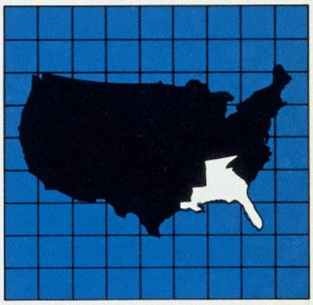
Economic Review



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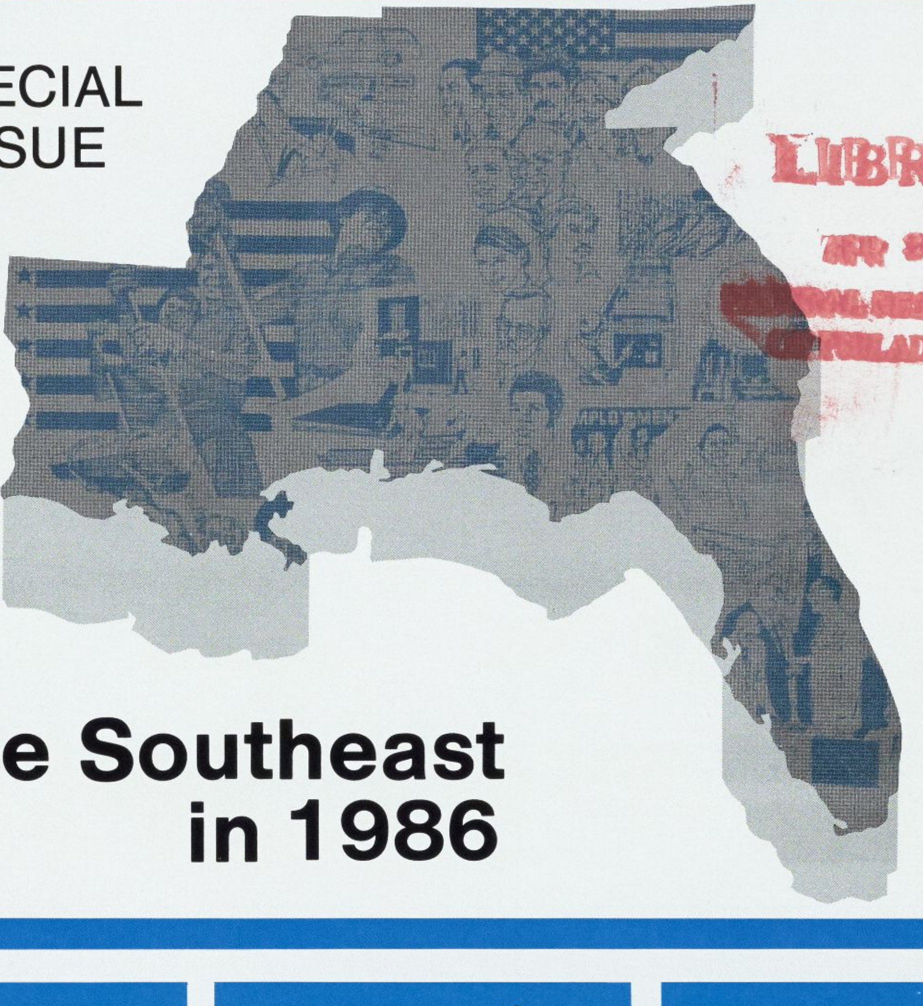
SPECIAL ISSUE



The Southeast in 1986

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Economic Review

Special Issue

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OVERVIEW

The Southeast: A Look at the Year Ahead

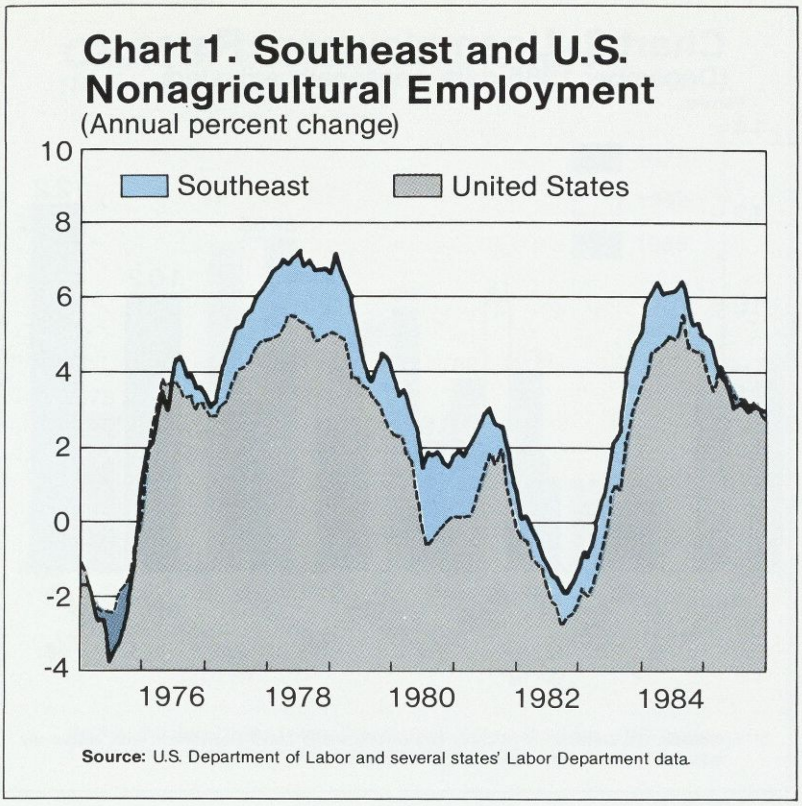
What is the most likely pattern of economic growth in the Southeast this year? Given the performance of the national economy thus far during the current expansion and the anticipated mix of strengths and weaknesses in 1986, the outlook for the region is relatively encouraging. We expect that growth will be more robust than last year, on average, lowering unemployment in the region. But unemployment will not lessen uniformly across industries or states. There is even a danger that parts of the region will stagnate or decline.

The faster growth expected for 1986 should also be more balanced growth. One major shift is likely to be a cooling of activity in the overheated office and multifamily housing construction areas. Alternatively, the prospect is good for improvement in manufacturing industries, including some that have been under intense competitive pressure from foreign producers. Despite these shifts, the major pattern of industrial strengths and weaknesses will resemble that of 1985, as will the relative rankings among regional states.

Until last year, payroll employment growth in the region had been stronger than national growth since 1975 (Chart 1), largely because of above-average gains in Florida and Georgia and the oil-fueled boom in Louisiana. In 1985, stagnation in Louisiana and lagging growth in Alabama and Mississippi caused regional patterns to slip back near the trend for the entire national economy. Since no new industrial strengths emerged last year, continued weakness in relatively important regional agricultural, energy, and international trade-dependent activities slowed overall employment growth in the region to about the nation's pace.

In this special issue of the *Economic Review* we will discuss the outlook for 1986 in the Sixth Federal Reserve District and for the six states that lie wholly or partially within that District—Alabama, Florida, Georgia, Louisiana, Mississippi, and Tennessee. This issue was prepared by the Federal Reserve Bank of Atlanta's regional research team, headed by Research Officer Gene D. Sullivan, and coordinated by Economist William J. Kahley. An analysis of the national economy was prepared by the macropolicy team and written by Economist Mary S. Rosenbaum.

Our research indicates that major industrial employment changes in the region result from the same factors influencing national or aggregate variables, such as the foreign exchange value of the dollar and the level of interest rates. Typically, these forces are not uniformly positive across industries, so each region's outlook is shaped by its particular industrial structure. Given the current national economic environment, various service industries are again likely to lead employment growth in the region as in past years. Wholesale and retail trade,



government, transportation and utilities, finance and real estate, health, education, and tourism industries collectively are expected to provide the most new regional jobs this year.

Growing personal income as a result of general economic expansion augurs well for higher consumer spending. So do the increased household net worth from appreciating stock prices and the larger discretionary incomes from lower gasoline prices and home financing interest rates.

Regional expansion is also influenced by factors that differ across the nation, such as demographic changes, migration, and natural resources. In the Southeast, healthy income growth, combined with continued strong migration of jobs and people—particularly to Florida and Georgia—will greatly benefit retailers and a variety of service industries as well. Meanwhile, the fall in the dollar's foreign exchange value will boost tourism, as will lower gasoline prices and new or expanded facilities for conventions and visitors.

An influx of jobs and people also means that house building and numerous industrial activities will be stimulated this year. Mortgage interest rates that are at seven-year lows will help encourage a faster turnover of existing homes and the building of more new homes. Higher incomes also will expand job opportunities and industrial prospects for numerous regional manufacturers in automobile and related supply industries and for the many manufacturers of consumer durable and nondurable products.

Southern manufacturing industries also will benefit this year from the accelerating momentum of expenditures for national defense, including military payrolls, procurement, and positioning personnel and materiel. As with services, Florida and Georgia appear likely to gain the most in the region from defense activity. Fortunately, benefits from the production of other manufactured goods will be more widespread across the region, with Tennessee and Alabama profiting most from the increased auto and consumer spending mentioned previously.

Regional manufacturing specialties, hard-pressed to compete effectively with foreign producers here or abroad, should begin to experience some relief this year. The chemical, textile, food processing, and paper industries will benefit from more favorable currency rates or from lower material and production costs, or from both. In some instances, though, improvement will come slowly and haltingly, even if the dollar falls further. Textile and chemical producers, for example, still face strong foreign rivals.

Unfortunately, the region will also be affected by some industrial weaknesses. Some of the faltering sectors are spread across the region and others are more limited geographically. Generally, the poorest markets are those for natural resources, including agricultural, forestry, and mined products.

Agriculture may benefit from stronger economic gains worldwide, but competition is expected to stay fierce. The dollar remains above its value in the late 1970s, and a world commodity glut offers scant hope of substantially increasing farm revenues in the current crop year. As a consequence, farm exports from the Southeast could drop for the sixth consecutive year. The important lumber industry also is likely to post a mediocre performance this year because of stiff foreign competition. Indeed, the rise in the value of the U.S. dollar against the Canadian dollar over the past year means that southeastern producers' market share is threatened further. Finally, the outlook for energy producers in the region is abysmal despite a drop of more than one-third in the cost of oil drilling over the past four years. Prolonged weakness in the so-called "oil patch" will, of course, spread to coal mining activity as part of the general energy glut.

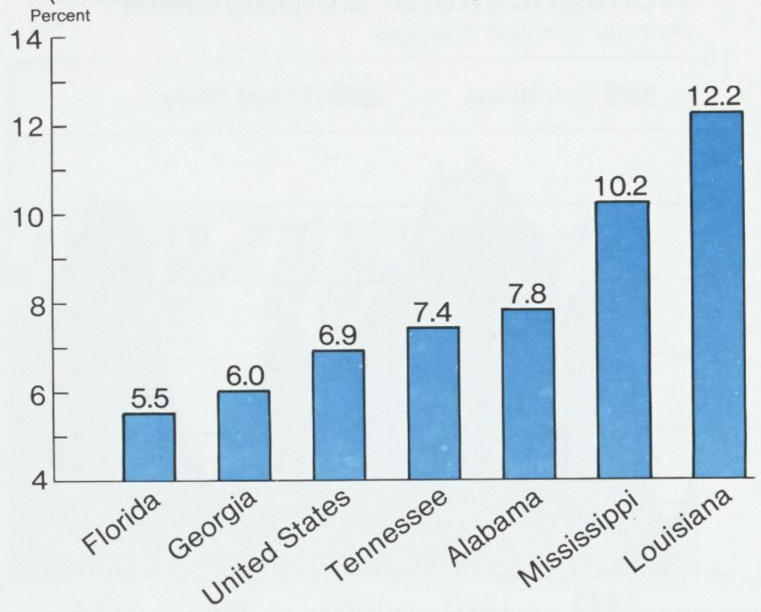
Several weaknesses have emerged recently in the previously strong construction sector and related industries. Office building seems to have crested in many of the region's urban markets, which are judged by developers and lenders alike to be in danger of overbuilding. Multifamily housing units—apartments and condominiums— are also in abundant supply in several markets, inflating vacancy rates while rental rates and prices stagnate. Finally, some slowing in public construction is likely in areas that are dependent on the energy sector, such as Louisiana, because of the state and local fiscal difficulties precipitated by falling energy-related tax receipts.

Manufacturing should quicken because of improved competitiveness stemming from the dollar's lower exchange rate and generally lean inventories that will need to be expanded as business activity increases. However, the formerly booming production of computers and other electrical equipment and machinery for business or personal use is likely to remain in the doldrums. Indeed, producers of high-technology electronics and telecommunications devices (except for those supplying military needs) should experience slow sales this year.

These diverse strengths and weaknesses indicate that Sixth District states will grow at different rates because of their varying industrial structures. At year-end 1985, the southeastern states' unemployment rates lined up as shown in Chart 2, ranging from about 6 percent in Florida and Georgia to about twice that in Louisiana. These rankings are unlikely to change dramatically this year, although Tennessee's performance, and perhaps Alabama's, probably will accelerate relative to the nation. In addition, Louisiana's economy almost certainly will weaken still more against other regional states and the country.

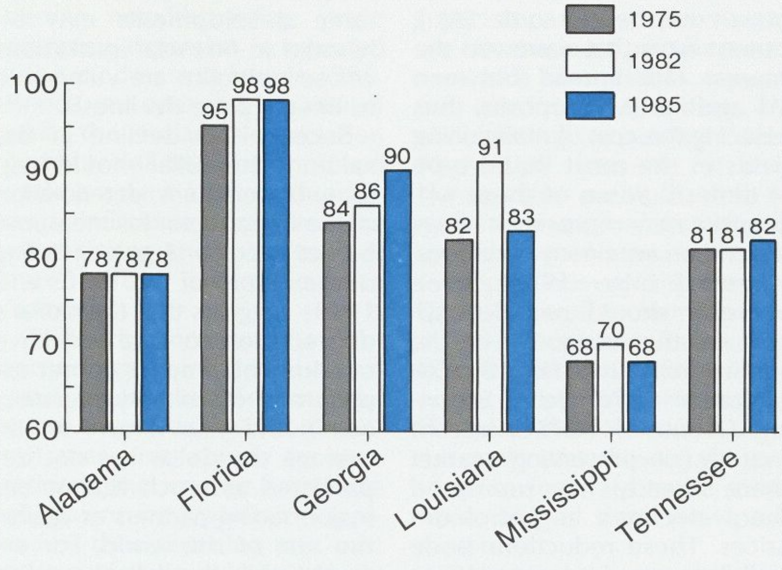
Florida and Georgia are expected to lead the region in economic gains again this year for the same reasons that typically help them achieve above-average performance. Both benefit from industrial structures that are diversified and service-based. By contrast, Louisiana's heavy dependence on the oil and gas industry—and, to a lesser degree, Mississippi's reliance on agricultural pursuits and Alabama's and Tennessee's manufacturing concentrations—make these state economies more

Chart 2. Unemployment Rates
(December 1985 data, seasonally adjusted)



Source: U.S. Department of Labor and several states' Labor Department data, seasonally adjusted by the Federal Reserve Bank of Atlanta.

Chart 3. Per Capita Income
(Percent of United States)



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

vulnerable and more volatile. Secularly expanding service employment, concentrated in Florida and Georgia, has allowed both states to improve their per capita income standing relative to other regional states and the nation, as shown in Chart 3. Meanwhile, Louisiana's income growth experience has been extremely uncertain and the other states' performances have been flat relative to the nation.

Fortunately, regional growth has been on a par with or slightly ahead of the nation over the past three years. The improved national outlook augurs well for the mix of industrial growth except for energy-related industries. Moreover, the better balance of geographic and industrial strength expected in most states means that more southeasterners will prosper in this fourth year of economic expansion.

Regional Outlook Summary

Southeast:

1985- No sectors gained enough new strength to push the economy along.

1986- The overall regional performance will approximately match that of the United States.

Alabama:

1985- Growth was slightly below average within the region, but the state showed improvement over 1984.

1986- Solid growth will be led by durable manufacturing, services, and construction activity in Birmingham and defense in Huntsville.

Florida:

1985- Migration and its service-oriented economic base kept the state growing at an above average rate.

1986- Job growth in trade and service industries is likely to spark another year of above-average activity.

Georgia:

1985- Rapid growth was due largely to migration into Atlanta.

1986- Like Florida, Georgia's trade and services industries are likely to bring about another year of above-average growth.

Louisiana:

1985- Economic performance was poor last year due to lower energy prices.

1986- This state's economy is likely to experience another poor year.

Mississippi:

1985- Growth was moderate, but the state's unemployment rate stayed stubbornly high.

1986- The state's economy will pick up more steam as the national economy improves, but it will lag the nation's growth.

Tennessee:

1985- Growth was less rapid than in Florida and Georgia, but slightly above that of the United States.

1986- Growth will likely equal the rate for the nation as housing-related manufacturing and auto and other durable goods industries lead economic activity.

National Economic Outlook

At year-end 1985, the economy had the ingredients for healthy, sustained real growth. In 1986, real gross national product (GNP) is likely to increase at a 3 to 3 1/2 percent rate. While this increase is, to be sure, lower than the heady 6.6 percent rate of 1984, it is well above that of 1985 and is no call for concern. A steady 3 percent rate of expansion will generally reduce unemployment without creating additional inflationary pressures.

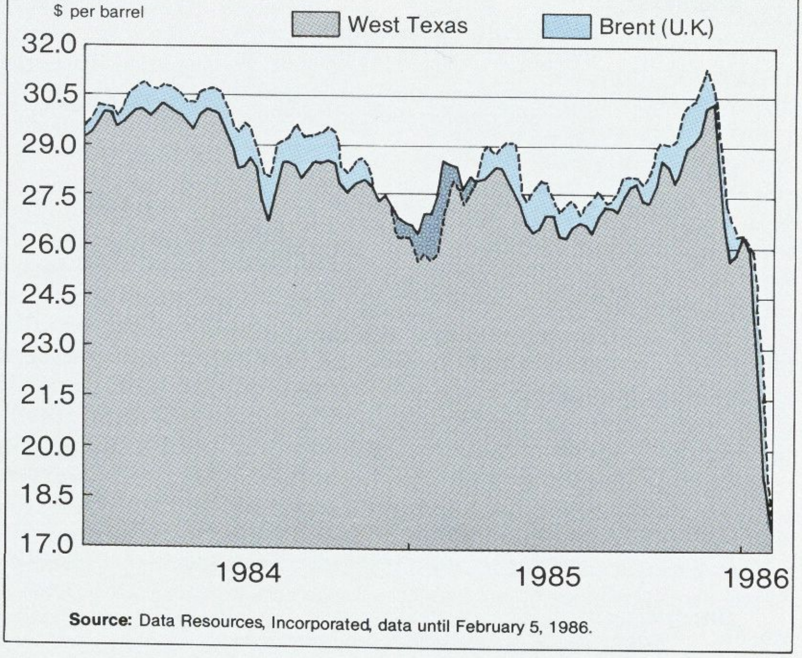
Heading the current list of short-term sources of strength are interest rate declines and strong monetary growth in 1985, plus recent oil price declines. Reduced credit costs promise to sustain the fairly strong single-family residential construction market of recent years. Rallies in the stock and bond markets through early 1986 have boosted household wealth and should provide underlying strength in personal consumption. These rallies also have lowered the cost of financial capital for companies, which should furnish some additional incentive for business fixed investment.

Monetary growth was strong throughout 1985. Rapid M1 growth (the monetary measure of liquid assets, including coin, currency, checking accounts, and other checkable deposits) accompanied relatively moderate M2 and M3 increases, suggesting that savings were shifted into interest-bearing M1 balances. This leads us to worry less about the inflationary consequences of above-target M1 growth than we would otherwise. In other words, rapid M1 growth may be due to declining interest rates that narrowed the interest rate spread between M1 and non-M1 deposits, thus reducing the cost of maintaining funds in the most liquid type of deposit. Some of these M1 deposits may represent savings rather than imminent purchases.

Several other 1985 developments should provide support to the economy in the coming years, too. First, the Organization of Petroleum Exporting Countries' (OPEC) recent strategy of preserving market share already has prompted sharp declines in petroleum prices. These reductions bode well for general price and wage behavior in 1986 (although these same developments may be harmful to financial institutions whose portfolios are vulnerable to energy price declines).

Second, the decline in the value of the dollar should help to end persistent deterioration of the trade sector (as measured by net exports). A naive reading of the record of the 1970s and 1980s suggests that the dollar's depreciation to date will have considerable impact on net exports and inflationary pressures within the year. However, on average the dollar has not depreciated as much against our major trading partners as against the rest of the world. For example, while the dollar has fallen substantially against the yen, it

Chart 1. Spot Oil Prices, Weekly Data
(Average of daily highs and lows)



Source: Data Resources, Incorporated, data until February 5, 1986.

has not moved much vis-a-vis currencies of South Korea or Taiwan, and has actually appreciated against the Canadian dollar. Furthermore, the oil price decline notwithstanding, world economic expansion is expected to be moderate at best in 1986. Hence, our optimism is qualified: while the dollar's depreciation probably will bring an improved trade account along with additional inflationary pressures, the exact timing and magnitude of these effects are difficult to estimate.

Third, the more subdued inventory cycle of the last two years clearly has become the norm. Improved inventory control measures appear to have reduced the average amplitude of inventory correction episodes, thus reducing one past source of serious imbalance in the economy.

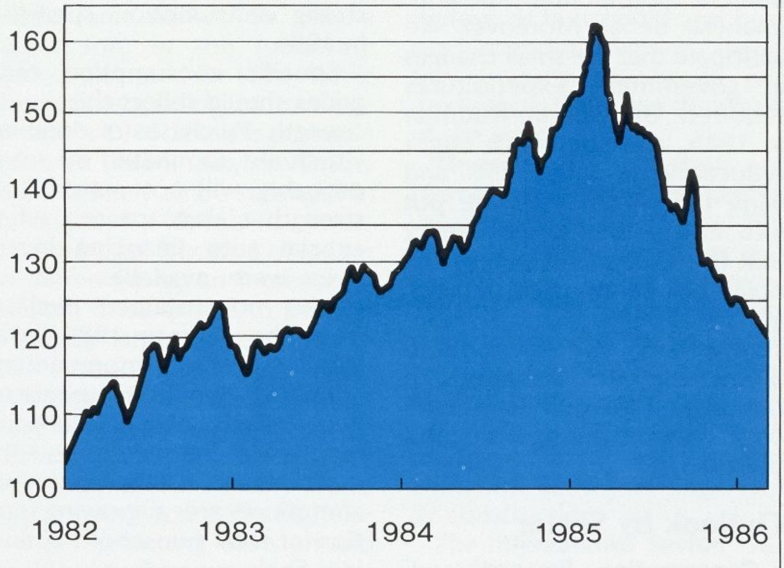
Another consideration is the extent to which current debt levels could constrain consumer spending. Although debt to income ratios are at an all-time high, apparently these ratios are not the most pertinent measure of a household's capacity for continued spending and shouldering expanded debt. Alternative measures of debt burden (for example, debt-to-asset measures) and studies of the history of consumer debt over previous cycles, have allayed fears of an imminent reduction in personal consumption expenditures. So has the recent re-benchmarking of the National Income and Product Accounts that showed the personal savings rate to be somewhat higher than previously measured.

Of course, some potential problems and weaknesses loom in the months ahead, and certain economic sectors appear unlikely to thrive. The agricultural sector is expected to continue suffering from weak commodity and land prices, though we hope the worst is over. Recovery of industries battered by the high value of the dollar, such as textiles and machine tools, will be gradual and limited over 1986.

The construction industry is also likely to experience a mixed performance in 1986, since most of the pent-up demand for housing—a legacy of the high interest rates and dispirited economic performance of the late 1970s and early 1980s—has been satisfied. The remaining housing demand is driven by interest rates and new family formation. While the interest rates are good for single-family home construction, they probably will not substantially boost the already overbuilt multifamily sector. Furthermore, high vacancy rates in office and retail space may deter new construction. Thus, nonresidential construction is expected to be fairly weak this year.

What are the wild cards in the current forecast? There are several to consider. Although recent oil price declines, which are just beginning to reverberate throughout the economy, appear extremely positive for the outlook, the timing of effects stemming from the major change in the dollar's value is unpredictable and worrisome. Posing an even greater uncertainty, however, is possible change in government spending and tax treatment of certain activities. The Gramm-Rudman-Hollings deficit-reduction legislation (now on its way to the Supreme Court after being weakened, perhaps

Chart 2. Weighted Average Exchange Value of the U.S. Dollar
(March 1973=100)



Source: Federal Reserve Board of Governors.

fatally, by an appeals court decision) requires budget cuts of just under $12 billion in fiscal year 1986. However, the additional reductions needed to meet the $144 billion deficit ceiling for fiscal 1987 may be enormous. Clearly, one direct effect of deficit reduction is to limit aggregate demand as the government scales back purchases of goods and services. Growth in personal consumption expenditures will also be inhibited if transfer payments are affected or tax increases are enacted. Some contend that relief to credit markets as the government reduces its issuance of securities in response to deficit reduction will lead to lower interest rates and partially offset the impact of reduced government expenditures on overall economic activity. The degree of offset remains to be seen; however, if interest rates decline as an outgrowth of deficit-reduction measures that affect government spending only later, the economy may be partially insulated from the shock of these sizable spending cuts.

Because the outlook for 1986 is fairly strong, we expect some continued progress in reducing unemployment. Although this decline will be much less rapid than early in the expansion, we believe civilian unemployment could still descend to 6.5 percent or below by year-end from 6.9 percent in December 1985. Moreover, the weakness in certain sectors, such as nonresidential construction, should not be overplayed: we are in the mature phase of this expansion, when construction typically contributes much less to growth than earlier. Currently, enough capacity exists in both plant and equipment utilization and the labor force to accommodate stronger growth without a significant worsening of inflation, and this is what we anticipate. A renewed boom, however, is unlikely in 1986. Overall, we look for respectable economic growth consonant with this stage of the business cycle.

Our outlook for 1986 is based on several key assumptions about monetary and fiscal policy and about the exchange value of the dollar. We assume, for example, that monetary growth will occur around the upper end of the tentative ranges adopted by the Federal Open Market Committee. (Tentative targets for monetary growth in 1986 are: 3 to 8 percent for M1, 6 to 9 percent for M2, 6 to 9 percent for M3, and 8 to 11 percent for total domestic nonfinancial debt.) Moreover, we anticipate that the small changes in government expenditures required by Gramm-Rudman in 1986, and the much larger reductions in late 1986 and early fiscal 1987, will be put into effect. Finally, we expect that the exchange value of the dollar will continue to depreciate in 1986, but much more slowly than in recent months. By mid-1986, this should lessen the drag on the domestic economy created by rising net export deficits.

"We look for respectable economic growth consonant with this stage of the business cycle."

Outlook by Sector

Consumption. Personal consumption expenditures account for almost two-thirds of domestic spending. Consumption spending is so important to overall economic activity that any changes in its level and growth pattern have profound implications for GNP growth and employment. Because the fundamental factors determining consumer spending are positive, we expect it to retain the forward movement shown on average throughout 1985. Personal income growth should continue at moderate rates through 1986, and employment gains are unlikely to be reversed. Indeed, recent employment data show solid advances in all categories. Personal income has also shown strength; this is very positive for future consumption. Moreover, increases in wealth from the stock and bond market rallies in 1985 and early 1986 should further support spending. Finally, we expect a surge in mortgage refinancing this year. While this will not increase personal income, it will add to household discretionary cash flow, as will lower fuel costs. Taken together, these influences argue for fairly strong consumption spending in 1986.

Specific consumption categories should reflect this overall strength. Purchases of durables, which are dominated by autos, probably will not match their strength of last autumn, when special auto financing incentives were available. Yet we expect no sustained declines from the average 1985 level. While showing improvement, spending on housing-related items will probably parallel housing. Services expenditures—the most stable category of consumption—are a growing portion of total household spending. Such expenditures (for instance, utility consumption, medical care, education, and transportation) should continue to provide stable gains during the year.

Business Fixed Investment. Business fixed investment is not expected to be the engine for growth that it was in 1984. The actual or expected lapse of factors conducive to growth earlier in the expansion (rapidly rising capacity utilization, improved profitability, and changes in tax laws favorable to investment in plant and equipment) led to slower growth in fixed investment in 1985 and will continue to do so in 1986. Capacity utilization in particular has been flat until recently. Vacancy rates in office buildings and retail space are high, dampening the incentive for increased construction. Stock price advances and reduced interest rates that lower the cost of capital, on the other hand, probably will offset some of these effects. Generally, moderately strong overall developments will encourage some further growth in business fixed investment.

Inventories. Inventory adjustments are unlikely to play a major role in the moderate gains anticipated for 1986. While modest rebuilding of inventories from 1985 levels is probable early in 1986, any inventory cycle is likely to be subdued in comparison with recent cycles.

In the past, because of longer response times, an increase or decline in sales led to proportionately larger adjustments in inventories and production levels. Now, innovations such as new computerized information systems have improved physical controls of inventory stock. Past experience with high inventory financing costs should tend to keep inventory to sales ratios relatively low compared with previous expansions. In addition, low inflation rates have reduced incentives for speculative inventory accumulation.

The fairly low inventory to sales ratios of 1984 and 1985 are expected to continue. This lack of change is important in itself; and, the lower inventory to sales ratios in this year's outlook hold some important implications. Inventory investment may provide less stimulation to GNP than in the past; on the other hand, it should not create the imbalance that it has historically. Consequently, inventory cycles are likely to be less important in the future than previously. Inventory adjustments, therefore, should have little impact on economic activity in 1986 beyond some modest buildup early this year. Nonetheless, as household and business spending expand, inventory investment should add modestly to GNP over the course of the year.

"Although the deficit is moving toward balance, it has a long way to go."

Housing. Housing starts and permits exhibited more monthly volatility than usual in 1985, but housing expenditures as a whole were helped by strong activity in additions and alterations to existing homes. While we do not expect housing starts in 1986 to rise above past cyclical highs, recent declines in mortgage rates should stimulate additional activity in single-family construction.

The International Sector. During 1985, 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—a monstrous drag on domestic economic activity.

This development was shaped by the strength of the dollar on foreign exchange markets. Before peaking a year ago, the trade-weighted value of the dollar rose to its highest level ever, increasing 87 percent between July 1980 and February 1985. The strong dollar stimulated imports by lowering the prices of foreign-made goods in U.S. stores. It also reduced the cost Americans paid for vacations abroad. At the same time, the strong dollar discouraged U.S. exports by rendering American-made goods more expensive in foreign markets.

Although the dollar has declined by nearly 30 percent since February 1985, and about 15 percent since five major trading nations committed themselves to depreciating the dollar in late September, the lagged effects of its previously elevated level will be felt for many months to come. However, we do not anticipate a worsening of the net export deficit this year; in fact, by mid-year it should begin to lessen. This should be reflected in higher GNP growth as the drain on the economy becomes smaller. In general, however, the 1986 outlook assumes another troubling deficit in the U.S. balance of trade. Although the deficit is moving toward balance, it has a long way to go.

