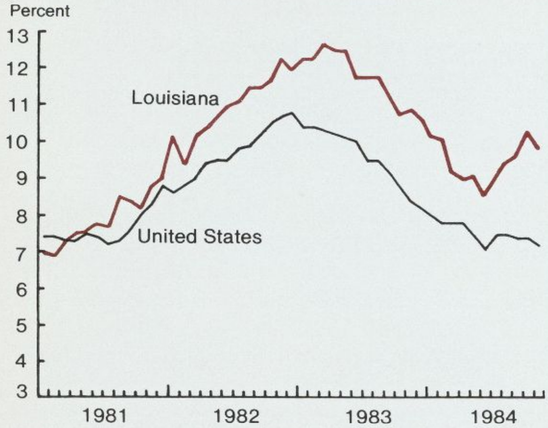
The authors are, respectively, economist and research analyst on the Research Department's regional team.

Chart 1. Unemployment Rate, United States and Louisiana



Source: U.S. Department of Labor and Louisiana Department of Labor data; seasonally adjusted by the Federal Reserve Bank of Atlanta.

World War II. By the fourth quarter of 1984 nonagricultural employment was 6.6 million above its level in the final quarter of 1982. But in Louisiana, nonagricultural employment actually was lower in the fourth quarter of 1984 than two years earlier, and the state had regained only one-third of the jobs it lost in the recession.

Since the early 1970s Louisiana's unemployment rate has been out of step with that of the nation, largely because energy looms so important in its economy. Rising energy prices and domestic demand spurred job expansion in Louisiana in the 1970s while exerting a drag on the national economy. But since 1983, Louisiana's unemployment rate has averaged about 2 percentage points higher than the nation's, and the gap began to widen last summer (Chart 1).

Louisiana's disappointing economic performance in 1984 is linked to weaknesses in the energy, petrochemical, and international trade sectors, and to a less-than-expected boost from the World's Fair in New Orleans. These misfortunes showed up vividly in an annual nonfarm job growth rate that was barely positive late last year while the nation's employment was growing at a 4 percent rate.

Greater improvement also was anticipated in 1984 for some less important sectors of the state's economy. Continuing economic recovery nationally and a rebound of Louisiana's mainstay industries were expected to generate jobs in manufacturing, wholesale and retail trade, and services. Job growth did occur in these industries, but the state's dominant industries were so weak that the economic advance reversed when the national recovery slowed.

The sectoral distribution of Louisiana's employment has been working against the state since 1981. Compared with the nation, Louisiana has a relatively high proportion of its employment concentrated in mining, construction, and transportation (Table 1). Within manufacturing, petroleum refining and chemicals production account for an unusually high share of Louisiana jobs relative to the nation. Employment declined in all of these Louisiana specialties last year. The state's relatively undiversified economy simply cannot advance robustly without strength in the petrochemical, oil, gas, and transportation industries.

Weakness in such major industries also is largely responsible for the slackened pace of construction activity. The absence of a good push from new industrial chemical plants, oil refineries, pipelines, and heavy waterway-related projects has caused the whole construction industry to sag. Construction employment has been declining since mid-1981. Nearly 30,000 construction jobs were lost during the recession and few have been recovered.

A major increase in Louisiana's employment in 1985 seems unlikely. The service-producing sector and some manufacturing industries will continue to expand if the national economy grows for a third successive year as expected. Continued expansion of world trade this year also should add buoyancy. Unfortunately, the state's heavy dependence on growth of the oil, gas, and petrochemical industries makes it unusually vulnerable when energy prices drop. Even with stabilized energy prices at current levels, Louisiana is likely to grow more slowly than the nation in 1985 because of continuing sluggishness in the oil and gas industry.

Local Labor Market Developments

Among Louisiana's metropolitan areas, Shreveport benefited greatly from the national expansion in 1984. Employment growth relative to labor force expansion was particularly rapid there in 1984, sharply reducing its unemployment rate (Table 2). An increase in industrial employment in the area's metal, electrical, and

Table 1. Employment Shares and Growth, U. S. and Louisiana

	Percent Growth, 11/83-11/84		Percent Share, 11/84	
	U.S.	Louisiana	U.S.	Louisiana
Manufacturing	3.6	1.2	20.5	11.6
Construction	8.4	−6.8	4.8	6.9
Trade	5.1	0	23.4	23.8
Finance	3.5	0.4	5.9	5.3
Services	5.1	2.1	21.9	19.7
Mining	4.7	−0.3	1.0	5.0
Government	1.3	1.1	17.0	20.5
Transportation	4.1	−1.4	5.5	7.3
Total Nonfarm Employment	4.1	.1		

Source: U.S. Bureau of Labor Statistics, *The Employment Situation*, and Louisiana Department of Labor, *Louisiana Labor Market Information*, November 1984.

nonelectrical machinery industries influenced by improvement in the nation's auto and housing sectors more than offset the dampened demand for energy-related supplies.

Baton Rouge registered fast employment growth in 1984, led by gains in wholesale and retail trade, services, and government employment. The relative strength of the state capital's economy also attracted workers from elsewhere in Louisiana, expanding its labor force faster than any other metropolitan area. Consequently, Baton Rouge's steady performance was masked by an unemployment rate that showed little improvement.

The Lafayette metro area, which has enjoyed the lowest unemployment rate in the state for years, continued along that path in 1984. Although its unemployment rate doubled in the recession, its rate was the only one in the state that compared favorably to low unemployment areas elsewhere in the country last year. Lafayette is the educational, cultural, and service capital of Acadiana (Cajun territory) and the center for petroleum operations in the state. While hard-hit by the softening oil sector, the city benefited somewhat last year from its role in providing diversified services. Moreover, white-collar administrative jobs related to the oil industry have not been as adversely affected as production workers' jobs, and renewed drilling activity has supported the demand for geologists, engineers, and other technical workers.

The unemployment rates of Alexandria, Monroe, and New Orleans were similar to the state's last year. All three areas exhibited a mix of strengths and weaknesses. By late spring, the three had achieved unemployment rates that were about 3 percentage points lower than a year earlier. However, as in the state, unemployment rates in those areas began to drift upward in the second half of 1984 as the economy softened.

The trade, services, and government sectors dominate New Orleans' economy, accounting for two-thirds of employment. With nearly one-third of all the jobs in Louisiana located in the New Orleans metro area, economic developments in the Crescent City have a strong influence on the state's overall performance. Slow improvement in the oil and gas sector and in foreign trade in 1984 prevented both the metropolitan area and the state from rebounding. The continuing doldrums in the energy sector were felt most acutely in Lake Charles, however. That former beehive of oil, gas, and petrochemical activity continued to suffer an unemployment rate around 13 percent late in the year, with both employment and labor force still declining.

Economic conditions in Louisiana's nonmetropolitan parishes varied widely in 1984. Unem-

Table 2. Labor Market Conditions, U. S. and Louisiana* (in thousands)

Area & Employment	November 1984	November 1983	Percent Change 1983/1984
United States			
Civilian Labor Force	114,115	112,147	1.8
Employed	106,246	103,018	3.1
Unemployed	7,869	9,129	−13.8
Rate (percent)	6.9	8.1	
Louisiana			
Civilian Labor Force	1,964.7	1,901.8	3.3
Employed	1,773.4	1,698.4	4.4
Unemployed	191.3	203.4	−5.9
Rate (percent)	9.7	10.7	
Alexandria			
Civilian Labor Force	79.0	77.1	2.5
Employed	70.9	69.6	1.9
Unemployed	8.1	7.5	8.0
Rate (percent)	10.3	9.7	
Baton Rouge			
Civilian Labor Force	252.9	241.8	4.6
Employed	231.0	220.4	4.8
Unemployed	21.9	21.4	2.3
Rate (percent)	8.7	8.9	
Lafayette			
Civilian Labor Force	98.2	94.9	3.5
Employed	92.3	87.4	5.6
Unemployed	5.9	7.5	−21.3
Rate (percent)	6.0	7.9	
Lake Charles			
Civilian Labor Force	74.1	78.0	−5.0
Employed	64.4	66.6	−3.3
Unemployed	9.7	11.4	−14.9
Rate (percent)	13.1	14.6	
Monroe			
Civilian Labor Force	60.0	58.4	2.7
Employed	54.3	52.4	3.6
Unemployed	5.7	6.0	−5.0
Rate (percent)	9.5	10.3	
New Orleans			
Civilian Labor Force	539.9	530.1	1.8
Employed	489.4	479.3	2.1
Unemployed	50.5	50.8	−0.1
Rate (percent)	9.4	9.6	
Shreveport			
Civilian Labor Force	172.4	170.0	1.4
Employed	159.2	152.7	4.3
Unemployed	13.2	17.3	−23.7
Rate (percent)	7.6	10.2	

*Data not seasonally adjusted

Source: U.S. Bureau of Labor Statistics, *The Employment Situation*; Louisiana Department of Labor, *Louisiana Labor Market Information*, November 1984.

ployment generally tended to be higher there than in metropolitan areas, reflecting the paucity of stable and growing service industries in rural areas. Parishes in rural southern and northeastern Louisiana posted unemployment rates in the 10 to 15 percent range. Most south Louisiana parishes are critically dependent on energy, although a strong fishing industry has helped that region and weakness in rice farming has hurt it. In the northeast, troubles in agriculture and shipping activity in the Mississippi River slowed that area's economic advance. Unemployment in the northwest tended to fall below 9 percent, helped by defense spending and a more manufacturing-based economy utilizing forest products.

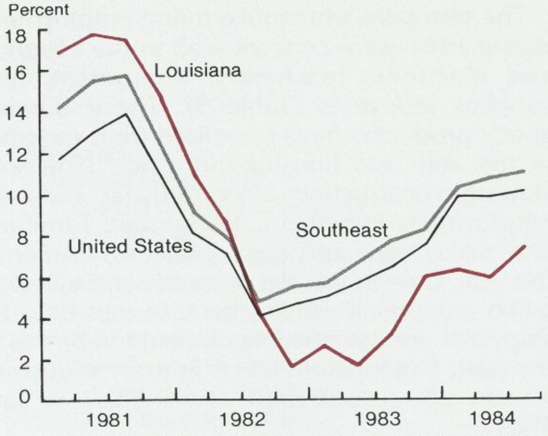
Population, Income, and Consumer Spending

Louisiana's relatively poor economic performance since mid-1982 is reflected in its pattern of income and spending growth. For example, year-over-year growth of personal income on a quarterly basis has been consistently below that of the nation and the Southeast since that time (Chart 2). In 1983, income grew by little more than half the national rate, placing Louisiana among the half dozen worst performing states. As of mid-1984, Louisiana's personal income growth continued to rank among that of the bottom 10 states.

These income comparisons are even more unfavorable when income growth is considered on a per capita basis. Nationally, per capita income increased more than 2.5 times as fast as Louisiana's in 1983 partly because the national population grew only two-thirds as fast. More recently, Louisiana's population growth has slowed dramatically. The state's population grew by little more than half the rate of increase nationally, and was the slowest in the region according to U. S. Census Bureau estimates, in the year ending last July.

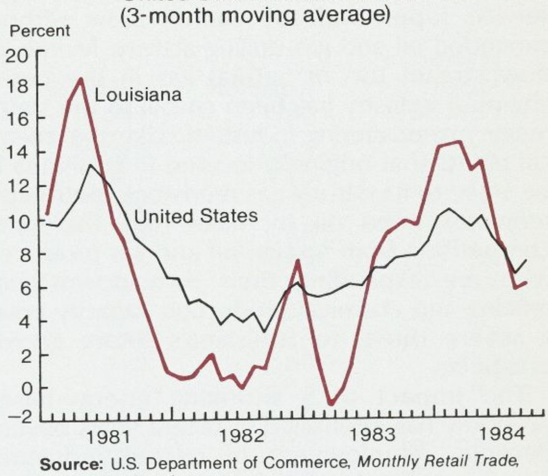
An examination of the relative growth of income by major economic sectors for Louisiana and the nation is revealing. For the year ending in mid-1984, Louisiana posted faster growth only for durable goods manufacturing. The state's poor showing compared with the nation's is attributable to relative weakness in income growth from mining, construction, state and local government, wholesale and retail trade, and transportation and public utilities. These

Chart 2. Annual Percent Change in Personal Income, Louisiana, Southeast, and United States



Source: Calculated by Federal Reserve Bank of Atlanta from data in U.S. Department of Commerce, *Quarterly Personal Income*, various issues.

Chart 3. Annual Percent Change in Retail Trade, United States and Louisiana (3-month moving average)



Source: U.S. Department of Commerce, *Monthly Retail Trade*, various issues.

weaknesses are linked strongly to the energy bust and the lackluster performance of port activity.

Weak income growth since mid-1982 also is reflected in Louisiana's retail trade data. In nearly two-thirds of the months from January 1982 to mid-1983, consumer spending growth in dollars, before adjusting for inflation, was below or only up negligibly from the corresponding month of the previous year. Meanwhile, real consumer spending was increasing nationally. As a consequence, Louisiana's spending growth since mid-1983 overstates the strength of its consumer spending relative to the nation's (Chart 3).

Louisiana's outlook for consumer spending in 1985 is positive, but only moderately so. At year-end, retailers anticipated that the good holiday sales they were experiencing would spill over into 1985's retail sales. However, they also were concerned about the potential effects of weak oil prices and a slow-moving petrochemical industry in 1985.

Oil and Gas

Louisiana's oil and gas industry began a shaky recovery in 1984, thanks to moderately higher U.S. energy consumption and sharply lower drilling costs. But the industry is still adjusting to the price shocks of the past few years, an aftermath of the recession, and from sputtering production attributable to dwindling resources. There is a good chance that real energy prices eventually will stabilize and even rise in the years ahead, despite the current softness in world energy markets. But Louisianians face the pressing need to diversify their economy away from its reliance on an industry that, in the absence of significant new discoveries, is bound to shrink as the resource pool is depleted.

The Hughes Tool Company's oil rig count for Louisiana increased nearly 10 percent in 1984 from 1983's depressed level, although the number actually working was still one-third fewer than the peak number of 487 reached in December 1981. Energy use in the United States reversed a four-year decline in 1984. Increased use of energy more than offset lower energy use per dollar of GNP, which resulted from ongoing conservation efforts. Based on permits issued by the state, expectations are that oil and gas drilling will continue to grow, albeit at a much more subdued pace than during the energy boom five years ago. Offshore drilling, which has rebounded more than onshore activity and accounts for the bulk of exploration, is likely to register most growth.

The effect of the oil and gas industry's volatile performance on Louisiana's economy is well understood in the state. Likewise, it is understood that the state's economy must diversify further to provide higher living standards to residents. Troubles in the industry have rippled throughout the state, just as good times rolled across the "oil patch" earlier. Much of the construction industry and related oil and gas service supply industry cannot grow without expanded oil and gas drilling activity. Moreover, downstream use of natural gas in the petrochemical industry has been crucial to the state's major manufacturing industries. Like the chemical plants that originally located in Louisiana to be close to its natural gas feedstock, petroleum refineries need oil to make fuel. Increasing competition from foreign oil and gas producers who are expanding their own downstream refining and chemical production capacity poses a severe threat to Louisiana's future growth prospects.

The impact of a shrinking energy-based economy has intensified in recent years beyond declining employment in related industries. For example, the fiscal health of Louisiana's state government is tied closely to the price and production of energy. State severance taxes on oil and gas have dropped substantially in recent years. At times, the energy sector has provided perhaps as much as 40 percent of the state's tax revenues, including lease and royalty income. A continuing decline in energy revenues eventually could threaten state programs designed to provide new jobs to replace those lost because of oil and gas depletion.