Inflation. Prices, as measured by general gauges of inflation, increased moderately in 1985. Consumer prices rose just under 4 percent on a year-over-year basis, while the GNP deflator rose slightly less than 3.5

percent. The only sector showing significant price increases was services (at 5 percent), which is less vulnerable to import competition than traded goods.

Although inflation is determined primarily by average long-run growth in the money supply, other unrelated forces may temporarily displace prices from the trend. In the middle and late 1970s, for example, adverse shocks in the supply of goods, a depreciating dollar, and a series of bad harvests produced more inflation than indicated by the trend in monetary growth. Recently, subdued inflation expectations and the earlier strength of the dollar have worked to moderate price increases.

Monetary growth as measured by M1 was rapid in 1985 (almost 12 percent); but, growth of the broader aggregates (M2 and M3) was less rapid. The unusually strong growth of M1, relative to the broader aggregates, appears to have been a one-time portfolio shift as the interest differential between M1 and non-M1 deposits shrank, and not a harbinger of a renewed inflationary spiral in 1986.

Abundant harvests and agricultural surpluses in the United States and elsewhere promise to keep food prices low in 1986. Moreover, ample supplies of raw materials (such as oil) and excess capacity in the U. S. manufacturing sector enhance the prospects for continued moderate inflation in the coming year.

The recent dollar depreciation, on the other hand, will contribute to inflationary pressure in 1986. Dollar depreciation directly raises import prices and, consequently, makes it easier for some American producers of import-competing goods to raise prices as well. Moreover, dollar depreciation also makes U. S. exports less expensive to foreigners. This increases foreign demand for these products and exerts upward pressure on the prices of the products, the material, and the other inputs that go into them.

As the dollar declines toward its long-run equilibrium value, it will probably bring about a gradual upward shift in the U. S. price level. Part of this shift may occur in 1986. We hope the impact on the U. S. price level will be limited by the current abundance of raw materials and excess manufacturing capacity both here and abroad, and, of course, by the deflationary impact of oil price declines. If so, a renewal of the wage-price spiral can be avoided.

Because of oil, it may be possible to keep inflation low in 1986, but we are unlikely to see significant further reductions. The dollar depreciation to date, as well as anticipated depreciation, will be a fairly strong inflationary influence by the end of 1986, creating a marginal acceleration in inflation for most traded goods—with oil as the major exception. Prices for services will continue to rise, but foodstuff prices will increase only slightly or not at all. Although some persistent pressure remains, we do not expect price increases anywhere near the elevated levels of the early 1980s. The considerable slack in goods markets, the still-unfolding oil market disarray, and muted inflationary expectations should keep price increases under control.

All in all, then, the outlook for real growth and restrained inflation is bright this year. Moreover, major developments in the foreign exchange value of the dollar and in the cost of energy are positive for more balanced growth, extending beyond 1986.

FLORIDA

A Good Year, But Not an Easy One

B. Frank King and David Avery

Florida appears ready to outperform the rest of the country again this year, but with some of the Sunshine State's key sectors in trouble it could be a struggle.

Florida's unique economic structure, which has shaped its pattern of growth for several decades, seems likely to contribute to another better-than-national year in 1986.

Florida's economy probably will outdistance the rest of the country again this year, but by no more than it did in 1985. A weaker dollar and continuing high migration bode well for the Sunshine State's economy, but weakness in the volatile construction industry is likely to detract from growth.

The state's economic structure—based on an unusual blend of service and high-tech industries, a dynamic construction sector, and a continuing influx of tourists and new residents—in the past has helped make the state one of the nation's fastest-growing, while contributing to occasional wild swings between prosperity and recession. Last year, Florida's growth eased from the unsustainable vigor of 1984, but the state's economy still managed to outdistance the nation and Southeast in income, employment, and population growth. A few important parts of the state economy lagged, as was true nationally, and no sector mustered enough new strength to boost growth back to its heady 1984 pace.

Florida's impressive population gain from migration and its service-oriented economy stood the state in good stead in 1985. However, its electronic and machinery manufacturing sector, its foreign tourist business, and its food, paper, and chemical industries bore the brunt of import competition, declining foreign demand, and industry-specific problems. Its renowned construction cycle also appeared to move into a declining phase.

With all this, incomes, employment, and population grew at rates well above those of the nation and the rest of the Southeast (Table 1). In 1985, Florida had less to outdistance than in the past, since the nation and the rest of the Southeast expanded more slowly. Growth in Florida employment dropped from 6.6 percent in 1984 to 3.6 percent in 1985—still a strong gain compared with the nation's 4.1 percent in 1984 and 2 percent in 1985.

The state's major employment sectors, including services, government, and trade, continued to provide support. Most service industries registered solid year-to-year employment increases. Both state and local government employment also gained strength in 1985. Trade sector growth slowed from 1984, but gains remained respectable. Most of Florida's manufacturing industries advanced only sluggishly, if at all.

What Has Driven Florida in the Past?

The Florida economy's rapid and rather volatile growth has been driven for many years by a combination of migration, tourism, agriculture, and primary

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Table 1. Measures of Overall Economic Growth: Florida, the Southeast, and the United States, 1984 to 1985
(Percent change)

	1983-1984			1984-1985		
	Florida	Southeast	U.S.	Florida	Southeast	U.S.
Personal Income	11.8	10.7	10.5	8.2	7.1	6.7
Population	3.2	1.8	1.1	2.9	1.7	1.0
Employment	6.6	3.7	4.1	3.6	2.3	2.0

Source: Personal Income, U.S. Department of Commerce, Bureau of Economic Analysis.
Population, U.S. Department of Commerce, Bureau of the Census.
Employment, U.S. Department of Labor, Bureau of Labor Statistics.

industry. These forces have produced an economy dominated by nonmanufacturing employment, particularly trade, service, and construction. Important manufacturing sectors have been developed around farming, construction, and forestry. More recently, high-technology manufacturers producing defense and electronic goods have begun to play a significant role.

The Role of Migration and Tourism. Retirees have contributed a large proportion of Florida's strong population and economic growth over the years. Most retirees migrate from out-of-state and have income and assets when they reach Florida. Their migration stimulates the Florida economy, increasing demand for goods and services produced in the state. This, in turn, creates jobs and more income. In Florida's case, the rapid rate at which jobs and income have been generated by migration and other factors to be discussed later has also lured many working-age newcomers.

Florida's population tripled the nation's growth rate during the 1980 to 1985 period, largely because of migration. Only Texas and California surpassed the state in total population gain over the period. As Table 2 indicates, Florida's population grew by over 16 percent from 1980 to 1985, well above the rate in other southern states. New civilian migration accounted for most of this population growth—about three-quarters in the 1980 to 1985 period.

Migration has not been steady; however, it follows the nation's business cycle closely. In economic expansions, potential migrants in other states can move quickly because they are able to sell their homes and pull up stakes. Those in the labor force are more likely to find jobs in Florida. In times of recession, an impaired ability to sell homes in the other states and to find jobs in Florida slows migration.

During the 1980 to 1985 period jobs and the labor force grew even more rapidly than population. Their growth rates of 24 and 23 percent, respectively, more than doubled the national rates. The labor force grew in part because labor force participation increased and partly because the state's economy generated new jobs that drew a substantial number of working-age migrants.

Retirees still constitute a major part of the migration to Florida; but recently the state's strong job growth has attracted an expanding number of working-age newcomers. In fact, from

Table 2. Population Growth: Florida, the Southeast, and the United States, 1980 to 1985
(Percent)

	1980-1985			July 1984 - July 1985		
	Florida	Southeast	U.S.	Florida	Southeast	U.S.
Population Growth	16.6	9.2	5.4	2.9	1.7	1.0

Source: U.S. Bureau of the Census.

1980 to 1985 the population in the 25 to 44 age group grew by 652,000, far surpassing the 376,000 increase in population over age 65.

The continuing rapid influx of retirees stimulates the Florida economy and influences its structure. Retirees require residences as well as consumer goods and services. Their demands for trade and service facilities further boost construction, particularly of stores, warehouses, and office buildings. The elderly promote the state economy's trade, service, and construction sectors.

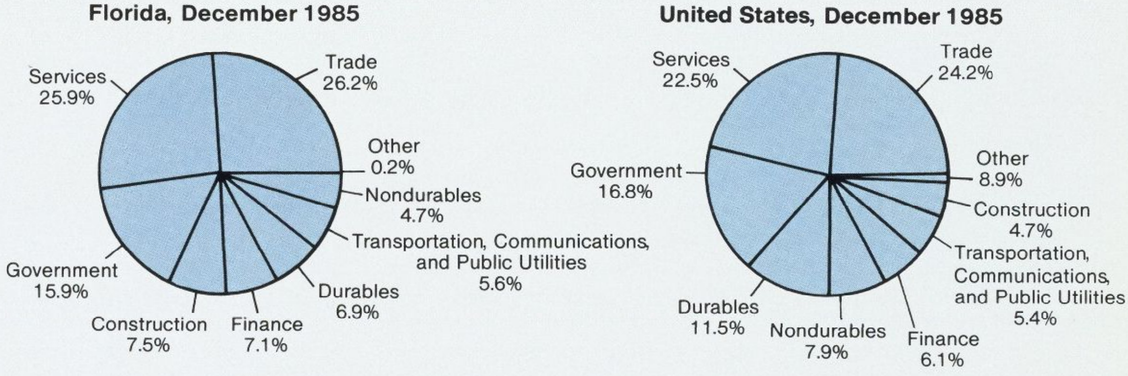
Despite Florida's economic diversification in recent decades and the growing importance of technologically advanced manufacturing, tourism remains a mainstay of the economy. In 1983 tourism accounted for almost 380,000 jobs in the state, about 10 percent of payroll employment—a larger share than that commanded by either the construction or financial services industries. Only Hawaii, Nevada, Maine, and Vermont are dependent on tourism for a greater proportion of their jobs. Domestic and foreign tourist expenditures climbed in 1983 to over $19 billion, a figure exceeded only by California. Tourism also added $750 million in 1983 to state and local tax coffers, a larger sum than that garnered by any states except New York and California.[1]

Although these figures show the significance of tourism in its own right, the industry is important in other respects. Like most manufacturing but unlike many services, tourism allows Florida to earn from consumers outside the state. Since it depends more on national and international economic developments than on local circumstances, tourism can be counter-cyclical. In addition, tax revenues earned from tourists enable the state and local governments to provide Floridians a higher level of service than they could otherwise enjoy without collecting appreciably higher taxes from local residents. In effect, the state's tourism industry shifts part of the financing of its roads and schools to foreigners and residents of the other 49 states.

Nonmanufacturing Employment Dominates. As a consequence of the influx of retirees and tourists, the trade and service sectors are Florida's largest employers, accounting for a higher proportion of employment than in most other states (see Chart 1 for employment share comparison). Over 1.1 million workers, or 26 percent of the state's total nonfarm employment, are concentrated in the burgeoning trade sector. In 7 of the 10 years from 1975 to 1984, trade employment grew faster than total employment, recovering from slow growth (1.1 percent) in 1982 to grow at 4 percent and 6 percent in 1983 and 1984, respectively.

The services sector, which employs almost as many as trade, generally has outperformed even that sector. In health and business services, hotels and

Chart 1. Nonfarm Employment, by Sector



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

other lodging places (the major subgroups in services) employment has grown at least 5 percent in each year since 1977 despite two recessions. In 1983 and 1984 services employment expanded 7.7 and 8.8 percent.

Florida's rapid population growth has intensified the need for public services. Government is the state's third largest employer. Although Florida's public sector job growth has been sluggish compared with other areas of the state's economy, it has been accelerating since 1981, outpacing the nation each year.

Satisfying demands based on rapid population growth keeps Florida's construction sector larger than that of most states. Construction is also highly cyclical, in part because population growth is cyclical and in part because it is influenced by interest rates and income growth. For example, during the economic slowdown in 1982, as migration lessened and interest rates soared, construction employment in Florida fell by 8.1 percent or 22,400 workers. By contrast, as the national economy rebounded in 1984, construction employment surged by almost 51,000. The state's finance, insurance, and real estate sector provides an indication of office demand. This sector's employment growth has outpaced the nation's by wide margins (23 percent for Florida versus 14 percent for the United States from 1980 to 1985).

Strong gains have typically occurred in both residential and nonresidential construction. The residential side of the picture has hinged on state population gains and migration patterns, which have varied according to national economic conditions. Following a downturn in 1981 and 1982, residential construction picked up momentum in 1983 and maintained its vigor in 1984. In the past two years the residential sector's overall strength has not been shared by condominium construction and sales, a great deal of which was speculative, targeted to wealthy Latin Americans. The stronger dollar and exchange controls imposed in the wake of the Latin American debt crisis weakened demand for luxury condos, particularly in south Florida. The reduced likelihood of price appreciation has discouraged domestic second home buyers—so important in Florida condo markets—leaving a glut of unsold condos. Nonresidential construction has been aimed primarily at the state's growing trade and service sectors, so retail stores, warehouses, and office buildings have dominated.

Machinery Manufacturing Stimulates Growth. Manufacturing in Florida has become split among three types of industries: slow-growing or declining primary product industries; rapidly growing newer industries producing electronic products and other machinery; and, building supply industries, which mirror changes in construction activity.

Table 3. Florida's Total Employment in Food, Paper, Chemicals, Machinery Manufacturing, and Transportation Equipment (Thousands, December data)

Industry	1975	1980	1985
Food	50.4	48.8	52.9
Paper	16.1	16.4	15.2
Chemicals	24.0	26.5	25.2
Machinery	57.3	98.0	121.5
Transportation Equipment	30.5	47.2	57.7

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

Employment in food, chemical, and paper industries has fallen or posted little growth over the past 10 years. Demand for products of these industries has grown slowly, and out-of-state competition, often international, has taken its toll (Table 3). While these three industries accounted for 3.2 percent of the state's nonfarm employment in 1975, their share had fallen to 2.2 percent by 1984.

Employment in the machinery industry, a relative newcomer to the state's basic economic structure, has grown rapidly in recent years, primarily on the strength of defense contracts. Between 1975 and 1985, machinery employment increased some 110 percent to 120,000. Transportation equipment employment also was boosted by expanding space vehicle production. These two industries account for some 3.9 percent of Florida's nonfarm employment. Of the state's ten largest manufacturing employers, only two are not primarily producers of electronic or high-tech products, a major change from just a few years ago when the food, chemicals, and forest industries dominated production. Defense spending is vital to the growth of these industries; however, they are not immune to market problems that affect their competitiveness.

Lumber and wood products and stone, clay, and glass industries produce primarily for construction. Employment has grown erratically over the past decade, closely following state and national construction trends (Chart 2). They are not, however, as important to the state, absolutely or relatively, as construction itself. Together they account for a somewhat smaller part of state employment (1.2 percent) than national employment (1.3 percent) in the same industries.

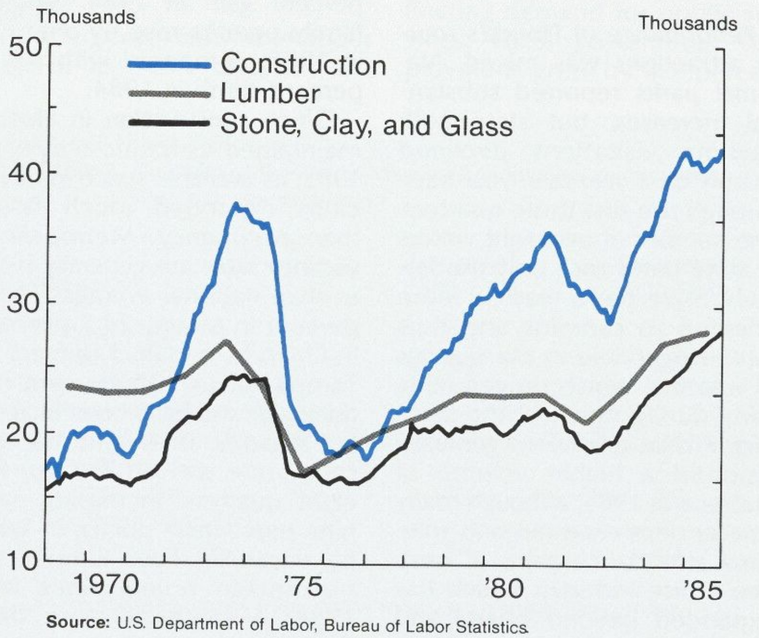
Agriculture is a Mainstay. Though not growing rapidly, the state's roughly 40,000 farms represent an important industry. Employing more than 100,000 at peak season, Florida agriculture earns over $4 billion each year, spending over three quarters of that on labor, equipment and supplies. The important citrus industry involves approximately 9,500 citrus farms employing nearly 45,000 workers and producing a crop worth in excess of $1 billion annually. Additional thousands of state residents are employed in related industries, primarily food processing.

Freezes in four of the past five seasons have inflicted heavy damage on the citrus industry. While the freeze of the 1983 to 1984 season primarily affected north central Florida, the next season's cold extended to much more of the state. Because that freeze had less to damage—previous blasts had already damaged many of the most vulnerable groves—Florida authorities estimate its cost to the state's economy at less than $500 million. By contrast, damage for the 1983 to 1984 season was estimated at $2 billion.

Since Florida's vegetable industry also earns most of its $900 million revenue in the winter months, it, too, is susceptible to freeze damage, although of a much less permanent nature than the citrus industry. Crops heavily damaged by cold temperatures can be replanted quickly and a new crop harvested in 8 to 12 weeks.

Migration, construction and related industries, and tourism tie Florida closely to national business cycles, accounting for much of the state economy's growth and most of its cyclical behavior; the state is stabilized, if not pushed, by the food processing industry. Recently, a rapidly growing machinery industry has given Florida an additional impetus for growth.

Chart 2. Florida's Employment in Construction and Related Industries



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

Florida's Economy in 1985

Population Income and Tourism. Growth of the state's labor force last year indicates that migration continued strong. From December 1984 to December 1985, the labor force grew 104,400 or 2 percent compared with 1.5 percent for the nation. Remembering that migration of men and women who are not in the labor force is also significant to Florida, we can conclude that the state's externally generated population growth was again substantial. Personal income in Florida also grew rapidly in 1985. Income gains of 8.2 percent lagged 1984's gain of 11.8 percent, but were still 1.2 times that of the nation.

On the whole, 1985 was a good year for tourism. Air travel to the state continued the upward trend begun in 1982, albeit at a more modest pace. Unlike 1984, when almost every airport in the state handled a higher volume of passengers, most of last year's growth was concentrated in the larger centers—Miami, Jacksonville, Orlando, and Fort Lauderdale. Miami's air traffic, which showed virtually no change in 1984, registered a modest gain last year. The state's smaller commercial airports actually reported fewer passengers than in the corresponding period of 1984. Discount air fares on heavily traveled routes probably account for some of this shift in favor of the larger airports.

In contrast, auto travel actually may have declined, as 5 percent fewer visitors registered at the state's welcome centers through October. A Florida Department of Commerce survey also indicates that the number of auto visitors in the first half, although up from 1984, grew more slowly than air travelers. This pattern of rising air travel and declining or moderately growing auto travel growth was widespread in the Southeast, again probably reflecting the effect of discounted fares.

The shift from auto to air travel did not adversely affect Florida's hotel and motel business, as lodgings enjoyed an improved year. Tax receipts rose 7 percent through August, and, in contrast to the situation nationwide and in much of the Southeast, occupancy levels actually strengthened in most of the state's major markets. However, overbuilding has depressed occupancy levels in Orlando and Palm Beach. The strong showing by most hotels is largely attributable to healthy business and convention travel to the state. Occupancy also improved because some older independent properties went out of business. Campground occupancy continues to be flat, a trend apparent during the last few years.[2] Although retirees and winter campers have increased, family campers who visit during the summer season have yet to return to Florida in the numbers of the early 1980s.

"Responding to Florida's rapidly increasing population and income, the state's nonmanufacturing sectors proved catalysts for economic growth in 1985."

Performance of Florida's tourist attractions was mixed. National parks reported substantial increases, but state park daytime visitations declined sharply on a year-over-year basis through the first three quarters. The number of overnight visitors at state parks rose only moderately. State parks may be more oriented to camping and thus more susceptible to the vagaries of weather, which proved fairly rainy during much of the summer. Private attractions generally reported a higher volume of business in 1985, although many smaller ones eked out only marginal attendance gains at best. The cruise industry, which has expanded beyond Miami and Port Everglades to ports such as Tampa and Canaveral, also did well in 1985.

Construction Slows. Construction activity leveled off in Florida last year, but this is not surprising after 1984's boom. Year-over-year growth in construction employment, which reached more than 15 percent in 1984, declined in the first 6 months of 1985 to 0.7 percent by year-end. Florida builders were saddled with unsold luxury housing throughout the state. Further exacerbating industry problems, the second-home investment climate was depressed because many foreclosed houses were available. Uncertainties over tax reform measures also kept second-home buyers out of the market. Medium-priced homes, on the other hand, sold well in 1985, especially those located near major employers such as the large defense contractors on the state's "Space Coast." The number of multifamily residential units issued permits declined by 3.2 percent during 1985, compared with a 14.6 percent gain in 1984. Single-family permits rose by only 2.8 in 1985, compared with a 4.8 percent climb in 1984.

Office construction in Florida maintained its frantic activity in 1985, as available space in major cities expanded much faster than occupancy. Metropolitan vacancy rates are generally higher than national averages (20.3 percent in Miami, 24.5 percent in Orlando, and 26.3 percent in Tampa versus 20.1 percent nationwide) and have been increasing steadily. In Miami, the vacancy rate was on the rise for eight quarters, increasing over nine percentage points; in Tampa, vacancies have jumped 10 percentage points since late 1984. A stock of more than three years of office space is believed to exist in both the Miami and Tampa markets.

The overbuilding problem is most acute in Miami, where developers often have to dangle the bait of a year's free rent before potential tenants. Economic problems in Latin America have detracted from Miami's appeal as a hub of business activity. Further, the perceived culture clash in the city is deterring in-migration.

Nonmanufacturing Industries. Responding to Florida's rapidly increasing population and income, the state's nonmanufacturing sectors proved catalysts for economic growth in 1985. Service sector employment posted a year-over-year gain of 7.1 percent through December (Table 4). This gain, though it trailed 1984's performance, still was impressive. As one would expect in Florida's retiree and tourist-oriented economy, health, amusement, and recreation services registered strongest growth. Business services employment also grew rapidly.

Trade growth slowed to about half of its 1984 rate but still outpaced the U.S. rate through December 1985. Employment cutbacks after rapid expansion of retail establishments in 1983 and 1984 probably account for part of the slowdown. Restaurants, bars, and automotive dealerships, however, showed particularly strong gains.

Government. Florida ended its fiscal 1985 year with an $8 million state budget surplus. Expenditures rose 9.1 percent in 1985 while revenues increased by 7.8 percent. The state's $96 million surplus for 1984 was trimmed to $8 million in 1985 largely because of sharp increases in expenditures to accommodate the state's fast population growth. Unlike most states, Florida's revenues are tied heavily to the sales tax. Therefore, during the expansion phase of the business cycle, Florida is not in a position to take advantage of progressive income taxes on rising incomes. Government hiring in Florida remained strong in 1985, especially at the local level, reflecting demand for public services. Local government employment grew by 8.5 percent in Florida in 1985 compared with 2.6 percent for the nation.

Manufacturing. Most Florida manufacturing sectors grew sluggishly or not at all in 1985. Even the machinery sector, both electronic and mechanical, was affected severely by foreign competition and slack demand. Employment growth in the sector tapered off to practically nothing toward the end of 1985, following 9.3 percent increases a year earlier.

A slump in the semiconductor business and a leveling of demand for high-tech products in general is partly to blame for the decelerating growth of electronic machinery employment. The semiconductor industry was plagued by waning demand for computers in 1985 following fast growth the previous year. The slump is the worst in the young industry's history. It resulted from overcapacity, especially of commodity-type chips which face the strongest competition from Japan and Korea, and induced severe price cutting by semiconductor companies.

Following two years of rapid employment growth, lumber and wood job growth slowed notably in 1985. The strong dollar curtailed export potential for softwood lumber while domestic markets reflected weakening demand as construction in Florida slowed. Southern pine lumber prices reached lows not experienced in years, primarily because of the influx of Canadian imports. According to industry sources, Canadian imports captured fully 58 percent of the Florida market and over one-third of the total U.S. softwood lumber market in 1985.

The nondurable sectors also registered weak employment

Table 4. Changes in Nonmanufacturing Employment by Industry (Percent, year-over-year)

Industry	December 1983-1984	December 1984-1985
Nonmanufacturing	6.9	4.7
Trade	6.0	2.6
Services	8.8	7.1
Finance, Insurance and Real Estate	6.5	5.6
Government	3.1	7.2
Construction	15.3	0.7
Transportation and Public Utilities	4.2	2.1

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

gains at best, falling below the slow growth of 1984. Limited demand for agricultural chemicals and chemicals used in oil exploration whittled employment in the chemical sector, especially toward the end of the year. The dollar, though weakened in 1985, remained strong enough to force down the export volume for the state's paper industry, reducing profits, prices, and employment. Oversupply caused by excess capacity and imports plagued the industry, yet there was a great deal of expansion and modernization of Florida's paper mills as manufacturers attempted to improve their competitiveness in an expanding world market by increasing productivity. Large projects of this type include a $200 million investment in a Pensacola plant and $150 million in a Panama City facility.

The food processing industry, serving a domestic market growing by only 2 percent annually, also showed little improvement in 1985. Processing firms added only 1,000 workers from December 1984 to December 1985 to their total of 52,900 employees in the state (Table 5).

Agriculture. Florida agriculture, though plagued by severe weather and low prices, found some reason for encouragement. Despite the bad weather, citrus growers fared better than most other farmers as their $1.3 billion 1984 to 1985 crop exceeded each of the two previous years by roughly 15 percent. Growers, especially in south Florida, earned substantial profits on last season's production. They improved both profits and revenues despite a 20 percent reduction in bearing acreage during the past three years.

The shutdown of nurseries in the wake of an outbreak of citrus canker continued to cause losses to nursery operators and to delay the replanting of trees destroyed by freezing temperatures. This disease first appeared in one nursery in August 1984; it has since been found in 11 others. As a result, authorities closed all citrus nurseries for a year and ordered approximately 9 million young trees and seedlings destroyed. No canker has been found in commercial groves.

Lower prices are especially hard on growers who lost part of their crops and will see revenue drop even further. Producers in the northern counties of the citrus belt whose groves have not recovered from previous severe damage are still earning little income. For example, Lake County, formerly the second leading county in Florida orange production, experienced a 90 percent drop in bearing acreage over the past three years. In the 14 northernmost citrus-producing counties, bearing acreage fell by over 100,000 acres or 24 percent in that period.

In January 1985, record low temperatures destroyed approximately 90 percent of the state's squash and green beans, 80 percent of the sweet corn and peppers, and 60 percent of the tomatoes. This freeze disrupted the typical planting pattern—growers plant sequentially beginning in August—prompting growers to replant in unison. Tomato growers were especially harmed by this, as the simultaneous replanting produced a concentrated harvest later in the spring that reduced prices and returns. Tomatoes in the Ruskin-Palmetto-Bradenton area, for instance, matured at the same time as the crop in northern Florida.

While Florida growers whose vegetables survived the mid-January 1985 freeze benefited briefly from sharply rising prices, substantial imports from Mexico quickly reduced prices of many

Table 5. Changes in Manufacturing Employment by Industry (Percent, year-over-year)

Industry	December 1983-1984	December 1984-1985
Manufacturing	5.9	1.8
Durables	7.5	2.4
Machinery	9.3	–0.2
Transportation Equipment	4.6	5.7
Lumber and Wood Products	9.4	2.6
Fabricated Metals	1.8	–2.6
Stone, Clay & Glass	11.9	11.0
Primary Metals	6.0	5.7
Nondurables	3.7	1.0
Printing & Publishing	10.2	2.9
Food	2.2	1.9
Apparel	–2.7	3.0
Chemicals	2.3	–5.6
Paper	0.7	–2.6

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

vegetables to pre-freeze levels. Even with the severe freeze damage, domestic tomato production in the first half of 1985 actually rose 6 percent from the year before. A price index of fresh market vegetables maintained by the U.S. Department of Agriculture shows that prices nationally averaged less than in the winter of 1984 and by mid-spring were at their lowest point since 1980.

Although sugar earns only 7 percent of the state's farm revenue, the roughly $300 million is important in the four counties where it is concentrated—in Palm Beach, Martin, Hendry, and Glades counties. Since they enjoyed a slightly better yield, more harvested acreage, and price supports, farmers should have earned profits in 1985, but apparently less than in 1984. Bountiful world supply placed downward pressure on sugar prices, and large quantities of sugar were "sold" to the government at the support price.

Florida's cattle industry earns over $300 million in a typical year, but 1985 was not such a year. Generally, Florida cattle producers found it unfavorable, as drought and high temperatures last spring damaged pastures in much of the state while prices remained low. Lower volumes of beef marketed during the year and virtually unchanged prices left estimated revenue at less than two-thirds of the norm.

Trade Slump Continues. Florida's three major ports—Miami, Jacksonville, and Tampa—continued to feel after-effects of the strong dollar and Latin American economic problems. Growth in international trade slowed in 1985 after reaching peaks in late 1984. Both imports and exports rose more slowly, but exports were particularly weak.

Latin American trade accounted for half of Miami's exports in 1980 but its share had fallen to roughly two-fifths by 1985. During that time Brazil, Argentina, and the Caribbean area became more important as trading partners, while Venezuela and Colombia reduced their share of trade. The Port of Miami is the only one in the Southeast where export volume typically is greater than imports—a phenomenon attributable to the city's Latin American connection. Persisting difficulties with high debt levels and low prices for primary products such as oil have prolonged austerity programs—usually including import restrictions—in much of Latin America. By late 1985, shipments through Miami district ports were up a modest 5 percent over year-earlier levels—a sharp contrast to the 40 percent range in late 1984.

Trade through Tampa declined slightly in 1985 as demand for phosphate and its derivatives continued to fall. These products make up 90 percent of the port's export tonnage, and declines in this sector were not completely overcome by increased import volume. Jacksonville trade, boosted by strong auto import gains, increased at double-digit rates from a year earlier.

Florida's Outlook

Florida's 1986 outlook will be influenced most by the performance of the national economy, the reaction of markets to recent changes in the value of the dollar, a possible recovery in the computer industry, and the ability of commercial markets to absorb an oversupply of buildings. Moderate growth in the nation—as a majority of forecasters expect—is likely to spur demand for Florida-produced manufactured goods and to allow continued migration of retirees and domestic tourists to the state. Some stimulus to manufacturing and port activity should also be provided by the weakened dollar as foreign demand for Florida-produced goods and services (including tourist services) increases. Oversupplies of computer chips in the world market promise to abate somewhat, but oversupplies of most varieties of commercial buildings in Florida markets promise to be difficult to overcome in 1986. More shakeouts may be necessary before either sector can stimulate growth in the state once again.

Florida's magnetism for both retirees and job-seeking migrants should remain fairly strong in 1986. Homes will be available for occupancy and infrastructure problems are minor. A moderately growing national economy and relatively low interest rates should allow prospective newcomers to sell their homes elsewhere, so high levels of Florida migration should continue. A somewhat larger proportion of this year's migrants apparently will be unemployed job-seekers, although many newcomers are likely to arrive with incomes and wealth. Consequently, a major part of the state's strong base of growth seems secure.

The outlook for tourism in 1986 promises to be somewhat brighter. Declining oil prices are bringing down gas prices, thus stimulating driving vacations. Unless national and foreign economic growth falters, consumers should have more to spend on vacations. The effect of greater incomes on tourist spending could lag as consumers adjust their household finances and savings, which were drawn down sharply in 1985. However, if consumer demand for durables deferred during two recessions has begun to reach a plateau, more discretionary income should be available for travel.

Another factor possibly even more important for Florida's economy is the substantial decline in the dollar's value. By making foreign travel relatively more expensive and domestic vacations less so, the drop will foster more travel in this country by Americans and foreigners.

The state's dependence on Canadian and Latin American tourists will dampen the dollar's impact to some extent. Florida hosts almost four million foreign visitors, the largest number from Canada and Latin America. Although this represents only a fraction of the 30 million people who visit Florida each year, the economic effect of foreign travel is disproportionately significant. Foreigners typically have more vacation time. They tend to treat a U.S. trip as a once-in-a-lifetime event, and they are less likely to stay with friends or relatives. Consequently foreigners tend to stay longer and spend more than do most U.S. visitors.[3]

According to U.S. Commerce Department projections, Canadian travel to the United States is likely to increase only marginally in 1986.[4] This forecast reflects the fact that the Canadian dollar has fallen relative to the U.S. dollar while most exchange rates were rising. However, travel by European and other overseas visitors to the United States, including those from the important Latin American market, is expected to grow substantially—perhaps 10 percent or more compared with an estimated 4 percent growth rate in 1985. Florida would benefit most by increased travel from Latin American countries since it is the primary destination of many of these travelers.

Another development of significance to Florida is the sharp discounting of fares by national airlines in several Latin countries in late 1985. These discounts, which apply for an extended future period, should also bring more Latin tourists to Florida since international routes have experienced far less price competition in recent years than U.S. domestic routes. Overall, the outlook for foreign travel to Florida in 1986 seems to be for steady, gradual improvement but certainly no return to the peak of the early 1980s.

"Overall, the outlook for foreign travel to Florida in 1986 seems to be for steady, gradual improvement."

Mild strength in single-family construction is unlikely to overcome weakness in multifamily residential, condominium, and commercial construction in 1986. An abundance of available space will have to be filled and 1985's declines in contracts and employment growth indicate that the process has begun. Construction sector employment also seems likely to shrink.

Mortgage rate declines in late 1985 should provide some strength for single-family housing demand. If moderate income and employment growth seen during most of 1985 continue into 1986, as seems likely, the expansion of single-family detached housing construction and sales will probably maintain the pace set in 1985. In-migration remains strong, but informal evidence suggests the composition of this flow is shifting toward a higher proportion of unemployed job seekers than previously—a finding not unique to Florida. Because of this, the new additions will have a less immediate positive impact on home sales. Single-family home sales and construction will likely surpass 1985 levels by smaller margins than 1985 exceeded 1984. In the Miami area, burdened with excessive inventories of houses, condominiums, and apartments, market softness should persist this year.

Florida multifamily residential construction may well decline sharply in 1986 as several factors discourage new projects. These include the likely end of tax-exempt housing revenue bonds, the expected negative impact of congressional tax reform proposals on multifamily housing investment, an acceleration of multifamily construction into 1985 to avoid tax reform changes, and high vacancy rates and slow rental absorption in many Florida cities. The issuance of multifamily permits has been weak statewide, though activity in Jacksonville and Miami has been somewhat better. Last year's construction activity in Miami seems likely to add to an excessive supply of apartments that carried over from 1984.

The Florida condominium market is well past its peak and seems destined for a harsh recession. More than 29,250 condominium units in south Florida have never been sold; an estimated 15,000 more were bought by speculators and remain empty. A recovery in condominium construction will not occur in 1986.

Florida continues to possess many features that attract investment in nonresidential structures; the state's projected growth in population and white collar service employment provides a lure for office and retail developers. However, high office vacancy rates seem likely to dampen developers' enthusiasm for this important market segment in 1986. In major markets, new buildings will face competition from an above-average number of vacant offices. Retail space also seems to be approaching saturation in some areas and slower growth in both office and retail additions is likely to inhibit construction employment growth. Industrial and warehouse space appears to be in short supply in areas other than Miami, however, so this small nonresidential sector should burgeon in the rest of the state.

The 1986 manufacturing outlook offers pluses in defense-related machinery industries and stability in food processing. Questionable industries include transporation equipment, lumber, and stone, clay, and glass.

Florida's food processing industry, a stabilizing influence on the state's economy, should remain so in the new year. Employment in the sector has remained flat over the last two years with little growth or contraction. Usually, imports can be processed in place of domestic crop shortfalls. Florida's tax on processed orange juice, however, is prompting foreign producers to look to northern non-Florida processors to handle their products in some cases; therefore, further growth in the sector hinges more on domestic production prospects than in the past.

The paper and forest products industry has been bedeviled by imports and by excess capacity that has created an oversupply, which has held down prices. Rising productivity and the falling value of the dollar will help the industry this year by increasing efficiency and encouraging exports. Further growth in the use of automated office equipment will increase paper usage.

"The Florida condominium market is well past its peak and seems destined for a harsh recession."

On the minus side, excess lumber capacity in Canada will continue to hurt the U.S. market. Canadian imports are keeping prices below break-even levels for many lumber producers, a condition likely to persist in the foreseeable future, according to industry spokespersons. Slower construction growth in 1986 also is likely to dampen lumber demand.

Defense authorizations may slow over the next few years but actual expenditures will continue climbing because of the usual time lag before authorized monies are spent. Large Florida defense-electronics firms such as Martin Marietta Corporation will benefit from contracts on the Strategic Defense Initiative program. Current defense contracts and new contract awards should at least sustain employment in this sector in 1986.

Officials have not yet determined how long the Space Shuttle program will be delayed because of the loss of Challenger and its crew. Some estimate about one year. Any delay or cutback in the space program will affect Florida's Space Coast adversely. About 16,000 people in Brevard County alone are employed by either NASA or the companies that contract to east Florida's space center. Job losses by these workers would multiply the effects on the local economy, as diminished company payrolls would mean less local consumer spending. Tourism would surely feel the effects of a delay in the shuttle program as many tourists are attracted to the Space Coast to witness launches. Before the January disaster disrupted scheduling, the shuttle program had called for more than a launch a month in 1986.

Florida's state budget office expects revenues to grow by 9.2 percent from 1985 and expenditures to grow by 7.8 percent. Surplus for the year should equal about $4 million.

Despite falling citrus acreage and increasing import competition, the total value of Florida's citrus crop has risen over the last few years. The orange crop for the 1985 to 1986 season is expected to be one-fourth larger than that of the previous season as groves begin to recover from last year's damaging freeze. Even though both Brazilian imports and domestic production will rise in the new year, demand for orange juice and a tariff on Brazilian juice ensure a profitable year, barring yet another freeze.

On the other hand, vegetable and cattle producers have less cause for optimism. Florida vegetable growers most likely will see lower profit margins in 1986 as a result of substantial importation of Mexican crops. Despite sizable depreciation of the Mexican currency against the U.S. dollar in 1985, the potential exists for a further decline in the peso's value. This suggests that imports from Mexico will be price-competitive. The state's cattle industry had a bad year in 1985 due to low prices and drought that damaged pastures. Although prices may rise somewhat because of reduced production, the outlook for 1986 is little brighter for Florida's cattle producers. The sugar industry's prosperity in 1986, and for the indefinite future, is almost entirely dependent on a strong farm program and import quotas.

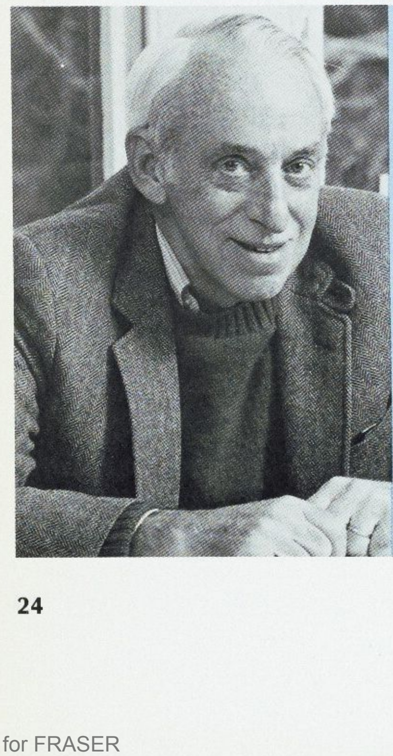
Imports and exports from Florida harbors will be significantly affected in 1986 by past movements in the foreign exchange value of the dollar. With 1985's declines, European goods and services have become less competitive relative to goods and services produced in the United States. Latin American currencies have not appreciated against the dollar as much as European currencies. Thus some imports from south of the border will become more competitive in relation to imports from Europe; shoes are a good example. As a result, imports from Latin America will tend to displace imports from European countries, and Florida, as the U.S. gateway to Latin America, will be in a position to increase its trade volume in 1986.

Miami should be the primary beneficiary of increasing Latin American imports. Tampa and Jacksonville, on the other hand, face problems. Unless an unexpected rebound in phosphate-based fertilizers occurs, trade growth in Tampa is likely to be sluggish. Jacksonville may well suffer from slowing automobile imports if the weaker dollar induces foreign producers to raise their prices.

To summarize, job growth in trade and service industries, so important to the Florida economy, is likely to lead the state in another year of above-national performance. The state's projected performance will not be gained without some struggle, however. Soft demand promises to plague important manufacturing sectors despite the weakened value of the dollar. Construction declines are likely. Given the conflicting factors, Florida's economy will be similar to that of last year.

NOTES

[1] U.S. Travel Data Center, *The Economic Impact of Travel on State Economies* (Washington, D.C., 1985), Tables 9, 12, and 13.
[2] Florida Campgrounds Association, telephone interview, January, 1986.
[3] U.S. Department of Commerce, U.S. Travel and Tourism Administration, *Summary and Analysis of Travel to the United States* (1983), Table G-2, and Barry E. Pittegoff, Florida Department of Commerce, Division of Tourism, "Foreign Travel to the Southeast," presented at the Federal Reserve Bank of Atlanta Conference "The Southeast in a Global Economy," Atlanta, Georgia, November 14-15, 1985.
[4] Don Vinegar, U.S. Department of Commerce, U.S. Travel and Tourism Administration, "International Travel to and from the United States: 1986 Outlook," presented at the 1986 Travel Outlook Forum, New Orleans, Louisiana, September 20, 1985.



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GEORGIA

The Pace Slows, But Growth Continues

Joel Parker and Mehmet Ilgaz

Continuing development in Atlanta and other areas should make Georgia a state to watch again this year, although some slowing from 1985's pace appears likely.

Since 1980, the strength and consistency of Georgia's economic growth have pushed the state into the forefront of southeastern states. If Georgia's economy cannot yet match the size of Florida's economy, it compares favorably in such key performance measures as personal income growth and job gains. Indeed, the state ranks among the top five nationally in these indicators.

Largely because it is well diversified industrially, Georgia's economy posted another strong year in 1985 compared with the nation and its own previous performance. Job growth in construction, retail trade, and miscellaneous services propelled the state, overcoming manufacturing weakness in the apparel, chemicals, primary metal, and textiles industries.[1] Although we expect slightly less vigorous growth overall this year, the state shows no signs of an impending slump.

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

The sectors of Georgia's economy crucial to its 1986 performance show up clearly in its 1985 record. Services, construction, manufacturing, government, and farming are key industries because they employ about half the state's labor force and because they have more potential for change. The state's overall performance is also closely tied to its capital city: Atlanta looms large in the state's population and economic activity and has been a dominant source of growth in past years.

Our forecast for some weakening of Georgia's strength in 1986 is based on a balance of forces in the state's crucial economic sectors. The services sector is expected to be the principal source of job growth this year. Construction, which contributed heavily to Georgia's economic expansion over the last four years, is a major question mark in 1986. Manufacturing could switch from being a source of weakness in 1985 to become a strength in 1986. Government is caught between federal budget cutting and the need for growth to serve the state's rapidly expanding population. The farm debt crisis also threatens to slow the state's relatively large agricultural sector.

Prospects for growth and stability over the long run also depend on actions taken to facilitate economic development. For example, while a modern infrastructure has helped economic growth in the past, problems have arisen that could hinder future expansion. Georgia's industrial recruitment program is also changing the state's economy by continuing to diversify the manufacturing sector from its traditional textile and apparel base.

How Georgia Fared Last Year

Most measures of Georgia's economic growth continue to exceed those of the nation. Yet some indicators have begun to converge with their national counterparts, suggesting that the state's growth rate is beginning to resemble the nation's.

Jobs. Georgia's unemployment figure, which hung below the U.S. rate early in 1985, began to hover close to it in the summer and autumn as in-migration remained strong. Fast job formation in 1983 and 1984 absorbed additional workers and even reduced the state's jobless rate. However, the number of new jobs has slowed to more typical long-term rates that, although still strong, cannot accommodate all new job seekers.

In Georgia and the nation, the apparel, textiles, and primary metals industries shed jobs last year. The dollar's high exchange value has been blamed for many of the difficulties of all three industries, and the state's higher-than-national proportion of textiles and apparel jobs made it relatively vulnerable to job losses. Nationwide, the textiles and apparel industries have been among those hardest hit by the flood of less expensive imports and by difficulties selling products overseas.

A look at job growth by industry shows that Georgia and the United States restructured in much the same manner from 1980 through 1985 (Table 1). The nonmanufacturing sector set the pace in both the state and nation. This partly reflected the strength of the dollar, which damaged U.S. manufacturing and commodities trade more than nonmanufacturing output facing less trade competition. However, the U.S. foreign exchange disadvantage merely accelerated a long-term move by the national economy away from manufacturing toward more service-type output.

Georgia's greatest job surge last year occurred in the construction, trade, services, and finance, insurance, and real estate (FIRE) industries. Construction employment grew faster in Georgia than in the nation because of net in-migration, rapid employment growth, and fast absorption of commercial space in 1984 and 1985. These factors

Table 1. Job Growth by Industry (Percent)

	1984 to 1985 (year-over-year)		1980 to 1985 (average annual change)	
	Georgia	U.S.	Georgia	U.S.
Total Nonagricultural	3.6	3.1	3.8	1.8
Manufacturing	0.6	−0.9	1.4	−0.8
Durables	2.5	−1.4	3.8	−1.0
Fabricated Metals	2.5	−1.7	0.1	36.7
Lumber and Woods	2.0	0.7	4.3	1.1
Machinery	2.1	−3.8	4.2	−1.1
Primary Metals	−1.8	−4.1	−0.5	−5.8
Stone, Clay, and Glass	5.2	0.5	3.2	−1.5
Transportation Equipment	6.7	3.0	7.5	1.1
Nondurables	−0.6	−0.1	0.1	−0.4
Apparel	−4.5	−1.0	0.1	−1.2
Chemicals	−0.5	−2.0	2.5	−1.3
Food	2.1	1.4	−0.1	−0.5
Paper	3.4	0.3	1.5	−0.1
Textiles	−2.2	−2.9	−2.7	−3.2
Nonmanufacturing	4.5	4.1	4.6	2.5
Construction	9.8	6.5	8.9	2.0
Finance, Insurance, and Real Estate	5.9	5.1	4.6	3.2
Government	0.9	2.6	0.6	0.4
Printing	6.4	3.3	10.0	3.0
Services	5.7	5.6	6.8	4.6
Trade	5.2	3.8	6.0	3.0
Transportation and Public Utilities	2.6	1.9	2.9	0.8

Source: Georgia Department of Labor, U.S. Department of Labor and *Survey of Current Business*, December data.

made the state attractive for both residential and nonresidential building.

Similarly, Georgia's brisk trade employment growth seems to be a response to the state's rapid rise in population and jobs. Services job growth exceeded the nation's rate primarily because of a long-run trend in Atlanta toward producing many services locally that had been imported. Sophisticated accounting, technical, and scientific services that once could be secured only from firms based in New York and other large cities are now provided routinely by Atlanta-based firms. Georgia FIRE employment outpaced U.S. rates during 1985, primarily on the strength of the state's business expansion, which has been more robust than the nation's.

Consumer Spending. Georgia's personal income gains outpaced the nation's primarily because of more vibrant job growth. Third quarter data indicate the state's savings rate also exceeded the national figure.[2] Together, the relative strength of these indicators lessens the chances of an abrupt adjustment in consumer spending that might shake the state from its steady advance.

Retail selling activity grew almost twice as fast in Georgia as in the nation.[3] Again, the same fundamentals that supported expansion in other economic sectors boosted retail sales: relatively rapid population, employment, and income growth.

Atlanta, the only Georgia area for which price level changes are computed, faced significantly faster consumer price inflation than the nation as a whole. Through 1985, Atlanta's inflation rate averaged about 1.5 percentage points above the national rate, with the 12 month rates ending in December at 5.3 percent and 3.8 percent, respectively. The rising costs of dining out and renting apartments are influential in driving up prices in the Georgia capital.

Construction. Judging from building permits, residential construction growth in Georgia more than doubled that of the United States in 1985. Georgia single-family permits grew by 6.9 percent over 1984, compared with 3.3 percent for the nation. The state recorded 3.9 percent more multifamily permits than the year before, while the country registered only 1.8 percent growth. Faster population growth provided the impetus for Georgia's stronger-than-national residential construction.

Nonresidential construction remained stronger in Georgia than in the nation last year. Office space absorption, a measure of demand, rose by over 25 percent last year in Georgia's capital. Strong retail construction added substantial amounts of new space. Atlanta's expected growth in office demand, as anticipated by population and white collar employment expansion, remains strong, although some submarkets appear overbuilt. Effective rents (stated rent minus perquisites) declined in the face of rising vacancy rates, yet the Atlanta metro area office vacancy figures remained below the U.S. metropolitan average for the year.[4]

Construction of mercantile facilities has mushroomed throughout Georgia until overbuilding has become a concern. Also, as some of the additional store space is leased and staffed, retail employment may grow too fast for sales increases to sustain.

The Rest of Georgia Gains Some Ground. Atlanta's economic growth moderated as the rest of Georgia accelerated. Advancing urbanization and other factors increased the similarities between the economies of Atlanta and the rest of the state.

In 1985, Atlanta's economy grew faster than that of the rest of Georgia, according to the broadest measure available, nonagricultural employment gains. Both economies expanded more slowly as the year progressed, but remained positive through year-end.

Single-family, multifamily, and nonresidential building permits grew more slowly last year in Atlanta than in the rest of Georgia. Single-family permits in Atlanta declined during the first quarter from the same period of 1984, but showed fairly consistent strength afterward. Outside Atlanta, single-family building posted strong monthly gains with few and scattered monthly declines.

Multifamily building permits fell below previous-year levels in Atlanta, but rose sharply outside Atlanta. The city's poorer showing indicated some moderating of building plans following intense apartment development in the past three years. Last fall, however, Atlanta multifamily permits rebounded in response to rising rents and low vacancy rates in several metro submarkets. These apartment units constructed with last year's permits will be ready for leasing in 1986 and early 1987.

Nonresidential building outside Atlanta, as measured by building permit growth over prior years, significantly outpaced that in Atlanta last year. Even though leasing increased markedly in 1985, office construction in Georgia's capital city grew at a faster rate than absorption. Much construction is in the pipeline for the city, but a recent decline in permits suggests output will begin to taper off by 1987. The remainder of the state does not match Atlanta's attractiveness for speculative office building, so other Georgia cities have lower vacancy rates. Office space output in the rest of the state has stayed much closer to current demand than it has in Atlanta.

Strong growth in Atlanta services industry jobs last year greatly exceeded that elsewhere in Georgia (Table 2). However, gains among service professionals such as doctors, accountants, and consultants contributed more to growth outside Atlanta than in the metro area, where the rate of expansion in these jobs probably has peaked. Much of Atlanta's service growth stems from job gains in its lodging and convention businesses, which added significant new capacity.

Statewide, manufacturing grew weakly last year. A late-year textile and apparel upturn boosted manufacturing in rural and small-town Georgia but had little effect on Atlanta where these industries are not particularly important. Durables manufacturing slightly outperformed nondurables in Atlanta, although neither category showed a clear advantage over the other outside the metro Atlanta area.

Despite the disparity between Atlanta and the rest of the state, the same industries appear to be contributing to both areas' economic progress. Manufacturing and farming, long-time mainstays of rural and small-town Georgia, are fading in favor of the services, construction, and FIRE industries. As measured from the fourth quarter of 1984 to the same quarter of 1985, these industries also led growth in the Atlanta economy.

Georgia's increasing urbanization, a trend toward local provision of services, and saturation of older urban areas with stores and shopping malls contribute to increasing parallels between urban and rural areas. Metropolitan areas are now home to 63 percent of Georgians, up from 61 percent in 1970.[5] In the United States, by contrast, the metropolitan population declined from 77 to 76 percent from 1970 to 1983.

As more Georgia communities become urban, they take on economic characteristics of cities, including more rapid services growth. The state is moving from an agricultural economy in which each household furnishes many of its own needs to an urban economy in which each household produces a single good or service for the market (or, at most, a few) and purchases the rest. This calls for more service workers and facilities.

Georgia's urbanization creates a favorable marketing situation for retailing and services. The more a region is oriented toward farming, the more evenly its population is distributed. Most service producers and retailers locate in population centers such as towns and cities. But sometimes even these locations lack the population concentration necessary to ensure profitability. Without local vendors, retail and other types of services must be imported from outside the region.

At one time Georgia fit this mold, and some central and southern counties still do. But the growth of population in urban areas has created an environment in which more services can profitably be offered locally. In response to this opportunity, retail and service jobs have proliferated in the newly urban areas and in Atlanta, where growth has been strong for some time.

Retail growth in Georgia (outside Atlanta) has to some extent spilled over from Atlanta and large markets outside the state.

Table 2. Employment Growth in Atlanta and the Rest of Georgia (Percent, fourth quarter 1984 to fourth quarter 1985)

	Atlanta	The Rest of Georgia
Total	5	3
Construction	13	7
Manufacturing	3	0
Durables	4	2
Nondurables	1	0
Transportation, Communications, and Utilities	2	2
Trade, Wholesale	5	0
Trade, Retail	6	6
Finance, Insurance, and Real Estate	6	7
Services	8	3
Government	0	2

Source: Georgia Department of Labor

As these more populous areas became saturated with mercantile space, medium and small retail markets have become targets for retail chains seeking selling areas with less competition and higher margins. Neighborhood strip shopping centers have been particularly popular with developers in the state during the past year. As these properties leased up and the retail chains hired their staffs, mercantile employment growth outside Atlanta accelerated to match the pace in the metro area. Again, fast growth in Atlanta preceded the rest of the state, but both areas experienced rapid retail job gains this past year.

Outlook for 1986

Georgia's economic growth is expected to continue this year at a pace slower than last year's but faster than the nation's. Services will remain the state economy's prime mover. The state's diversification will pay off if anticipated weakening of construction is roughly balanced by expected manufacturing growth. Government job growth is expected to be slow and the farm sector can expect weak growth, if any.

Services. Georgia's single largest nonmanufacturing industry—services—seems most likely to grow significantly though 1986. The industry employed almost 473,000 workers, or about 18 percent of the nonfarm work force, as of December. In 1985, services industries expanded employment by 5.7 percent over the previous year (Table 1).

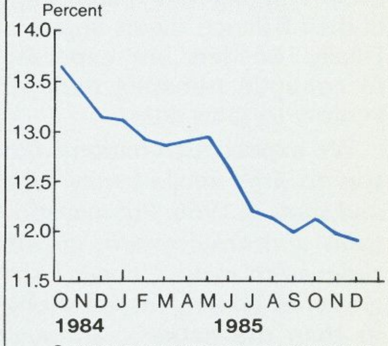
Georgia's services employment, while continuing to anchor its growth, is expected to expand more slowly this year. Business services grew rapidly in 1984, but probably peaked last year. Georgia, and particularly Atlanta, is approaching its short-term saturation level of accountants, consultants, and attorneys, reducing services' expansion pace. The completion and staffing of several new hotels in Atlanta last year boosted growth in 1985. Slower expected growth of both the Atlanta and Georgia economies means fewer new services jobs this year. However, an actual decline in the services sector, which has demonstrated stability even through recessions, is unlikely.

Building. Construction employment, which grew faster than services last year, will probably grow more slowly in 1986 since total construction activity in the state is expected to decline. Apartment construction will slow while condominium output drops sharply. Yet recent sharp declines in mortgage rates, combined with population growth, should buoy home demand enough to moderate the single-family decline. Although fewer commercial buildings are planned, office and retail work-in-progress will keep actual commercial construction activity virtually undiminished. Thus, relative firmness in single-family and commercial activity should cushion the overall decline stemming from weakness in multifamily building.

Sales and construction of Georgia single-family housing will probably decline this year since job and income growth is expected to slow, because those moving to Georgia from other states will be less affluent, with a higher percentage seeking jobs. A greater proportion of the housing demand may be concentrated in Atlanta, so sales and construction should hold up better in the capital than in the rest of Georgia.

Chart 1. Effective Mortgage Rates

Conventional Fixed Rate Loans



Source: Federal Home Loan Bank Board.

Georgia's single-family housing outlook is affected strongly by national mortgage rate levels, demographics, and tax reform proposals. On the upside, mortgage rates declined significantly in 1985 and early 1986 (Chart 1). If rates do not rebound sharply this year, single-family home sales will benefit. Furthermore, the rising fraction of buyers trading up to larger homes will buoy single-family housing even if mortgage rates rise. Trade-up buyers, who have usually accumulated equity in their present homes, are less constrained by rising interest rates than first-time buyers.

On the downside, demographic changes in the national population toward older individuals, smaller families, and slower household formation will tend to depress single-family's share of the housing pie. Second, mortgage insurers tightened their standards in 1985, effectively increasing income requirements for homes at all prices, thus shrinking the pool of potential buyers. Third, most of the nation's large homebuilders have fared poorly and will probably avoid entering new markets until their balance sheets improve. Finally, builders are expected to continue trimming their inventory-to-sales ratios.

We expect such national factors to limit single-family sales and starts in 1986. But migration gains and employment growth promise to make Georgia's single-family housing market stronger than the nation's, although state construction and sales should finish the year below 1985 levels.

Population flows into and within the state have changed to the slight detriment of single-family housing activity. Net inmigration remained strong from 1984 to 1985; the Census Bureau reported that Georgia's population grew 9.4 percent from April 1, 1980 to July 1, 1985, compared with 5.4 percent for the nation. However, the character of the inflow has shifted from transferees and self-employed professionals toward a higher proportion of unemployed men and women.

Within the state, the perennial flow of labor from Georgia's rural areas and smaller cities to metropolitan Atlanta is expected to accelerate. Because they tend to be less affluent, less educated, and often unemployed, people in this group, too, probably will have a delayed and less positive effect on housing demand. The unemployed migrants must first find jobs and then accumulate savings before buying homes.

Georgia's employment and income growth rates, which slowed during 1985, should continue tapering off this year, also contributing less to new home demand. But both probably will exceed U.S. growth rates, helping to make single-family housing demand in the state greater than in the nation. Job and income gains will largely determine how quickly new arrivals move from apartments to dwellings of their own.

"The perennial flow of labor from Georgia's rural areas and smaller cities to metropolitan Atlanta is expected to accelerate."

Multifamily Construction. Multifamily construction is likely to decline in the state. Except for the favorable interest rate trend carried over from last year, nationwide factors that influence apartment building appear to be negative for 1986. Impending tax reform hovered over the commercial real estate industry virtually all last year, and may have encouraged developers to shift construction to 1985 from future years. Moving up these investments could steal from 1986 and spell significantly reduced multifamily construction in many markets. Congress almost certainly will continue the debate on a tax reform bill this year. For apartment construction, this could mean a significant cut in tax depreciation benefits, reduced or eliminated industrial revenue bond funding, and curtailed tax breaks for syndicators. Each of these measures, if enacted, would reduce the federal subsidy to apartment construction and push up rents to cover developers' higher after-tax costs.

Also, the Federal Home Loan Bank Board has been concerned over the aggressiveness of some thrift institutions in making construction loans for apartments and other commercial buildings. The Bank Board's recent assertiveness in suggesting what savings and loan associations should do to protect their net worth may portend some slowing of thrift commercial construction lending.

Atlanta market factors brighten the state's outlook, but apartment construction is still likely to weaken appreciably from last year. Both absorption and rents should increase, although already high vacancy rates will continue rising due to the number of projects scheduled to come on line during the year.

If population flows to Atlanta increase as projected, we expect absorption and rents to strengthen in the city. Demand should improve, particularly for smaller and less expensive apartment units, as migration brings metro Atlanta a higher proportion of job seekers who must minimize housing expenses.

Metro Atlanta's low-end apartment vacancy rate is in the 2 to 3 percent range, much less than the 8 percent for all types of apartments.[6] The escalating demand for less expensive apartments expected for 1986 and 1987 will cut vacancy rates further, put upward pressure on rents, and encourage building in the market.

Luxury apartments, which have the highest vacancy rates, must compete with Atlanta's soft condominium market and the metro area's vigorous single-family housing market. The relatively limp demand for high-end apartments seems unlikely to improve much this year.

Commercial Construction. Commercial construction may not match its record of 1985, but will remain strong nevertheless. Last year, total absorption in the Atlanta metro area exceeded 4 million square feet, compared with 3.2 million in 1984.[7] Given vacant space of around 10 million square feet, and 9 million more under construction, at the current absorption pace the market will end 1986 with a nearly five-year inventory of vacant office space.

Despite the ostensible oversupply, the Atlanta market will remain attractive to developers for several reasons. First, employment in FIRE, which fuels demand for offices, is expanding more rapidly in Georgia (and even faster in Atlanta) than in the United States. No slowdown is expected for 1986. From 1980 through 1985, FIRE employment grew 20.9 percent in Georgia compared with 14.3 percent for the nation. Georgia FIRE industries ended 1985 with nearly 136,000 workers on the payrolls. As new firms in this sector are incorporated and existing ones expand, they will need more office space.

Even if demand drops sharply in 1986, most work-in-progress will still be completed. Lenders are reluctant to stop troubled commercial projects, because usually they cannot be sold until virtually complete. Thus, Atlanta's commercial building activity is almost guaranteed to continue this year.

In spite of widespread publicity surrounding high office vacancy rates, which stood at 18.6 percent in metro Atlanta last fall, Atlanta is not yet as overbuilt as other major markets (Table 3).[8] It still represents a relatively attractive, lucrative market for developers.