Manufacturing

Louisiana was one of only two states where nondurable goods manufacturing outperformed durable goods in 1983, the first year of the national recovery. Unfortunately, employment declined in both of these sectors in Louisiana. The relatively greater weakness experienced by durable goods firms in 1983 reflects the spillover effects from the energy glut. The state's metals, machinery, and transportation equipment durable goods industries depend upon orders from energy mining firms and upon petroleum refiners and chemical manufacturers (who are counted as nondurable goods producers).

The slow recovery of oil and gas exploration and extraction in 1984, combined with the continued loss of jobs in the chemicals and petroleum refining industries, prevented Louisiana manufacturing employment from improving much again last year. Nationally, the number of manufacturing jobs approached the prerecessionary peak, while the number in Louisiana was still nearly 20 percent lower in late 1984 than in mid-1981.

The few gains in manufacturing employment during 1984 were concentrated in the electrical and electronic machinery, equipment, and supplies industries (Table 3). These durable goods producers have benefited from recovery of the auto and housing industries. However, slowing construction after midyear reversed employment growth in the lumber, furniture, and stone, clay, and glass industries earlier in the year. Growth was flat in metals and transportation equipment employment, in part because shipyards are not building oil field tenders as in the past. Employment levels in these industries remain about one-third lower than in late 1981.

Nondurable goods production accounts for about 55 percent of Louisiana's manufacturing employment. Employment growth was even flatter than production growth in most of these industries in 1984, as chemical, petroleum, food, apparel, and paper producers tried to fend off foreign competition by installing more efficient equipment and by trimming employment.

For Louisiana, world oil prices and the foreign exchange value of the dollar are more important than the growth of the national economy. Ongoing efforts by manufacturers to boost productivity or change product mix to become more competitive should help somewhat. For the longer haul, these efforts are crucial to maintaining and improving Louisianians' living standards.

One of the stronger stimulants to national growth this year will be spending for national defense. Louisiana's share of defense employment and production is below average compared with the state's share of all national employment and production. But the benefits of defense dollars to Louisiana's economy are substantial and of growing importance, particularly to New Orleans' economy. The military, including the Corps of Engineers, is a major employer in that city, and numerous companies in the area, both small and large, supply local bases or military needs elsewhere. The Avondale Shipyard and Bell Aerospace Textran are two of the largest suppliers, with contracts from the Navy to build troop and fleet oiler ships and coastal mine sweepers. This work helps cushion the still declining employment in shipbuilding and repair from lost energy-related business.

Table 3. Manufacturing Wage and Salary Employment in Louisiana (in thousands)

	November 1984	November 1983	Percent Change 1983/1984
Manufacturing	182.9	180.8	1.2
Durable Goods	84.1	79.0	6.5
Lumber and Wood Products	13.4	13.4	—
Furniture and Fixtures	0.8	0.8	—
Stone, Clay, and Glass Products	7.7	7.6	1.3
Primary Metals Industries	3.6	3.5	2.9
Fabricated Metals Products	12.6	13.6	−7.4
Machinery, except Electrical	10.2	9.4	8.5
Electric and Electronic Equipment	11.2	8.1	38.2
Transportation Equipment	21.9	20.6	6.3
Other Durable Goods	2.7	2.0	35.0
Nondurable Goods	98.8	101.8	−2.9
Food and Kindred Products	23.3	25.5	−8.6
Apparel and Other Textile Products	9.0	8.5	5.9
Paper and Allied Products	11.9	11.7	1.7
Printing and Publishing	9.9	9.8	1.0
Chemicals and Allied Products	28.4	29.6	−4.0
Petroleum and Coal Products	12.3	12.8	−3.9
Other Nondurable Goods	4.0	3.9	2.5

Source: Louisiana Department of Labor, *Louisiana Labor Market Information*, November 1984.

Signs of a rebound in housing and in consumer spending nationally began to show up at the end of 1984, helped by lower interest rates and growing incomes. A sustained revival of construction activity this year would stimulate construction-related industries that faltered last year. Greater demand for lumber and wood products would increase activity and employment at logging camps, sawmills, and planing mills across the state. Producers of concrete, gypsum, and plaster products would benefit as well. Healthy spending by consumers would boost numerous auto industry suppliers of rubber, glass, and electrical and other components around the state. Firms producing metal and a variety of machinery also would add to their payrolls. But job gains in durable manufacturing industries in Louisiana from increased construction and consumer spending will not be large. Combined, these industries account for a relatively low share of manufacturing employment in Louisiana (45 percent) compared with their share nationally (60 percent).

The state's largest industrial employer is the chemical industry. It accounts for one out of eight manufacturing jobs in the state and 30 percent of all nondurable manufacturing jobs. Workers certainly would benefit from a third year of national expansion. Continued national growth would increase the amount of chemicals needed to produce industrial products used to make cars, houses, and consumer goods. Paper and textile material suppliers would benefit in a similar way. But it is unlikely that the moderate pace of growth nationally will ensure an equally healthy nondurable manufacturing sector in Louisiana. Too much manufacturing in the state is linked to the energy sector, which is likely to remain relatively weak.

A drop in the cost of gas feedstock to the chemical industry and the cost of a dollar to foreigners would sharply improve chemical producers' ability to sell in world markets as well as at home. But at year-end, the outlook for the price of gas and the dollar in 1985 remained uncertain. Longer term, many of the state's big chemical companies are gearing up to produce more engineering-intensive specialty chemicals to skirt growing foreign competition in the production of low-cost bulk chemicals.

Rapid growth of cheap imported ammonia for use in producing fertilizers is one example of the declining competitiveness of Louisiana's bulk chemical producers. Manufacturers of agricultural chemicals claim that these imports seriously threaten the future of this industry in the United States. Moreover, U.S. producers assert that foreign nations subsidize their chemical industries via artificially low prices for nationalized natural gas feedstock. Domestic producers are pressing for legislation to halt such imports.

A positive factor for fertilizer producers this year will be the expected increase in demand from farmers in the United States and abroad. With the cancellation of the federal Payment-In-Kind (PIK) program that encouraged farmers to reduce cultivated acreage, farmers should plant more crops and use more fertilizer. Expanding food production worldwide likewise should help stimulate fertilizer, pesticide, and herbicide sales to foreigners, particularly if the dollar loses some of its current strength against other currencies.

Government

Real spending by state and local governments nationally was flat in the first year of recovery but increased at a healthy pace in 1984. Moreover, an increase in federal grants, strengthened state fiscal positions, and continued expansion of economic activity portends further growth in the state and local sector this year. Real spending in Louisiana also is increasing, but the state's fiscal health has eroded dramatically since oil prices tumbled in 1983. Another sustained price drop this year would be bad news for the state's precariously balanced budget.

Data from the National Governors Association and National Association of State Budget Officers show that the state started the 1983 fiscal year (in July 1982) with a $271 million surplus, or close to 7 percent of expenditures and transfers made in the 1982-83 fiscal year. This fiscal year, which ends in June 1985, started off about $30 million in the red, according to the state legislative fiscal office.

Much of the state government's revenue comes from the energy sector in the form of severance taxes, royalties, and bonuses from oil and gas production. Fiscal 1983 revenue from the severance tax alone dropped by more than $130 million from the previous year, to about $860 million, according to the Louisiana Department of Revenue. This revenue source was off another $57 million in the fiscal year that ended last June. The recession and weaker than expected recovery last year also has caused the important alcohol, tobacco, and corporate income taxes to decline or fall short of projections.

State government employment, which grew rapidly in the late 1970s, has grown more slowly since 1982 because of these budget difficulties. However, spending is growing, helped by tax increases passed last year that were projected to add $900 million in revenue. Even so, Louisiana's public sector will provide little growth impetus this year. If oil prices should drop more, the state estimates it would lose about $21.6 million in revenue for each dollar decline in the price of oil at current production levels. In the longer term, the state's new spending to underwrite an economic diversification plan may help to lessen reliance on the energy sector.

The state's plan to end its heavy dependence on the oil and gas industry is, perhaps, the most comprehensive economic development program in Louisiana's history. The plan aims to make venture capital more available, liberalize state banking laws, build Louisiana universities' research capabilities, use new biotechnologies to enhance natural resources, improve industrial recruitment efforts, seek international business more aggressively, and provide more business tax incentives.

Construction

Employment in the nation's construction sector approached a historical high in 1984. By contrast, Louisiana's construction employment remained nearly 20 percent below the peak level reached in 1980. Total construction activity turned out to be even weaker than was expected when the year began, largely because of the disappointing performance of the energy sector. Stimulus from the World's Fair also came to an end as that construction project was completed, and a commercial building boom was winding down. In addition, slower-than-expected growth of the entire state economy prevented residential construction from growing more.

Total construction activity dropped in Louisiana in 1983 and 1984 while it was rising nationally, a reversal of 1982. In 1982, Louisiana was benefiting simultaneously from construction activity associated with the energy sector and from preparations for the World's Fair. When the impetus from these forces dissipated in 1983 and 1984, respectively, the state's construction sector nosedived.

Total construction this year is unlikely to match the moderate growth expected for the nation. However, the worst of the slowdown associated with the troubled oil and gas industries is probably over, unless oil prices fall further. Thus, the state may regain some of the almost 30,000 jobs lost in the construction trades over the past few years. But the gains probably will be modest in the aftermath of the World's Fair and the slowing of office and hotel construction.

The industry's best prospects for growth this year are in the housing and nonresidential building that would accompany a continuation of growth nationally. Compared with the nation's, Louisiana's housing construction was relatively weak last year, consistent with its slower pace of economic advance. The state's building activity is likely to continue advancing at a slower pace than the nation's again this year.

Tourism

Tourism, though a small sector of Louisiana's entire economy, is an important activity in New Orleans, where millions of visitors flock to the city yearly. Some visit on convention business or to view sporting events or Mardi Gras, while others come simply to enjoy the unique cuisine, music, and general cultural ambience. Seeking to capitalize on New Orleans' lures, a World's Fair was held last year to showcase the city and the state. It also was hoped that investment generated by the fair would produce long-term economic benefits. Yet attendance was disappointing and the fair was forced to file for protection under federal bankruptcy laws in its last week to prevent creditors from seizing its property.

Fewer than 7.5 million attended the fair, which was to attract 12 million. Attendance was so far below the break-even level that the fair ended its run with a net loss of $110 million, according to the bankruptcy proceedings report filed in December. Numerous reasons have been suggested to account for the financial losses, including competition from the Olympics and foreign travel, poor management and marketing, bad weather, adverse publicity, and other factors that either boosted costs or decreased demand.

Louisianians still hope that the more enduring goal of increased business activity, particularly in New Orleans, will be achieved. A revitalized riverfront warehouse area, with adjacent ongoing commercial development, is one permanent improvement. Another is the new convention center that was used as the state's pavilion during the fair's run. The eventual economic benefits that these and other fair-related investments bring to New Orleans and the state surely will be positive, although their magnitude is uncertain.

Services employment related to increased convention business and the new commercial developments may offer additional job opportunities, particularly for less-educated Louisianians. A host of new jobs in hotels, stores, and other businesses related to the convention and tourism industries is sure to result from the enlarged capacity. But these benefits will be less positive this year than the employment boost from the fair in 1984. As a result, 1985 service employment is likely to languish in New Orleans and to grow only slowly at the state level.

Finance

Although Louisiana's economy has suffered from declining oil prices, the national economy as a whole has benefited. Of course, that is small consolation to the many energy industry suppliers who have gone bankrupt in recent years or to their creditors who could not collect on loans. Similarly, the potential long-run benefits from the improvements brought by the World's Fair still entail losses to creditors as a result of the fair's bankruptcy. Louisiana financial institutions are counted among those who stand to lose from both developments.

So far, most loans provided by banks to energy-related companies have not proven fatal. Fair-related lending likely will prove to be even less damaging to bank profits. The one bank failure in the state last year was caused in part by a downturn in the local economy associated with troubles in the oil exploration industry. Loan losses as a percentage of interest-earning assets also rose substantially in the state in 1982 and 1983. However, Louisiana's commercial banks' percentage return on assets was above average for Sixth-District states.

Louisiana registered slower-than-national growth of bank deposits last year. That slower deposit growth is consistent with the relatively weak growth in income and the state economy in 1984. Major state legislation was passed last year enabling bank holding companies to cross parish boundaries to seek mergers and deposits from around the state. Bank merger and acquisition activity is likely to be heavy in 1985. Currently, Louisiana banking organizations are relatively small: only two banks in the state have assets in excess of $2 billion and the top six banks have combined assets of less than $9 billion. The small size of Louisiana banks certainly is due in part to the pre-1984 prohibition against inter-parish banking. Now, mergers will allow them to grow.

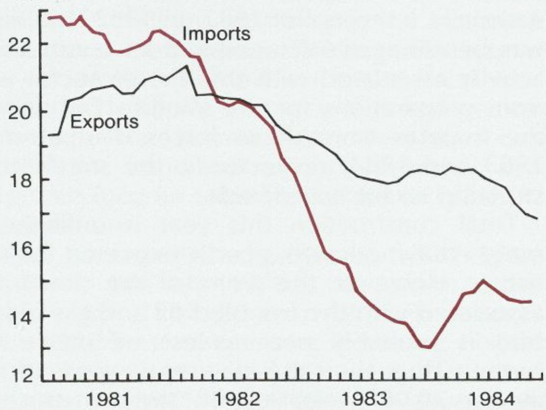
The expected growth in the size of banking organizations in the state should prove mostly positive for customers. The new law allows banks greater freedom to compete. Thus, institutions in poorly served markets may face increased competition. Louisiana institutions also should be in a better position to serve larger companies, and to provide a wider range of services, than is typical now. This increased capacity may swell financial employment as well, but employment growth is likely to be gradual. Consolidation could mean even a short-term decline in employment as duplication is eliminated.

International Trade

Louisiana's ports began a sluggish recovery last year from a sharp decline in the volume and value of foreign trade shipments in 1982 and 1983 (Chart 4). Thousands of jobs were lost in this period in the New Orleans Customs District, which encompasses the state's largest ports, and most have yet to be regained. Total trade remains sharply below the peak attained in 1981 and the unusually strong value of the dollar has greatly skewed the pattern of recovery.

The Port of New Orleans is one of the nation's busiest and most important. Its health,

Chart 4. Exports and Imports, New Orleans Customs District (12-month moving total)



Source: U.S. Department of Commerce, *Highlights of U.S. Export and Import Trade*, various issues.

as well as that of the entire port system in the state, is vital to the health of the state's economy. Many of the nation's ports were hurt by the slowdown in world trade in the recession, but the mix of New Orleans' cargo shipments made it especially vulnerable to the decline in trade. New Orleans leads the nation in the export of bulk commodities, and it and other ports along the Mississippi are major handlers of oil imports. The strong dollar and weaker recovery abroad compared with that of the United States cut purchases of these commodities in particular.

The rebound in shipments that New Orleans is now experiencing also is unbalanced. Imports of manufactured goods are growing much faster than exports, as foreign steel producers, machinery manufacturers, and others find U.S. markets easier to penetrate. But exporting United States agricultural and manufactured goods has become more difficult.

The major effect of the current trade imbalance occurs away from the ports, however. Louisiana farmers have become less competitive in foreign markets for soybeans, cotton, and corn. In manufacturing, where export-related production accounts for one out of eight jobs, chemical producers and others also find it more difficult to penetrate foreign markets. If this year unfolds as expected, continued world growth will boost activity at Louisiana's ports more than in 1984. If the dollar were to undergo a sustained decline it would, over time, cause an acceleration in the growth of exports and a slowing of import growth.

Agriculture

Farm income as a percentage of total personal income is minimal both in Louisiana and the nation. However, this measure greatly understates the economic importance of the agricultural sector. Like other businesses, farms engage in numerous purchase and sale transactions that further stimulate activity. In addition, farm-related activity is the dominant economic base in many local areas.

Most Louisiana crop farmers, who generate nearly three-fourths of the state's farm income, should be able to look back on last year favorably, even though termination of the PIK program reduced cash income. All major crop yields increased, with the exception of sugar cane, and prices generally held at profitable levels. Many crop prices are in danger of slipping, though, and foreign markets for U.S. products are weak, partly because of record crops abroad. Rapid growth in agricultural exports is unlikely until the dollar declines in value.

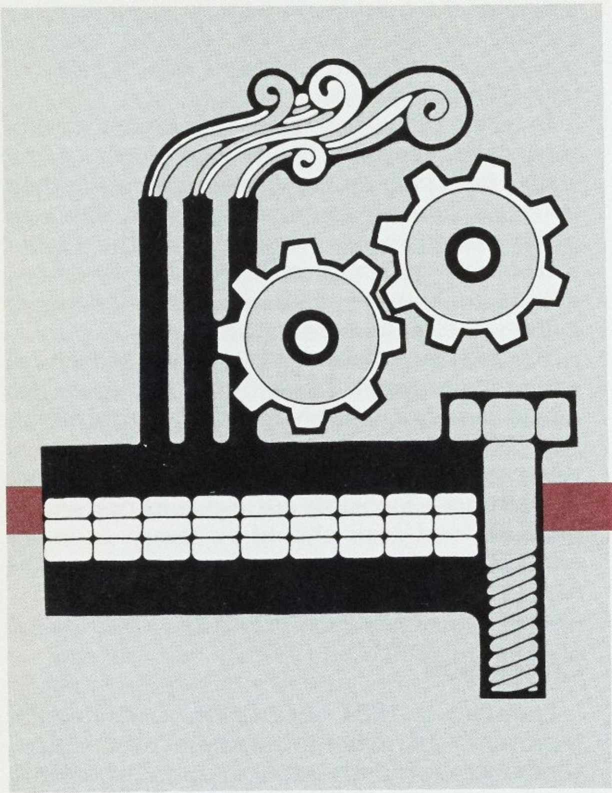
Although rice production increased last year and generated profits for the most efficient producers, income fell far short of the peak level reached in 1981. Prices are under downward pressure because of weak foreign sales, and improved crop yields have contributed to large rice inventories. The soybean crop, which generates the most income for Louisiana farmers, actually declined last year due to reduced acreage. As with rice, growers are threatened with falling prices.

In spite of weaker prices, Louisiana cattlemen, who generate nearly one-fourth of the state's farm income, were able to increase their revenues last year by increasing sales. Although profit margins were negligible on the higher marketings, cattlemen reduced their inventory, hoping to improve their prospects for higher cattle prices and revenue this year.

The overall outlook for Louisiana's agricultural economy is much the same as last year. The typical farmer is unlikely to achieve high profits, but efficient producers should earn normal returns if the weather cooperates. The outlook is a bit more favorable for the livestock sector because feed costs should be steady to lower and cattle prices should advance because of reduced supplies.

Conclusion

Louisiana's 1984 economic performance represents an extreme example of the consequences of dependency upon a volatile economic sector. The state's weak growth during the current national economic expansion is related largely to the drop in oil prices from levels that prevailed in the pre-recession boom period. The state's economy should improve this year, but it probably will not keep pace with the nation's rebound because of continued softness in energy prices.



Alabama: "Heart of Dixie" Slackens Beat

Charlie Carter

This year Alabama's economic expansion is unlikely to match the pace set in 1984. But energetic growth in industries related to automobiles and defense should help counter the drag from import-sensitive sectors.

The general pace of the Alabama recovery, which quickened in 1984 despite lingering weaknesses in services, apparel, agriculture, and textiles, is expected to moderate in 1985 as the nation's economic growth slows. Alabama's economic recovery has been less spectacular than those in some other southeastern states because of the state's closer link to industries susceptible to import competition. Employment and income growth will be spurred by increased defense and investment goods spending. However, expansion of industries that compete with foreign manufactured goods or that look to export markets is likely to be retarded by the high foreign exchange value of the dollar and weaker economies abroad.

On balance, we look for growth of employment, income, and consumer spending from several sources: commercial, industrial, and office construction; production of machinery and equipment; defense-related manufacturing; and state and local spending on public works. We believe these growth areas will marginally overshadow lingering weakness in import-sensitive sectors, giving rise to a more moderate expansion in the state's economy in 1985 than occurred in 1984.

Alabama's unemployment remains stubbornly high. The state's unemployment rate is down appreciably from 16 percent at the trough of the last recession; however, in spite of two years of recovery it remains well above the national rate of 7.2 percent (Chart 1). In 1984, employment grew by 4.8 percent from the previous year while the state's labor force increased by only 1.6 percent. Yet the state's jobless rate lingered at 11.2 percent in December.

Economic conditions improved last year in all eight of the state's major metropolitan areas (MSAs), yet these improvements varied widely. Huntsville, Montgomery, Tuscaloosa, and Birmingham boasted expansions strong enough to give them single-digit unemployment rates by December. On the other hand, Florence, Gadsden, Mobile, and Anniston still were suffering with double-digit rates (Table 1).

A favorable mix of automobile parts, high technology, defense, and space-related manufacturing benefited Huntsville's economy. Employment grew 7.2 percent from December 1983 to December 1984. However, the area's unemployment rate rose to 9.4 percent, as the labor force increased 8.2 percent.

Montgomery enjoyed the state's lowest unemployment rate at the end of last year and continuing strong office and commercial construction reduced Birmingham's jobless rate. With a

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The author is a senior economist on the Research Department's regional team.

large portion of Montgomery's work force associated with state government and the military, jobs grew 3.9 percent last year, lowering unemployment to 8.9 percent. Commercial, office, and highway construction in and around Birmingham boosted employment 5 percent last year, cutting the jobless rate to 9.4 percent.

Economic conditions in the northern areas of the state remained depressed as of late last year. Florence, with an economy heavily reliant on electrical wiring used in building, suffered the highest jobless rate in the state, as rising long-term interest rates in the first half of last year weakened the industries on which it depends.

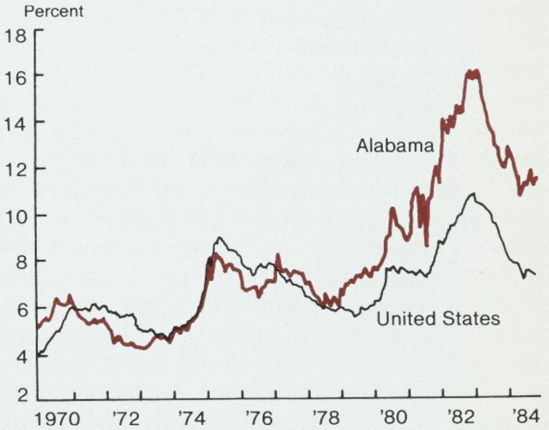
The performance of LTV, the largest employer in Gadsden and Anniston, has a pronounced impact on those cities' economies. Continuing uncertainty over the future of Gadsden's huge steel-making facility has kept economic conditions depressed in the area. As of December, unemployment rates were 14.6 percent in Gadsden and 10.2 percent in Anniston.

Economic Structure and Performance

The lurching course of Alabama's economy relates to its industrial structure. Compared with the national economy, proportionately more of Alabama's workers earn a living from cyclically sensitive goods production. Nearly a third of the state's nonfarm jobs are involved with goods production in contrast to slightly more than a fourth in the nation. Greater reliance on goods production is attributable to the more important role of manufacturing in Alabama, where factories account for almost 26 percent of all nonfarm jobs versus 21 percent for the nation (Table 2).

Contrary to the popular perception, however, the state's economy is not more dependent on heavy industry than is the nation's. Durable goods manufacturers account for only 12.4 percent of the state's nonfarm jobs, about the same as the nation's, but nondurables are proportionately more important to Alabama. Slightly more than 13 percent of Alabamians are employed in nondurable manufacturing versus just over 8 percent

Chart 1. Unemployment Rates, United States and Alabama



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

Table 1. Employment Gains Exceeded Labor Force Growth in Alabama's MSAs in 1984 (in thousands)

	December 1983	December 1984	Absolute Change	Percent Change
Alabama				
Labor Force	1,732.8	1,806.2	73.4	4.2
Employment	1,535.8	1,595.6	59.2	3.9
Unemployment	210.6	197.0	13.6	6.9
Rate (percent)	11.4	11.7		
Anniston				
Labor Force	46.5	49.1	2.1	5.6
Employment	41.3	43.8	2.6	6.2
Unemployment	5.2	5.3	0.1	1.2
Rate (percent)	11.3	10.8		
Birmingham				
Labor Force	385.8	397.2	11.4	3.0
Employment	344.1	359.9	15.8	5.0
Unemployment	41.7	37.3	–4.4	–10.6
Rate (percent)	10.8	9.4		
Florence				
Labor Force	57.9	59.1	1.2	2.1
Employment	49.3	50.1	0.8	1.6
Unemployment	8.6	9.1	0.4	5.1
Rate (percent)	14.9	15.3		
Gadsden				
Labor Force	41.4	43.0	1.7	4.0
Employment	35.8	36.8	1.0	2.7
Unemployment	5.6	6.3	0.7	12.6
Rate (percent)	13.5	14.6		
Huntsville				
Labor Force	159.7	172.9	13.2	8.2
Employment	146.0	156.5	10.6	7.2
Unemployment	13.7	16.3	2.6	18.8
Rate (percent)	8.6	9.4		
Mobile				
Labor Force	192.7	203.1	10.5	5.4
Employment	168.2	178.0	9.8	5.8
Unemployment	24.5	25.1	0.6	2.6
Rate (percent)	12.7	12.4		
Montgomery				
Labor Force	128.5	132.8	4.3	3.4
Employment	116.5	121.0	4.5	3.9
Unemployment	12.0	11.8	–0.2	–1.9
Rate (percent)	9.3	8.9		
Tuscaloosa				
Labor Force	56.4	59.2	2.8	4.9
Employment	50.6	53.6	3.0	6.0
Unemployment	5.8	5.6	–0.3	–4.3
Rate (percent)	10.3	9.4		

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

Table 2. Greater Reliance on Goods Production Makes Alabama's Economy More Volatile
(Employment in thousands)
(September 1984)

Sector	United States Employment	United States Percent	Alabama Employment	Alabama Percent
Total Nonfarm Employment	94,671	100.0	1,346.4	100.0
Goods Producing	24,996	26.4	427.4	31.7
Manufacturing	19,601	20.7	345.8	25.7
Durables	11,680	12.3	167.3	12.4
Nondurables	7,921	8.4	178.5	13.3
Construction	4,371	4.6	67.2	5.0
Mining	1,024	1.1	14.4	1.1
Service Producing	69,675	73.6	919.6	68.3
Trade	21,956	23.2	285.6	21.2
Financial	5,682	6.0	62.1	4.6
Transportation	5,175	5.5	72.0	5.3
Government	16,033	16.9	281.9	20.9
Services	20,829	22.0	218.0	16.2

Source: U. S. Department of Labor, Bureau of Labor Statistics, and Alabama Department of Industrial Relations.

in the nation. Greater reliance on nondurables in Alabama can be traced to textile and apparel manufacturing, which are responsible for nearly half of nondurable jobs in the state.

The services sector, considered to be a stable source of income and employment, is less important in Alabama's economy. While services account for 22 percent of national employment, only 16 percent of Alabama's nonfarm jobs are in services.

The goods-production orientation of Alabama's economy makes it more vulnerable to downturns in the national economy and to the high exchange value of the dollar. Declines in consumer spending affect the goods-producing sector more adversely than they do the service sector. As orders for consumer durables decline, production cutbacks and layoffs occur in Alabama to a greater extent than nationwide.

Movements in the dollar's value also strike a sharper blow to goods-producing establishments, which are forced to compete more directly with low-cost imports than are service-producing firms. With its greater reliance on goods production particularly textiles and apparel production, Alabama's overall economy is more sensitive to the negative effects of the dollar's high value.

At least one favorable long-run result may flow from the short-run adversities of the current trade imbalance. If the dollar's present strength speeds the state's transition away from import-sensitive industries, Alabama's economy could grow more stable in years to come.

Income, Population, and Consumer Spending

Alabama's ties to national economic growth worked to its favor in 1984, but its sensitivity to foreign markets was a negative influence. A sharp increase nationally in consumer purchases of homes and autos sparked the U.S. economic recovery in 1983 and 1984, and boosted income in Alabama at an above-average pace. Recent income gains are quite impressive in light of Alabama's below-average population growth and the dramatic slowing of inflation in recent years. Along with the recall of workers and expanded production in the state's steel, rubber, and other heavy manufacturing industries, a new emphasis on diversification of the state's economy also has helped spur nominal income growth.

Alabama's population growth was slower than that of any state in the region in the 1980-83 period and, in contrast to the 1970s, population increased more slowly than nationally. Net out-migration of workers trained in the state contributed to the slow population growth. Alabama lost 19,000 people from migration in the 1980-83 period, which is three times the number lost in Mississippi, the only other regional state to suffer a migration loss. With continuing economic recovery and growth, the state can expect at least to retain population as it did in the 1970s. Along with rising pay scales, moderating inflation and slower population growth have helped raise the state's real income per capita, both absolutely and relative to the nation.

Advances in retail spending are linked closely to population and income growth. Strong increases in income and employment were sufficient to encourage Alabamians to spend more freely in 1984, after forgoing purchases of homes, automobiles, and major household appliances for several years. Retail sales, as measured by sales tax collections, rose 12 percent in the first eight months of last year over the same period of 1983. In response to strong spending growth, Alabama's 19,000 retailers increased hiring 4.7 percent, on top of a 3 percent rise the previous year (Table 3). However, Alabama's consumers turned more cautious later in the year as the national expansion abated. Indeed, yearly increases in sales tax collection slowed from close to a 15 percent annual growth rate in the first quarter to about 11 percent early in the second half. Yearly employment increases in the trade sector slowed commensurately. Therefore, unless the state economy's growth rate turns more positive in the first half of 1985, we doubt that the trade sector will supply as many new jobs as it did in 1984.

The 1985 outlook for income growth and, thus, for consumer spending in Alabama hinges importantly on outside factors. National recovery is important to continued growth, but international forces can impose severe limits.

Industry Analysis

What follows is an overview of major trends in 1984 and a review of growth prospects for 1985 within specific industries in the state. The ordering of our industry discussion is not arbitrary. Instead our industry analysis is arranged beginning with the industry considered to have the brightest prospects for growth in 1985 to those likely to aid least in the economic expansion. We begin with a review of 1984's developments and outline 1985's prospects for the construction industry. Our review of construction is followed by an analysis of the manufacturing sector. Machinery manufacturing, production of transportation equipment, and output of materials used for national defense will serve as engines of growth in 1985. Strength in these sectors is expected to

Table 3. Alabama's Recovery Has Been Weaker Than the Nation's
(Employment in thousands, except absolute changes)

	Alabama				U. S.
Industry	November 1983	November 1984	Absolute Change	Percent Change	Percent Change
Total Nonfarm Employment	1,336.6	1,356.0	19,400	1.5	4.9
Goods Producing	422.9	424.2	1,300	0.3	5.5
Manufacturing	346.3	345.3	−100	−0.3	4.0
Durables	162.6	166.6	3,700	2.2	5.6
Nondurables	183.7	178.7	−5,000	−2.8	1.6
Construction	63.0	64.7	1,700	2.6	12.6
Mining	13.6	14.2	600	4.4	5.1
Service Producing	913.7	931.8	18,100	1.9	4.7
Trade	278.0	289.2	11,200	3.9	6.0
Wholesale	70.8	72.3	1,500	2.1	5.7
Retail	207.2	216.9	9,700	4.7	6.1
Finance and Banking	59.6	62.3	2,700	4.5	3.3
Transportation	70.9	71.8	900	1.3	5.0
Government	286.6	290.2	3,600	1.3	2.8
Services	218.6	218.3	−300	−0.2	5.1

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

overshadow anticipated weaknesses in apparel, textiles, and basic steelmaking. While we expect banking and finance, services and tourism, and the public sector to grow in 1985, such growth is anticipated to be less robust than in construction and overall manufacturing. Our industry-by-industry analysis concludes with mining, agriculture, and international trade. These three industries are expected to retard growth in 1985. The article concludes with a summary of important developments in 1984 and offers an outlook for the state's economy in 1985.