Table 3. Office Vacancy Rates in Metropolitan Areas (Percent)

	December 1983	December 1985
Atlanta	10.3	18.6
Boston	7.7	14.1
Chicago	12.8	14.5
Dallas	23.2	24.3
Denver	26.4	26.1
Houston	29.1	28.2
Los Angeles	15.9	16.9
Miami	11.4	20.3
New Orleans	22.2	22.1
Philadelphia	9.7	14.5
San Francisco	10.6	16.6
St. Louis	13.0	10.3
National Average	16.2	20.1

Source: Coldwell Banker, *Office Vacancy Index of the U.S.*

Financing is expected to remain readily available in 1986, even though the ongoing tax reform process may have an adverse impact on development undertaken primarily for tax benefits. Most developers feel financing sources simply will adjust to tax changes and continue to supply money to the market.

Many in the construction industry believe that well-conceived developments with good locations can succeed regardless of the volume of competing new projects. The most active sub-markets in Atlanta are Buckhead-Lenox, Midtown, and the entire northern arc of I-285. North Atlanta, which accounted for more than 60 percent of the 1985 absorption, is expected to continue this strength in 1986.

The supply of commercially zoned land is running thin in the Atlanta metro area, setting the stage for more showdowns between developers, neighborhood associations, and officials concerned with generating jobs. These confrontations probably will not inhibit commercial development in the long run, however.

The booming retail market is evidenced by a proliferation of strip shopping centers. With several regional malls already in place, the development emphasis statewide has shifted to smaller strip centers ranging from 40,000 to 400,000 square feet. In Atlanta, 29 opened in 1985, and around 40 are expected this year. The major stimuli for this proliferation have been residential expansion, local income growth, and a concommitant increase in retail sales.

Retail building has shifted toward strip centers for two primary reasons. Less capital and land are required for these compact centers, enabling smaller developers to participate. What's more, many retailers are concluding that it is better to be the major name in a small shopping center than vice versa.

Benefiting from Atlanta's prime position as a distribution center, the warehouse market also has prospered. Total absorption in 1985 ran close to the 1984 record of nearly four million square feet. Vacancy rates are low, around 4.1 percent, compared with 5 percent nationally. The combination of favorable geography, low vacancies, and short lead time between demand and supply should encourage further industrial development in 1986.

The outlook for commercial construction in Atlanta continues to be good, although the volume of contracts for new work is expected to taper off through the year. A major deterrent could be a growing awareness of overbuilding and tighter federal regulation of lenders, especially savings and loan associations. A firmer regulatory grip might restrict the volume of capital entering the market, slowing development. In the long run, however, developers probably would find other financing sources to make up for any constriction caused by bank and thrift regulators.

Of the other major Georgia cities, Savannah shows the most promise in commercial building activity for 1986. Building permits in 1985 ran more than 150 percent above their levels of 1984. In apparent response to low retail vacancy rates in the city two years ago, substantial investment has been funneled to this sector. Office construction in Savannah is also strong, although it does not compare with retail development. Macon is the only major Georgia city where commercial building permits declined, but this is primarily due to 1984's great strength rather than 1985's weakness. Macon's retail construction approximately balanced demand for new store space in 1985, but some decline in retail building is expected this year.

Manufacturing. Unlike construction employment, which could peak in 1986, manufacturing employment growth could accelerate this year. After a year of painful job losses among textiles and apparel firms, Georgia manufacturing may regroup this year, a prospect that export growth and reduction of competing imports would improve. Employment, however, is expected to continue declining as a share of total jobs through the end of the decade.

The textile and apparel industries, which account for over half of all nondurable goods production employment in Georgia and almost one-third of the manufacturing jobs, have suffered severe job and market share attrition due to foreign competitors.

Yet Georgia's textile industry could realize a modest rebound in production and employment this year. Textile employment expanded, on a month-over-month basis, from August through October and did not change in November. For the whole year, though, the industry suffered through its worst job losses since 1982, as average employment dipped to a 20-year low. More than 22,000 jobs have been lost among the state's textile manufacturers since 1979. Total employment now stands at about 101,500, down more than 4,000 from the 1984 average. Three major mill closings last year were the Reeves Brothers plant at Eastman (350 jobs), Mt. Vernon Mills at Calhoun (450 jobs), and Milliken Mills at Gainesville (650 jobs).

The dollar's strength, lower wage rates, and more efficient production technologies, in some instances, have allowed foreign producers of many goods to underprice domestic manufacturers. The pricing disadvantage has been a millstone to Georgia's textiles and apparel producers, among others. The same foreign exchange rate that makes comparable foreign goods cheaper here also makes U.S. exports more expensive in markets abroad, hurting Georgia textiles.

Despite the difficulty of exporting and the long-term trend of job losses, textile industry employment in the state moved ahead for three consecutive months last fall as retail inventories ran low because of strong domestic demand. While the weaker dollar may help boost exports this year, trade restrictions by many potential importers will retard their progress. Further improvement in the industry's productivity, which has increased at about twice the rate for U.S. manufacturing since the 1960s, could strengthen textile performance by reducing costs.

One Georgia-based textile segment that clearly has grown is carpet manufacturing, spurred by national strength in home sales, vigorous commercial building, and faster domestic auto production. Georgia mills produce 60 to 70 percent of the total U.S. carpet output. Production is keeping pace with the high levels of a year ago, with the help of national personal income gains.

However, foreign competition is becoming a problem for carpets, too; imports doubled in the last year. Foreign manufacturers reportedly expanded more into the bulk carpet market from the high-priced specialty segment.

In an attempt to offset imported goods' lower prices, the textile industry is campaigning to educate wholesalers and retailers on hidden costs of stocking their inventories from overseas manufacturers. They emphasize that buying from abroad ties up more money and limits buyers' options.

Apparel manufacturing, like textiles, may realize employment gains in 1986, although cheap imports continue squeezing both. State apparel employment levels for last October ran ahead of the same month in 1984 for the first time since January 1985. Apparel jobs grew from August through October on a month-over-previous-month basis but ended the year below the 1984 level. Given the dollar's declines and a growing flexibility on the part of domestic manufacturers, employment is expected to stabilize this year. Hoping to improve their competitiveness, some American apparel manufacturers are concentrating more on marketing their products than they have in the past.

Georgia's lumber industry, which produces more lumber than any state except Oregon, is expected to slow from its strong performance last year. Although Georgia's lumber employment increased by 2 percent in 1985, it faltered as the year progressed. Strong demand for housing buoyed the industry, but Canadian exporters' invasion of the U.S. market with lower-priced lumber has cut domestic profits—a deterioration expected to continue into 1986. Local companies are trying to recoup by addressing smaller market niches, such as planking for backyard decks and premanufactured fences.

Transportation equipment employment growth should slow in 1986. Lockheed Georgia, a major employer based in Marietta, has already hired most of the engineers and production personnel needed to fulfill its contract to build C5-B cargo planes for the Air Force. General Motors' announced switch to producing larger models at its Lakewood Plant, however, will generate close to 1,000 new jobs after remodeling is completed in 1987.

"Georgia's textile industry could realize a modest rebound in production and employment this year."

Domestic auto sales, which surged when the major U. S. producers instituted special discount financing last fall, slowed when the discounts ended in October. The introduction of more recent incentives has failed to revive sales to their pre-October volume. Domestic sales are unlikely to recover to the volume of 1985 or 1984 because the large number of autos sold last year satisfied considerable demand. Thus, domestic demand is not likely to spur significant further job gains this year at Atlanta's auto assembly plants.

Government. Government hiring has grown fairly consistently in recent years. State and federal government employment should expand steadily this year, in spite of federal budget cutting. The rapid population influx has swamped some local government agencies' ability to deliver services.

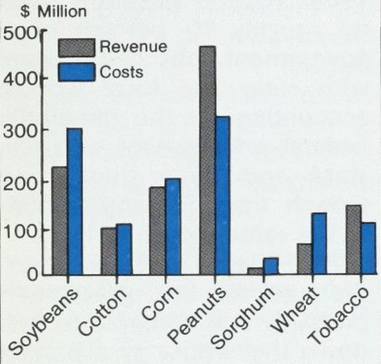
As of December, government units in Georgia employed about 449,000 people, or 17 percent of the nonagricultural work force. This is about two percentage points lower than in 1970 and 1980. Federal positions make up roughly 20 percent of all government jobs in the state, with state and local workers accounting for the remainder. Federal employment outpaced state and local government growth from December 1984 to the same month in 1985.

The Reagan administration's pressure for less government probably will continue to hold down that sector as a percent of total employment this year. More growth is expected in state and local employment than in federal hiring in the state. But Georgia's 9.4 percent population gain over the 1980 to 1985 period, compared with only 5.4 percent nationally, suggests that federal employment growth in the state, too, will have to accelerate some to maintain the intended level of services.

Population gains in the Atlanta, Augusta, and Savannah metro areas will require additional police and fire personnel, building inspectors, and clerical personnel, along with more managerial and administrative staff. Overall, federal employment in Georgia should expand moderately this year, while state and local employment grow somewhat faster.

Agriculture. Georgia farmers can expect their situation to be only slightly improved over last year. Crop farmers face mediocre prospects, while poultry profitability should be good. The real cloud over the state's farm outlook involves the threat of resumed loan foreclosures by the Farmers Home Administration (FmHA). Because of the possibility of significantly fewer

Chart 2. Georgia's Major Crops, Estimated Revenue and Total Costs, 1985



Source: Estimated by the Federal Reserve Bank of Atlanta.

farms and, perhaps, a much weaker farm credit system, the farm sector is strategically important to Georgia's 1986 outlook.

In general, the state's farmers made moderate financial progress last year. Of the major revenue producers, peanuts were profitable (Chart 2), broilers made money with the help of lower feed costs, and eggs generated small profits due to low prices. Pork producers' profits were also low as their inventories dwindled from 1984 levels, while soybeans lost money as overproduction cut prices.

The outlook for crop farming in the state hinges on the nation's ability to boost farm commodity exports. Georgia's largest acreage crop, soybeans, can expect only meager price gains in 1986. Efficient farmers will benefit, while the crop could be a net financial burden to higher cost producers. Peanuts, the state's major revenue crop, can anticipate another good year, especially if the United States Department of Agriculture raises its price support for the crop this year as expected.

Farm animal producers can expect, in general, improved revenues and lower feed costs. This year should yield greater profits for eggs and broilers, the state's most important animal products. Georgia egg producers saw prices fall 30 percent last year, but lower output and low feed prices may allow them to profit this year. Broiler producers, most of whom took profits last year as slumping feed costs more than offset weaker product prices, could enjoy a similar scenario in 1986.

With no progress made toward resolution, the Georgia farm debt crisis threatens to heat up again this year. The FmHA, farm lender of last resort, plans to begin taking action against delinquent borrowers. A court ruling has prevented FmHA from acting against errant borrowers since 1981. The agency holds 27 percent of the roughly $4.5 billion of farm debt in the state, or about $1.2 billion. It now holds over 3,700 delinquent loans to Georgia farmers, originally booked at $915 million. The dollar amount past due has grown by over 325 percent during the past four years. The proportion of FmHA loans delinquent improved slightly from 61 to 49 percent over the past year, but Georgia still has the highest past due rate in the nation.

The agency's authorization to move against its slow or nonpaying borrowers probably does not mean that all, or even most, will end in foreclosure. Those not up-to-date on their payments are being advised formally of this fact and asked to make their accounts current. Delinquent borrowers are also receiving information regarding their alternatives under the law.

Farmers, the FmHA, and other farm lenders are highly concerned about potential deleterious effects of a rash of foreclosures on farm land prices. With little improvement expected in farm cash flows again this year, the market value of farmers' land and debt secured by the land could decline in the event that the FmHA proceeds vigorously with foreclosures. Just the threat of such proceedings can reduce land values.

Farmers in arrears must be concerned that if earlier foreclosures degrade their land's value, they will remain in debt even after their land and assets are liquidated. Farmers with no current debt difficulties may find that declining land prices will reduce their borrowing limits. For non-FmHA farm lenders, a rash of foreclosures could devalue their institutional net worths if their regulators decide they should explicitly recognize the reduced value of their farm loan portfolios. Finally, the FmHA must walk the fence between minimizing its own losses through quick liquidations and the potential hardships such action would inflict on the rest of the farm credit system.

Infrastructure: Good Overall, But Problems Exist

A sound infrastructure is expected to facilitate the state's economic growth this year, enhancing its ability to respond to local, national, and international problems and opportunities. In general, Georgia water, sewer, power, and road systems are relatively new and trouble-free, with only isolated problems.

Atlanta's infrastructure suffers fewer breakdowns and deterioration than most large urban areas mainly because it is newer. A 100-year old section of the city's sewer system needs replacement, but funds have been allocated for this project and no lasting problems are foreseen. Fast-growing Gwinnett County is struggling to keep up with the demand for additional wastewater treatment capacity and has imposed a moratorium on new development in the Norcross area until April. This moratorium has slowed the influx of new business into the county, but steps are being taken to fund more sewerage treatment capacity.

Gwinnett County also has approached its peak-load water pumping capacity during the last two summers; remedial efforts are underway, and the situation should not slow the area's growth. Otherwise, water facilities are in good shape throughout metro Atlanta.

The city's freeway system is being reconstructed and in three to four years will be streamlined with an expanded traffic handling capacity. Traffic problems are most frequent in new suburban areas, where road use often exceeds design expectations. Arterials are being widened in many suburbs, with a considerable amount of construction and repairs taking place.

Recent expansions at the ports of Savannah and Brunswick provided an important stimulus to the state economy. Savannah, however, continues to lose business because many modern container ships cannot pass beneath the Eugene Talmadge Memorial Bridge. Despite numerous attempts, the $90 million project has yet to be financed. Unless this problem is solved, the port, which provides approximately 16,000 jobs in the Savannah area, risks losing its race with Charleston for shipping business. Savannah led Charleston in total container tonnage last year, in spite of its handicap.

The state's capacity to generate power is considered ample, but growing concern exists that mounting construction costs at nuclear-powered Plant Vogtle and other Georgia Power Company facilities will increase power costs substantially within the next decade. The state's Public Service Commission says Georgia Power may have to raise its rates 135 percent by 1997, while the utility anticipates an increase of 100 percent. Georgia Power's rates now lie below the national average but are expected to exceed the nation's by 1988.

Although some businesses have the option of shifting to alternative energy sources, consumers and most businesses probably will see their power bills rise. If rates rise, the state will lose some of its allure for businesses considering Georgia for relocation or expansion. This problem has prompted a drive within the state government to develop a comprehensive long-term energy plan.

Industrial Development Progress

Industrial recruitment successes last year offer evidence that Georgia's infrastructure favors economic growth and change.

The new plants and firms are continuing Georgia's economic diversification, which is largely responsible for the state's strong and steady growth in the 1980s. In addition to the Ft. Howard Paper Company's decision to build a $1 billion plant in Effingham County, Teledyne and NWL Control Systems announced plans to open manufacturing facilities in Gainesville and Dublin. Mitsubishi of Japan indicated that it will locate a 500-employee plant in Braselton to make color televisions and cellular mobile telephones. The value of new manufacturing facilities moving into Georgia totaled over $2 billion last year, compared with $1.2 billion in 1984.[9] These investments generate employment both directly, by adding workers on the plant floors, and indirectly, in support industries.

Georgia's competitive advantages include good infrastructure, a largely nonunion work force, a pro-business atmosphere, and stable tax rates. The corporate income tax rate has not been raised since 1969, when it was increased from 5 to 6 percent. The state sales tax rate, lowest in the nation, has not changed since it was increased to 3 percent in 1951. (However, local option sales taxes are levied in many counties and urban areas.) The state's per person tax burden ranks 36th nationally.[10] Besides such tax incentives, Georgia offers a "Quick Start" program to train employees of newly recruited plants.

Atlanta has successfully attracted small ($1 million to $300 million in sales) computer firms for two major reasons: the city is a regional financial center, where commercial lending is readily available, and the computer industry is a major user of software, developed by several small Atlanta companies. Furthermore, the state is home to a number of defense and aerospace industry plants, major users of advanced computer technology.

With Toyota's decision to locate its prized new plant in Kentucky instead of Georgia, the state probably will not become a major focus of foreign auto manufacturing investment like Tennesssee. Given the preference of new foreign-owned automakers in the United States to concentrate all aspects of production in a single locale, centrally located states are much more likely than Georgia to attract such investment. There may be a bright side to this competitive disadvantage, as it screens Georgia from the cyclical employment fluctuations experienced by major auto producing areas.

Computer software and peripherals merchants will continue to locate in Atlanta, because their low-bulk, high-value products are more amenable to nationwide distribution from Georgia. Coastal Georgia, convenient to I-95, will remain a regional distribution center serving the Atlantic seaboard.

Georgia is actively taking its development pitch abroad and last year became the first state to open a business development office in South Korea. This recruitment of overseas business has already helped generate $200 million of foreign investment in the state.[11] In addition to its other advantages, the state offers excellent domestic and some international airline connections from Hartsfield International Airport. Japan Airlines last year announced that it hopes to add direct flights between Tokyo and Atlanta this summer.

Conclusions

In 1985, Georgia's economic expansion remained vigorous but slowed a bit from the previous year. The state's growth fell closer to the U.S. rate, but still exceeded it. Performance in the rest of Georgia improved relative to that of Atlanta, which nevertheless continued as the single most important source of strength and growth in the state economy.

This year Georgia's growth probably will slow from 1985's rate. The state is expected to outpace the nation and vie with Florida for top rank in the region. Services again will act as the economy's prime mover, and the farm sector most likely will continue to falter. Construction may peak after three years of explosive growth, while manufacturing is expected to stabilize after near record textile and apparel job losses last year. Federal budget cutting probably will limit government job gains, though population growth may warrant faster expansion. Industrial recruitment successes, which are expected to continue in 1986, demonstrate that modern infrastructure favors Georgia's development.

NOTES

[1] Miscellaneous services includes engineers, architects, accountants, artists, lecturers, and writers as well as those engaged in educational, scientific, and research activities.

[2] The state's third quarter 1985 savings rate was estimated by subtracting the growth rate of taxable sales from the growth rate of personal income. The U.S. savings rate, similarly, is estimated from the difference between personal income growth and retail sales growth for the period. Although the definitions of taxable sales and retail sales differ, their growth rates appear close enough to those of consumption in Georgia and the U.S., respectively, to indicate which area had the higher savings rate.

[3] Bureau of the Census, *Monthly Retail Trade* (Government Printing Office, November 1985) and the Georgia Department of Revenue, telephone interview, December 3, 1985.

[4] Coldwell Banker, *Office Vacancy Index of the United States* (Atlanta: September 30, 1985).

[5] Bureau of the Census, *Statistical Abstract of the United States* (GPO, 1984), p. 212.

[6] C.D. Ellington, Atlanta Apartment Owners and Managers Association, telephone interview, December 3, 1985.

[7] Carter and Associates, Inc., Atlanta, Ga., November, 1985.

[8] *Office Vacancy Index.*

[9] Georgia Department of Industry and Trade, telephone interview, December 5, 1985.

[10] Georgia Economic Forecasting Project, The University of Georgia.

[11] Cathleen Cole, "Foreign Investment: Jobs and Capital for Georgia," *Georgia Trend* (Vol. 1, December 1985), p.64.

TENNESSEE

A Better Year Ahead

Bobbie H. McCrackin and Betty Bradfield

Improvement in Tennessee's crucial manufacturing sector should boost the state's economic performance after a downturn in 1985.

Tennesseans' economic outlook will be determined largely by the behavior of American consumers. Although consumer purchases make up about two-thirds of gross national product (GNP), Tennessee's economy is perhaps influenced even more by demand for consumer goods and somewhat less by two other major components of GNP—government spending and business investment. Many other states oriented toward manufacturing produce steel and other products needed by businesses. In contrast, Tennessee's industrial production is directed much more extensively to consumer products. Among the largest industrial employers in the Volunteer State are the apparel, furniture, and food sectors. Tennessee's electronics industry is dominated by home appliance manufacturers, not defense contractors or machine-tool producers.

In addition to consumer spending, Tennessee's economy will be affected to some extent by developments in the international sector, the fourth component of GNP, even though many export-oriented activities important in other southeastern states—ports, international banking, and foreign tourism—play only a minor role in Tennessee. Foreign markets are important to many Tennessee businesses, especially chemical and tobacco producers and to the wholesalers, accountants, and others who provide services to these establishments. In addition, one of Tennessee's largest industries, apparel, is among those hardest hit by the dollar's appreciation since 1980 and the concomitant effects on imports and exports.

Unlike many southeastern states, Tennessee has benefited little from the surge of federal spending on defense and space programs. Although the Oak Ridge National Laboratory near Knoxville has doubled its defense contract work since 1982, much of that increase merely offset budget cutbacks for nuclear research conducted by the Nuclear Regulatory Commission and the U.S. Department of Energy. Another large federal government program, the Tennessee Valley Authority (TVA), has been waning in importance in the state since the late 1970s, when it began to scale back its major expansion into nuclear power production and to reduce sharply its considerable work force. Moreover, changes in national fiscal policy associated with efforts to reduce federal budget deficits could contract Tennessee's federal government sector.

These structural characteristics will influence the way expected national strengths and weaknesses impinge on the state's performance in 1986. As discussed elsewhere in this issue, the U.S. economy may expand somewhat faster in 1986 than in 1985, and growth probably will be more balanced this year. This national outlook should translate into somewhat faster growth for Tennessee in 1986,

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largely because the manufacturing sector should be a prime beneficiary of more balanced macroeconomic growth and manufacturing is exceptionally important in Tennessee.

Expectations that the decline in interest rates, which has continued into 1986, will encourage consumers to buy more or better houses, automobiles, and household goods are favorable for Tennessee's important industrial sector since it is oriented toward supplying these consumer markets. The dollar's lower value should help Tennessee's farmers and manufacturers to increase their export sales somewhat, especially those engaged in producing cotton, soybeans, and chemicals. In addition, the prospect of relief from intense foreign competition is a good omen for Tennessee. Its large textile, apparel, and leather industries, as well as the numerous chemical producers who manufacture synthetic fibers for textile producers, have been hurt by imports. The nationwide inventory rebuilding that is likely to occur early in 1986 would be another plus for the state's manufacturing sector.

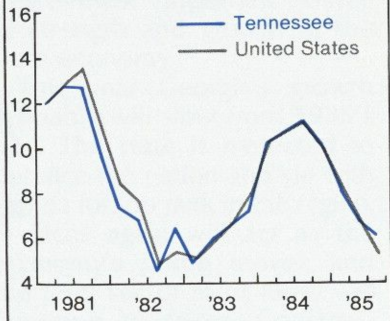
In terms of geography, middle and east Tennessee, where most of the state's manufacturing is concentrated, appear most likely to gain from anticipated developments. A disproportionate share of new capital projects and capital expansions, including investment in nonmanufacturing as well as industrial projects, is destined for these regions. West Tennessee, with its heavy dependence on agriculture, stands to reap modest gains from the falling value of the dollar and the expected improvement in farm exports, particularly of soybeans—a leading cash crop.

Certain caveats must be added to this outlook. First, as noted, a reacceleration of state growth turns largely on consumer behavior nationally. While a general improvement in the economy would enhance income and spur consumer spending, some people feel consumers may need to readjust household finances to a healthier state after borrowing heavily to fund spending sprees in 1984 and 1985. Therefore, an upturn in Tennessee might not appear until later this year, diminishing the expected improvement for 1986 as a whole. However, both consumer spending and personal income ended 1985 on a strong note, and the stock and bond market rallies that began last year have increased consumer's net worth. Thus, consumers may continue to be a driving force for expansion. On the whole, the factors underlying an expected revival of the national economy portend a good year for Tennessee.

Performance in 1985

Whatever happens to Tennessee's economy this year will develop from the baseline of 1985 performance, and so it is worthwhile to review how the state fared last year. Personal income growth in 1985 decelerated from the robust gains of 1984. After rising at a nominal rate of around 10 percent from 1983 to 1984, personal income was growing at an annual rate of about 5 percent as of the third quarter of 1985 (Chart 1). Payroll employment increased less than 3 percent during 1985, slightly below the national figure and substantially less than 1984's 5 percent statewide rate.

Chart 1. Personal Income For Tennessee and the United States
(Annual percent change)



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

This pattern reflects in large measure Tennessee's orientation toward credit-sensitive sectors of the economy. For example, housing slowed nationally following an increase in interest rates early in 1985. It also bespeaks Tennessee's greater reliance on manufacturing employment. Factory work provides more than one-fourth of Tennessee's jobs compared with one-fifth nationally. In contrast to 1984, when manufacturing outdistanced overall job growth in Tennessee, manufacturing jobs declined in 1985, and by a somewhat steeper margin than nationally (Table 1).

Nonmanufacturing jobs, paced by trade and miscellaneous services, expanded 5 percent in 1985 relative to 1984 (Table 1). Transportation and public utilities as well as finance grew, but less rapidly than other services and trade. Construction and government employment expanded only slightly.

Despite the moderate rise in employment, Tennessee's jobless rate declined in 1985 by a larger margin—from 8.5 percent

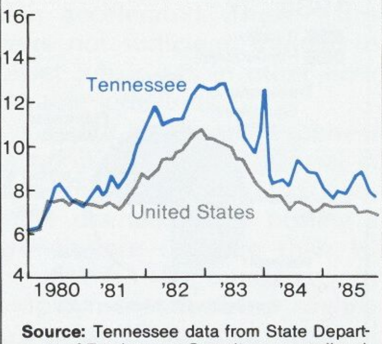
Table 1. Sectoral Employment Changes, Tennessee versus the United States

	Tennessee			United States
	1984 Average Employment (thousands)	1985 v. 1984 Percent Change	1984 v. 1983 Percent Change	1985 v. 1984 Percent Change
Total Nonfarm Employment	1809.0	2.9	5.2	3.5
Manufacturing	497.6	−2.1	6.2	−0.8
Nonmanufacturing	1,311.4	4.8	4.9	4.4
Construction	76.3	0.6	9.6	7.8
Trade	414.7	8.4	6.3	4.9
Transportation and Public Utilities	88.5	3.3	5.9	2.6
Finance, Insurance, and Real Estate	85.8	4.3	4.8	4.3
Government	293.0	1.3	−0.4	1.9
Miscellaneous Services	345.2	5.3	6.7	5.7
Mining	7.9	−6.3	0.0	−1.4

Source: Tennessee Department of Employment Security, *Tennessee Labor Market Report*, various issues, and Bureau of Labor Statistics, *News*, various issues.

in December 1984 to 7.4 percent in December 1985—than the nation's unemployment rate, which fell from 7.2 to 6.9 percent over the same period (Chart 2). Tennessee's progress occurred mainly because labor force growth in the state was modest; however, joblessness obviously remains proportionately more severe in Tennessee than in the nation.[1]

Chart 2. Unemployment Rates for Tennessee and The United States
(Seasonally adjusted)



Source: Tennessee data from State Department of Employment Security, seasonally adjusted by the Federal Reserve Bank of Atlanta. U.S. data from Bureau of Labor Statistics, Washington D.C.

Around the state, Chattanooga was the only city to show faster job growth last year than in 1984 (Table 2). Nashville and Memphis experienced somewhat slower growth in 1985, and employment declined in Knoxville and rose only slightly in the Tri-Cities (Johnson City, Kingsport, and Bristol).

Although job creation in Nashville slowed as the year progressed, the Music City once again paced the state. It also enjoyed the lowest unemployment rate, whereas the Tri-Cities and Knoxville had the highest. Although nonmetropolitan unemployment rates were higher than those of large cities on average, the gap narrowed considerably last year, and only two counties had more than one-fifth of their labor force unemployed as of November 1985, compared with seven counties at the same time in 1984.

Slow growth in Knoxville is attributable largely to the city's manufacturing base, heavily concentrated in industries that fared poorly in 1985. Textile and apparel employment account for around one-third of Knoxville's manufacturing jobs. Furthermore, the closing of the gaseous diffusion plant in nearby Oak Ridge entailed some dislocations to the area economy, even though many workers were transferred or offered early retirement.

Structural factors also explain Tri-Cities' lack of job increases in 1985. This metropolitan statistical area (MSA) is even more dependent on manufacturing: over one-third of local employment is in this sector. Apparel, machinery, and printing and publishing, all of which suffered job losses last year, are large local employers.

The expansion of airline service, including Republic Airlines' creation of a new hub, has been a boon to Memphis, as has the

Table 2. Tennesee MSA Nonfarm Employment
(1985 monthly average and percent change from 1984)

	Nonfarm Employment (thousands)	Percent Change
Chattanooga	183.1	6.0
Tri-Cities	150.2	1.1
Knoxville	228.0	–.3
Memphis	385.5	3.1
Nashville	419.6	3.7

Source: Tennessee Department of Employment Security, *Tennessee Labor Market Report*, various issues.

strength of the city's food processing industry. Other contributors to local growth include ongoing expansion of the city's medical care complex and Memphis' growth and diversification as a distribution center. A varied, well-balanced economic base and its attractiveness to businesses and individuals desiring to relocate explain Nashville's continued strong performance. Chattanooga's belated surge in employment reflects strong local growth in construction early in the year and continuous expansion of the service sector, especially local government and finance.

Overall, 1985 was a fairly good year for the Tennessee economy even though growth slowed appreciably. Employment and income rose at a respectable pace across the state, although the pace was more vibrant in larger cities than in rural areas. The slowdown from 1984 is attributable mainly to the national deceleration and the state's vulnerability to the increase in credit costs that occurred early last year. Since most of Tennessee's weakness in 1985 was concentrated in manufacturing, the likelihood of strengthening on this front in 1986 should be especially beneficial to the state's overall performance. To determine which of the state's industries are likely to gain the most from the projected national upturn, it is necessary to examine Tennessee's manufacturing base in more detail.

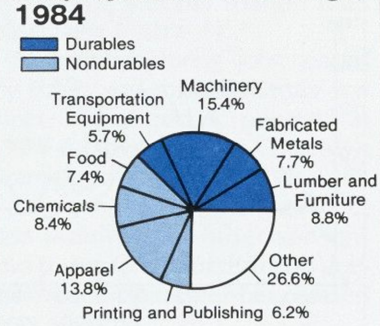
Industrial Activity

As Tennessee's industrial employment reversed the 1984 pattern of rapid growth, the turnaround was most significant in durable goods production. Nondurable employment rose much less than durable employment in 1984, and a downward trend in nondurables has been apparent since 1973, when employment peaked at 288,000. Nonetheless, last year's decline was significant since, unlike the United States, Tennessee employment in nondurable manufacturing remains larger than in durable goods production. Approximately 52 percent of Tennessee's industrial jobs were in the nondurable category in 1984 compared with 41 percent nationally.

Apparel, chemicals, food, and printing and publishing together account for about one-third of the state's manufacturing jobs (Chart 3). Apparel employment, which increased 6 percent in 1984, fell by nearly as large a margin in 1985 (Chart 4). Chemical industry employment has been stagnant for years as a result of increased foreign competition, both for bulk chemicals and in the textile industry, which consumes much of Tennessee's chemical plants' output.