Construction

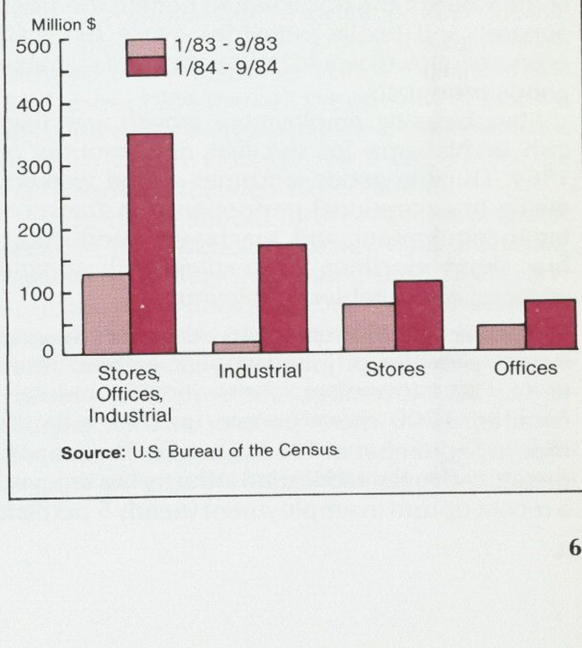
Alabama's construction industry enjoyed strong growth last year. Although the residential sector was sluggish in comparison with its exceptional growth in 1983, construction of offices, industrial buildings, and stores was vigorous. Falling long-term interest rates in 1983, low vacancy rates in office buildings, and strong growth of retail spending were fundamental factors behind the increased building activity. Employment in building trades, generally reflecting construction activity, rose more than 3 percent in 1984 (Table 3). The number of permits issued to build office and industrial structures in the state rose threefold. While industrial construction was strongest last year, major construction planned for office buildings, shopping malls, and a new horse race track in Birmingham will create jobs in 1985.

Large increases in the dollar value of commercial, office, and retail permits also attest to the strong growth of construction. For the nine months ending last September, $74 million in permits was authorized for office construction throughout the state—more than double the $36.5 million in the same period of 1983 (Chart 2). Building contractors also received $166 million in permits to build manufacturing plants and warehouses in the state during the first nine months. In the comparable 1983 period, industrial permits came to only $14 million. Last year's sharp increase in retail trade and employment encouraged merchants to add space as well. Through September, $107 million in permits was issued to build retail stores in the state—up 48 percent from the $72.5 million issued during the like period in 1983.

Residential construction, although down slightly from 1983, continued to be healthy in Alabama last year. Permits were authorized for construction of 6,242 single-family homes and 5,655 multifamily units from January through September, respectively a 2 percent increase and a 3.6 percent decline over the same period in 1983. However, 1984's overall decline in residential construction should be considered in light of prior activity: in 1983, single-family and multifamily building permits rose 69 percent and 85 percent, respectively, from depressed 1982 levels.

While it would be difficult for the state's construction sector to match the torrid growth of the last two years, we are optimistic that this sector will expand in 1985. Our optimism is based largely on recent declines in long-term interest rates, which are likely to encourage additional developments, as well as on the future impact of the many contracts awarded in 1984. F. W. Dodge counted 770 major construction contracts in Alabama in 1984 with a combined value of almost $3 billion. The lag between the time those projects are announced and the expected completion date bodes well for construction activity this year. Construction on the I-459 artery around Birmingham will be continuing in 1985. The $135 million Riverchase Galleria complex, new headquarters buildings for the SouthTrust Corporation and Alabama Power Company, the horse race track, and the

Chart 2. Value of Construction Permits for Stores, Offices, and Industrial Buildings in Alabama



Source: U.S. Bureau of the Census.

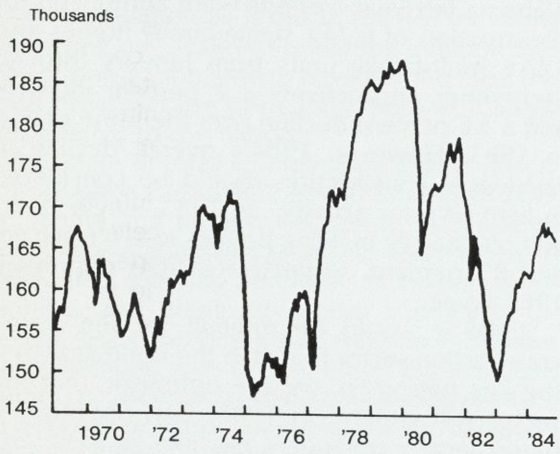


Chart 3. Alabama Durables Employment

Source: State of Alabama, Department of Industrial Relations.

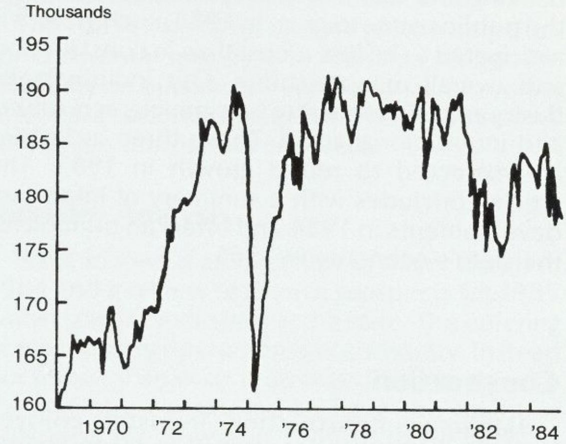


Chart 4. Alabama Nondurables Employment

Source: State of Alabama, Department of Industrial Relations.

renovation of hotels in Birmingham are among the major projects also expected to fuel construction in the state.

Manufacturing

The outlook for Alabama's manufacturing industries is tied more closely to economic conditions outside the state than are those of most southeastern states. The state's relatively high concentration in manufacturing makes it especially sensitive both to cyclical forces in the national economy and to foreign competition. A decline in the value of the dollar would benefit the steel, apparel, and textile industries, while renewed economic growth would bolster the state's durable goods producers.

Manufacturing employment growth was sluggish in Alabama for the first nine months of 1984. Durable goods industries added workers, owing to exceptional performance in transportation equipment and machinery production, but sharp declines in textiles and apparel reduced nondurables employment.

Durable manufacturing was Alabama's second largest provider of jobs last year, behind retail trade. By November, firms in this industry counted 3,700 more people on their payrolls than in September of 1983 (Chart 3). The primary metals and metal fabrication industry has enjoyed a recent upturn in employment (nearly 5 percent from September a year earlier), but the number of jobs remains well below its 1979 peak.

Alabama's durable manufacturing is not limited to the making and fabrication of steel, but includes industries that manufacture defense materials and automobile parts. Nationally, 1984 was an excellent year for the defense products industry, from which several large firms in the Huntsville area profited significantly. Automobile industries also experienced a prosperous year, with surging new-car sales keeping plants in Alabama, which produces more tires than any other state, operating at capacity. Employment in transportation equipment also grew 11 percent last year.

While 1985's auto sales are unlikely to exceed 1984's levels, they are expected to remain strong. Defense industries also are expected to do well if the Reagan Administration carries through with planned defense spending. Overall, auto-related and defense-connected firms will contribute heavily to growth in Alabama's durable goods industry in 1985.

Manufacturers of machinery and equipment experienced forceful upward momentum in 1984 due to the nation's economic expansion and strong tax incentives that encouraged heavy plant and equipment spending. Employment in the industry rose by 2,800 last year and accounted for 45 percent of all new jobs in durable goods manufacturing. Investment spending is likely to provide support to the economy in 1985, though gains will not be as strong as in 1984. Some reduction in tax benefits goes into effect at the start of the year. Uncertainty about proposed tax changes also may affect new investment spending. We therefore expect equipment spending to expand further this year, supporting employment and income growth in Alabama's machinery and equipment industries.

In contrast to the strong performance by durable manufacturers, Alabama's nondurable manufacturers lost 5,000 jobs last year (Chart 4). Most of these declines occurred in textile and apparel industries, the largest within the nondurables sector. Textile and apparel employment slumped nearly 7 percent as the rise of the dollar brought on a large drop in export demand as well as a strong jump in imports.

Banking and Finance

The state's financial services, insurance, and real estate firms boosted employment sharply last year after cutting back in 1983. Nearly two-thirds of the job growth in this industry took place within real estate firms, which reflects the marked growth of office, commercial, and industrial construction. Prospects for another good year for Alabama construction generate expectations for continued job growth in this sector.

Interstate banking has not been pursued aggressively in Alabama, as the state's largest banks remain divided on the issue. Late last year, AmSouth Bank Corporation ended its cross-investment agreements with Atlanta-based Trust Company of Georgia and South Carolina National Corporation. However, James Gaskell, president of the Alabama Bankers Association, predicts that an interstate banking law will be passed in the state within the next five years. He believes that Alabama will be the next to last southern state (followed only by Mississippi) to allow interstate banking. Alabama banks generally are optimistic about 1985, however, believing positive developments in a number of parts of Alabama's economy will overcome other negatives.

Services and Tourism

The outlook for services and tourism is not strong unless Alabama's population trends reverse. Alabama's service sector employment has declined in each of the past two years. A closer examination of industries within Alabama's service sector reveals the source of the weakness. While employment in personal and business services, hotels, and other lodging places and amusement and recreation services grew by 3,000 last year, the number of hospital workers declined by 3,300 between November 1983 and December 1984. The Alabama Hospital Association attributed the reduction to declines in the number of patients which, in turn, were undoubtedly linked to the state's slow population growth and to increases in the number of outpatient clinics competing against full-service hospitals.

Tourism is a moderately important service industry, although Alabama is not widely recognized as a tourist state. However, the state took advantage of its proximity to the 1984 World's Fair held in New Orleans. The Alabama Bureau of Tourism and Travel spent $800 thousand to lure fair-bound travelers to stop and shop at state attractions.

Although fair attendance was deeply disappointing to its New Orleans organizers, preliminary reports from tourism officials in Alabama suggest that the state reaped a substantial economic harvest. Lodging places and major tourist attractions as far away as Birmingham and Montgomery showed registrations and attendance up substantially over the previous year. From October 1983 to October 1984, collections of lodging taxes charged to people staying in hotels and motels around the state increased 19.3 percent over the same period in 1983.

While the state's proximity to the fair was largely responsible for the strength of its tourism, other activities also boosted the industry. The 1984 Professional Golf Association (PGA) tournament, played in Shelby County during August, brought many first-time visitors to the state. September 1984 marked the opening of Victoryland, Alabama's third parimutuel greyhound track, in rural Macon County. Track attendance reportedly has exceeded expectations.

Horse racing should fortify Alabama's service sector in 1985. Although the new track in Birmingham will not begin operating until 1986, construction of the track and horse farms should be a boon to the area's economy this year. Except for the new track, however, the state's tourism industry will be without major attractions comparable to last year's World's Fair and PGA. Therefore, we expect tourism to be less of an engine of growth for Alabama's economy in 1985.

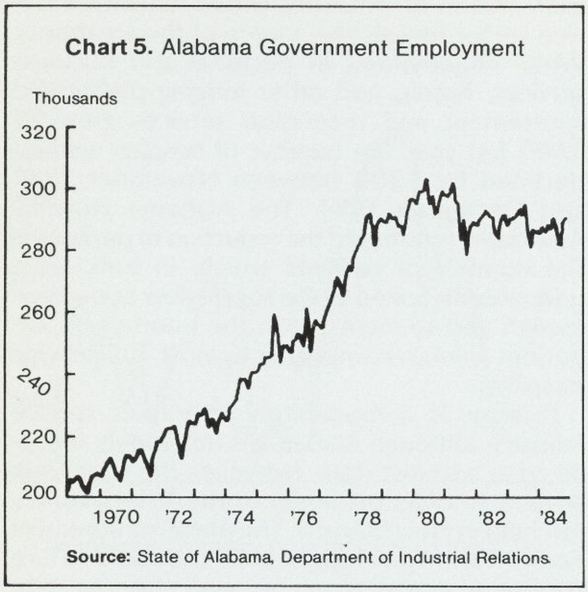


Table 4. Fiscal Status of Alabama's State Budget, 1983-1985 (in millions of dollars)

	Fiscal 1983	Fiscal 1984	Fiscal 1985
Beginning Balance	24	11	136
Plus: Revenues and Adjustments	1,922	2,072	2,179
Equals: Total Resources Available	1,946	2,083	2,315
Less: Expenditures and Transfers	1,935	1,946	2,315
Equals: Surplus (Deficit)	11	136	0

Source: Estimates and projections are from the National Governors Association and the National Association of State Budget Officers, *Fiscal Survey of the States.*

Public Sector

The state of Alabama had a full-time equivalent payroll of 62,000 in October 1983 and appropriated $2.3 billion in expenditures for the fiscal year ending in June. School boards, municipalities, and county governments around the state had an October 1983 payroll of 129,000 and will probably spend three times the state's total. Public-sector divisions regarding spending and taxes, therefore, can profoundly affect the overall economy of Alabama in 1985.

Employment growth in Alabama's public sector has been sluggish in recent years (Chart 5). The number of full-time equivalent employees remains below the level of five years ago and has declined in relation to the number of residents in the state (Table 5). The decline in government employment has occurred mainly at the local level. In October 1980, there were nearly 134,000 local employees, but by October 1982 the number had declined to 129,000 and declined further in 1983. Further declines could make it difficult for the state to provide quality public services.

The state government has a fairly ambitious budget for fiscal 1985. State expenditures are projected to increase by 19 percent, to $2.3 billion, for fiscal 1985. But the state began its 1984-85 fiscal year last July with a $136 million surplus, and so total resources are expected to match expenditures, leaving the state government budget in balance at the end of its 1985 fiscal year (see Table 4).

The expected large increase in tax revenue apparently is being used to rebuild the state's work force. State and local government personnel stood near 225.1 thousand in November 1984. This level was 2,600 higher than in the previous year.

Many municipalities will continue to spend heavily on public works. The dollar value of permits for such public projects as water and sewage treatment plants, bridges, public utilities, and public office buildings more than doubled in 1984, with much of the actual construction to begin in 1985. Revenue for these projects derives primarily from state and local bond issues and from federal distribution of revenue from the nickel-a-gallon excise tax on gasoline imposed in April 1983.

Mining

Slightly over 14,000 Alabamians earn a living from the state's rich mineral deposits. While industries extracting coal, iron ore, and limestone have long been important to Alabama's economy, more recent additions include oil and natural gas in the southwestern region of the state. Alabama's mining industry added 1,600 new jobs in 1984, replacing over half the 1,000 jobs lost in 1983. However, we expect the state's mining sectors will contribute fewer new jobs in 1985, because much of the 1984 growth involved supplying coal to U.S. Steel's recently reopened Fairfield plant. Some of the growth

Table 5. Full-Time Equivalent Employment of State and Local Government Workers in Alabama

Year	Number		
	Total	State	Local
1983	191,567	62,151	129,416
1982	189,780	61,244	128,536
1981	189,422	60,272	129,150
1980	196,225	62,530	133,695
1979	191,670	60,147	131,523
1978	187,394	62,039	125,355
1977	177,199	58,955	118,244
1976	166,564	54,664	111,900

Source: U.S. Department of Commerce, Bureau of the Census, *Public Employment in 1976-83.*

also reflected stockpiling of coal by apprehensive utilities in midsummer before a coal miners' labor contract expired. Alabama Power Company is estimated to have far more coal than is necessary to meet its customers' electricity needs. Hence, job growth in mining should be less robust in 1985.

Agriculture

For a variety of reasons including financial losses, better employment alternatives, and advancing age, Alabamians are leaving the farm. The state's farm population has shrunk to 2.3 percent of its total population, down from nearly 5 percent as recently as 1970. The primary problem—not unique to Alabama—is that the state is a marginal production area for many crops grown nationally at higher yields and lower production costs. With low product prices resulting from strong international competition in major export markets, farmers are hard-pressed to keep marginal operations in the black.

Even so, Alabama crop farmers experienced a reasonably favorable year in 1984. Yields of almost all important crops improved over 1983 and, despite a general weakening in commodity prices, farmers were able to recover their production costs with some money to spare.

What might Alabama crop farmers expect in 1985? Prices of soybeans, the state's leading commodity, remained weak in the fourth quarter of 1984 and little on the horizon indicates strong prices in 1985. Soybean yields in 1984 were good but not exceptional; the crop level was exceeded in three of the last five years, and so production in 1985 may well equal or surpass the 1984 level. Unless export markets improve, soybean farmers are not likely to find further improvement in profits this year; indeed, they could find it more difficult to break even.

Poultry production is the most important farm income-producing enterprise in the state. Alabama's farmers raise 13 percent of the nation's broilers, exceeded only by Georgia and Arkansas. Total cash receipts from broiler sales fluctuate around the half billion dollar level. During the first three quarters of 1984, broiler production topped the same period in 1983 by almost 20 million pounds which, along with higher prices, sharply increased broiler income.

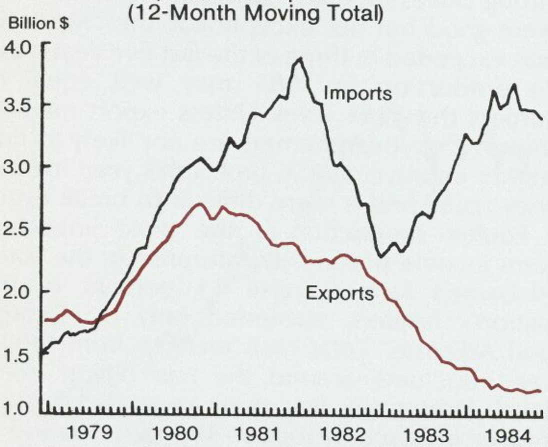
Poultry producers can adjust production rather quickly in response to changing market conditions. The early months of 1985 are likely to find broiler prices strengthening, as a reduction in pork and beef supplies is probable. In addition, feed costs should be lower, on average, than in 1984. Consequently, the supply of poultry probably will increase as farmers react to improved profits. During the latter part of 1985, however, broiler prices may well weaken as supply outruns demand.

The cattle industry is another important agricultural sector, typically earning 15-20 percent of total farm cash receipts. Beef production declined last year as cattle producers endured prevailing mediocre prices. The decline in cattle inventories is expected to persist, with the supply of beef dropping slightly. Some price strengthening should occur, but it is doubtful that individual farmers will make more money from cattle in 1985 than they did in 1984.

International

Adverse effects of the high value of the dollar are evident from lingering weakness in Alabama's textiles, apparel, forest products, and agriculture industries. However, declining exports and increasing imports through the Port of Mobile are even more obvious signs of the exchange rate's unfavorable effects on Alabama industries (Chart 6). From January through Sep-

Chart 6. Mobile Customs District, Exports and Imports (12-Month Moving Total)



Source: U.S. Department of Commerce, *Highlights of U.S. Export and Import Trade.*

tember, $832 million in goods was exported through the Port of Mobile, 19 percent (or $191 million) less than the $1.02 billion exported in the same period in 1983. Imports, on the other hand, totaled $2.59 billion from January through September, representing a 9 percent increase from the January-September period in 1983. The excess of imports over exports therefore rose from $1.4 billion in the 1983 period to $1.8 billion in the nine-month period ending in September.

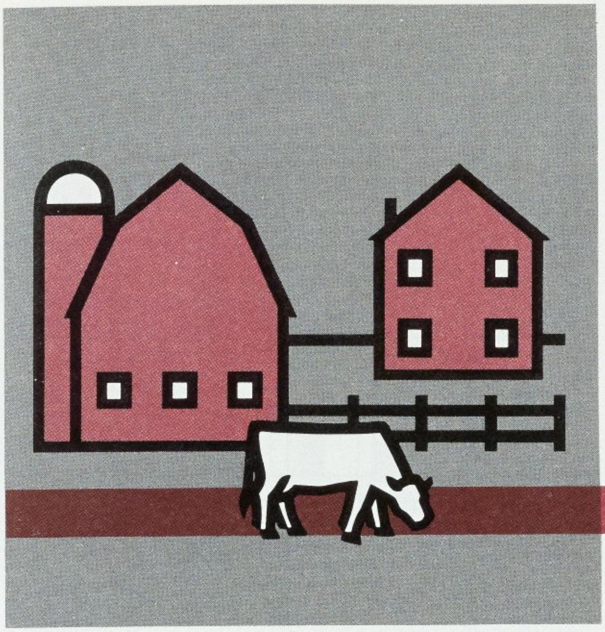
Alabama's major export commodity is coal, although soybeans and petrochemicals are becoming more important. Long-term prospects are bright for coal exports out of Mobile, which recently upgraded its coal handling capabilities by completing the McDuffie Coal Terminal. This terminal now can process 23 million tons of coal exports annually. In addition to this new facility for handling more coal shipments, Mobile should benefit in 1985 with the completion of the Tennessee-Tombigbee Waterway, an important alternative for transporting coal and other commodities out of distant mine sites in Tennessee and Kentucky.

The short-term outlook for coal exports however, still hinges on the outlook for the strong dollar, making Alabama's coal more expensive to overseas customers. The prime buyer of coal exported out of Mobile is Japan, which will continue to rely on the state's high-quality coal in steel manufacturing and electric power generation. In recent years, Japan has been designing and building ambitious port development projects to accommodate its increasing demands as the world's largest coal importer. Mobile should continue to benefit from a steady growth in trade from this important market.

Imports likely will fuel much of the port's future growth, offsetting weak export shipments of agricultural, chemical, and forest products. An expanding domestic economy and a strong dollar probably would result in another good year for import shipments. As market conditions improve, grain and soybean shipments into Mobile also should benefit from the opening of the "Tenn-Tom" Waterway.

Conclusion and Outlook

Whether Alabama's economic recovery expands at the brisk pace of 1984 or returns to the moderate pace of 1983 depends on the third-year strength of the national expansion, economic growth abroad, and the outlook for the foreign exchange value of the dollar. A strong national expansion in 1984, particularly in the first half, more than offset the repercussions from the continuing strength of the dollar, enabling Alabama's economy to grow as well. In 1985, however, a more moderate expansion is expected at the national level. It could prove difficult for Alabama's government sector, along with the construction, manufacturing, and tourism industries, to boost income and employment enough to offset another year of lackluster conditions in the state's agriculture, mining, textiles, and apparel industries. Therefore, we expect the state's economic expansion to slow from its 1984 pace, perhaps returning to the sluggish performance of 1983.



Mississippi: Moving Ahead, But Slowly

Gene Wilson and Gene Sullivan

The strong dollar, which made U.S. farm commodities costlier to foreign buyers and gave a competitive advantage to overseas producers, raised the major hurdle to growth in Mississippi last year. The state's modest hopes for 1985 rest on a steady recovery at the national level.

For the year ahead, Mississippi's economic outlook is less sanguine than prospects for most of the region. The state's growth should resume in 1985 as the national economy maintains its strength, but substantial weaknesses in particular sectors are likely to continue throughout the year. We anticipate that recovery in national housing markets will stimulate Mississippi's large lumber-producing sector and other construction-related industries. Such a recovery should ensure a positive growth track for the state's economy in 1985.

Recovery from the past recession came slowly to Mississippi. Not until late in the second half of 1983 did employment begin to rebound substantially from 1982's unusually low levels. But job gains showed a strong upward trend as 1984 progressed, and by September total employment had recovered to its highest level since 1981.

Despite the increase in jobs, however, unemployment began to rise sharply in June and continued at a worrisome rate into the fourth quarter. The unemployment rate, after falling to 9.5 percent in May from a peak near 15 percent in 1983, had risen to nearly 12 percent by the fourth quarter. With the labor force growing rapidly since early 1984, sharp declines in the construction-related manufacturing sectors and weaknesses in textile and apparel industries were largely responsible for the renewed deterioration in labor market conditions. Rising interest rates during the second quarter triggered the decline in Mississippi's interest-sensitive sectors. However, rates have moved back down since last summer, and so observers expect renewed growth in these sectors in 1985.

Why is Mississippi's economy so vulnerable to interest rate changes and competitive pressures that some other regional states seem to withstand with much less impact? The answer lies in the state's economic structure.

Mississippi's business activity is heavily dependent on industries utilizing relatively low-skilled labor to produce goods that are highly interest-sensitive or that are especially vulnerable to competition from other low-cost producing areas. The relative abundance of low-cost labor has, in fact, contributed a comparative advantage to Mississippi in attracting a number of manufacturing industries. Lumber, apparel, machinery, and food production, volatile industries that largely rely on low-cost labor, account for about 70 percent of Mississippi's manufacturing employment (Chart 1). Earnings of Mississippi's manufacturing workers provides evidence of the low-cost labor supply. Weekly earnings average only three-fourths as much as those of the nation's workers and also rank well below weekly earnings for the region (Chart 2). Moreover, industries in which such low-cost labor prevails typically have rather thin operating margins;

The authors are, respectively, research analyst and research officer on the Research Department's regional team.

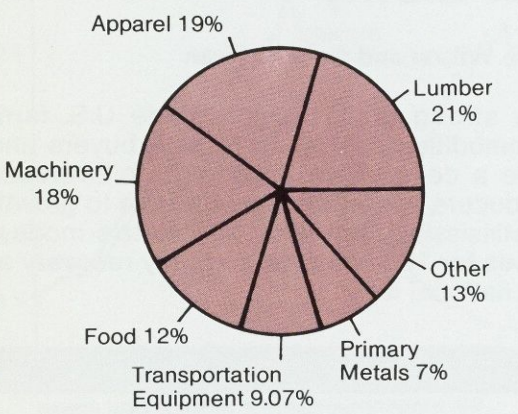


Chart 1. Manufacturing Employment Share by Sector, Mississippi - September 1984

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

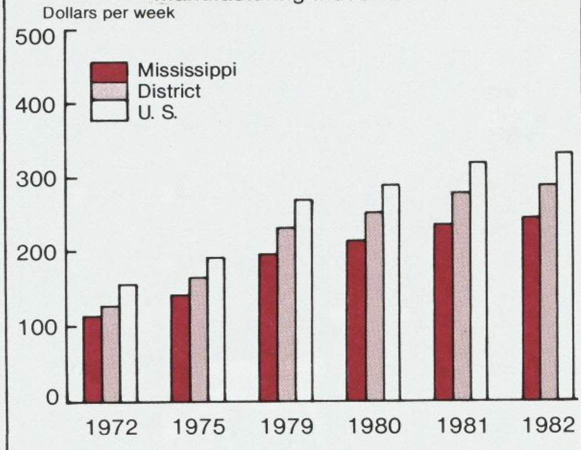


Chart 2. Average Weekly Earnings, Manufacturing Industries

Source: *Mississippi Statistical Abstract*, 1983, and *U. S. Statistical Abstract*, 1983.

therefore, when costs rise or demand falters, placing downward pressures on prices, these businesses often are first to begin losing money and closing down.

Volatility is accentuated in interest-sensitive industries such as lumber production. When interest rates rise sharply, as they did in 1980, construction activity rapidly slows down, reducing the demand for lumber and other building materials. Employment in Mississippi's lumber industry fell precipitously during the 1980 period. The apparel and machinery manufacturing industries experienced similar employment declines, though not quite as abrupt as in lumber production. In the apparel industry, particularly, the downturn was aggravated by competition from foreign producers who benefited from selling goods in U.S. markets at the relatively favorable prices offered by the high exchange value of the dollar. The loss of market share has been intensely felt in Mississippi's textile industry.

In an expansion, economic activity must pick up in most other areas and continue briskly for a while before marginal production units are brought back into operation. For example, Mississippi's apparel employment did not turn up again until mid-1983, long after employment had begun to rise for the economy as a whole. In general, Mississippi's economy responds rapidly to national business slowdowns and sluggishly to recoveries, affirming the marginal character of much of the state's business activity.

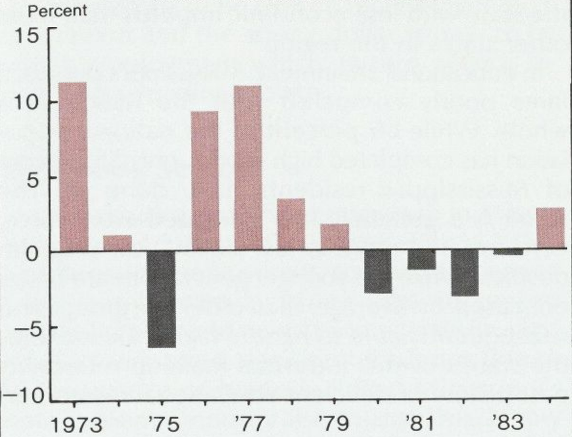
Judged by almost any measure, Mississippi's economy has been weak in recent years. Since experiencing an 11 percent growth in real gross state product in 1977, the state's economy has floundered (Chart 3). Beginning in 1980, economic growth turned negative in real terms and remained that way for four years. Not until 1984 did gross state product show positive growth, projected at 2.7 percent for the full year.[1]

Similarly, from a trough in 1979 unemployment rose from just under 6 percent to 13 percent four years later. In fact, Mississippi's unemployment did not peak until 1983, the first year of national economic recovery. Last year, the state unemployment rate fell sharply before rising near the end of 1984, when it remained twice as high as the level five years earlier (Chart 4).

Mississippi participated in the national economic recovery last year, but much less exuberantly than the nation or region. In measures indicating economic well-being, such as unemployment, the growth of real disposable income, or the growth of real gross state product, the state has consistently underperformed the national economy from 1980 to the present. This contrasts markedly to a decade ago when Mississippi's economy was quite vigorous, mirrored by strong economic indicators.

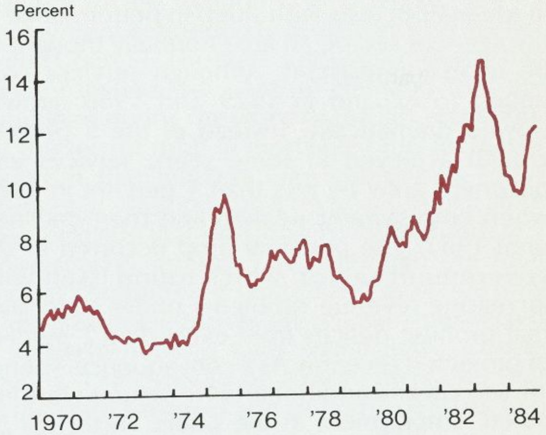
Not only has the Magnolia State's economy failed to match the performance of the general economy, it has failed to equal its own past history. For example, the average growth rate in

Chart 3. Growth Rates of Real Gross State Product for Mississippi



Source: Mississippi Econometric Model, Tables of Historical Values for Years 1973-1982, Table 1B.