A surprising development last year was Tennessee's decline in printing and publishing, an expanding industry nationwide that had enjoyed uninterrupted growth in the state since 1975. This apparent anomaly is explained by the fact that books constitute almost one-fifth of Tennessee's printing and publishing industry, whereas newspapers, greeting cards, commercial printing, and printing services are relatively more important nationally. U.S. book publishers and printers did not fare well in 1985 in part because of the dollar's high foreign-exchange value, which slowed book exports while encouraging imports. Employment in this portion of the industry has been

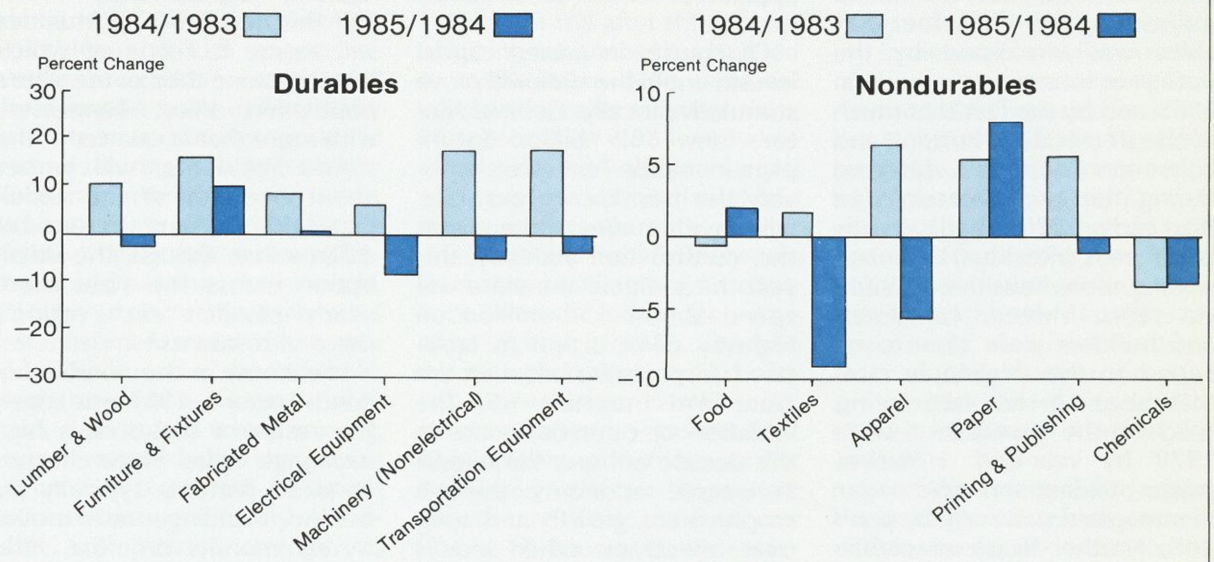
Chart 3. Tennessee's Leading Industries, by Employment Percentage, 1984



Source: Computed by Federal Reserve Bank of Atlanta from data in U.S. Department of Labor, Bureau of Labor Statistics, *Annual Report on Employment, Hours, and Earnings* (Tennessee), 1984.

Chart 4. Employment Changes in Tennessee Industry

1983-84 versus 1984-85, annual average



Source: Tennessee Department of Employment Security, *Tennessee Labor Market Report*, various issues, and U.S. Department of Labor, Bureau of Labor Statistics, *News*, various issues. Calculations were done by Federal Reserve Bank of Atlanta.

retarded as well by falling elementary and secondary school enrollments and the availability of technological innovations that expand output without commensurate job increases.

There were gains in several nondurable industries. Food processing advanced after seven years of decline, and expansion in pulp and paper production accelerated. These gains were not sufficient, though, to offset job losses in other nondurable industries.

Despite significant weakness in nondurables, the reversal in durables production was even more dramatic. After posting a growth rate of more than 10 percent in 1984, durable goods employment declined slightly last year. Only producers of primary metals, a relatively small component of Tennessee's manufacturing sector, grew faster than in 1984. Transportation equipment slumped 4 percent in 1985.

Substantial losses also occurred in machinery production, especially of electrical and electronic goods, which in Tennessee are mostly household appliances destined for consumer markets.[2] Employment in electrical and electronic equipment plants fell 8 percent compared with a 5 percent decline in nonelectrical machinery production, which services more commercial clients.

Furniture production employment advanced 9 percent last year. Hardwoods used in kitchen cabinets, vanities, and flooring—key products in this Tennessee industry—have been affected much less by import penetration than softwoods. Employment in the lumber and wood industry, in which softwoods make up a greater share, fell 3 percent in the same period. Heavy losses plague many southeastern lumber producers, who are unable to compete with the flood of cheaper Canadian softwoods used for building frames.

Fabricated metal, another construction-oriented industry that produces structural steel used in many buildings, was nearly unchanged in 1985 after showing sharp gains in 1984. Together these four industries—fabricated metal, lumber and furniture, machinery, and transportation equipment—account for another third of the state's manufacturing employment.

The reversal in the performance of Tennessee's manufacturing sector during 1985 can be traced largely to the national slowdown in residential construction and consumer purchases of durable goods.

Such credit-sensitive purchases are related since consumers typically replace major appliances when they move. Demand for housing and consumer durables was weakened by the upturn in interest rates early in 1985 and by the fact that much of the demand for housing and consumer durables deferred during the two recessions of the early 1980s had already been met. Residual demand was far more sensitive to interest rates. Indeed, consumers and builders were slow to respond to the decline in rates that began in the late spring, reaching the lowest level since 1979 by year-end. However, home building and sales began to strengthen nationally by year's end. Another factor exacerbating industrial job losses, particularly in transportation equipment and machinery, was the weakness in agriculture that reduced demand for farm implements.

These important Tennessee industries will probably improve their performance this year, although the increase might not be great because of uncertainty about consumer finances and the fact that much demand already has been satisfied. Nonetheless, further losses seem unlikely, and the probability appears high for some improvement in the production of goods such as furniture, lumber, and appliances for the home as well as vehicles, associated parts, and supplies. The clouded outlook for business investment nationally is not especially worrisome for Tennessee's manufacturing sector. An increasing share of U.S. business investment is devoted to electronic equipment, especially computers. Hence, if business capital spending does decrease as expected, the impact on Tennessee machinery manufacturing with its concentration on household appliances would be relatively minor.

Of course, increased capital investment in the state will prove stimulative locally. General Motor's new $3.5 billion Saturn plant in middle Tennessee, probably the best-known example, will have an effect primarily in the construction industry this year. In addition, the state will spend almost $30 million on highway construction to facilitate transportation between the plant and Interstate 65. The initiation of operations late in this decade will spur the middle Tennessee economy through employment growth and spillover effects on other sectors such as retail establishments. The direct local employment impact could be moderate since many of the plant's 6,000 employees are expected to be drawn from the existing nationwide pool of GM workers. However, many GM workers could migrate from other regions, spurring residential construction. In addition, the indirect effects promise to be considerable, given the size of the plant. Even though the GM facility will be highly integrated, producing engines and many major components internally, the company estimates that ultimately some 14,000 jobs will be generated in parts supply firms that may locate nearby.

Besides GM's capital investment, many smaller projects will buoy Tennessee's economy in the year ahead. Through the first three quarters of 1985, more than half a billion dollars of new capital projects and expansions, exclusive of the Saturn plant, were announced; these are expected to create more than 14,000 new jobs. Middle Tennessee appears likely to receive a disproportionately large share of the benefits. Almost half the new job opportunities will accrue to this area, which has about one-third of the state's population. West Tennessee, with more than a quarter of the state's residents, will garner about one-fifth of the anticipated employment. In terms of dollar value, though, the distribution across the state more nearly parallels each region's share of residents.[3]

Weakness in the nondurable goods sector in 1985 was largely the result of the dollar's high exchange value. Since changes in trade patterns typically lag behind exchange rate moves by six months or more, little response was to be expected in 1985 even though the dollar had depreciated some 25 percent on a trade-weighted basis by year-end. This year should witness some improvement, especially for printers and publishers as well as exporters of bulk chemicals. However, the mid-1986 potential end of the requirement that books must be printed and bound in the United States or Canada to receive U.S. copyright protection clouds the outlook somewhat for the former industry.[4] Furthermore, the employment impact in certain major nondurable industries, particularly apparel and textiles, could be slight. Jobs in these industries have been falling for over a decade, even during the 1970s when the dollar was considered "undervalued."

Summing up the outlook for manufacturing, 1986 should bring some turnaround from the declines experienced in 1985, but this year is unlikely to repeat the robust industrial expansion Tennessee experienced earlier in the recovery, particularly in 1984. Yet, because of anticipated stronger demand for housing, consumer durables, and U.S. exports as well as prospects for some relief from import competition, 1986 promises moderate gains in manufacturing. Given that sector's importance in the state, advances on a broad front should follow. Higher industrial employment and earnings, for example, can be expected to help retail establishments and those that provide business, professional, and consumer services. In addition, a pickup in manufacturing, supplemented by the same dynamics expected to boost construction nationally, probably will provide strength to the state's building trades, subject to local supply and demand.

Construction

In contrast to the national pattern, construction of single-family dwellings accelerated sharply in Tennessee in 1985 (Table 3). This disparity probably reflects a lagged response by the state's single-family builders to the rapid economic growth of 1984. Construction of apartments and condominums in Tennessee fell after three years of strong advances that had led to overbuilding. Nonresidential construction also fell after rising 25 percent in 1984. Adverse effects of the vastly enlarged supply on occupancy levels and rental rates apparently dampened builders' zeal for new projects. Nonbuilding construction, such as roads and bridges, rose only slightly in 1985. Despite the strength in single-family building, the weakness in other construction industry segments kept employment growth almost flat compared with the 10 percent growth rate of the previous year (Table 1). Moreover, construction employment remains more than 10 percent below the 1979 peak.

Knoxville experienced the fastest growth rate in single-family construction, and, owing to a surge in the fall, Chattanooga had the sharpest gain in multifamily building. Compared with other Tennessee MSAs, Nashville and Memphis had slower but still respectable growth in single family housing. Nashville posted the steepest decline in multifamily building (Table 3). This apparent anomaly, in view of Nashville's usually stellar performance among Tennessee MSAs, is probably due to the fact that Nashville has been growing so rapidly for years. In 1983, for example, the number of new single-family homes built rose by 10 percent over 1982. Thus, some overbuilding, even relative to the city's fast growth, apparently deterred builders from putting further pressure on supplies and prices and so slowed residential construction in 1985.

Nashville continued setting the pace for the construction of offices, stores, and warehouses, however, with an increase of 17 percent. Nonresidential construction declined in Tennessee's other major cities. The sharp increase in Nashville's office space has boosted vacancy rates to the 20 percent range from 12 percent two years ago.[5] In view of the nearly two million square feet of office space still being built as of the

Table 3. Tennessee Construction, 1985 versus 1984

	Single-Family Permits			Multifamily Permits			Value of Nonresidential Construction ($ millions)		
	1984	1985	Percent Change	1984	1985	Percent Change	1984	1985	Percent Change
Tennessee	13,769	18,329	33	22,995	21,302	−7	1,427.8	1,402.0	−2
Chattanooga	1,195	1,503	26	779	1,932	148	127.0	96.1	−24
Knoxville	1,340	1,860	39	747	1,572	110	163.3	141.4	−14
Memphis	4,247	5,166	22	4,244	4,759	12	376.3	283.7	−25
Nashville	4,536	5,519	22	13,792	9,480	−31	523.5	612.3	17

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

third quarter of 1985, it is not surprising that plans for new construction have slowed recently. Industrial space absorption, especially in Nashville, fared much better. In fact, vacancy rates fell from 15 percent in February 1985 to 11 percent in February 1986, and, compared with other major U.S. cities, Nashville now boasts one of the lowest vacancy rates for warehouses and similar facilities.[6]

Lower mortgage interest rates should sustain the growth in single-family housing that occurred in Tennessee in 1985, though perhaps at a more modest pace in 1986. However, a turnaround in the apartment and condominium market is unlikely in the near term because of excess space still available. Possible cutbacks in municipal financing of such projects also could slow activity in this area. Nonresidential construction, particularly of offices, is unlikely to accelerate from the slow pace of late 1985, and some declines are possible as local markets pause to absorb the vast amount of office space added in recent years. However, industrial space is in short supply, especially in Nashville. What's more, the planned capital expansion of manufacturing facilities, particularly the Saturn plant, will boost nonresidential construction. Some 4,000 workers will be needed over the next four years to construct the Saturn facility. Construction of retail establishments may also continue to expand, particularly in the Nashville area, which many developers see as a market with great potential for additional shopping centers. In addition, nonbuilding construction, particularly of highways and related improvements, could boost the construction sector in 1986. The state is improving highways to expedite traffic in areas that have been adding offices, hotels, and factories.

Overall, construction will probably experience moderate growth in 1986 and thus could provide a mild stimulus to Tennessee's many building-related industries. And employment gains in the building trades should supplement personal income and thereby boost consumer spending.

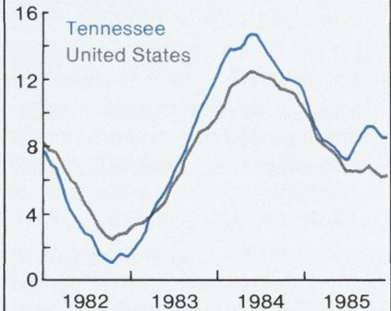
Moderate growth in construction "could provide a mild stimulus to Tennessee's many building-related industries."

The Service Sector

Although manufacturing and construction are important economic sectors, they jointly account for less than one-third of Tennessee's employment. Most of the other economic activity derives from the service sector, which includes retail and wholesale trade, banking and other financial services, transportation and public utilities, and state and local government. Prospects for many of these services will hinge largely on the performance of local economies. Stores in Knoxville, for example, will increase sales and employment in concert with the prosperity of nearby residents but will be affected less directly by developments in Memphis. However, it is worthwhile reviewing the outlook for certain components of this broad service sector. Of particular importance are those such as trade and government, which together account for about two-fifths of the state's jobs; financial services, which play a keystone role in the economy; and tourism, which is less dependent on local economic developments than other services.

Retail and Wholesale Trade. One of the most important results of an upturn in manufacturing employment would be an increase in personal income, particularly in the wages and salary component, a greater stimulant to spending than such categories as transfer payments and returns from dividends and interest. This increase in turn would boost one of the service sector's largest segments—retail trade. As personal income growth decelerated last year, consumer spending slowed from the double-digit pace of 1984 (Chart 5). Department store sales in 1985 were an unadjusted 6 percent ahead of 1984.[7] Except in Chattanooga and Knoxville, sales in major metropolitan areas outpaced statewide growth, and the Tri-Cities enjoyed the largest increase, surpassing even Nashville.[8]

Chart 5. Retail Trade in Tennessee and the United States
(12-month moving total annual percent change)



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

Consumer spending this year will be determined primarily by two factors: advances in personal income and population growth. Personal income gains will depend on the economic performance of the state's key sectors. Manufacturing contributes more to personal income than any other single sector, including trade, which boasts a comparable number of employees. The improved outlook for manufacturing augurs moderately increased consumer spending in the state. The other major determinant of consumer spending, population growth, holds less hope for improvement. From 1980 to 1985, Tennessee's population grew 3.7 percent, whereas the U.S. population expanded by 5.4 percent. Even during the strong economic expansion from July 1984 to July 1985, when in-migration would have been expected to pick up, U.S. population growth continued surpassing Tennessee's. The state's population is projected to outstrip national population gains only slightly from 1980 to 1990, and most of this growth is likely to be concentrated in Nashville.[9] In contrast, Tennessee outpaced the United States during most of the 1970s by a margin of almost 3 to 2. The disaggregated picture is even worse since Knoxville and Nashville have been growing more rapidly, thus pulling up the statewide average. Memphis and the Tri-Cities grew only 2 percent from 1980 to 1984, and Chattanooga lost residents.[10] This pattern seems likely to continue into the future.

In view of the moderate growth foreseen for the state's manufacturing and the scant likelihood of stimulus from population growth, consumer spending should increase in 1986 but not much more rapidly than last year and probably not at the rate experienced earlier in the expansion. Nonetheless, such a moderate advance constitutes respectable performance at this stage of the business cycle. While these prospects seem to suggest increased employment opportunities in retail and wholesale trade establishments, the opposite is more likely since employment in this sector has grown faster than real consumer spending (Table 1). Employment growth in Tennessee's wholesale and retail trade accelerated in 1985 to around 8 percent from a 6 percent annual growth rate in 1984. Retail sales were growing at an annual rate of over 8 percent as of December, but this figure represents a slight deceleration over the year and is not adjusted for inflation, which averaged 3.5 percent nationally. Trade employment nationally grew more slowly in 1985 than in 1984. Thus, some retrenchment in Tennessee's trade employment is likely this year. However, the anticipated growth in personal income and consumer spending should generate higher deposits at banks and thrifts and greater tax revenues, as well as increased demand for loans and miscellaneous services, thereby buoying certain other sectors, particularly state and local governments, financial and other services.

Financial Services. Finance, insurance, and real estate depend partly on the health of the local economy although slowdowns in service industries typically are far less dramatic than in manufacturing. The deceleration Tennessee experienced in 1985 was reflected in loan activity at the state's major financial institutions. According to preliminary data, loans at depository institutions were 13 percent ahead of 1984; in contrast, loan growth in the previous year had been 19 percent.[11] This slower growth was attributable largely to a tapering of real estate lending and a decline in farm loans. Commercial, industrial, and individual loan demand, especially at commercial banks, remained firm.[12] Deposit growth at statewide depository institutions expanded 7 percent in 1985 as compared with an increase of 9 percent in 1984. Employment growth in financial services also decelerated relative to 1984 (Table 1). However, the 5 bank failures that occurred last year were fewer than the 11 in 1984 or the 12 in 1983.

The upturn foreseen in Tennessee's economy this year bodes well for the state's banks, thrift institutions, and insurance companies. Loan demand should firm as business sales pick up and consumers rebuild their finances. However, the modest growth projected for the construction sector, limited largely to single-family housing, could spell only minor improvement, if that, for real estate lenders, brokers, and agents. Also important to the state's financial services industry is legislation passed in 1985 authorizing reciprocal regional interstate banking. A flurry of intrastate merger activity has already shifted the distribution of deposits in favor of the state's five largest banks, although few interstate mergers had been culminated by year-end. Such activity may increase this year in view of the state banking industry's greater stability after two years of widely publicized failures. Such activity might offer Tennessee consumers and businesses a wider array of financial services at more competitive prices but could also slow employment growth as efficiency measures are implemented in the course of integrating institutions across state lines.

Tourism. A small but significant service industry in Tennessee is tourism, which generates more than 70,000 jobs and almost $3 billion a year in business receipts. This represents more than 4 percent of total payroll employment, almost as much as the share accounted for by finance or construction. In addition, tourism adds $145 million to state and local tax coffers.[13] Since more than two-thirds of Tennessee's 39 million tourists come from out-of-state, this industry represents an "export" just as most manufactured goods made in the state are sold to consumers elsewhere.[14] Thus, tourism can propel more expansion than would occur from local population and personal income growth. For example, the average Tennessee family would have had to pay $100 more in state and local taxes to maintain the same level of service in the absence of tourism.

Last year was generally a good one for the state's tourist facilities. Air travel to Tennessee was strong, especially in Nashville and Memphis, which experienced double-digit increases that finally allowed those airports to surpass the volume last achieved in 1979. Airline deregulation and two recessions in the intervening years had reduced passenger volume in many smaller cities. In the last two years that decline has turned around due to the expansion of service to such cities, not only by the major airlines but also by smaller carriers. The sharp increase in Memphis traffic probably reflects Republic Airlines' decision to move one of its regional hubs to the River City. Yet auto travel seems to have fallen in 1985 for the second consecutive year, judging by the decline in visitor center registrations.

Attendance at state attractions was mixed: state and national parks enjoyed a moderate increase in visitations, and the Great Smoky Mountains National Park registered the busiest year in almost a decade. Some private attractions, particularly the largest, also reported substantially increased volume, while others experienced far more modest gains or even reduced attendance.

"Expectations of increased business, convention, and vacation travel point to a good year for Tennessee's tourism industry."

The lodgings industry as a whole did well in 1985, with a considerable gain in aggregate receipts and a general increase in the total number of guests, partly spurred by a healthy convention trade. Still, many individual properties saw occupancy levels decline as a result of a sharply increased number of available rooms. Through November, statewide occupancy levels were 2 percent below last year; however, room rates generally were not discounted.[15]

The prosperity of Tennessee's tourism industry in 1986 will depend largely on nationwide economic developments, but circumstances peculiar to the industry locally will also play a role. If the U.S. economy expands as expected, consumers should be in a good financial position to travel. In addition, the dollar's substantial decline in 1985 should discourage Americans from traveling abroad and foster additional travel to U.S. destinations. Reduced oil prices are another favorable factor since lower energy costs will make transportation by air and auto less expensive.

Among the local factors, perhaps none is more important than American Airlines' decision to establish a regional hub in Nashville. The effects of this type of expansion were felt in Memphis last year with Republic's decision. The capital expenditure in Nashville will be substantial—around $200 million—as will the employment impact. Ultimately the expansion should create more than 1,000 jobs. The new hub will also make air travel to and from Nashville more convenient just as Republic's hub has helped Memphis. This convenience in turn should boost not only business and convention travel but also vacation tourism. Following deregulation of the airline industry and the associated airfare discounts along busy airline routes, more American and Canadian families have been traveling by plane even though autos are still the most popular mode of vacation transport. In addition to generating more vacation travel by air, this trend has encouraged trips to more distant locations. Whether Tennessee benefits as a result will depend not only on the availability of service but also on the degree of competition that emerges. Tennessee cities have not experienced the abundance of discount fares available, say, in Florida.

Notwithstanding the possibility of more convenient and cheaper air service, the relative nationwide decline in air fares and the effects on destination patterns will probably reduce the volume of auto business on which many of the state's attractions and hotels depend. Such a decline would be felt most severely by attractions and hotels in rural areas and along primary arteries used by Canadians and midwesterners traveling to and from Florida. Indeed, increased use of airlines could account for some of the apparent decline in car travelers over the past two years.

In the lodgings sector, room inventories are unlikely to increase as much in 1986 as in the past few years, but many hotel rooms are in the planning stages and likely to come on stream by 1988. Hence, any respite from the pressure on occupancy may prove brief even though the opening of Nashville's new convention center in late 1986 or early 1987 could boost demand and help absorb the new space. Excess capacity is fairly widespread in the hospitality industry nationally and is similar to the surfeit in office construction that has led to high vacancy rates and depressed rental fees. Thus, even if current proposals to build a conference center and convention facility in east Tennessee reach fruition, there could be a number of lean years for nearby hotels and meeting facilities before demand catches up to the much expanded national levels of supply.

Despite these uncertainties, expectations of increased business, convention, and vacation travel point to a good year for Tennessee's tourism industry. That would be a boon not only to activities directly associated with tourism—hotels, travel agencies, airlines, taxis, and attractions—but also to retail establishments, since shopping and eating out are favorite travel pastimes. In addition, a good year in tourism could boost public sector activities by generating additional state and local taxes.

A service that is closely related to the Tennessee tourism industry, and one that should also do well in 1986, is the music industry. The expected national expansion and associated gains in disposable income suggest that U.S. consumers will be able to purchase more records and others products of this industry. Moreover, Tennessee's concentration on the country-music segment of the industry is favored by the demographic trend of an aging population since industry-sponsored market research indicates that country-music buyers tend to be older. In contrast, younger age groups account for a much larger share of overall industry receipts, and their declining proportion of the U.S. population does not augur well for the industry's long-term prospects nationally.

Public Sector. After several years of contraction, Tennessee's public-sector employment expanded in 1985 (Table 1). Nonetheless, government employment remains 7 percent below the peak attained in 1980. State and local governments began expanding their payrolls only in the second half of 1985, when the new fiscal year began for most. Thus, their year-to-date employment growth suggests that state and local governments were growing more slowly than federal government installations in the state, when the opposite was actually the case by the third quarter. Moreover, federal employment constitutes only about one-fifth of public sector jobs.

This year holds promise for continuing expansion of the public sector, especially at the state and local level. The expected pickup in consumer spending both by Tennesseans and out-of-state tourists should boost the state's tax revenues and allow for a moderate increase in expenditures in the 1986 to 1987 fiscal period. The state budget of $5.7 billion for fiscal year 1985 to 1986 represents a moderate increase from the previous year's expenditure. Much of this increase will benefit construction since new funds both for fiscal 1986 and in the proposed 1987 budget have been earmarked for building new prisons or renovating older ones. Conditions in many Tennessee prison facilities have become extremely overcrowded. Considerable highway construction also will be taking place where new factories, offices, and meeting centers are being built. Federal government employment and spending in the state may continue to rise modestly as it did last year; but pressures to reduce federal spending will probably constrain growth in this portion of Tennessee's public sector.

Agriculture and Mining

Although primary sector activities—agriculture and mining—no longer play the dominant role they once did in Tennessee's economy, the value of output produced by farming is at least on a par with the tourism industry. Moreover, employment and output in these industries remain of great significance in certain regions and localities. West Tennessee, for example, in many respects has more in common with the midwestern farm belt than with the industrialized economies of middle and east Tennessee. A number of rural counties in the latter two areas also rely heavily on farming and mining as a primary means of livelihood or as a supplemental income.

Farming. As in the rest of the nation, 1985 was a poor year for Tennessee crop and livestock farmers alike. The major crops grown in Tennessee include tobacco, cotton, corn, and soybeans. Dairy products and pork constitute the major output of livestock farming in Tennessee. The outlook for Tennessee agriculture in 1986 is for a modest improvement. Excess worldwide supplies, depressed commodity prices, the high value of the dollar, reduced demand for U.S. farm exports, and a buildup of financial strains all contributed to the farmers' plight last year.

Soybeans, a leading crop in terms of cash receipts, produced lower profits for farmers last year than in 1984 because of reduced prices, which have been under pressure from excess worldwide supplies and lagged effects of the dollar's high exchange rate on U.S. farm exports. Soybean exports could increase in 1986 in response to the fall in the dollar last year. Moreover, the possibility of lower support prices as a result of the revised federal farm program for soybeans could reduce production. Lower supplies and slightly better demand worldwide should improve the profits of west Tennessee's many soybean growers in the year ahead.

Tennessee's 50,000 tobacco growers, concentrated in east Tennessee and a few middle Tennessee communities, reduced their acreage in 1985, lowering output 7 percent despite above-average yields. American tobacco production has waned in recent years in the face of a reduced export market. Nonetheless, tobacco, which vies with soybeans as the state's leading crop, probably was the most profitable crop in 1985. This industry's prospects depend less on domestic and international market conditions than on the price support program. The dollar's lower value could boost exports of processed tobacco products, but deficit-reduction pressures and the new farm bill cloud the outlook for tobacco growers in 1986.

"1986 holds the possibility of some improvement in Tennessee's economic performance."

Corn was another profitable crop for Tennessee growers last year, although record U.S. corn production depressed prices and limited the profits garnered by Tennessee farmers despite their record yields. Abundant corn supplies nationally will probably keep prices low in the year ahead, but some possible improvement in exports could help firm prices as the year progresses. Given the yield advantage held by Tennessee corn farmers, even a moderate upturn in prices could advance profits relative to 1985.

Tennessee dairy farmers, like their colleagues elsewhere in the nation, responded to lower price supports last year by increasing production to maintain their income. Unlike tobacco farmers, dairy farmers could take advantage of lower feed costs to increase their yields and thereby boost total output and revenues. Despite lower feed costs, 1985 proved to be less profitable than 1984 because of the absence of price supports. This year, an assessment of production to defray costs of the federal dairy program may reduce profits further and encourage dairy farmers to participate in the government's herd buyout program. Therefore, the outlook is for a repeat of last year's performance—profitable but not on the scale of previous years.

Pork farmers' profits were constrained in 1985 by weak hog prices, but sharply lower feed costs improved profitability somewhat relative to 1984. A number of conflicting factors make the outlook for 1986 more clouded. Pork supplies are likely to be reduced, for instance, thereby boosting prices. Yet lower support prices, along with the absence of a paid diversion program, suggest reduced profits.

Mining. As projected last year, coal—the main product of Tennessee's mining industry—did not sustain the growth experienced earlier in the recovery. Coal production rose modestly compared with the sharp gain in 1984 output.[16] Mining employment, almost half of which involves extraction of coal, fell relative to 1984 levels in response to reduced demand by local utilities, which consume most of Tennessee's coal (Table 1).[17] Primarily because of lower industrial consumption, kilowatt hours fell in 1985 after two years of growth. Meanwhile, increased competition from more technologically advanced foreign producers and slackened demand for energy in general has reduced demand for another Tennessee energy product, uranium fuel for nuclear reactors. As a result, the Department of Energy closed the uranium enrichment plant in Oak Ridge last year. A resurgence in manufacturing activity in 1986 could boost demand for coal, but the mining sector's relatively small size will limit the impact of such an improvement on the Tennessee economy.

Summary

In conclusion, 1986 holds the possibility of some improvement in Tennessee's economic performance over 1985. Expected nationwide growth in construction and net exports should buoy the state's important manufacturing sector. This, in turn, should boost personal income and thus consumer spending for goods and services in the state, including those offered by financial institutions, retail establishments, and travel and entertainment facilities. Agriculture could also show modest improvement as a result of the dollar's lower value and the associated rise that might occur in farm exports. Tourism, too, could benefit from the dollar's depreciation and lower oil prices may encourage more Americans and foreigners to vacation in the United States. Single-family and industrial construction will probably expand at a moderate pace, but office, apartment, and condominium building is unlikely to be a source of growth in the coming year.

NOTES

[1] State unemployment rates are seasonally adjusted by the Federal Reserve Bank of Atlanta; other state labor data are unadjusted.

[2] U.S. Department of Commerce, Bureau of the Census, *County Business Patterns, 1983: Tennessee* (Government Printing Office, April 1985), table 1B.

[3] Computed by the Federal Reserve Bank of Atlanta from data released by the Tennessee Department of Economic and Community Development and the U.S. Department of Commerce, Bureau of Economic Analysis, *Local Area Personal Income 1978-83*, vol. 6 (GPO, June 1985), table 5.

[4] U.S. Department of Commerce, International Trade Association, *1986 U.S. Industrial Outlook* (GPO, January 1986), p. 27, section 13.

[5] Aladdin Resources, Inc., *Nashville Office Market Report*, Third Quarter 1985 and Coldwell Banker, *Office Building Real Estate Data*, September 30, 1985.

[6] Frank L. Smith Co., *Nashville Warehouse Report*, February and August 1985 and Coldwell Banker, *Industrial Real Estate Data*, September 30,1985.

[7] U.S. Department of Commerce, Bureau of the Census, *Monthly Retail Trade*, table 6, various issues.

[8] *Monthly Retail Trade*, table 8, various issues.

[9] U.S. Department of Commerce, Bureau of the Census, *Provisional Projections of the Populations of States, by age and sex: 1980 to 2000* in Current Population Reports, Series P-25, No. 937 (GPO, August 1983), table 1.

[10] U.S. Department of Commerce, Bureau of the Census, *Pattern of Metropolitan Areas and County Population Growth: 1980 to 1984* in Current Population Reports, Series P-25, No. 976 (GPO, October 1985), table 2.

[11] Board of Governors of the Federal Reserve System, *Consolidated Report of Condition and Income*, September 30, 1983, 1984, and 1985.

[12] Board of Governors of the Federal Reserve System, *Report of Transaction Accounts, Other Deposits, and Vault Cash*, 1983, 1984, and 1985.

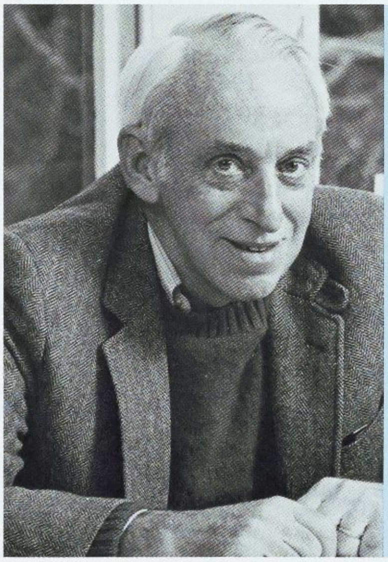
[13] U.S. Travel Data Center, *The Economic Impact of Travel on State Economies* (Washington, D.C., 1985), tables 5, 9, and 12.

[14] U.S. Travel Data Center, *The Impact of Travel on Tennessee Counties* (Washington, D.C., 1985), pp. i and iii.

[15] Pannell, Kerr, and Forster, *Trends in the Hotel Industry*, (Memphis, August 1985), p. 2.

[16] U.S. Department of Energy, Energy Information Administration, *Weekly Coal Production*, (GPO, December 7, 1985), table 3.

[17] *County Business Patterns*, table 1B.



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LOUISIANA

The Worst May Not Be Over

William J. Kahley and Gustavo A. Uceda

Plummeting oil prices spell more bad news for Louisiana's economy as the energy-dependent state struggles to diversify.

Louisiana's economic outlook this year, as in recent years, is less optimistic than that of the United States as a whole. A deterioration of the energy sector so crucial to Louisiana's overall economic strength will keep the state's unemployment rate above the nation's, as it has been since early 1981.

Energy remains the key to Louisiana's future. If energy prices halt their tailspin and stabilize this year, its economy could renew its climb out of recession following a relapse in 1985, when virtually no local sectors exhibited strong activity. Despite moderate national economic expansion, Louisiana's economy slumped in response to renewed energy price weakness. Of course, if the recent sharp decline in energy prices holds, the state's economy probably will ratchet downward again, widening the disparity between healthy growth nationally and retrenchment in Louisiana.

In our annual outlook article on Louisiana last year, we noted that the state's undiversified economy simply could not advance robustly without strength in the oil, gas, and petrochemical industries. We concluded that its economic performance in 1984 represented an extreme example of the consequences of depending upon a volatile economic sector, and that it would not keep pace with the national economy in 1985 because of softness in energy prices.

Even with stabilization of energy prices this year at February levels, the important oil and gas drilling and exploration activities are sure to decline, making it even more difficult for suppliers of oil and gas field equipment and services to stay afloat. These industries are still shrinking in response to previous price cuts. The declining energy sector will prevent mining and non-building construction from improving and will strain further state and local government budgets, already far out of balance, necessitating spending cuts and fewer public sector jobs. Moreover, energy is so important in Louisiana that a shrinking energy sector practically ensures that overall income and spending will increase modestly at best, thus holding down the growth of general economic activity. All this is made worse because Louisiana's private sector infrastructure, consisting of offices, hotels, shopping centers, and industrial buildings, is underused, and thus there is little likelihood that business fixed investment will grow much either this year.

Weak general economic growth means that service sector employment will grow only slowly, because modest job gains in trade and business services are mostly offset by declining jobs in government and transportation, communications, and public utilities. It also means sluggish personal income growth that limits expansion of consumer spending on department store items, cars, and

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

other goods and services. Fortunately, the retail sector is likely to be helped by an improved outlook for convention and tourism business this year—a possible shot in the arm for overall activity.

International trade constitutes one of the most promising areas in 1986, while Louisiana's nonenergy natural resource industries face an uncertain year. The declining dollar could help generate more export sales across the board and simultaneously cool imports; on balance, port activity should pick up steam.

The outlook for agriculture and fishing is always clouded by the vagaries of weather patterns here and abroad. Besides the caprice of nature, Louisiana farmers and fishermen will be watching the strength of economic rebounds abroad, hoping for better markets and improved prices for their produce.

In forestry and downstream forest products industries, Louisiana producers' outlook is improved because of an expected strengthening of home-building nationally, but it is tempered by strong competition from Canadian firms and other U.S. producers of building materials, pulp, and paper, and by the expected slow growth of the local home-building market.

Louisiana's battered manufacturing sector appears to have some bright spots this year. Declining employment in petroleum refining and in the even more important chemicals and allied products industries may have bottomed out. Some other industries, such as food and paper, may pick up this year. These industries could be helped by improved international competitiveness due to the declining dollar and the low cost of inputs. Durable goods industries will benefit from increased defense spending and from lower energy costs, important in producing and forming metal products.

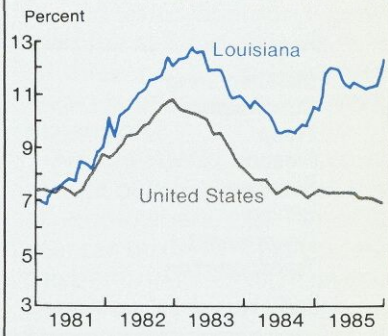
1985: The Year in Retrospect

The sudden moderation in national economic growth that began after mid-1984 proved disastrous for Louisiana. Removal of this prop to Louisiana's economy exacerbated weakness in an economy already experiencing slack demand for locally produced agricultural and manufactured exports. Slow recoveries abroad and the strong dollar limited the growth of world trade through Louisiana's important seaports, trade already crippled by a worldwide food, energy, and mineral commodity glut. Protracted commodity price deflation in 1985, especially for energy products, crippled the state's economy, sapping the vigor of recovery and paving the way for renewed decline.

With the energy and international trade sectors unable to rebound last year, and with Louisiana's manufacturing, construction, and service industries unable to expand because of slow-growing national markets, economic contraction was inevitable. The state lacked even the tourism push that the disappointing Louisiana World Exposition provided in 1984.

The United States staged a powerful rebound in 1983 and much of 1984 from one of its worst recessions. By the fourth quarter of 1984 nonagricultural employment was nearly seven million above its level in the final quarter of 1982. Employment growth over the next 12 months then slowed to about 3 million, and the nation's unemployment rate fell only moderately as the expansion weakened (Chart 1).

Chart 1. Unemployment Rate



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

Louisiana's joblessness, frequently out of step with the nation's because energy looms so important in its economy, diverged dramatically from the nation's rate in recent years. Indeed, the spread between the U.S. rate and Louisiana's rate has been increasing by about one percentage point a year since early 1982. (Drilling activity collapsed at the beginning of 1982, dragging the Louisiana economy down with it, nearly a year after oil prices began to fall because of significantly reduced oil consumption and the availability of new supplies.) By year-end 1985, Louisiana's unemployment rate was nearly five percentage points higher than the nation's.

Employment actually declined in Louisiana in 1985 in all the goods-producing sectors as well as transportation, while only manufacturing and mining employment declined in the nation (Table 1). Louisiana has a relatively high proportion of its employment concentrated in mining, construction, and transportation, with many energy-related economic activities in each of these sectors. Within manufacturing,

Table 1. Employment Growth and Shares in Louisiana and the United States

	Percent Growth, 1984-1985*		Percent Share 1985*	
	United States	Louisiana	United States	Louisiana
Manufacturing	−0.9	−6.9	19.4	10.8
Construction	6.5	−5.4	4.7	6.8
Trade	3.5	0.3	24.2	24.6
Finance	5.0	1.3	6.1	5.3
Services	5.8	1.0	22.5	19.9
Mining	−2.2	−5.3	1.0	4.9
Government	2.7	0.3	16.8	20.6
Transportation	2.1	−3.5	5.4	7.2
Total Nonfarm Employment	3.1	−1.3	—	—

*December data.

Source: U.S. Bureau of Labor Statisitcs, *The Employment Situtation*, and Louisiana Department of Labor, *Louisiana Labor Market Information*, January 1986.

petroleum refining and chemicals production from energy feedstock account for an unusually high share of jobs relative to the nation. Since 1981, the state has lost nearly 110,000 jobs in mining, manufacturing, construction, and transportation, most of them related to contraction in the energy sector.

Before oil prices began to slide in January, employment in Louisiana promised to begin a modest recovery in 1986, if only because the state's economy had diminished. Now, the state's economy is in danger of contracting even more. By the end of 1985, nonagricultural employment had declined below its level five years earlier. Sustained expansion in the United States and a pickup in other economies may spill over to Louisiana if oil prices firm, though the climb to prosperity is likely to be slow even if energy prices stabilize.

Local Labor Market Developments

Unemployment in Louisiana is more concentrated in smaller parishes and in south Louisiana. Lake Charles was the only metropolitan area in Louisiana showing a jobless rate higher than the state's throughout 1985. By contrast, nearly two-thirds of the smaller labor market areas posted above-average rates. Three-fourths of Louisiana's parishes with total labor forces under 40,000 experienced double-digit unemployment rates in late 1985 compared to half of the metropolitan areas.

The smaller parishes also have experienced a relatively larger rise in unemployment compared with their city cousins, reflecting underlying differences in industrial structure. Stable and growing service industries cluster in urban or metropolitan areas for obvious location advantages. Rural areas are more likely to depend on a single resource—typically one occurring naturally in the area—for their economic base. Delta farmland, pine forests, mineral deposits of oil and gas or salt, and fishing streams and bayous are prominent examples of resource bases for selected parishes.

The pattern of natural resource distribution can, of course, influence labor market conditions dramatically even among metropolitan areas, as Louisiana demonstrates. Labor market conditions are worse for both the smaller labor market areas and the metropolitan areas of south Louisiana dominated by energy concerns compared to the more diversified economies of north Louisiana. Among parishes with small populations, most with unemployment rates below the state average are in north Louisiana, even including some in which the forest products industry is crucial. Exceptions include the farming-dependent northeast Delta parishes, with relatively high unemployment, and a few southern parishes that prosper from fishing or agricultural programs aided by government price supports.

Unemployment rose in all of Louisiana's metropolitan areas in 1985 (Table 2). The rate increased least in Lake Charles, but its rate was still the highest in the state by a wide margin throughout the year. Labor force growth data for metropolitan areas also illustrate the disparity between the energy-dependent southern and the more diversified northern

Table 2. Labor Market Conditions, United States and Louisiana*
(Thousands)

Area and Employment	December 1985	December 1984	Percent Change 1984-1985
United States			
Civilian Labor Force	115,780	114,028	1.5
Employed	108,063	106,049	1.9
Unemployed	7,717	7,978	–3.3
Rate (percent)	6.7	7.0	—
Louisiana			
Civilian Labor Force	1,965.2	1,893.4	3.8
Employed	1,738.3	1,707.7	1.8
Unemployed	226.9	185.7	22.2
Rate (percent)	11.5	9.8	—
Alexandria			
Civilian Labor Force	63.6	60.7	4.8
Employed	57.7	55.6	3.8
Unemployed	5.9	5.1	15.7
Rate (percent)	9.3	8.3	—
Baton Rouge			
Civilian Labor Force	261.8	249.3	5.0
Employed	234.5	227.8	2.9
Unemployed	27.3	21.5	27.0
Rate (percent)	10.4	8.6	—
Houma-Thibodaux			
Civilian Labor Force	83.0	84.6	–1.9
Employed	74.1	76.6	–3.3
Unemployed	8.9	8.0	11.2
Rate (percent)	10.7	9.4	—
Lafayette			
Civilian Labor Force	108.5	108.1	0.4
Employed	98.6	100.3	–1 7
Unemployed	9.9	7.8	26.9
Rate (percent)	9.1	7.3	—
Lake Charles			
Civilian Labor Force	73.1	74.1	–1.3
Employed	63.6	64.7	–1.7
Unemployed	9.5	9.4	1.1
Rate (percent)	13.0	12.6	—
Monroe			
Civilian Labor Force	64.9	61.1	6.2
Employed	58.3	55.8	4.5
Unemployed	6.6	5.3	24.5
Rate (percent)	10.2	8.7	—
New Orleans			
Civilian Labor Force	569.9	561.4	1.5
Employed	508.2	506.6	0.3
Unemployed	61.7	54.8	12.6
Rate (percent)	10.8	9.8	—
Shreveport			
Civilian Labor Force	164.5	158.5	3.8
Employed	144.7	146.8	–1.4
Unemployed	19.8	11.7	69.2
Rate (percent)	12.0	7.4	—

*Data not seasonally adjusted

Source: U.S. Bureau of Labor Statistics, *The Employment Situation;* Louisiana Department of Labor, *Louisiana Labor Market Information,* January 1986.

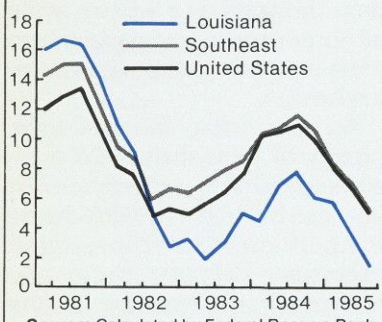
sections of the state. Baton Rouge was the only metro area out of five in south Louisiana that experienced faster labor force growth than the state as a whole, while all three north Louisiana metro areas experienced above-average expansion.

An anecdotal, but accurate, picture of Louisiana's bleak overall employment experience last year can be drawn by considering the performances of Shreveport and New Orleans. These two metropolitan areas are at the extreme northwest and southeast corners of the state, respectively. The Shreveport area held its own until a major telecommunications company laid off 3,052 people in the second half of the year at its consumer products plant, increasing unemployment sharply by year-end. In New Orleans, where the oil and gas industry is of paramount importance, employment was lower in all eight major employment sectors in December 1985 from the levels a year earlier. Renewed weakness in mining, construction, manufacturing, and transportation employment, associated with the energy glut, pulled down the number of jobs in trade, finance, government, and service, as well.

Population, Income, and Consumer Spending

Louisiana's relatively poor economic performance since oil prices began to decline in 1981 is reflected in its pattern of income and spending growth. For example, personal income growth has been consistently below that of the nation since mid-1982 (Chart 2). As of October, Louisiana's personal income had grown only 1.5 percent in the previous 12 months, one of the smallest gains in the nation. By contrast,

Chart 2. Personal Income Growth
(Annual percent change)



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

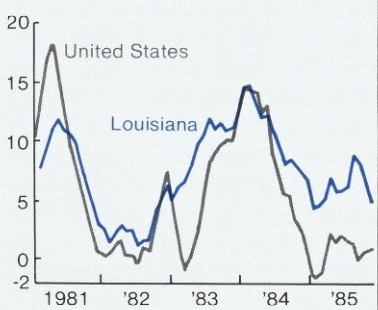
personal income nationally grew by 5 percent over the same period.

These comparisons may be even more unfavorable when income growth is considered on a per capita basis. Louisiana, one of the fastest growing states in terms of both income and population before mid-1982, has been one of the slowest growing since that time. According to the U.S. Census Bureau, Louisiana gained more than 60,000 people, mostly workers, from migration in the April 1980 to July 1982 period, plus more than 100,000 from the natural increase of the state's population. In the next two years, however, the state gained only about 90,000 people overall and actually experienced a net loss of 5,000 from migration. The post-1982 pattern of slowing population growth and net out-migration undoubtedly continued in 1985 and likely will endure into 1986.

Louisiana's per capita income growth has slowed absolutely and relative to the nation as a result of unfavorable economic and demographic shifts. Before 1982, the state's booming economy attracted outside workers who fueled economic growth as they bought homes, cars, and other goods and services in Louisiana. Now, the contracting economy is causing workers to flee to other states in search of jobs. (Supposedly, entire trailer parks have moved from the state.) Worker flight helps cool activity further, making it even more difficult for the economy to stabilize and rebound.

Louisiana has underperformed the nation in retail trade activity since early 1982 (Chart 3). More worrisome is the fact that Louisiana's spending performances began to diverge further from the nation's in 1985. Total retail spending in Louisiana rose a mere 0.9 percent in 1985, while sales nationally were up 6.2 percent. In the same period, department store sales in the state's two largest metropolitan areas, New Orleans and Baton Rouge, increased only 2.3 percent and 1.9 percent compared with 4.5 percent for the nation. In response, many small retailers and even large retail store chains have been closing. In New Orleans, a major department store closed its downtown store after nearly 150 years, and the opening of a major retail market place at the river has been postponed to September 1986.

Chart 3. Retail Trade
(Annual percent change)



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

Louisiana's consumer spending could show modest growth in 1986 if general economic conditions improve and the state's economy begins to respond to national expansion. But a fast growth rate would be somewhat illusory, due partly to a weakened starting base. Retailers, whose fears were realized with slumping sales last year, are doubly cautious this year as a consequence. In addition, Christmas 1985 sales apparently failed to reverse the slowdown in retail activity.

Oil and Gas

Louisiana's oil and gas industry, which underpins the state's general economy, began a shaky recovery in 1984 but then slipped again last year. Drilling permits, the number of active drilling rigs, and crude oil production all rebounded in 1984 as energy consumption increased with the rapid national economic expansion. Drilling costs fell, and oil extraction productivity increased. Regrettably for Louisianans, crude oil prices declined for a fifth consecutive year as demand proved to be weaker than anticipated, and new oil supplies and enhanced recovery from old wells generated a glut in the market. Even worse, prices plummeted in January 1986.

The industry adjusted to the more bearish energy situation last year by reducing applications for permits nearly 15 percent in the first half of the year from the same period in 1984. While the Hughes Tool Company's Louisiana oil rig count increased nearly 10 percent in 1984 from 1983's depressed level, the number actually working was still one-third fewer than the 487 peak of December 1981. In 1985, the number of active rigs dropped steadily to around 250 in October before rebounding to 280 in December, when drilling activity is at a seasonal peak. Unfortunately, many industry observers speculated at year-end that the rig count would fall even lower in 1986, and the January price decline certainly reinforced that fear.

A widespread oil price war and renewed uncertainty about tax law changes that could reduce tax benefits to the energy industry were said to be discouraging exploratory drilling despite sharply lower drilling costs. In response to slumping energy prices and meager oil and gas prospects, oil companies offered record-low bids at a federal auction of drilling rights in the Gulf of Mexico at year-end. Presumably, the low bids were prompted by the accurate supposition that members of the Organization of Petroleum Exporting Countries (OPEC) would agree in December to risk a reduction in oil prices in pursuit of a "fair share" of the world market.

Now that declining oil prices have signaled that the war is on, Louisiana's already staggering economy is in danger of suffering substantially more.

The impact of lower crude oil prices will, of course, depend on the magnitude of the ultimate decline, but the ripple effect no doubt will be negative in 1986. A significant sustained drop would cause the construction industry to contract more, increasing pressure on the oil and gas service supply industry. Beyond the immediate effects on these industries directly related to oil exploration, drilling, and production, falling prices will damage the already threatened fiscal health of Louisiana's state and local governments that depend so much on oil revenues and ultimately its entire industrial structure. The energy sector's pervasive importance in Louisiana extends even to business services employment, much of which actually represents business contract employment for the maintenance and operation of oil and gas and petrochemical facilities. This employment also will drop if the oil price decline proves to be more than temporary.

Manufacturing

Manufacturing employment in Louisiana has declined more sharply than in the nation since 1980, and the situation worsened in the state in 1985. There were 73,000 fewer non-agricultural jobs in Louisiana in December than there were four years earlier, a 4.4 percent drop. Nationally, jobs increased by 8.3 million over that same period, or by 9 percent. But in manufacturing, the number of jobs in Louisiana declined by about 51,000, or by nearly 22 percent, compared with 330,000 lost nationally, or 1.7 percent. Within manufacturing, about two thirds of the Louisiana jobs were lost in just four industry groups: 8,100 in chemicals and allied products (-23 percent), 6,200 in food and kindred products (-23 percent), 7,300 in fabricated metals (-37 percent), and 10,600 in transportation equipment (-34 percent).

These losses are attributable almost entirely to the abrupt retrenchment of oil and gas operations and port activities from boom levels at the turn of this decade. Widespread layoffs and shutdowns of manufacturing plants across the state that supply these industries occurred as the early 1980s recessions spread and deepened. Later, the strong dollar limited exports of food and chemicals to foreign markets and the growing energy pool idled drilling rigs, workers who build, service, and supply them, and the entire shipping industry.

Louisiana's manufacturing employment experience in 1985 was bleak. Nationally, manufacturing employment dropped by 1 percent in the 12-month period ending in December. In Louisiana, employment fell 6.9 percent and none of its major industries gained employment in the 12 months ending in December 1985 (Table 3). Conditions eroded significantly more in the important electric and transportation equipment industries and in the paper, petroleum, and chemicals industries. The hope in Louisiana is that falling oil prices will enable these energy-using industries to stabilize.

The performance of manufacturing companies not closely linked to oil exploration and drilling should improve this year. One stimulant nationally and locally 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 are substantial and of growing importance, particularly to New Orleans' economy.

The military, including the Corps of Engineers, is a major employer in New Orleans. The Air Force maintains bases in Alexandria and Shreveport, while Fort Polk is a major U.S. Army installation in Leesville. Numerous companies in these and other parts of the state supply local bases or military needs elsewhere. Some large shipbuilding and aerospace firms in the state are benefiting from Navy contracts to

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

	December 1985	December 1984	Absolute Change 1985-1984
Manufacturing	171.6	184.3	−12.7
Durable Goods	77.6	85.7	−8.1
Lumber and Wood Products	13.0	13.3	−0.3
Furniture and Fixtures	0.9	1.0	−0.1
Stone, Clay, and Glass Products	7.4	8.1	−0.7
Primary Metals Industries	3.5	3.6	−0.1
Fabricated Metals Products	12.3	12.6	−0.3
Machinery, Except Electrical	9.5	10.1	−0.6
Electric and Electronic Equipment	7.5	11.5	−4.0
Transportation Equipment	21.0	22.9	−1.9
Other	2.5	2.6	−0.1
Nondurable Goods	94.0	98.6	−4.6
Food and Kindred Products	21.5	21.8	−0.3
Apparel and Other Textile Products	9.1	9.6	−0.5
Paper and Allied Products	10.8	11.9	−1.1
Printing and Publishing	10.2	10.2	0
Chemicals and Allied Products	26.8	28.5	−1.7
Petroleum and Coal Products	11.9	12.9	−1.0
Other	3.7	3.7	0

Source: Louisiana Department of Labor, *Louisiana Labor Market Information*, January 1986.

build troop and fleet oiler ships, coastal mine sweepers, space ship fuel tanks, and other military or space hardware. This work helps cushion the still declining employment in shipbuilding and repair from lost energy-related business.

The falling foreign exchange value of the dollar in 1985 should help Louisiana manufacturers who produce for world markets, and the drop in mortgage interest rates similarly should help manufacturers who sell to homebuilders. Rebounding homebuilding activity this year would stimulate construction-related industries. 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.

Some Louisiana manufacturers would profit from both the dollar's decline and the homebuilding boost. Lumber and wood products industries that compete with foreign and domestic producers for business are prominent examples, as are paper and allied products and printing and publishing. However, the Canadian dollar actually fell against the U.S. dollar in 1985 and Canadian producers are major competitors for U.S. manufacturers of forest products and related goods. The food products industries, meanwhile, should benefit substantially and they could expand market share abroad and compete more effectively in the United States against foreign imports. A variety of durable metals and machinery industries also will find competition easing from foreign producers.

The state's largest industrial employer is the chemical industry, which accounted for 15 percent of all manufacturing jobs in the state and nearly 30 percent of all nondurable manufacturing jobs at year-end. Despite losing 8,100 jobs in the last four years, this industry's share of manufacturing employment is unchanged. (This fact also serves to point out the significant decline in overall manufacturing employment in Louisiana in recent years). Last year, the state lost about 1,700 chemical jobs as the national pace of growth moderated from 1984, lessening the amount of chemicals needed as inputs in the production of industrial and consumer goods.

International economic developments, however, have played an even larger role in shaping the chemical industry. The sustained rise in the dollar's value from 1980 until early 1985 made U.S.-produced chemicals much less competitive in domestic and foreign markets. Also, the worldwide energy boom dealt a double-barrel blast at the U.S. chemical industry. Soaring oil and gas prices raised the cost of feedstock to the world's major chemical firms, virtually all of which are located along the Mississippi River between Baton Rouge and New Orleans to gain access to nearby energy supplies. In addition, as oil and gas became more expensive, energy producers in other parts of the world earned more money to build expensive competing chemical plants. In some cases they even have used as feedstock natural gas that earlier was "flared," or burned, in the course of extracting oil.

The oil glut and gas "bubble" that is dropping the relative cost of gas feedstock should help U.S. chemical producers in 1986. Continued depreciation of the dollar should also help improve U.S. chemical producers' ability to sell in world markets as well as at home. Finally, heavy investments undertaken abroad over the past 10 years should begin to level off in the long run. Further, significant additions to foreigners' capacity would require sharply higher investments and would strain available supplies of skilled personnel to keep operations staffed.

In the longer term, many of Louisiana's big chemical companies are gearing up to produce more engineering-intensive specialty products to counter the still-growing foreign competition in the production of low-cost bulk chemicals. With additional foreign capacity coming on-line in petrochemicals, however, competitive pressure is unlikely to ease substantially this year. Just last year, for example, Saudi Arabia added substantially to the world's petrochemical capacity, and it will take some time for growing demand to absorb this capacity.

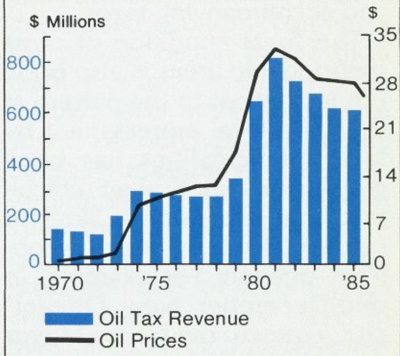
One positive factor for fertilizer producers this year is a likely increase in demand from farmers in the United States and abroad. A faster-growing world economy should encourage farmers to plant more crops and use more fertilizers. Expanding food production worldwide also should help stimulate pesticide and herbicide sales, particularly to foreigners, since the dollar has lost some of its strength against other currencies.

Unfortunately, the industrial improvements likely to develop as the year unfolds may provide too little boost to reduce the state's high unemployment rate substantially. The gains expected are too slight in too few industries. Essentially, too much manufacturing in the state is linked to the energy sector, which is likely to weaken even more.

Government

Louisiana's business and government leaders have been developing strategies and programs to help the state's economy diversify enough to avoid the sharp swings caused by its dependence on energy. Unfortunately, in recent years state and local officials have been preoccupied with budget crises that have accompanied the oil price declines. Historically, the key to the state's fiscal health has been the revenue that comes from the energy sector in the form of severance taxes, royalties, and bonuses from oil and gas production. When oil and gas prices rose sharply in 1973 to 1975 and 1979 to 1981, state revenues soared; more recently, these revenues have

Chart 4. Oil Tax Revenue and Prices Per Barrel of Light Arabian Crude Oil



Source: *Petroleum Intelligence Weekly*, various issues and *Louisiana Taxation* in Biennial and Annual reports, 1970-1985.

dropped along with the price of oil (Chart 4).

State and local government officials have coped with successive years of budget crises in 1982 to 1983 and 1985 to 1986 by freezing employment, attempting to cut real public spending, and raising taxes. Governor Edwin Edwards responded to the most recent fiscal squeeze by imposing a hiring freeze and proposing casino gambling in New Orleans and a state lottery that together would raise $500 million a year in taxes.

According to estimates made by the state's legislative fiscal office in late 1985, the state was expected to end this fiscal year $190 million in the red, after incurring a $20 million deficit in fiscal 1985. Consequently, state payrolls were expected to remain flat or decline for a fourth consecutive year. Now, employment almost certainly will drop since the price of oil has declined to about half the $27.50 price that underlies the current budget. Each dollar reduction below that price curtails state revenue by $25-$30 million as royalties and severance taxes fall. An equal amount is probably lost as a consequence of the resulting slowdown in economic activity and accompanying taxes.

The fiscal condition of most metropolitan areas is also poor, but in contrast to the pattern at the state level employment by local municipalities has been growing despite budget difficulties. That expansion is likely to cease in 1986 as budget problems deepen. For example, in mid-December New Orleans' city council overrode Mayor Ernest Morial's veto of a pared-down $288 million budget that mandated nearly 500 fewer city jobs. Budget cuts in Baton Rouge will mean 560 fewer public jobs this year. These cutbacks were hastened because state and federal revenue sharing programs are shrinking, while local governments must begin to pay all of their employees at least the federal minimum wage.

The fiscal straitjacket pressed on Louisiana municipalities and the state government is unfortunate because the state's economy is particularly vulnerable to international economic developments, including the foreign exchange value of the dollar, the volume of world trade, and the world price of oil. These factors, obviously outside Louisiana's control, cause the state's economy to soar (or crash) depending on conditions in these international markets. One way to address this problem would be to frame government budget policies that are more in tune with the entire business cycle rather than policies that spend freely during prosperous times and then retrench sharply during downturns.

Another fundamental strategy to ease the dependency upon a few volatile economic sectors would be, of course, to diversify the state's economic base. The current strategy for economic development appears to be moving away from traditional "smokestack-chasing," competing against many other state or local development agencies to attract a limited number of new plants or plant relocations by large companies. According to Louisiana's Secretary of Commerce, about 15,000 sites were available nationally last year for 1,800 such plant relocations.

In place of a scattergun approach to attract industry, Louisiana officials are focusing on industries that have the greatest growth potential, given available resources, or that can build on existing resource strengths. For example, New Orleans' economic development council's direct marketing program is designed to attract national and international companies in six specific industries. These industries include biotechnology-related, offshore and petrochemical, food processing, electronics, office operations, and national or international location consultants.

The strategy of identifying and assisting targeted outside firms in their location decisions or nurturing new or expanding firms is appealing, but numerous potholes mar this road to development. For example, the state suffers from a reputation for poor schools, despite high spending on a per capita basis compared with other southern states. The Governor's Economic Development Commission's report, *Tax Policy for Economic Development*, issued in November 1985, recommends against reducing funds for education to cope with the fiscal crisis. In this environment, however, spending for education seems unlikely to rise; and yet, according to a special report issued by the Louisiana Association of Business and Industry in September 1985, "an abysmal public education system... stand(s) in the way of attracting labor-intensive manufacturing needed to diversify the state's economy."

Louisiana's geographic location works against it as a site for manufacturing many consumer or industrial goods for national markets, impeding the state's ability to diversify. In addition, as the Governor's Economic Development Commission points out, "Louisiana's business taxes impose a heavy burden on new investments; state government spending levels are relatively high for services obtained; and a clean-up of the state's physical environment is necessary to encourage economic development."