Chart 4. Mississippi Unemployment Rate



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

real disposable income from 1973 to 1978 was 2.7 percent; from 1979 to 1984, it was only 1.4 percent. Other measurements point to the same trend: the state's economy has slowed substantially in recent years.

We feel that the clearest picture of what lies ahead for Mississippi's economy may be discerned from the immediate past. The answers to questions concerning the state's recent economic activity should contain indications for the future as well.

The first section of this article analyzes Mississippi's economic behavior and offers tentative explanations for the state's performance. In the second portion we draw upon our conclusions and the recent performance of Mississippi's economy to present an outlook for 1985.

Structure of the Economy

Mississippi's economy has undergone a major metamorphosis in the last 30 years, and its structure has changed radically. In the 1950s, agriculture employed four out of every ten workers, a higher proportion than was employed by the government, trade, and manufacturing sectors combined. By the 1980s, however, the situation had altered remarkably, with the latter three sectors accounting for over 60 percent of employment compared with agriculture's 8 percent.

The state's economy may be divided into two major sections, production of goods and of services. Goods include mining, manufacturing, and construction industries, while the broad category of services comprises trade, government, transportation and public utilities, finance, insurance and real estate, and miscellaneous services. The broad services sector is the most important component of the economy, accounting for almost 70 percent of total nonfarm employment (compared with 73 percent for the nation).[2] The goods sector employs the remaining 30 percent. The two sectors respond quite differently to adverse economic conditions: the services sector typically is recession-resistant while the goods sector performs in a much more cyclical fashion.

The state's economic structure has contributed to chronic employment problems. One reason unemployment has climbed so high and has fended off change is that manufacturing employment expanded from 220,000 workers in 1974 to 235,000 in 1979. Thus, more people were susceptible to economic downturns that have a heavy impact on Mississippi's manufacturing sector. For example, the durable goods sector increased employment by 15,000 from 1974 to 1979 but lost 14,000 since 1980.

The importance of construction and lumber industries to the Mississippi economy also accounts for structural weakness. Together the two sectors employ 72,000 workers, 4,000 less than in 1975. Both industries experienced rising employment in the late seventies before sharp declines occurred beginning in 1980. The construction industry, for example, lost more employees in 1980 than it had added since 1974.

Perhaps one reason for the lengthy downturn in Mississippi rests with sluggish performance in the services sector, an area normally thought to be recession-resistant. Although services continued to expand in 1979 and 1980, growth slowed dramatically. Instead of the 5 percent growth achieved in some years, services employment grew by less than 1 percent in 1980 when employment peaked and then declined until 1983. The principal drop occurred in the government sector, which found itself with increasing revenue problems under state laws that prohibit deficits from exceeding 2 percent of projected revenue. As a consequence, spending was cut and additional tax measures were imposed. Employment in the public sector fell by 14,000 from 1980 to 1982 before stabilizing in 1983.

Mississippi's agricultural economy also contributed to the prolonged downturn. In 1980, a severe drought sharply reduced productivity and, thus, farm income. This development had serious economic consequences for rural counties in the state, especially in the Delta where agriculture is the primary economic activity. Agriculture has remained troubled in the 1980s, with the farm sector's purchasing power reduced and the vitality of all farm-related businesses sapped.[3]

In addition to internal characteristics of the Magnolia State's economy, external, macroeconomic factors also were involved. Perhaps foremost was the high value of the dollar during 1982-84, which has sharply reduced demand for U.S. exports, particularly agricultural commodities. The strong dollar increased demand for imports as well, causing problems for various industries such as apparel.

Demographic Factors

Demographic factors including population growth, migration, and educational attainment of the labor force also may have exerted an adverse influence on the state's economy. Mississippi never experienced the heavy in-migration that characterized most other southeastern states during the past decade, and so its population has grown more slowly.[4] The in-migration of 81,000 new residents during the 1970s provided a small boost to the economy, as these additional residents paid taxes, established residences, and added to consumer demand. Beginning in 1980, however, more people left Mississippi than entered, leading to nearly two years of net migration losses. In mid-1982 the trend reversed again, but overall the generally low population growth left the state with less economic impetus than most other states in the region.[5]

In educational attainment, Mississippi's populace fares poorly compared with the nation as a whole. While 66 percent of the national population has completed high school, only 55 percent of Mississippi's residents have done so. The result is a generally less educated work force, concentrated more in low-skilled, low-wage industries. While the younger generations are better educated, on average, than older age groups and subsequently able to handle higher skilled jobs, the state's overall industrial makeup reflects its past history of deficient educational resources.[6]

Labor

Labor market conditions improved late in 1983 after three troublesome earlier years, and job growth continued into 1984. However, slower growth of the national economy and continuing high exchange values of the dollar stalled Mississippi's mini-expansion in 1984.

The labor market is expected to brighten slightly this year. Should the dollar depreciate relative to currencies of major trading partners, it would enable the state's manufacturers of apparel, building materials, and chemicals to compete better with low-cost imports. Trade and miscellaneous services also are expected to contribute additional jobs this year.

Income As a Factor

Reflecting the severity of the 1981-82 recession in Mississippi's economy, personal income and spending growth in 1983 lagged behind the healthier advances registered in most other regional states and in the nation. However, during the first half of 1984, the state's income growth rivaled that of the region and the nation, suggesting that Mississippians finally had begun to share more in the recovery. Consumer spending failed to increase in proportion, at least as measured by estimated taxable sales. Spending appeared to grow more slowly in Mississippi than at the national level or in the faster growing economies of such states as Florida, Georgia, and Tennessee.

Unfortunately, the outlook for Mississippi's income and consumer spending growth in 1985 is gloomier than for most other states in the

Southeast and for the nation. The Magnolia State's economy should share in a continued improvement of the national economy, but its advance is likely to be slower. Increasing foreign competition and the strong dollar appear to be limiting employment which, in turn, retards income and spending growth.

The Goods Sector

Manufacturing employment growth in Mississippi outpaced that of the nation early in 1984. Durable goods employment, accounting for most of the state's manufacturing jobs, increased notably. Lumber and wood products, stone, clay, and glass registered significant job gains due to the resurgence of home building. Mississippi's home appliance industry also enlarged machinery employment rolls as consumers added or replaced old appliances. Machinery employment increased at double-digit rates for the first four months of 1984. The nondurable sector posted sizable job growth over the first two quarters compared with the previous year. Reflecting their close linkage to the national economy, the apparel and food industries (two of the state's largest nondurable employers) provided most of the job gains.

Growth slowed for most industries in the state, however, toward the end of 1984. By fall, paper, food, transportation equipment, and apparel employment had dipped below 1983 levels. The apparel industries are feeling the impact of intense foreign competition. In the first eight months of 1984, apparel imports rose 29 percent. The high value of the dollar in relation to other currencies is adversely affecting exports, which are especially important to the food processing industry. The transportation equipment industry has experienced rather anemic growth, but the outlook brightened with the award of new Defense Department contracts late in the year to Ingalls Shipyard in Pascagoula. This shipyard is fabricating and assembling cruisers and overhauling other ships for the navy. Employment in the shipyard is expected to increase to 13,000 in 1985 from its recent level of 10,600. The prospects for further contracts look good in light of naval spending intentions.[7]

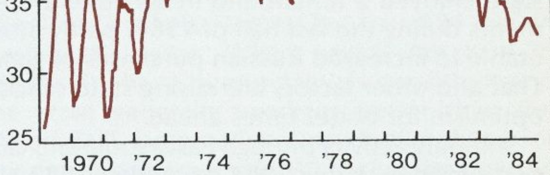
Construction: Possible Upturn?

The outlook for Mississippi's construction and real estate sectors seems to offer some opportunities for improvement, although several challenges must be overcome before they can enjoy a truly good year. Construction employment remains far below its 1979 peak and, despite recovery in the economy as a whole, 1984's employment continued to drop from year-earlier levels (Chart 5). The state's housing industry has largely satisfied the pent-up demand that accumulated during the worst of the last recession, but the recent drop in mortgage rates increases optimism that markets may improve in 1985. Residential sales may pick up because of a state bond program that provides mortgage funds at a below-market interest rate. Although the total amount committed is limited and available only to first-time home buyers, the program is expected to increase housing sales significantly. Consequently, 1985 should be a more favorable year for the state's realtors and its home construction industry.

Multifamily housing also could continue to be a bright spot in the Mississippi construction industry. Through much of 1984, permits and contracts for multifamily units were strong. Activity in Jackson was especially brisk as the Department of Housing and Urban Development made low-interest loans available to apartment developers.

By contrast, commercial office construction seems destined for a year of little advance. The business climate has been unfavorable for company expansions and new business formation. Thus, 1985 probably will be a slow year for office construction, although available space is tightening.

Chart 5. Mississippi Construction Employment



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

Services

Finance. In 1985, Mississippi banks should experience another year of moderate credit expansion and good earnings. Savings and loan associations also are expected to do reasonably well if the housing market continues to grow as anticipated. The state's S&Ls have been particularly slow to capitalize on expanded lending powers in the consumer and commercial areas, and so remain closely tied to the vitality of the residential housing market. Because residential construction in Mississippi has displayed sluggish growth, the state's S&Ls have been slow to add high-return loans. Consequently, their average rate of return has climbed less rapidly than that of institutions in faster-growing states.

Bank liquidity is expected to remain excellent through 1985. Continued economic growth at the present modest pace will provide more and higher quality lending opportunities than existed in 1984, but deposit growth probably will continue to outstrip desirable loan placements through the year. Loan officers in Mississippi are holding the line on loan quality to protect themselves against another economic downturn. This restrictiveness will reduce the pool of qualified loan applicants more than in the past because of financial regulators' concerns over bank capital adequacy and asset quality. It will dampen the growth of Mississippi banks in particular because of their local market focus and the relative paucity of high-quality borrowers in the state. Whether banks and S&Ls will be inclined to pay less for funds, which would tend to decrease their excess of deposits over what can be safely lent, remains to be seen.

Trade. Mississippi's international trade activity showed substantial improvement during 1984. Increased international trade activity at its ports brought some encouragement to the state's economic recovery last year. Approximately 9 percent of Mississippi's manufacturing workers are involved in producing shipments for overseas markets. Port service-related business in the state enjoyed a turnaround in agricultural shipments during the last half of 1984, partly attributable to increased Russian purchases of grains. That and other factors are raising state officials' optimism for better times ahead.

Shipping activity through Pascagoula and Gulfport facilities during 1984 exceeded 1983 tonnage levels. Gains in agricultural and general cargo shipments were particularly encouraging at the Port of Pascagoula. Handling over 90 percent of the state's foreign trade, Pascagoula reported an 18 percent increase in shipments during the first nine months compared with the previous year. Wheat and corn exports posted impressive progress from depressed 1983 levels, and processed food and petrochemical exports also moved far ahead of 1983's performance. Shipments of soybeans and linerboard products in 1984, however, dropped from year-earlier levels because of competition from countries whose currencies were weakening compared with the dollar.

Mississippi's trade prospects for 1985 will depend largely on the behavior of the dollar in world currency markets and on foreign demand for state products. Brightening the prospects for exporters is the possibility of additional increases in shipments of forest products to northern Europe and Canada. A gradually recovering world economy also should contribute to sustaining momentum for the state's international activity.

Gulfport trade activity in the fiscal year ending last June was 17 percent ahead of the same period in 1983. Despite being a relatively small port, Gulfport handles the largest volume of bananas and tropical fruit imports of any port in the nation. Shipping activity in 1984 showed substantial gains in imports of container cargo; however, some of this gain came at the expense of domestic producers as they lost market share to these imported goods. Expected growth in the U.S. economy in 1985 should continue to fuel the ports' inbound shipments and revenues.

The Public Sector. Government spending in the Magnolia State is projected to grow only slightly from fiscal 1984. Even with an austere budget for 1985, an increase in its sales tax, and a $15 million surplus left at the end of fiscal 1983, the state still expects to end fiscal year 1985 without reserves. Much of the added revenue from the one percent sales tax increase will underwrite a state-supported kindergarten program.

The small projected increase in nominal state spending for fiscal 1985 is likely to present Mississippians with yet another lean budget year. Public-sector employment is likely to be restrained by sluggish growth in revenues, with scant likelihood of increased employment or spending.

Tourist Industry. A relatively small segment of Mississippi's economy, the tourist industry experienced growth in 1984. Although the World's Fair in New Orleans failed to attract the expected number of visitors, it had a positive impact on Mississippi. Visitation at national parks in the state showed a significant increase relative to 1983, with a 21 percent rise from summer to summer. Lodging tax receipts climbed 28 percent through July, almost all of which was accounted for by a tax increase from 4 percent to 5 percent.

A number of individual firms did not benefit as much as expected, however, because so many had expanded facilities aggressively in anticipation of increased business. For example, the number of hotel and motel rooms in Biloxi increased by more than one-third in 1984.

Prospects are poor for the state's tourist industry in 1985. A 3 percent decline in the tourism budget, the absence of the World's Fair, and the state's lack of significant attractions are likely to depress the number of vacation travelers. Business travel may pick up, however, provided Mississippi's economy continues to recover. Nevertheless, the net effect in 1985 is likely to be a decline.

Energy. The nation's strong domestic recovery stimulated a moderate improvement in Mississippi's oil and gas production. In 1984, the oil and gas industry was pressed by weakening prices and the increasing competitiveness from non-oil sources. Despite these negative factors, the industry posted some improvement in 1984 from depressed activity levels in 1982-83.

The oil and gas industry provides an important source of income for the state and a number of oil-producing counties. The industry employed an average of 8,300 Mississippians in the extraction of oil and gas products in 1984, an increase of 4 percent from 1983 levels.

Drilling activity in Mississippi through October, measured by the average number of rigs in operation, was only 3 percent ahead of the same period in 1983. Along with the minor increase in operating rigs during 1984, the industry managed to raise the productivity of existing wells. Oil and gas production in Mississippi during the first eight months were up 6 and 3 percent, respectively, from the same period in 1983. This was significant progress since most of the drilling in the state was done by independent operators who have been bedeviled by financial constraints and softening oil prices.

The industry's outlook in 1985 again will be determined by the economic performance across the nation. Given the expected increase in domestic economic activity, drilling and production should continue to post moderate increases unless the price of oil drops further.

An important issue that may alter the outlook is the potential impact of deregulation of the gas industry. Most experts are uncertain how implementation of the Natural Gas Policy Act will affect industries. The complete decontrol of natural gas might cause only a modest slowdown in the production of oil and gas in Mississippi.

The Agricultural Sector

While cotton may not be king in the South anymore, in Mississippi it still ranks as royalty, providing almost one-quarter of all farm revenue. Until last October, cotton farmers anticipated a record harvest and subsequent high returns for their efforts. Then abnormally heavy rains in a season typically known for little precipitation reduced yields 13 percent below expectations. However, the realized yield still remained well above the drought-plagued 1983 crop, and farmers earned approximately 15 percent more per acre than in 1983.

The outlook for 1985 for cotton growers is discouraging. Record world production will reduce export demand while bountiful domestic crops threaten to exceed domestic usage. Inventories will increase, placing downward pressure on cotton prices. Although government programs will provide farmers with a price floor, earning a profit in 1985 quite likely will be more difficult than in 1984.