Construction

Louisiana's construction employment dropped to about 108,000 in December 1985 from around 115,000 in the same month of the three previous years and from employment in the 136,000 to 140,000 range in December of 1979 to 1981. By contrast, construction employment nationally topped the five million mark for the first time in the fall of 1985.

Construction employment in Louisiana, like many other economic activities, is closely linked to employment in the oil and gas industry. Important segments of the energy exploration, drilling and production process are classified as construction. When the oil industry was booming in the 1979 to 1981 period, construction employment in Louisiana was high relative to the nation. Moreover, the energy boom attracted workers who needed homes and offices as New Orleans became the head office for major oil companies' offshore drilling operations in the Gulf, and all of south Louisiana became a hub for building, transporting, and using a growing number of drilling rigs.

When oil prices began to tumble in 1981, spreading its impact on economic activity in 1982, the performance of construction nationally and in the Pelican State began to diverge. That divergence increased as construction related to the World's Fair ended, and widened even more with a second round of oil price cuts that swept the world in 1984 and 1985.

Construction seems unlikely to grow much, if at all, this year, largely because of the latest round of oil price cuts. Capital spending plans for 1986 generally are being deferred or scaled back in many of the nation's industries; in Louisiana, where economic activity has been extremely weak, non-energy sector industrial building should move forward, but slowly. Office and hotel building, meanwhile, probably will decline. Vacancy rates are nearly as high in New Orleans, Baton Rouge, and some other Louisiana metro areas as in some of the more publicized "overbuilt" parts of the country. Moreover, the possible reduction in tax advantages to commercial building could curtail some development plans.

Federal government budgeting restraint on public construction programs will help limit such spending in Louisiana this year. The state also will be trying to rein in public works spending to keep expenditures in line with revenues. Proposals to halt some capital spending or tighten controls on public projects such as school construction are likely to dominate state legislature debates over the budget.

The outlook for home building may be construction's best bet for 1986, along with some improvement in industrial building. If mortgage rates stay near current levels, housing construction could add strength to the state's economy in 1986. Last year, the value of residential building dropped nearly one-fourth and the amount of new space declined by almost one-third; thus, growth would come on top of a weak base.

Tourism

Tourism is a small but important sector of Louisiana's economy; it is especially important in New Orleans, where millions of visitors flock yearly. New Orleans has a reputation as one of the nation's best "party cities," and the ill-fated World's Fair in 1984, while not a financial success, was judged to be highly entertaining. Visitors are likely to add support to Louisiana's economy this year.

Last year was not a good one for tourism, largely because the World's Fair "borrowed" visitors from 1985. In addition, slowing national economic growth adversely affected travel since tourist services are bought largely by out-of-state consumers. Tourism is potentially beneficial for Louisiana, because it depends on national rather than local markets and is a stable, growing economic activity compared with other industries.

The weak performance of tourism in 1985 caused hardship and bankruptcy for restaurant and lodging businesses, particularly in New Orleans. This year should bring significant improvement. (The National Restaurant Association projects an 8.2 percent gain in restaurant sales this year compared to a 7.5 percent gain nationally.) If, as anticipated, the national economy continues the pickup begun in the third quarter of last year, consumers should have more income to spend on purchases, including travel. Furthermore, the sharp decline in the dollar's value in 1985 should discourage Americans from traveling abroad in the great numbers of recent years and encourage more travel in the United States, both by Americans and foreigners.

Despite the troubles of individual hotels and restaurants last year, the outlook for New Orleans' hotel industry is for healthy improvement. This year, New Orleans began with the Sugar Bowl game, then hosted the Super Bowl for the first time since 1978, and celebrated this winter with its annual Mardi Gras celebration. Another sign of strength is an expected 20 percent increase in convention and trade show attendance. This increased activity will give a welcome boost to 1985's disappointing hotel occupancy levels—a result of the extremely rapid increase in hotel rooms and the oil industry downturn that depressed business travel to the state.

The opening of a first rate convention center—the main pavillion during the World's Fair—illustrate's New Orleans' expanded tourism infrastructure. The gondola ride across the river and the old Jax brewery that was renovated for retail shops add to New Orleans' allure. Elimination of the state and local tax on concerts and other show events at the Superdome and at the University of New Orleans' Lakefront Arena should even boost local attendance at a growing number of events.

Revived tourism would be a boon not only to those directly involved in the hospitality industry, such as hoteliers, tour operators, travel agents, and transportation workers, but also to retail trade establishments, since shopping and dining are major activities of travelers. Tourism expenditures would also provide the public sector with taxes beyond those provided by local activity.

Finance

Financial institutions in Louisiana had both good and bad experiences last year. The good news is that banks began to take advantage of legislation passed in 1984 enabling bank holding companies to cross parish boundaries to merge and to seek deposits from around the state. The pre-1984 prohibition against inter-parish banking kept Louisiana banking organizations small; now, mergers will allow them to grow and give them greater freedom to compete. Louisiana banks should be in a better position to serve larger companies, and provide a wider range of services, than had been the case prior to this legislation.

Thirteen state holding companies had announced intrastate acquisitions by the beginning of last year's fourth quarter. Three holding companies coalesced to create organizations that cover much of the state. Mergers and acquisitions helped one multibanking holding company's assets grow to nearly $4.5 billion and two others to reach about $3.5 billion. Employment apparently has not increased along with asset size, however.

Lending and deposit activities of banks and thrift institutions are determined largely by general economic growth and personal income increases. Last year, the state's generally depressed economy kept deposit and lending growth below comparable increases nationally for a third consecutive year. The weak economy also caused financial problems for banks and savings and loan associations as debt-saddled borrowers found their cash flow slowing, thus impairing their ability to service debt.

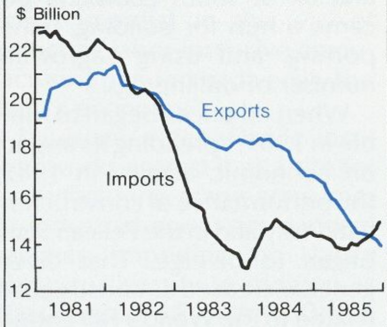
So far, most loans provided by Louisiana financial institutions to farm, real estate, and energy-related borrowers have not soured, and those that have been written off have not proven fatal to the state's banks. A few financial institutions have failed, however, and continued troubles in agriculture and energy could trigger additional failures. Financial intermediaries and their customers hope that faster state economic growth will ease financial market conditions and form a base for solid growth beyond 1986.

International

Louisiana's ports continued their sluggish recoveries in 1985 following a weak rebound in 1984 from earlier sharp declines in the volume and value of foreign trade shipments (Chart 5). International trade shipments plummeted in 1982 and 1983 in response to shrinking world trade associated with the recession and the growing strength of the dollar. The strong dollar and slow-growing economies abroad kept U.S. trade flows from resuming rapid growth in 1984 and 1985 as producers found selling agricultural and manufactured products abroad increasingly difficult.

This year, faster world economic growth should combine with the beneficial lagged effects of the dollar's decline in 1985 to boost port activity. Port officials and employees would welcome more work to replace the jobs lost when activity declined. In New Orleans, for example, over one-third of the nearly 24,000 water transportation jobs in 1981 were lost by 1984. In addition to water transportation job losses caused by curtailed barge and ship movements, other jobs were lost indirectly from the drop in shipments through the port as the demand for legal, accounting, and other business services dropped.

Chart 5. New Orleans Customs District Shipments



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

Louisiana's ports, particularly in New Orleans, have experienced dramatic shifts in activity over the past 10 years. To some observers, the Port of New Orleans is a declining facility that does not produce a large number of jobs relative to the tonnage it handles. Admittedly, Louisiana port activity deals mostly with barge and bulk activity, rather than gleaming containers and other general cargo that are more thoroughly "manhandled," as they are moved by truck and rail. However, general cargo exports, including container shipments, are burgeoning and will likely continue growing at a healthy pace. Even so, bulk commodity flows will continue to dominate Mississippi River cargo shipments for the foreseeable future, and a welcome increase in this activity is expected to add jobs on the river this year.

As port activity grows, the current imbalance in shipments, favoring imports, should begin to shift. Last year, the substantial increase in general cargo was due to the flood of imports such as manufactured iron and steel products, machinery and transportation equipment, and other foreign products that could more easily penetrate U.S. markets with a high-valued dollar. This year, exports of grains, soybeans, chemicals, fertilizers, and paper products should escalate while growth of manufactured imports should slow. Louisiana farmers, food processors, chemical producers, and forest products producers will particularly welcome faster growing sales to Europe, Asia, and Latin America.

Agriculture

Acreage devoted to soybeans, Louisiana agriculture's largest revenue producer, has declined by 35 percent over the past five years, but soybeans still grow on more than two million acres. Last year, soybean prices were especially low, in part because of favorable yields worldwide. As a consequence of low prices and reduced acreage in 1985, soybean farmers' share of total Louisiana farm receipts dropped to about one-fifth from nearly one-third the previous year. Farmers who harvested above-average yields were the only ones who earned profits on their soybeans.

Cotton and rice, Louisiana's second and third most important crops, also fared poorly. Prices declined and world production and competition increased for both these crops, while yields were down for cotton and costs rose for rice growers. Increasingly, profits for cotton producers rest on efficiency in production and marketing, as well as on the level of price supports.

Louisiana's crop farmers' prospects for 1986 are relatively unchanged from 1985, with intense world competition likely to keep prices low. A strong farm program will help cotton and sugarcane growers make money, while all crop farmers will need to keep costs down and productivity up to survive. Sugarcane growers, aided by price supports, posted profits last year despite the late-October visit by Hurricane Juan that damaged the crop.

Louisiana cattle producers, who bring in over $100 million annually (a bit more than revenue to sugarcane growers), last year suffered from low prices that caused an estimated 18 percent decline in gross revenue from 1984. By contrast, dairy producers benefited from increased yield per cow and overall production of milk, enabling them to offset the adverse effects of lower government price supports.

Forestry suffered from a natural pest as well as foreign competition last year. Approximately 110,000 acres of pine forest have been damaged by the worst infestation of pine beetles in Louisiana history. Lumber salvage efforts are expected to recover only about half of the 500 million board feet of timber killed, but the overall impact on the state's forest resources is expected to be negligible. Through the end of 1986, by which time the beetle should have run its damaging course, the chief costs associated with the beetle will be the higher costs of shifting production from planned cutting to cutting infected wood first.

Shrimp, which comprise the majority of Louisiana's fishing industry, were bountiful last year. Preliminary figures indicate the shrimp harvest was the highest in five years and some 40 percent higher than in 1983. Prices were generally lower in 1985 as a result of the larger supply, but the industry still earned decent profits.

Conclusion

Louisiana's poor economic performance last year hinged on the drop in oil prices from levels that prevailed in the pre-1981 boom period. The state's economy may falter again this year; it certainly will not keep pace with the nation's expected rebound, because of continuing adjustments to still lower energy prices.

ALABAMA

Prospects Are Encouraging

Charlie Carter and Gene D. Sullivan

With the state's economy registering more signs of strength than weakness, Alabamians are looking forward to an improved year.

Alabama's economy is expected to continue its improvement this year, extending the gains evident toward the end of 1985. Decline in the trade-weight real value of the dollar, low long-term interest rates, a budget surplus in the state treasury, and anticipated brisk auto sales make the prospects for economic strength in 1986 encouraging.

The dollar's value against currencies of major trading partners peaked during the first quarter of 1985 and has declined almost 30 percent since. This decline should improve the competitive position of Alabama industries that rely on exports for a large portion of their sales. It has also strengthened the ability of the state's textile, apparel, and chemical industries to compete with imports.

What's more, long-term interest rates have fallen to their lowest level in almost six years, leading us to expect strength in Alabama's construction industry in 1986. Construction activity will also be stimulated by special projects in Birmingham, including continuing progress on the nearly completed I-459 expressway around the city, a $60 million horse racing track, and expansion of the city's Municipal Airport. The city will have approximately 9,000 hotel rooms once several new projects are completed, heightening Birmingham's potential as an important convention city.

The Saturn plant in middle Tennessee is expected to provide jobs to northern Alabama, owing to increased demand for steel and other construction materials. Continued strong demand for aerospace products and electronics and automobile parts should propel Huntsville's economy; the Challenger tragedy has not delayed space-related work in the area.

Automobile market analysts anticipate another year of strong auto sales that should bolster the state's important transportation equipment industry. Moreover, stock market gains, lower home financing rates, and healthy income growth should spur consumer spending generally.

State government employment should continue to grow in view of the $284 million budget surplus on hand at the end of fiscal 1985, a surplus likely to strengthen labor market conditions in Montgomery.

To be sure, there are downside risks for Alabama in 1986. First, consumer debt is considered worrisomely high in relation to disposable income. Should that debt become too burdensome, consumers may reduce their retail spending in the months ahead. Second, a significant upturn in long-term interest rates would slow Alabama's expansion. Third, there are indications that an oversupply of office space exists in several southeastern cities, and could eventually extend to Birmingham. Even with lower interest rates, it may be difficult to maintain new office construction in

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the light of rising vacancies. Finally, consumer enthusiasm for new automobiles was strong in 1985. Should it diminish, additional employment growth would seem unlikely in the state's transportation equipment industry.

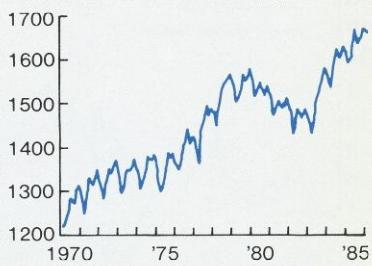
In general, however, we observe more signs of potential strength than weakness for Alabama's economy in 1986. Although overall growth is unlikely to be as strong as in 1984, Alabama's best year during the recovery, most barometers suggest this will be a better year than 1985.

Last Year's Performance

Alabama's economy continued to grow in 1985, but its progress was substantially less than that of Georgia and Florida. Unlike those neighbors, Alabama's population growth and service industries did not give a strong upward push to the state's economy.

Echoing the national economy somewhat, Alabama experienced a slowdown during the first half of the year centered in manufacturing. Although the downturn was rather severe—primarily for industries producing lumber, wood, textiles, apparel, and paper—job losses in these industries were more than offset by gains in other sectors. However, manufacturing employment was restricted by keen competition from lower-priced imports as well as by loss of market share to foreign suppliers.

Chart 1. Total Employment
(Thousands)



Source: Alabama Department of Employment Security

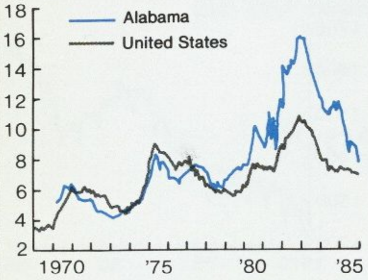
Nevertheless, total employment managed to grow during 1985 and averaged 2.7 percent above the previous year's level (Chart 1 and Table 1). Total

Table 1. Alabama's Moderate Recovery

Indicator	1984 (thousands)	1985 (thousands)	Absolute Change	Percent Change
Population	3,989	4,021	32,000	0.8
Civilian Labor Force	1,794	1,801	7,000	0.4
Employment	1,594	1,637	43,000	2.7
Unemployment	200	164	–36,000	–18.0
Unemployment Rate	11.3	9.1	—	—
Establishment Employment	1,383.6	1,397.4	13,800	1.0
Goods-Producing	437.2	432.4	–4,800	–1.1
Mining	14.2	15.2	1,000	7.0
Construction	64.5	67.4	2,900	4.5
Manufacturing	358.5	349.8	–8,700	–2.4
Durables	173.5	173.3	–200	–0.1
Nondurables	184.9	176.6	–8,300	–4.5
Service-Producing	946.4	965.0	18,600	2.0
Transportation, communication, and public utilities	72.1	72.5	400	0.6
Trade	290.3	294.8	4,500	1.6
FIRE	62.6	65.6	3,000	4.8
Services	227.5	232.9	5,400	2.4
Government	293.9	299.2	5,300	1.8

Source: *Alabama Labor Market News*, Department of Industrial Relations Montgomery, Alabama; and *News*, U.S. Department of Labor, Bureau of Labor Statistics, Washington D.C. Population data from U.S. Bureau of the Census. Population is as of July 1, while civilian labor force, employment, and unemployment are annual changes.

Chart 2. Unemployment Rate
(Seasonally adjusted)



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

nonagricultural employment, which excludes farm workers and self-employed men and women, also edged upward during 1985, but only one-third as many jobs were added as in 1984. Several of Alabama's nonmanufacturing sectors grew impressively in 1985—the services, government, and the finance, insurance, and real estate (FIRE) sectors, accounting for over half of all nonagricultural employment. Together with moderate growth in the trade, construction, transportation, and public utilities sectors, these industries helped generate enough steam to increase total employment by over 40,000 workers and to reduce Alabama's jobless rate throughout the year. The rate of unemployment fell to 9.1 percent in 1985 compared with an average of 11.3 percent in 1984. Alabama's unemployment rate decline, starting from a higher level, was considerably larger than the nation's (Chart 2).

Population and Labor Force

Alabama's population growth rate slowed in the 1980 to 1985 period from its rate of increase in the 1970s, which was above the national average. In the five years since the 1980 census, the state's population growth slowed to only a 0.6 percent gain a year, about half the growth rate of the previous decade. Comparable gains for the Southeast and nation in the last five years were 1.6 percent and 0.9 percent, respectively. The U.S. Bureau of the Census projects that population growth will slow to a 0.3 percent yearly rate through the end of this century.

Much of the slower population growth over the last five years has been due to reduced in-migration. Although the Huntsville and Mobile metropolitan areas grew briskly in the first half of this decade, their gains were insufficient to offset sluggish increases in Birmingham and Montgomery.

The state's slow population expansion is consistent with sluggish labor force growth. In 1985 the number of Alabamians either employed or seeking employment was only 0.4 percent greater than the previous year. Not only was this less than the annual population growth rate during the first half of the 1980s, but it was well below the comparable rates for national and regional labor force growth. The fact that Alabama's labor force grew only half as fast as the population suggests an increase in its dependency rate; that is, much of the population increase was due to a broadening of the non-working, older, and younger age groups.

Income and Consumer Spending

Personal income, which often trails the nation's growth, expanded 4.5 percent in the third quarter of 1985 from the prior year. That was well below the year-to-year increase of 11.9 percent posted the previous year. Yet the state's income growth was in line with third quarter 1985 gains of 5 percent for the Southeast and the nation. In 1986, income in the state will continue to be boosted most by steadily rising income from the government, mining, construction, and services sectors (Table 2). Personal income gains from service-producing industries such as retail trade, FIRE, and government have exceeded the state's all-industry income growth throughout the current economic expansion. Since the trough of the 1982 recession, manufacturing income has also shown some growth. Manufacturing's contribution to personal income and employment growth, however, has declined steadily since 1984, owing principally to the nondurable manufacturing industries' continued difficulty in competing with low-cost imports.

Consumer spending has held up remarkably well in spite of sluggish population, employment, and income growth. Following a good year in 1984, retail sales in Alabama's major metropolitan areas continued to grow faster than in the nation during 1985. Department stores in Birmingham sold nearly one-fifth more during the fall of 1985 than they did in the fall of 1984. Sales are projected to continue growing in 1986, albeit at a somewhat slower pace.

New car and truck sales in the state mirrored the encouraging performance elsewhere in the region through last fall. Sales of cars and trucks were up 10 percent and 21 percent, respectively, from year-earlier levels, while combined car and truck sales increases for both

Table 2. Personal Income Growth in 1985, Third Quarter Data
(Millions of dollars, seasonally adjusted at annual rates)

Title	1984	1985	Percent Change 1983-84	Percent Change 1984-85
Total Personal Income	40,431	42,241	9.9	4.5
Net Earnings by Place of Residence	27,125	28,586	10.6	5.4
Dividends, Interest, and Rents	6,547	6,509	15.2	–0.6
Transfer Payments	6,759	7,146	2.9	5.7
Earnings by Industry	28.492	30,151	10.5	5.8
Farm	725	412	84.0*	–43.2
Nonfarm	27,767	29,735	9.3	7.1
Goods-Producing	9,625	10,319	9.4	7.2
Mining	494	573	17.3	16.0
Construction	1,364	1,650	3.1	21.0
Manufacturing	7,767	8,096	10.2	4.2
Durables	4,116	4,300	14.8	4.5
Nondurables	3,651	3,796	5.3	4.0
Service Producing	18,142	19,420	9.2	7.0
Transportation, Communication, and Public Utilities	2,234	2,245	9.3	0.5
Wholesale Trade	1,677	1,782	12.9	6.3
Retail Trade	2,562	2,700	10.1	5.4
FIRE	1,345	1,436	12.1	6.8
Services	4,391	4,974	10.4	13.3
Government	5,933	6,283	6.5	5.9

*Unusual growth in 1984 largely reflects disruptions from the government's Payment-in-Kind program in 1983.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System. "Quarterly Personal Income by Major Source and Earnings by Industry," January 1986.

the Southeast and the nation averaged above 10 percent. Dealers are optimistic about the sales outlook for 1986.

Manufacturing: The Weak Link

The outlook for Alabama's economy in 1986 depends significantly on the performance of manufacturing. With 350,000 employees representing personal income of $8.1 billion in 1985, manufacturing industries were responsible for one-fifth of the state's jobs, 18 percent of total personal income, and 35 percent of income from wages and salaries. The weaker dollar should check the inflow of numerous imported products and stimulate apparel and textile industries. Prospects for Alabama's auto parts and related durable goods manufacturers depend heavily on the demand for automobiles in 1986. If auto sales are strong, as dealers expect, employment is likely to grow.

Manufacturing employment contracted in Alabama in 1985, with large declines occurring in textiles and apparel industries, which account for around 5 percent of total employment. The number of Alabamians holding textile jobs was down by about 3,000 from the average employment level in 1984, but employment remained rather stable from April onward. Employment in Alabama's textile industry has been declining since the 1974 to 1975 recession and is currently only three-fourths of its 1974 peak. The labor-intensive apparel sector, the state's largest single manufacturing industry with 3 percent of total employment, lost 9,000 jobs from the year-earlier level before it bottomed out in March. Since then, employment has pulled back to within 6,000 of its 1984 level. The strong dollar, which made foreign textile and apparel goods comparatively cheap, was especially hard on these import-sensitive industries.

The chemical industry is also extremely depressed. Throughout 1985, employment held relatively close to its 1983 and 1984 levels, which were 6,000 jobs below the 1979 peak. For chemical manufacturing, it appears that economic expansion since 1983 has only slowed the industry's decline, not sparked renewed growth.

The lone bright spot among nondurable industries was the food processing sector, in which employment grew more than 4 percent in 1985, exceeding 1984's growth rate. An expansion in broiler production and processing in response to profitable conditions in that industry contributed significantly.

Durable goods employment, accounting for one-tenth of total employment, weakened in 1985 after growing briskly the previous year. The state's natural endowments of iron ore and coal give it a competitive edge in iron and steel production and the high cost of shipping raw steel has also given it an advantage in fabricating metals. Primary metals employment, which provides a living for around 26,000 Alabamians, trended downward moderately in 1985 and stands 8,000 employees below its peak in 1979. No signs of a revival materialized as the year progressed. The relatively high cost of U.S. labor and the lack of capital to modernize aging facilities has made it almost impossible for this basic industry to compete with more efficient plants overseas.

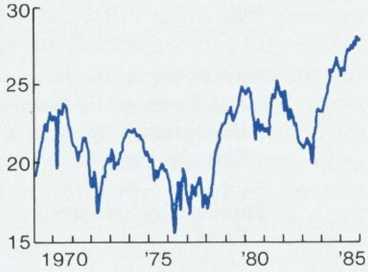
Employment in metal fabrication has increased sharply since the 1981 to 1982 downturn, but, as with primary metals, it stagnated in 1985. The difficulty that U.S. Steel has encountered in reopening its Fairfield facility, uncertainty over the fate of the LTV facility in Gadsden, and continuing problems with Reynolds Metals in Florence curtailed employment growth in the fabricated metals sector during 1985.

Alabama's rich resource of softwood also makes the harvesting and processing of lumber and wood products an important industry. The livelihood of nearly 49,000 Alabamians—about 3 percent of all workers—comes from forest products including paper. The lumber and wood sector has been significantly affected by the increased volume of Canadian imports. By the last quarter of 1985, employment had dropped under its level a year earlier by about 2,000 jobs, and lumber prices had fallen enough that some Alabama mills operated below the break-even level. The price paid for sawed timber fell to $148 per thousand board feet in late 1985 from $168 in 1984, and pulpwood declined from $27 to $24 per cord. Industry contacts report that Canadian imports have captured 30 percent of the local market. The dollar's continuing strength against the Canadian dollar, in contrast to its decline against other currencies, means that lumber imports are unlikely to weaken soon. Thus, Alabama's lumber industry will continue to experience heavy competitive pressures during 1986.

Not all of manufacturing is in the doldrums, however. A bright spot among durable goods industries has been transportation equipment manufacturing, which employs around 28,000 workers (Chart 3). Employment rose by 7 percent in 1985 following a 16 percent rise in 1984. Alabama plants supplying tires, carburetors, and other parts used in assembling automobiles have been prospering thanks to strong auto sales. Uniroyal Tire Company announced a $10 million expansion of its Opelika plant, which is expected to add 300 jobs to Lee County in early 1986. Machinery manufacturing employment also increased briskly during the recovery and expansion, exceeding 41,000 workers during the first half of the year. By the end of the year, however, employment had dropped back from this peak by about 1,000 workers.

Chart 3. Transportation Equipment Employment

(Thousands)



Source: Alabama Department of Employment Security

Nonmanufacturing Industries: A Major Source of Growth

Alabama's principal areas of employment growth in 1985 were its nonmanufacturing sectors, which account for about three-fourths of its salaried jobs. Although growth in nonmanufacturing slacked off some during the second half of the year, total employment grew by about 23,000 from 1984's average level. Most of the increase came from the government, trade, and service sectors, which together account for nearly 80 percent of nonmanufacturing employment.

The Public Sector

The 300,000 employees of federal, state, and local governments in Alabama make the public sector the largest nonmanufacturing employer. While the federal government reduced employment last year, hiring at state and local levels left Alabama with almost 5,300 more public servants in 1985 than the year before. In order to improve the educational system, state and local education agencies hired 2,900 additional people. Also, the number of full-time and hourly employees in state government reached its highest level ever at the close of fiscal 1985.

The prospects for public sector growth in 1986 appear bright, with the primary impetus at the state government level. State coffers are expected to end the third straight year with extra funds. A $5 million surplus is projected for fiscal 1986, following a surplus of $274 million in 1984 and $292 million in fiscal 1985 (Table 3). On the local level, however, skyrocketing premiums for liability insurance have prompted a scramble to raise revenues. Because property taxes were raised significantly two years ago, prospects for growth at the local level may be slim. The federal government is not likely to expand next year either, due to continuing problems with its deficit.

Trade Sector

Running a close second to Alabama's government employment is its trade sector, which includes about 295,000 employees in wholesale and retail trade. Trade employment was growing briskly early in the year, but it reached a plateau during the second half. Job growth for the year averaged less than 2 percent, or about 4,500 employees above 1984's average level.

Alabama's sluggish population growth is probably a factor in the slowdown in trade employment expansion. The slowing growth in personal income from 1984 levels and uncertainty about the future course of overall economic growth may also have reduced the impetus for expansion in trade. As the economy moves forward at a somewhat brisker pace in 1986, with an expectation for increasing job growth, Alabama's trade sector employment should also pick up as the year progresses.

Services and Tourism

Services, including tourism, the third most important nonmanufacturing sector, continue to be a major source of strength for Alabama's economy. Service companies added 5,400 new jobs to the state's payrolls in 1985, bringing to 233,000 the number of Alabamians who look to these industries for their livelihood (Chart 4). While wage rates are lower than in manufacturing, this sector offers stable employment for workers displaced from the state's textile, apparel, lumber, and agriculture industries.

Tourist activity was not especially strong last year as compared with 1984, when the Louisiana World's Fair boosted the

Table 3. Alabama's Fiscal Condition and Outlook, 1984 to 1986 (Millions of dollars)

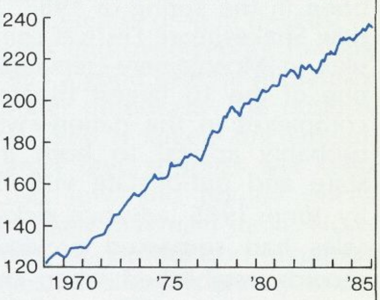
	Fiscal 1984	Fiscal 1985	Fiscal 1986*
Beginning Balance	11	274	292
Plus Revenues and Adjustments	2,227	2,417	2,440
Equals: Total Resources Available	2,238	2,691	2,732
Less: Expenditures and Transfers	1,964	2,399	2,727
Equals: Surplus	274	292	5

*projected

Source: *Fiscal Survey of the States, 1985,* National Governor's Association and National Association of State Budget Officers.

Chart 4. Services Employment

(Thousands)



Source: Alabama Department of Employment Security number of travelers passing through and visiting the state's attractions. Air travel was up sharply statewide, but trends were uneven from month to month and from city to city. Birmingham, home of Alabama's busiest airport, and Huntsville enjoyed the strongest improvement, while Mobile and Montgomery received varying levels of passengers during the year. The number of automobile visitors fell from fair-related levels in 1984. Lodgings experienced more improvement than any other type of travel business in the state; hotel and motel tax receipts through December were 10.2 percent ahead of 1984, but even this increase was far short of the gains experienced in 1984. Many state attractions showed intermittent periods of growth and decline, although there was fairly widespread strengthening in the third quarter.

The outlook for Alabama's tourism industry in 1986 is somewhat brighter. Improvement in the economy should leave consumers with more money to spend on travel. Alabama has built several attractions to enhance tourist activity, and is planning more. The horse racing track in Birmingham, which promises to draw out-of-state visitors, is expected to open in the spring of 1987. A new Shakespeare Festival complex in Montgomery—reputedly one of the 10 largest theater complexes in the nation—will probably appeal to both in-state and out-of-state visitors. By June 1985 advance ticket sales had surpassed previous records established when the complex was based in Anniston. The recently opened dog track is also likely to continue to be an economic boon to central Alabama in the coming year.

Business, government, and convention travel to Birmingham, Huntsville, and Montgomery should continue to strengthen the demand for lodgings and help to absorb rooms added recently or now under construction. Future growth will be assured by the completion of an $18 million, 250-room convention hotel in downtown Birmingham which, along with other hotels under construction, will raise the total number of rooms available from slightly less than 7,000 to just over 9,000. Expansion of the Birmingham municipal airport should also enhance the city's attractiveness.

Construction

The construction industry, which represents 4 percent of total employment, proved to be another significant source of job growth in Alabama, adding about 2,900 jobs to the 1984 average. Alabama's builders were issued permits for 17,906 new housing units in 1985, up 17 percent from 1984's level. Single-family detached dwellings continued to be the most popular form of home ownership in the state. Over half of the building permits issued last year were for single-family detached units, making last year's volume 21 percent higher than in 1984. By contrast, multifamily permits, which had been slightly stronger than single-family in 1984, rose by only 7 percent in 1985.