Another 20 percent of Mississippi's farm income is derived from growing soybeans. This crop also suffered late-season damage from adverse weather, but the realized yield exceeded the 1983 average by five bushels an acre. Because of the large supply, soybean prices are unlikely to show much strength in 1985 as export demand may remain weak.

As is true of the region, wheat has become a major Mississippi crop in recent years, soaring from 2 million bushels in 1978 to a 1982 peak of 48 million bushels. Farmers harvested 24 million bushels last year. Wheat yields per acre in Mississippi have been relatively consistent and the state generally averages better than the region. Still, large national production has kept prices at mediocre levels. Wheat has not been an extremely profitable crop, but it can be grown in the winter and harvested in the spring, allowing another crop such as soybeans to be grown in the summer.

Mississippi and Louisiana are the only Sixth-District states that produce significant amounts of rice. Rice accounts for approximately 5 percent of the Magnolia State's revenue. The crop is grown in the Delta, where yields normally are sufficient to earn profits. In the absence of the federal government's discontinued Payment-In-Kind program, production grew by 100,000 tons in 1984, largely as the result of increased plantings although yields did improve moderately. Rice supplies remain large, with weak export demand. In 1985, there is little likelihood of substantial improvement. Although the dollar may weaken, significantly rising foreign production should keep pressure on prices.

Cattle production represents another important segment of Mississippi's farm economy, earning approximately 10 percent of revenues. Farmers found 1984 to be another lackluster year for cattle prices, continuing a general trend in recent years of gradually declining prices punctuated by seasonal upturns. As a result, beef production has fallen an additional 10 percent from 1983's reduced level. Production should continue to decrease in 1985, and prices should rise slightly as the national supply of both beef and pork declines. With reduced feed costs and higher prices, profits should climb. The outlook, however, is not one of sharply improved conditions.

Summary

The structure of Mississippi's economy and certain demographic factors placed the state in a highly precarious position in the 1980s. The onset of higher interest rates affected the state's economy severely, triggering a prolonged downturn. When the rest of the nation began an economic recovery in 1983, Mississippi's economy remained depressed, partly because of a strong dollar that reduced agricultural exports and increased competition from foreign manufacturers. The state began to recover substantially in the first half of the year but turned down again in midyear.

Mississippi's prospects for 1985 offer only moderate improvement. As last year ended, interest rates had declined, encouraging increased construction activity. The dollar remained quite strong, however, and only a moderate decline in its value is anticipated in 1985. The public sector still faces budgetary problems and will contribute little toward stimulating the economy. The pace of the state's economic recovery could pick up if the national recovery remains strong. The most probable outlook is for the state's economy to continue moving forward, but slowly.

NOTES

[1]Mississippi's Econometric Forecast, Mississippi Econometric Model, Tables of Forecast Values for the Years 1983-1988, October 1984, Table 1-B.

[2]A more in-depth examination of the broad services sector is available in Bobbie H. McCrackin, "Services: Key to Current Stability and Future Growth," *Economic Review*, Federal Reserve Bank of Atlanta, vol. 68 (July 1983), pp. 36-52.

[3]See also Gene Wilson and Gene Sullivan, "A Crucial Year for Southeastern Farmers," *Economic Review*, Federal Reserve Bank of Atlanta, vol. 69 (September 1984), pp. 44-50.

[4]James W. Clay and Alfred W. Stuart, "Uneven Growth: Southern Population Change at the County Level," *Economic Review*, Federal Reserve Bank of Atlanta, vol. 67 (June 1982), pp. 32-42.

[5]For further information on migration into the South, see William J. Kahley, "Migration: Changing Faces of the South," *Economic Review*, Federal Reserve Bank of Atlanta, vol. 67 (June 1982), pp. 32-42.

[6]See special issue of the *Economic Review*, Federal Reserve Bank of Atlanta, "Education and Southeastern Economic Growth," vol. 69 (November 1984).

[7]For background information on the impact of defense spending on the Southeast, see William J. Kahley, "Southern Fireworks: Will Defense Spending Light Up the South?" *Economic Review*, Federal Reserve Bank of Atlanta, vol. 67 (December 1982), pp. 21-31.

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FINANCE

$ millions	DEC 1984	NOV 1984	DEC 1983	ANN. % CHG.		DEC 1984	NOV 1984	DEC 1983	ANN. % CHG.
UNITED STATES									
Commercial Bank Deposits	1,441,062	1,431,037	1,304,962	+ 10	Savings & Loans**				
Demand	316,536	315,492	291,748	+ 8	Total Deposits	717,572	712,158	595,999	+ 20
NOW	94,049	93,479	84,452	+ 11	NOW	21,494	21,511	17,865	+ 20
Savings	460,560	459,950	342,250	+ 35	Savings	163,390	163,155	167,402	- 2
Time	698,497	697,514	603,462	+ 16	Time	535,685	530,517	424,902	+ 26
Credit Union Deposits	58,264	58,254	60,875	- 4		NOV	OCT	NOV	
Share Drafts	6,355	6,461	5,346	+ 19	Mortgages Outstanding	597,952	590,539	479,026	+ 25
Savings & Time	55,543	51,677	49,828	+ 11	Mortgage Commitments	40,618	40,918	34,332	+ 18
SOUTHEAST									
Commercial Bank Deposits	165,195	163,323	148,526	+ 11	Savings & Loans				
Demand	36,948	36,344	34,600	+ 7	Total Deposits	95,609	95,239	N.A.	
NOW	12,131	11,962	10,847	+ 12	NOW	3,429	3,415	N.A.	
Savings	42,223	41,519	38,503	+ 10	Savings	20,561	20,662	N.A.	
Time	78,404	77,760	66,652	+ 18	Time	72,964	72,514	N.A.	
Credit Union Deposits	6,511	6,506	5,943	+ 10		NOV	OCT	NOV	
Share Drafts	581	589	450	+ 29	Mortgages Outstanding	94,009	93,582	68,791	+ 37
Savings & Time	5,811	5,787	5,022	+ 16	Mortgage Commitments	4,491	4,691	4,926	- 11
ALABAMA									
Commercial Bank Deposits	17,450	17,368	15,636	+ 12	Savings & Loans**				
Demand	3,821	3,851	3,632	+ 5	Total Deposits	5,998	5,963	5,143	+ 17
NOW	1,141	1,112	996	+ 15	NOW	224	204	141	+ 59
Savings	3,350	3,315	3,138	+ 7	Savings	904	895	853	+ 6
Time	9,649	9,631	7,901	+ 22	Time	4,937	4,923	4,184	+ 18
Credit Union Deposits	979	979	897	+ 9		NOV	OCT	NOV	
Share Drafts	99	102	80	+ 24	Mortgages Outstanding	5,082	5,739	3,791	+ 34
Savings & Time	860	855	774	+ 11	Mortgage Commitments	173	173	289	- 40
FLORIDA									
Commercial Bank Deposits	58,296	57,287	52,396	+ 11	Savings & Loans**				
Demand	13,083	12,725	12,292	+ 6	Total Deposits	61,445	61,226	53,337	+ 15
NOW	4,985	4,913	4,430	+ 13	NOW	2,357	2,360	2,152	+ 10
Savings	19,793	19,445	17,992	+ 10	Savings	14,039	14,158	15,008	- 6
Time	21,930	21,501	18,454	+ 19	Time	45,192	45,596	36,428	+ 24
Credit Union Deposits	2,925	2,925	2,616	+ 12		NOV	OCT	NOV	
Share Drafts	294	299	221	+ 33	Mortgages Outstanding	59,770	58,865	40,809	+ 46
Savings & Time	2,509	2,497	2,041	+ 23	Mortgage Commitments	2,911	3,091	3,458	- 16
GEORGIA									
Commercial Bank Deposits	25,678	25,363	21,408	+ 20	Savings & Loans				
Demand	7,434	7,360	6,599	+ 13	Total Deposits	8,222	8,207	N.A.	
NOW	1,626	1,641	1,493	+ 9	NOW	295	298	N.A.	
Savings	6,318	6,138	4,785	+ 32	Savings	1,823	1,815	N.A.	
Time	11,654	11,611	9,348	+ 25	Time	6,952	6,226	N.A.	
Credit Union Deposits	1,371	1,376	1,349	+ 2		NOV	OCT	NOV	
Share Drafts	93	94	64	+ 45	Mortgages Outstanding	11,515	11,425	8,259	+ 39
Savings & Time	1,280	1,280	1,186	+ 8	Mortgage Commitments	420	417	503	- 17
LOUISIANA									
Commercial Bank Deposits	26,820	26,650	25,264	+ 6	Savings & Loans**				
Demand	5,608	5,559	5,644	- 1	Total Deposits	11,067	10,960	8,965	+ 23
NOW	1,562	1,531	1,409	+ 11	NOW	282	282	193	+ 46
Savings	5,518	5,451	5,328	+ 4	Savings	2,272	2,267	2,423	- 6
Time	14,637	14,580	12,955	+ 13	Time	8,680	8,572	6,424	+ 35
Credit Union Deposits	183	183	200	- 9		NOV	OCT	NOV	
Share Drafts	16	16	23	- 30	Mortgages Outstanding	9,304	9,214	8,109	+ 15
Savings & Time	177	177	189	- 6	Mortgage Commitments	500	511	531	- 6
MISSISSIPPI									
Commercial Bank Deposits	12,465	12,413	11,566	+ 8	Savings & Loans				
Demand	2,373	2,338	2,288	+ 4	Total Deposits	1,611	1,627	N.A.	
NOW	869	844	808	+ 8	NOW	50	52	N.A.	
Savings	2,346	2,324	2,294	+ 2	Savings	283	282	N.A.	
Time	7,198	7,203	6,408	+ 12	Time	1,362	1,361	N.A.	
Credit Union Deposits	*	*	*			NOV	OCT	NOV	
Share Drafts	*	*	*		Mortgages Outstanding	2,074	2,063	2,048	+ 1
Savings & Time	*	*	*		Mortgage Commitments	147	180	62	+137
TENNESSEE									
Commercial Bank Deposits	24,486	24,242	22,256	+ 10	Savings & Loans**				
Demand	4,629	4,511	4,145	+ 12	Total Deposits	7,266	7,256	N.A.	
NOW	1,948	1,921	1,711	+ 14	NOW	221	219	N.A.	
Savings	4,898	4,846	4,966	- 1	Savings	1,240	1,245	N.A.	
Time	13,336	13,234	11,586	+ 15	Time	5,841	5,836	N.A.	
Credit Union Deposits	1,053	1,043	881	+ 20		NOV	OCT	NOV	
Share Drafts	79	78	62	+ 27	Mortgages Outstanding	6,264	6,276	5,775	+ 8
Savings & Time	985	978	832	+ 18	Mortgage Commitments	340	319	205	+ 66

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 generated 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 comparable with previous data at this time.

CONSTRUCTION

	NOV 1984	OCT 1984	NOV 1983	ANN % CHG		NOV 1984	OCT 1984	NOV 1983	ANN % CHG
12-month Cumulative Rate									
UNITED STATES									
Nonresidential Building Permits - $ Mil.					Residential Building Permits				
Total Nonresidential	60,962	59,673	51,321	+ 19	Value - $ Mil.	74,554	74,558	66,938	+ 11
Industrial Bldgs.	8,569	8,159	5,620	+ 52	Residential Permits - Thous.				
Offices	14,759	14,401	12,738	+ 16	Single-family units	898.1	904.3	884.0	+ 2
Stores	9,381	9,201	6,976	+ 34	Multi-family units	744.9	743.2	694.0	+ 7
Hospitals	1,755	1,694	2,108	- 17	Total Building Permits				
Schools	950	916	876	+ 8	Value - $ Mil.	135,515	134,231	118,259	+ 15
SOUTHEAST									
Nonresidential Building Permits - $ Mil.					Residential Building Permits				
Total Nonresidential	9,388	9,228	8,028	+ 17	Value - $ Mil.	13,824	13,968	12,452	+ 11
Industrial Bldgs.	960	925	682	+ 41	Residential Permits - Thous.				
Offices	2,313	2,210	1,867	+ 24	Single-family units	187.0	187.8	182.1	+ 3
Stores	1,877	1,820	1,280	+ 47	Multi-family units	171.2	172.2	156.7	+ 9
Hospitals	345	322	519	- 34	Total Building Permits				
Schools	117	112	171	- 32	Value - $ Mil.	23,212	23,197	20,481	+ 13
ALABAMA									
Nonresidential Building Permits - $ Mil.					Residential Building Permits				
Total Nonresidential	687	745	535	+ 28	Value - $ Mil.	456	462	424	+ 8
Industrial Bldgs.	181	184	28	+546	Residential Permits - Thous.				
Offices	100	99	63	+ 59	Single-family units	8.0	8.2	8.0	0
Stores	128	130	90	+ 42	Multi-family units	6.9	7.2	7.8	- 12
Hospitals	26	19	25	+ 4	Total Building Permits				
Schools	7	7	9	- 22	Value - $ Mil.	1,143	1,207	959	+ 19
FLORIDA									
Nonresidential Building Permits - $ Mil.					Residential Building Permits				
Total Nonresidential	4,657	4,566	3,988	+ 17	Value - $ Mil.	7,946	8,102	7,224	+ 10
Industrial Bldgs.	468	441	366	+ 28	Residential Permits - Thous.				
Offices	1,096	1,042	878	+ 25	Single-family units	102.0	102.6	97.2	+ 5
Stores	1,057	1,035	713	+ 48	Multi-family units	95.4	95.9	86.6	+ 10
Hospitals	153	149	291	- 47	Total Building Permits				
Schools	49	48	54	- 9	Value - $ Mil.	12,604	12,669	11,212	+ 12
GEORGIA									
Nonresidential Building Permits - $ Mil.					Residential Building Permits				
Total Nonresidential	1,844	1,749	1,296	+ 42	Value - $ Mil.	2,820	2,818	2,398	+ 18
Industrial Bldgs.	183	170	181	+ 1	Residential Permits - Thous.				
Offices	608	589	396	+ 54	Single-family units	43.7	43.7	41.5	+ 5
Stores	293	257	147	+ 99	Multi-family units	27.3	27.8	25.4	+ 7
Hospitals	45	49	35	+ 29	Total Building Permits				
Schools	18	14	27	- 33	Value - $ Mil.	4,664	4,567	3,694	+ 26
LOUISIANA									
Nonresidential Building Permits - $ Mil.					Residential Building Permits				
Total Nonresidential	1,169	1,114	1,207	- 3	Value - $ Mil.	1,063	1,074	1,085	- 2
Industrial Bldgs.	30	29	37	- 19	Residential Permits - Thous.				
Offices	295	280	366	- 19	Single-family units	14.2	14.4	16.8	- 15
Stores	219	213	134	+ 63	Multi-family units	14.0	14.3	16.6	- 16
Hospitals	96	80	123	- 22	Total Building Permits				
Schools	34	34	70	- 51	Value - $ Mil.	2,232	2,188	2,292	- 3
MISSISSIPPI									
Nonresidential Building Permits - $ Mil.					Residential Building Permits				
Total Nonresidential	254	246	185	+ 37	Value - $ Mil.	376	371	317	+ 19
Industrial Bldgs.	15	15	7	+114	Residential Permits - Thous.				
Offices	39	34	19	+105	Single-family units	5.8	5.7	4.9	+ 18
Stores	54	53	40	+ 35	Multi-family units	5.0	5.3	4.7	+ 6
Hospitals	9	9	18	- 50	Total Building Permits				
Schools	2	2	7	- 71	Value - $ Mil.	629	617	502	+ 25
TENNESSEE									
Nonresidential Building Permits - $ Mil.					Residential Building Permits				
Total Nonresidential	777	808	817	- 5	Value - $ Mil.	1,163	1,141	1,004	+ 16
Industrial Bldgs.	83	84	63	+ 32	Residential Permits - Thous.				
Offices	175	166	145	+ 21	Single-family units	13.3	13.2	13.7	- 3
Stores	126	132	156	- 19	Multi-family units	22.6	21.7	15.6	+ 45
Hospitals	16	16	27	- 41	Total Building Permits				
Schools	7	7	4	+ 75	Value - $ Mil.	1,940	1,949	1,822	+ 6

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)	3Q	3,032.7	2,970.9	2,753.1	+10
Taxable Sales - $bil.		N.A.	N.A.	N.A.	
Plane Pass. Arr. 000's		N.A.	N.A.	N.A.	
Petroleum Prod. (thous.)	DEC	8,795.9	8,849.5	8,394.0	+ 5
Consumer Price Index 1967=100	DEC	315.5	315.3	303.4	+ 4
Kilowatt Hours - mils.	SEP	198.6	208.4	201.4	- 1
SOUTHEAST					
Personal Income ($bil. - SAAR)	3Q	370.8	361.8	333.7	+11
Taxable Sales - $ bil.		N.A.	N.A.	N.A.	
Plane Pass. Arr. 000's	OCT	4,277.0	3,853.8	4,045.3	+ 6
Petroleum Prod. (thous.)	DEC	1,508.0	1,505.0	1,438.0	+ 5
Consumer Price Index 1967=100		N.A.	N.A.	N.A.	
Kilowatt Hours - mils.	SEP	33.2	34.4	34.0	- 2
ALABAMA					
Personal Income ($bil. - SAAR)	3Q	40.5	39.8	37.0	+ 9
Taxable Sales - $ bil.		N.A.	N.A.	N.A.	
Plane Pass. Arr. 000's	OCT	121.6	110.1	111.6	+ 9
Petroleum Prod. (thous.)	DEC	53.0	53.0	48.0	+10
Consumer Price Index 1967=100		N.A.	N.A.	N.A.	
Kilowatt Hours - mils.	SEP	4.6	4.6	4.5	+ 2
FLORIDA					
Personal Income ($bil. - SAAR)	3Q	140.0	136.1	125.1	+12
Taxable Sales - $ bil.	DEC	84.0	83.0	73.9	+14
Plane Pass. Arr. 000's	OCT	1,870.5	1,708.5	1,804.7	+ 4
Petroleum Prod. (thous.)	DEC	37.0	36.0	41.0	-10
Consumer Price Index - Miami		NOV	SEP	NOV	
Nov. 1977 = 100		168.3	167.9	164.0	+ 3
Kilowatt Hours - mils.	SEP	9.8	9.9	9.8	0
GEORGIA					
Personal Income ($bil. - SAAR)	3Q	67.7	65.9	59.8	+13
Taxable Sales - $ bil.		N.A.	N.A.	N.A.	
Plane Pass. Arr. 000's	OCT	1,724.5	1,533.0	1,646.3	+ 5
Petroleum Prod. (thous.)		N.A.	N.A.	N.A.	
Consumer Price Index - Atlanta		DEC	OCT	DEC	
1967=100		318.2	317.8	307.3	+ 4
Kilowatt Hours - mils.	SEP	4.8	5.7	4.9	- 2
LOUISIANA					
Personal Income ($bil. - SAAR)	3Q	49.0	48.2	45.6	+ 7
Taxable Sales - $ bil.		N.A.	N.A.	N.A.	
Plane Pass. Arr. 000's	OCT	343.6	311.6	286.7	+20
Petroleum Prod. (thous.)	DEC	1,329.0	1,326.0	1,261.0	+ 5
Consumer Price Index 1967=100		N.A.	N.A.	N.A.	
Kilowatt Hours - mils.	SEP	5.8	5.6	5.8	0
MISSISSIPPI					
Personal Income ($bil. - SAAR)	3Q	23.1	22.6	21.1	+ 9
Taxable Sales - $ bil.		N.A.	N.A.	N.A.	
Plane Pass. Arr. 000's	OCT	36.9	34.4	35.3	+ 5
Petroleum Prod. (thous.)	DEC	89.0	90.0	88.0	+ 1
Consumer Price Index 1967=100		N.A.	N.A.	N.A.	
Kilowatt Hours - mils.	SEP	2.3	2.4	2.4	- 4
TENNESSEE					
Personal Income ($bil. - SAAR)	3Q	50.5	49.3	45.1	+12
Taxable Sales - $ bil.		N.A.	N.A.	N.A.	
Plane Pass. Arr. 000's	OCT	179.9	156.2	160.7	+12
Petroleum Prod. (thous.)	DEC	N.A.	N.A.	N.A.	
Consumer Price Index 1967 = 100		N.A.	N.A.	N.A.	
Kilowatt Hours - mils.	SEP	5.9	6.2	6.6	-11

Agriculture	DEC 1984	NOV 1984	DEC 1983	ANN. % CHG.
UNITED STATES				
Prices Rec'd by Farmers Index (1977=100)	134	137	140	- 4
Broiler Placements (thous.)	84,689	77,280	80,140	+ 6
Calf Prices ($ per cwt.)	59.4	59.4	60.6	- 2
Broiler Prices (¢ per lb.)	28.5	30.8	33.7	-15
Soybean Prices ($ per bu.)	5.80	6.02	7.61	-24
Broiler Feed Cost ($ per ton)	216	220	240	-10
SOUTHEAST				
Prices Rec'd by Farmers Index (1977=100)	124	130	129	- 4
Broiler Placements (thous.)	32,566	29,091	30,819	+ 6
Calf Prices ($ per cwt.)	54.3	54.3	58.0	- 6
Broiler Prices (¢ per lb.)	27.5	29.5	33.9	-19
Soybean Prices ($ per bu.)	5.90	6.09	7.79	-24
Broiler Feed Cost ($ per ton)	210	211	234	-10
ALABAMA				
Farm Cash Receipts - $ mil. (Dates: SEP, SEP)	1,406	-	1,390	+ 1
Broiler Placements (thous.)	10,960	9,568	10,475	+ 5
Calf Prices ($ per cwt.)	55.5	53.4	62.1	-11
Broiler Prices (¢ per lb.)	26.5	29.5	32.5	-18
Soybean Prices ($ per bu.)	5.89	6.12	7.76	-24
Broiler Feed Cost ($ per ton)	191	185	270	-29
FLORIDA				
Farm Cash Receipts - $ mil. (Dates: SEP, SEP)	3,272	-	3,341	- 2
Broiler Placements (thous.)	2,065	1,935	1,853	+11
Calf Prices ($ per cwt.)	58.4	57.2	63.9	- 9
Broiler Prices (¢ per lb.)	27.0	29.0	33.0	-18
Soybean Prices ($ per bu.)	5.89	6.12	7.76	-24
Broiler Feed Cost ($ per ton)	235	235	260	-10
GEORGIA				
Farm Cash Receipts - $ mil. (Dates: SEP, SEP)	2,213	-	2,132	+ 4
Broiler Placements (thous.)	13,022	11,809	12,387	+ 5
Calf Prices ($ per cwt.)	49.8	47.3	54.4	- 8
Broiler Prices (¢ per lb.)	27.0	28.5	33.5	-19
Soybean Prices ($ per bu.)	5.79	6.05	7.58	-24
Broiler Feed Cost ($ per ton)	245	250	215	+14
LOUISIANA				
Farm Cash Receipts - $ mil. (Dates: SEP, SEP)	841	-	810	+ 4
Broiler Placements (thous.)	N.A.	N.A.	N.A.	
Calf Prices ($ per cwt.)	54.0	54.6	58.7	- 8
Broiler Prices (¢ per lb.)	29.5	30.0	36.0	-18
Soybean Prices ($ per bu.)	5.90	6.05	7.94	-26
Broiler Feed Cost ($ per ton)	255	255	290	-12
MISSISSIPPI				
Farm Cash Receipts - $ mil. (Dates: SEP, SEP)	1,173	-	1,239	- 5
Broiler Placements (thous.)	6,517	5,779	6,153	+ 6
Calf Prices ($ per cwt.)	57.9	58.1	55.2	+ 5
Broiler Prices (¢ per lb.)	29.8	31.5	37.0	-19
Soybean Prices ($ per bu.)	5.89	6.23	7.77	-24
Broiler Feed Cost ($ per ton)	160	165	195	-18
TENNESSEE				
Farm Cash Receipts - $ mil. (Dates: SEP, SEP)	1,103	-	1,161	- 5
Broiler Placements (thous.)	N.A.	N.A.	N.A.	
Calf Prices ($ per cwt.)	49.4	53.4	54.0	- 9
Broiler Prices (¢ per lb.)	27.0	28.5	32.5	-17
Soybean Prices ($ per bu.)	5.99	5.91	7.81	-23
Broiler Feed Cost ($ per ton)	185	183	225	-18

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 1984	OCT 1984	NOV 1983	ANN. % CHG.		NOV 1984	OCT 1984	NOV 1983	ANN. % CHG.
UNITED STATES									
Civilian Labor Force - thous.	114,115	114,250	112,147	+ 2	Nonfarm Employment- thous.	96,215	95,894	92,406	+ 4
Total Employed - thous.	106,246	106,262	103,018	+ 3	Manufacturing	19,775	19,851	19,093	+ 4
Total Unemployed - thous.	7,869	7,989	9,129	-14	Construction	4,586	4,647	4,231	+ 8
Unemployment Rate - % SA	7.2	7.4	8.4		Trade	22,475	22.183	21,385	+ 5
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	16,316	16,196	16,112	+ 1
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	21,053	21,027	20,024	+ 5
Mfg. Avg. Wkly. Hours	40.7	40.5	40.8	- 0	Fin., Ins., & Real Est.	5,714	5,705	5,520	+ 4
Mfg. Avg. Wkly. Earn. - $	379	373	366	+ 4	Trans. Com. & Pub. Util.	5,280	5,272	5,071	+ 4
SOUTHEAST									
Civilian Labor Force - thous.	15,056	15,120	14,686	+ 3	Nonfarm Employment- thous.	12,297	12,234	11,824	+ 4
Total Employed - thous.	13,883	13,900	13,387	+ 4	Manufacturing	2,274	2,279	2,230	+ 2
Total Unemployed - thous.	1,173	1,220	1,299	-10	Construction	747	748	692	+ 8
Unemployment Rate - % SA	7.8	8.3	9.5		Trade	3,048	3,001	2,877	+ 6
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	2,213	2,202	2,174	+ 2
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	2,464	2,460	2,353	+ 5
Mfg. Avg. Wkly. Hours	41.3	40.8	41.0	+ 1	Fin., Ins., & Real Est.	710	708	675	+ 5
Mfg. Avg. Wkly. Earn. - $	338	330	319	+ 6	Trans. Com. & Pub. Util.	712	710	697	+ 2
ALABAMA									
Civilian Labor Force - thous.	1,798	1,800	1,752	+ 3	Nonfarm Employment- thous.	1,356	1,354	1,337	+ 1
Total Employed - thous.	1,600	1,607	1,550	+ 3	Manufacturing	345	347	346	- 0
Total Unemployed - thous.	199	193	202	- 1	Construction	65	65	63	+ 3
Unemployment Rate - % SA	11.4	11.1	11.9		Trade	289	286	278	+ 4
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	290	289	287	+ 1
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	218	219	219	- 0
Mfg. Avg. Wkly. Hours	41.4	40.9	41.0	+ 1	Fin., Ins., & Real Est.	62	62	60	+ 3
Mfg. Avg. Wkly. Earn. - $	341	332	315	+ 8	Trans. Com. & Pub. Util.	72	72	71	+ 1
FLORIDA									
Civilian Labor Force - thous.	5,144	5,139	5,049	+ 2	Nonfarm Employment- thous.	4,239	4,191	4,009	+ 6
Total Employed - thous.	4,824	4,779	4,642	+ 4	Manufacturing	509	507	483	+ 5
Total Unemployed - thous.	320	360	407	-21	Construction	318	318	282	+13
Unemployment Rate - % SA	5.7	6.4	7.8		Trade	1,158	1,132	1,086	+ 7
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	662	658	641	+ 3
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	1,031	1,018	980	+ 5
Mfg. Avg. Wkly. Hours	41.1	40.8	41.5	- 1	Fin., Ins., & Real Est.	317	316	295	+ 7
Mfg. Avg. Wkly. Earn. - $	322	316	310	+ 4	Trans. Com. & Pub. Util.	233	232	233	0
GEORGIA									
Civilian Labor Force - thous.	2,791	2,820	2,731	+ 2	Nonfarm Employment- thous.	2,481	2,467	2,331	+ 6
Total Employed - thous.	2,635	2,655	2,554	+ 3	Manufacturing	536	538	522	+ 3
Total Unemployed - thous.	156	165	178	-12	Construction	144	142	118	+22
Unemployment Rate - % SA	5.7	6.1	6.6		Trade	628	618	565	+11
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	440	438	441	- 0
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	437	436	404	+ 8
Mfg. Avg. Wkly. Hours	41.0	40.7	41.8	- 2	Fin., Ins., & Real Est.	131	130	122	+ 7
Mfg. Avg. Wkly. Earn. - $	317	312	304	+ 4	Trans. Com. & Pub. Util.	157	157	151	+ 4
LOUISIANA									
Civilian Labor Force - thous.	1,965	1,993	1,902	+ 3	Nonfarm Employment- thous.	1,582	1,580	1,580	+ 0
Total Employed - thous.	1,773	1,794	1,698	+ 4	Manufacturing	183	182	181	+ 1
Total Unemployed - thous.	191	199	203	- 6	Construction	109	111	117	- 7
Unemployment Rate - % SA	9.9	10.3	10.9		Trade	376	374	377	- 0
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	324	322	321	+ 1
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	312	313	306	+ 2
Mfg. Avg. Wkly. Hours	42.5	41.1	40.2	+ 6	Fin., Ins., & Real Est.	83	83	83	0
Mfg. Avg. Wkly. Earn. - $	436	416	394	+11	Trans. Com. & Pub. Util.	116	116	117	- 1
MISSISSIPPI									
Civilian Labor Force - thous.	1,100	1,111	1,055	+ 4	Nonfarm Employment- thous.	816	816	803	+ 2
Total Employed - thous.	979	993	947	+ 3	Manufacturing	210	212	210	0
Total Unemployed - thous.	121	118	108	+12	Construction	32	33	34	- 6
Unemployment Rate - % SA	12.0	11.9	11.1		Trade	175	173	167	+ 5
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	187	187	183	+ 2
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	129	129	126	+ 2
Mfg. Avg. Wkly. Hours	40.8	40.4	40.6	+ 0	Fin., Ins., & Real Est.	35	34	34	+ 3
Mfg. Avg. Wkly. Earn. - $	286	281	279	+ 3	Trans. Com. & Pub. Util.	40	40	39	+ 3
TENNESSEE									
Civilian Labor Force - thous.	2,258	2,257	2,197	+ 3	Nonfarm Employment- thous.	1,823	1,826	1,764	+ 3
Total Employed - thous.	2,072	2,072	1,996	+ 4	Manufacturing	491	493	488	+ 1
Total Unemployed - thous.	186	185	201	- 7	Construction	79	79	78	+ 1
Unemployment Rate - % SA	8.7	9.2	9.6		Trade	422	418	404	+ 4
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	310	308	301	+ 3
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	337	345	318	+ 6
Mfg. Avg. Wkly. Hours	40.9	40.8	41.0	- 0	Fin., Ins., & Real Est.	82	83	81	+ 1
Mfg. Avg. Wkly. Earn. - $	324	322	312	+ 4	Trans. Com. & Pub. Util.	94	93	86	+ 9

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.