Alabama office construction experienced moderately strong expansion in 1985, repeating 1984 trends. The state has been riding the same commercial construction wave as the rest of the country, but the overbuilding apparent in Miami and Atlanta does not seem to have occurred in many Alabama cities. Recognizing the state's economic limitations, especially after the last recession, developers tempered their building plans so that the vacancy rate for Class A office space in downtown Birmingham was less than 2 percent last fall.

Office construction is likely to continue expanding in 1986 if the economy grows according to expectations. Although the state's major office market in Birmingham is small by national standards, and therefore likely to be among the first abandoned by speculative national or regional builders when the economy cools off, there are no signs that builders are backing away. Even with stronger economic growth, however, Alabama seems unlikely to become a hot spot for commercial space demand. FIRE employment growth, a rough predictor of office demand, has paralleled that of the United States, suggesting that the state probably will not draw developers from elsewhere in the country.

Stronger growth in 1986 would also encourage construction and occupancy of retail space. A pickup in employment should expand household discretionary income, which in turn would create potential for retail expansion.

The housing industry entered the new year with long-term mortgage rates in the 10.5 to 11.5 percent range, (the lowest in five years), with unemployment declining sharply from a year ago and with home prices increasing only modestly. This augurs relatively well for home buying prospects. In 1984, fully

27,000 new households were formed statewide, more than in 1982 and 1983 combined. In spite of continuing good sales in 1985, an ample demand for housing remains in 1986, when the number of new households formed could match the 30,000 annual rates of the 1970s.

Financial Services, Insurance, and Real Estate

Increased employment in the FIRE industries, which hire nearly as many as the construction industry, also added to economic growth in 1985. Employment rose by 4.8 percent, adding 3,000 employees over 1984's average. The banking industry's strong performance is the prime reason for continuing brisk employment growth in this sector.

Alabama state banks have been consolidating their resources in preparation for passage of interstate banking legislation that was enacted earlier this year. The five-bank concentration ratio of the state's banking deposits is an indication of this consolidation. Bank deposits controlled by the state's five largest bank holding companies climbed by 6 percentage points from June 1984 to June 1985, raising the index a total of 16 points since 1980.

Savings and loan institutions also have experienced vigorous deposit growth since mid-1984. At the end of 1985, deposit levels were nearly 20 percent above a year ago. Commercial banks have experienced relative growth increases in consumer and real estate lending since 1980, while business loans have followed the nation's economic cycles more closely. While steady growth of consumer and real estate loans has been the dominant influence on total lending, showing accelerating growth through 1984, last year's 10 percent decline reflected a slowdown in business loan demand.

Agriculture

Unlike other southeastern states, Alabama's agricultural sector draws over half of its farm revenue from livestock and poultry rather than from crops, with poultry production becoming even more important. The crop sector, which has been undergoing a difficult period of low prices and poor returns, accounted for just over one-third of the $2.2 billion in total cash receipts in 1984. An early estimate of total revenue to crop farmers in 1985 shows a decline of approximately 6 percent from the 1984 level, while production costs have held relatively stable. This indicates further deterioration in profits during the year.

A sharp decline in price has led many Alabama farmers to curtail soybean acreage. Although soybeans account for half the total crops planted, harvested acreage has decreased by almost one-fifth just since 1984. The market price for soybeans dropped from $6.28 a bushel in 1984 to less than $5 in late 1985, with a parallel decline in production of nearly 2 million bushels in 1985. Between 1980 and 1985, soybean acreage in Alabama fell by almost one million acres. Cotton production also declined by 25,000 bales in 1985, part of a 20 percent overall decrease in acreage since its 1981 peak.

Despite a three bushel per acre increase in soybean yields, plunging prices last year posted per acre returns approximately $25 less than in 1984. On the whole, soybean farmers failed to cover production costs; only highly efficient or productive farms generated profits. The average cotton grower, on the other hand, should have recovered both variable and fixed costs, since yields improved moderately. Per acre cotton revenue in 1985 was nevertheless an estimated 10 to 15 percent below the previous year.

Alabama crop farmers are not likely to experience any major improvement in 1986. The price of soybeans may average only slightly higher than in 1985. Cotton growers face a large buildup in stocks, leaving little hope for a significantly better market. Continuation of the peanut program, with some upward adjustment in price supports, will make peanut production the brightest opportunity for Alabama farmers.

Broiler production accounts for almost 30 percent of total farm cash receipts, making poultry Alabama's most valuable agricultural commodity. With an apparent advantage in poultry, Alabama growers have been increasing production steadily during this decade. Broiler production increased by about 8 percent in 1985. Although a 10 percent reduction in average price decreased total revenue, a still greater drop in the cost of feeds improved profits, making 1985 a good year for Alabama's broiler producers. The outlook for 1986 is largely unchanged. Larger feed supplies will keep costs low, and poultry prices are likely to remain stable. However, if production expands substantially, prices may weaken later in the year.

Alabama's cattle industry is in a period of low production, with the proportion of total cash receipts from cattle edging down in recent years. Low prices and declining output continued that trend through 1985, prolonging a period of economic trouble for cattle growers. Prospects for 1986 indicate slightly higher prices as cattle markets and pork production continue to decline.

Dairy farmers, unlike cattle producers generally, continued benefiting from government programs that provide relatively high price supports. Unlike dairy producers in many other states, Alabama dairy farmers kept 1985 production near 1984 levels. With a slightly lower price support level in 1985 and stable production, Alabama's dairy sector earned only a little less income than the previous year. Lower feeding costs may have improved profits slightly. The new federal farm dairy bill, which will offer government assistance to farmers who wish to leave the business by subsidizing the sale of dairy animals, will not improve the health of the industry much in 1986.

International Trade

Alabama experienced a poor year in international trade, demonstrated by the customs value of goods imported and exported through Mobile's port. Total trade decreased by more than 10 percent from the previous year. Coal, forest products, and grain are the most important commodities flowing through the Port of Mobile, which depends more on exports than imports for its livelihood, and signs are somewhat encouraging for some of these commodities in 1986. The falling foreign exchange value of the dollar and improving economies worldwide are expected to contribute to some export growth in the year ahead.

In an effort to generate more international trade, Alabama is also pursuing foreign investment. Delegations featuring Governor George Wallace have been sent to other countries to promote the state's advantages. Business development offices are also being opened in foreign countries, including Korea, West Germany, Switzerland, Japan, China, and England, with good results thus far. One hundred foreign-owned companies from 18 countries have located in Alabama, bringing a total foreign investment to date in excess of $2 billion and approximately 15,000 jobs. The location of foreign-owned automobile manufacturing plants in the region has also made an important contribution to new business by bringing in many foreign suppliers. Some foreign investors have chosen to locate in Alabama because of its transportation advantages, including the Port of Mobile and the recently opened Tennessee-Tombigbee Waterway.

Looking Ahead

With improving U.S. growth, the state's major sectors, including services, trade, and government, will continue to register job gains along with less important sectors such as construction, FIRE, and transportation. All of these sectors helped to maintain growth in 1985. Improvements in the international economy, continuing declines in the exchange value of the dollar, and reduced competition from imports with the exception of Canadian products, and lower long-term interest rates, will help domestic manufacturers expand markets at home and abroad. This would mean growth for Alabama's manufacturing employment instead of the declines that acted as a major drag on the state's economy in 1985. A continuing decline in the dollar's exchange value would also improve international market shares for basic materials such as coal, gas, limestone, forest products and agricultural commodities, thus bringing improvements to Alabama's most seriously lagging sectors. Although some stimulation is likely to occur as 1986 unfolds, it undoubtedly will take longer than a year for full vigor to return to these troubled sectors. At this point, the dollar's decline and plummeting oil prices seem certain to benefit Alabama's agriculture, manufacturing, and mining industries. All in all, improving growth for Alabama's economy seems to be a likely prospect in 1986.

MISSISSIPPI

Outlook's a Bit Brighter

W. Gene Wilson and Gene D. Sullivan

It looks like another year of playing economic catch-up for Mississippi—a better year, but one in which sectoral problems threaten to limit the state's gains.

After a year of moderate economic growth, Mississippi's economy seems likely to pick up a bit in 1986 if the national economy improves as anticipated. Even so, continuing weakness in some sectors will dampen Mississippi's prospects and dim hopes of narrowing the state's gap with the nation. As in 1985, the nonmanufacturing sectors will be the economy's strong point, contributing most to employment gains. Manufacturing is likely to experience a mixed year, though somewhat more positive than 1985, with some industries advancing and others drifting. Nondurable goods employment should remain stable or could increase. Offsetting this, however, will be extended weaknesses in the agricultural, energy, and export trade sectors.

The fate of Mississippi's economy in 1986 is especially dependent on national and international factors. Continued low interest rates and the weakened dollar once again will influence the Magnolia State significantly. Industries such as textiles and apparel may improve or at least stabilize unless the dollar regains lost strength. The construction industry will gain some stimulus from low interest rates, but commercial and multifamily building may be hard-pressed to improve upon last year's lackluster performance.

During 1985, the state's housing market weakened despite rising employment. While residential building may have caught up with demand, some potential purchasers may have backed away because of uncertainty over the direction of the economy. Increased national construction activity in response to lower interest rates has increased demand for the state's lumber, however.

A major question for the state's future economic health is whether Mississippi's consumers will have the income to maintain or increase consumer spending. A weakening of personal income growth from an average of 9.6 percent in 1984 to less than 5 percent through the third quarter of 1985 suggests that growth in effective demand, as measured by consumer spending, might weaken in 1986. Consumer spending permitted substantial growth in retail and wholesale trade employment and some increase in domestic manufacturing. However, the goods industry experienced only modest growth last year and most of the economy's improved health came from the broad service industries.

Service industries will continue providing strength for Mississippi in 1986, although recent interest rate reductions and further declines in the exchange value of the dollar also could stimulate construction and manufacturing. Increased home construction would, in turn, support the demand for Mississippi lumber, although this market will continue to be shared with Canadian lumber. Also, a weaker dollar may improve the outlook for the state's export-related

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industries and for trade in agricultural commodities. However, gains from the dollar's decline are not likely to be rapid or dramatic. On balance, despite the likelihood of a mild upturn this year, Mississippi's growth may remain relatively slow through 1986 and beyond.

Demographics

Population change exerts an important influence on the growth of an area or region. Projected slight population increases should stimulate Mississippi's economy modestly in 1986 and coming years. In the 1980 to 1985 period, state population growth averaged 0.8 percent annually, slightly below the national average and half the Southeast's average rate. Mississippi's population growth probably will not accelerate appreciably in the remaining years of this decade. At the Census Bureau's projected annual growth rate (slightly more than 0.9 percent), Mississippi's population increase should resemble closely the nation's expected rate.

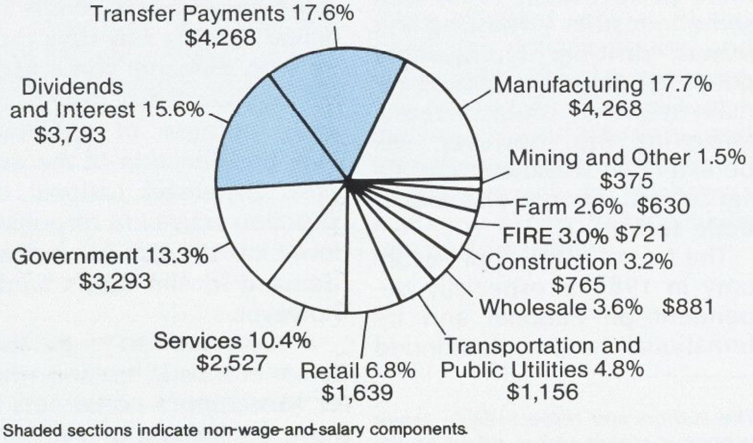
The population's economic impact is largely exerted through its expenditures for goods and services. Consumer spending assisted Mississippi's economy in 1985 but a slowdown in personal income growth last year also could slow spending growth in 1986. Personal income and consumer spending patterns in Mississippi have differed from most other southeastern states during the current recovery and expansion. After reaching its recessionary trough in early 1983, (later than the region as a whole), Mississippi managed to post strong income gains through 1984. During this recovery period, personal income grew at an average annual rate of 10 percent. The strength of income expansion waned in 1985 as the national recovery cooled. Mississippi's third quarter 1985 personal income level was only 14 percent higher than its level during the worst of the 1983 recession. This sluggishness is attributable partly to reduced interest and dividend income, the state's third largest source of personal income (Chart 1). In addition, growth in transfer payments, the state's single largest source of nonwage income in 1983, slowed substantially, falling to second behind income from manufacturing during the second quarter of last year. Falling personal income in the farming and mining sectors, although minor shares of the total, also helped retard growth.

Consumer spending has held up reasonably well, despite the weak income growth and the modest population gain. State taxable sales increased sharply in 1984 over 1983 (28 percent) and rose an additional 7 percent through the fall of 1985 from year-earlier levels. Booming car and truck sales have mirrored the national pattern, accounting for most of the state's moderate growth in consumer spending. After rising only modestly in 1984, Mississippi car and truck registrations grew at an above-average pace compared with the region in 1985. Recent interest rate reductions and special financing packages should help spur auto sales in 1986. Although consumer spending should rise this year, the languid growth in population and reduced income gains may cause Mississippians to increase spending more slowly.

Labor

A key contributor to income gains is employment growth. Mississippi's labor market conditions improved steadily in 1985, and the momentum should carry

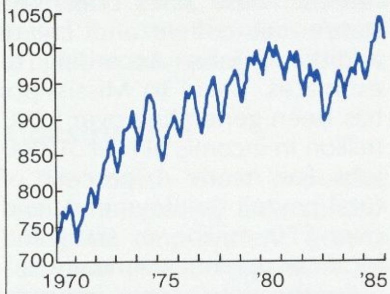
Chart 1. Mississippi's Personal Income, by Sector, 1985
(Percent of total and millions of dollars)



Shaded sections indicate non-wage-and-salary components.
Source: U.S. Department of Commerce.

Chart 2. Employment in Mississippi

(Thousands)



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

forward into 1986. In 1985, total employment rose by about 4 percent—or 40,000 workers—from 1984's average level, up sharply from the growth a year ago (Chart 2). Nonagricultural employment, which excludes farm and the self-employed, grew less briskly; still, more than 27,000 new jobs were added from January through December of 1985. However, a 3.6 percent increase in the number of Mississippians seeking work made reducing the incidence of unemployment difficult. By mid-summer, the state's seasonally adjusted unemployment rate was back to double-digit levels after dropping to around 9.5 percent in May and June. The higher rate has persisted; the state ended the fourth quarter with unemployment only marginally below the 10.8 percent rate of the year before.

Unemployment rates in counties in the extreme southwest portion of the state exceeded the state's 1985 average, reflecting difficulties in that area's agricultural, timber, and energy-related industries. Other areas with uniformly high joblessness were those counties to the east of DeSoto, bordering Tennessee, and several counties in east central Mississippi, next to Alabama. Weakness in nondurable goods manufacturing especially apparel, accounted for much of this unemployment.

The state's total employment data cannot reveal the uneven pattern of growth and change among individual industries during 1985. But, looking at individual components of Mississippi's economy does provide a feel for the diversity that exists.

Nonmanufacturing industries, including the government, trade, services, construction, transportation, public utilities, and finance sectors, account for nearly three-fourths of Mississippi's nonfarm employment (Chart 3). Manufacturing industries make up about one-fourth of the total.

Nonmanufacturing industries as a whole grew more rapidly than in 1984 and were responsible for nearly all of Mississippi's job growth during 1985. The government, trade, and services sectors, comprising over two-thirds of this group, all experienced relatively good growth.

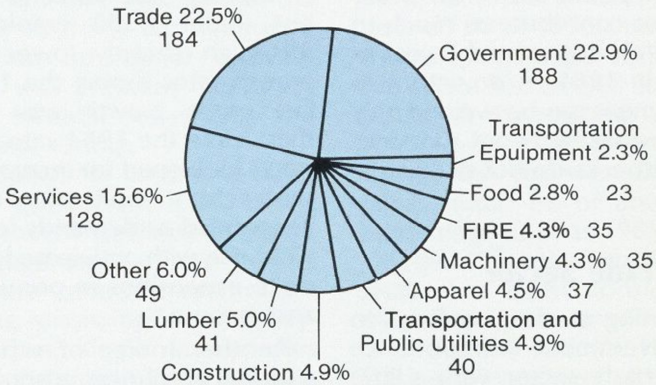
The Public Sector

Government, with over 23 percent of the nonfarm work force, employs the largest single group of workers in the state's economy. In addition to state and local government workers, federal employees make up a significant proportion of men and women on government payrolls. A number of military bases and defense-related establishments employ heavy contingents of both military and civilian personnel and contribute stability to the state's employment during recessions.

During 1985, government employment grew at an average rate of 2.4 percent, almost double the pace in 1984. The nearly 4,000 additional jobs helped the region's personal income

Chart 3. Mississippi's Employment, by Sector, 1985

(Percent of total and thousands of employees)



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

stream, and although employment has not regained its 1980 peak, it could spring back in 1986 if recent increases continue.

However, prospects are not bright that 1985's gains will recur. Budgetary problems in fiscal 1986 likely will mean leaving roughly 400 positions vacant in state government. State employees also may be traveling less and cutting back on new equipment. The difficulties started when tax revenue in the first quarter of fiscal 1986 declined substantially below projections. Because state law requires budget reduction if revenue falls below 98 percent of projections by the end of October, approximately $47 million in cuts were necessitated by the revenue shortfall. Almost $12 million of this will be borne by the College Board—possibly dictating personnel cuts in some areas. Reductions may be especially severe for some of the state's smaller schools.

The likelihood of a stringent state budget in this fiscal year, and perhaps into 1987, combined with the growing possibility of personnel reductions in a variety of agencies and overall reduced expenditures, suggests that the public sector will probably not contribute as much to the state's economy this year as it did in 1985. A downturn in government can be avoided only in the unlikely event that federal cutbacks do not occur.

The Trade Sector

Running a close second to the government in importance is the trade sector, with a little less than 23 percent of the nonfarm work force. This group, which includes workers in both wholesale and retail trade establishments, has been Mississippi's most rapidly growing employment sector since its recovery began in 1983. Growth in 1985 averaged close to 5 percent, or 9,000 employees. However, trade employment appeared to pause late in 1985, perhaps reflecting the lethargic growth in personal income. The slowdown suggests that expansion of the trade sector during 1986 could be less robust than it has been since 1983.

The Service Sector

The service sector is the third largest employer of Mississippi's residents, accounting for over 15 percent of nonfarm jobs. This sector includes businesses and establishments providing such services as lodging, personal care, automotive repair, amusement and recreation, legal assistance, and education. Most of these activities have been growing in Mississippi—but not as rapidly as in most other parts of the Sixth District, where the average increase neared 6 percent in 1985.

In 1985, the state's total service employment increased by an average of 2 percent, or by just under 3,000 employees. Although sharply lower than growth rates during the 1970s, last year's growth was more than triple the 1984 rate. Prospects look good for increases in this sector's employment in the year ahead as demands for services rise with anticipated moderate expansions in population and income.

Another source of expected strength is tourism, a small but somewhat volatile subsector of the service economy. Out-of-state visitors who vacation at Mississippi's beaches and historical areas or who attend conventions in the state bring added revenue to a variety of businesses. These sales boost the state's tax coffers and create additional jobs. According to estimates, travel to Mississippi has been generating over $200 million in income, almost 30,000 jobs (or nearly 4 percent of total payroll employment), and over $70 million in state and local tax revenues annually.

For the state's travel industry, however, last year was less satisfactory than 1984. Air travel to Mississippi, particularly to the state's major airport in Jackson, picked up sharply in 1985. In spite of this strength, arrivals at several smaller airports fell for the second consecutive year. Auto travel, as measured by registrations at the state's welcome centers, increased early in the year, but dropped relative to 1984's levels in the summer when the year-earlier numbers were inflated by traffic to the New Orleans World's Fair. Despite increased convention attendance along the Gulf Coast, hotel and motel operators statewide experienced a rather disappointing year; total receipts actually fell on a cumulative basis.

Happily, in 1986 Mississippi's travel industry probably will reflect the bright fortunes of U.S. domestic tourism generally. If the national economy grows more rapidly in 1986, consumers should have more to spend on all sorts of purchases, including travel and leisure. And the dollar's decline against foreign currencies could cause more of those expenditures to be made domestically. Unfortunately, discount air fares along heavily traveled routes may work against Mississippi's tourism interests since most attractions are remote from high-traffic airways. On the whole, however, Mississippi is likely to host more domestic visitors in 1986, and the state's travel industry should serve as a positive source of growth.

Construction

The fourth most important nonmanufacturing area contributing to employment growth last year was construction. Although construction employment accounts for only 5 percent of payroll employment, it typically accounts for a disproportionate share of the job volatility. In 1985, construction jobs grew more than 6 percent, compared with 1984's 4 percent growth rate, and added around 2,500 additional workers. That rate was far better than growth in the region as a whole, though it lagged behind the 8 percent growth for the nation, where construction employment continued strong for the second consecutive year.

Despite employment gains, however, commercial construction remained sluggish in the Magnolia State. Total nonresidential construction declined by over 7 percent last year, compared to a 9 percent national increase. Although office and industrial building permits rose substantially from the preceding year, developers probably requested more permits than they exercised, typical in decelerating markets.

Available office space remains limited in Mississippi's major city, Jackson, despite increasing construction there last year. Although occupancy rates are high, qualified observers anticipate no expansion in office construction, because of concern about the state's lackluster economy.

The relatively slow growth in retail construction reflects the moderate increase in retail sales during 1985. With sales anticipated to continue along the same course, slow but steady growth in construction can also be expected to continue in 1986. On the whole, however, commercial construction will remain weak. The industrial component remains especially fragile because of the cancellation of further work on one major project, the Grand Gulf II nuclear power plant.

Mississippi seems to contradict the link generally assumed to exist between total employment growth and new single-family residential construction. The state's 1985 employment gains were good—and they actually strengthened as the year progressed. However, single-family building activity, as measured by building permits, weakened as the year wore on. While demand for single-family homes may have become saturated, it seems more likely that potential buyers were inhibited by uncertainty over the economy's direction. Another related cause may be that the state's households were rebuilding their budgets. Sales tax receipt growth from 1984 to 1985 suggests that the state's residents did not spend all their additional income; some was probably being applied to debt repayment and personal savings.

Prospects for continuing moderate growth in 1986, along with recent declines in home mortgage interest rates, could generate renewed enthusiasm among Mississippi's home buyers. Thus, single family sales and construction likely will pick up if the economy expands as expected and if mortgage interest rates do not turn up again.

Multifamily residential markets in the state, reportedly overbuilt and depressed, should experience declining construction activity in 1986. Although problems exist statewide, the Jackson market is particularly hard hit. In that city, multifamily permits surged upward at a 220 percent average annual growth rate from 1982 through 1984. Permits continued to be issued in 1985 despite an apparent abundance of such housing, creating a glut that attracted national attention. Apartment vacancy rates ranged as high as 26 percent in one Jackson suburb, and occupancy is unlikely to improve much in the coming year. Multifamily housing probably will be excluded from any upturn in residential construction during 1986.

Other Nonmanufacturing Industries

The transportation and public utilities sector also contributed to Mississippi's employment growth and economic expansion in 1985, as did the finance, insurance, and real estate (FIRE) sector. Employment in each sector accounts for about 5 percent of total payroll employment, and each contributed around 700 of 1985's new jobs.

Expansion in the transportation sector has tended to mirror growth at the regional and national levels. With growth continuing, this year's employment gains should be of about the same magnitude as 1985's.

Activity in Mississippi's FIRE sector has been considerably less robust than the Sixth District's and the nation's. The relative inactivity relates to the state's financial institutions. Depository institutions' balance sheets strengthened over the past year, but the state's conservative banking laws heavily constrain these institutions compared with those elsewhere in the region. Consequently, the employment growth that has accompanied both inter- and intrastate expansions of financial institutions in other states is much more limited in Mississippi. Opportunities for growth of computer firms and other auxiliary banking services have been retarded by the state's relatively static banking environment.

Earnings improved last year at most local depository institutions. The state's economic recovery, reflected in relatively strong employment gains during the year, led to expanded lending opportunities, while the cost of funds declined. Despite the poor performance of agriculture and energy loans, earnings at Mississippi's institutions improved along with those of their counterparts nationwide. Assuming some improvement in loan demand and no major changes in funds costs in 1986, state banks again should enjoy favorable earnings.

Nevertheless, the stock market seems pessimistic about the outlook for the state's banks. The state legislature's delay in revising bank laws relative to other states in the region limits the competitiveness of Mississippi's institutions and hence their long-run profitability. The Mississippi Bankers Association has failed in its efforts to modernize state banking laws. Intrastate, the law still restricts branch offices to within a 100-mile radius of the parent bank, which keeps institutions relatively small. Interstate banking legislation, if enacted, might permit some statewide branching.

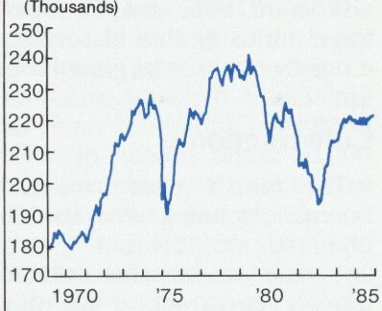
Mississippi lacks markets that are highly attractive for entry by out-of-state banks. However, a few Mississippi banks may have the resources to make acquisitions outside the state and could probably benefit by diversifying into outside markets. They are expected to move quickly in that direction when legislation permits it.

The lending outlook for the state's banks and thrifts is for improvement over 1985, if Mississippi can continue to add jobs as it did last year and if the U.S. economy retains its expected momentum. Both business and consumer lending should realize some expansion, and mortgage lending growth may also pick up in response to rate reductions. Because of continuing problems in the farm sector, however, agricultural lending probably will decline further in 1986.

The Lagging Sectors

Manufacturing. A large measure of Mississippi's economic weakness in 1985 emanated from various components within the manufacturing sector. Total employment in the sector, accounting for over one-fourth of the state's wage earners and almost 18 percent of its personal income, held relatively stable at around 220,000 jobs during the year (Chart 4). The increase from 1984's average level was about 1,400 jobs, or less than 1 percent, as compared with stability or a slight decline during the same period in both the Southeast and the United States. In all cases, 1985 results contrasted sharply with the state's strong manufacturing growth during 1984, when it approached 7 percent.

Chart 4. Manufacturing Employment in Mississippi



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

Within the manufacturing sector, a few industries did well and offset declines in others. Most employment gains were in the durable goods area (with 3,000 new jobs), which accounts for a substantially larger share of the state's employment (14 percent) than nondurables (11 percent). Lumber and wood products, transportation equipment, and primary metals posted notable growth in 1985, thanks to strength in construction, defense-related shipbuilding, and automobile-related metal manufacturing. Lumber industry employment stands at its highest level since 1979. However, machinery employment failed to match its 1984 growth, partly because of slowing consumer purchases of appliances.

Nondurable employment did not fare as well and declined by nearly 2 percent, or around 1,600 workers, during the year. Apparel, the largest industry in this category with about 4 percent of payroll employment, was hit hard by import competition. Apparel employment shrank by about 2,000 workers, or 5 percent, from 1984's average level. Paper, chemical, and textile job rolls also declined, but their combined total share accounts for little more than 2 percent of the state's payroll employment, so job losses were relatively insignificant.

The bright spot in the nondurables group was food processing, which strengthened notably. Gains in fish and poultry processing, as producers responded to profit incentives of expanding markets and reduced feed costs by increasing output, allowed the state's food processing employment in 1985 to grow faster than that of the nation or region.

Prospects for Mississippi's manufacturing in 1986 promise some improvement from the essentially stable overall employment that prevailed during the last half of 1985. In the majority of nondurables industries, where most of 1985's downturn occurred, employment stabilized or began edging upward during the last half-year. The apparel industry had regained about 1,000 jobs from its low point in March. With stability or renewed growth in the nondurables industries, and some pep in growth of durables such as machinery, manufacturing employment could increase by a moderate 2 to 3 percent in 1986.

Agriculture. Another serious weakness for Mississippi is its agricultural sector. Net farm income last year may have plunged by 40 to 50 percent from 1984. Meanwhile, total indebtedness of the state's farmers stood at approximately $4 billion. State agricultural officials noted in late 1985 that roughly one-fourth of Mississippi's farmers are experiencing severe financial difficulty. Foreclosures and liquidations of insolvent farming operations may increase in 1986.

Farmers' cash receipts reflecting cash income from sales of their products reached $2.3 billion in 1984, roughly one-tenth as large as the state's total personal income. Although both Florida and Georgia rank well ahead of Mississippi in total farm cash receipts, farming comprises a larger proportion of Mississippi's economy than of any other southeastern state.

Preliminary indications are that Mississippi's crop income, accounting for nearly 60 percent of the total from all sources, could be down as much as 10 percent in 1985 following a 3 percent decline in 1984. Price declines for cotton, soybeans, and rice, three of the state's principal crops, contributed to the income reduction, as did a decline in planted acreage.

Mississippi's soybean acreage fell by some 15 percent or 550,000 acres in 1985. With normal weather and less marginal land in production, average soybean yields rose; however, income declined as prices fell even more sharply. Soybeans were an unprofitable crop in 1985 because total costs exceeded total revenue. Little change is anticipated for 1986—although some growth in foreign demand could provide limited price improvement.

The Magnolia State's cotton farmers increased acreage by 1 percent last year to a total of 1 million acres and yields per acre improved slightly. As with soybeans, however, sharply lower prices actually pared total revenue and brought net losses for the average producer. Abundant supplies of cotton weigh heavily on the market and little improvement is likely in 1986. Prices may average at or near 1985 levels and any profits will depend on farmers achieving above-average yields or below-average costs of production.

Mississippi's rice farmers experienced excellent yields last year as producers harvested an additional 1,000 pounds (a 24 percent increase) per acre above 1984. Production surged by 20 percent despite a small decrease in acreage. Even with lower prices the large yields raised revenue by over $50 per acre, but the average producer still failed to cover total costs.

Prospects are dim for higher farm incomes in 1986. One bright spot is continued health and growing markets for the state's expanding catfish industry. Farm-pond production of catfish has proven to be an increasing source of profit, with the value of the state's production rising to $200 million last year. Recent growth in out-of-region acceptability of the product augurs well for continuing expansion.

Farm debt in Mississippi fell last year by approximately $100 million but the financial condition of many farmers continued to deteriorate. Farmers Home Administration (FmHA) delinquency rolls increased again from 1984's high levels and, while the number of borrowers fell, the amount owed to the government lending agency increased slightly (about $40 million) to a total FmHA debt obligation of $1.4 billion. Another $1 billion is owed to the Farm Credit System, also experiencing increasing delinquencies because of the unprofitability of most agricultural production.

Internationally Related Activities

Mississippi enjoys substantial foreign trade-related business, principally because of its port along the Gulf of Mexico and its lengthy western border along the Mississippi River, a major waterborne freight conduit for the nation's midsection. The opening of the Tennessee-Tombigbee Waterway, which passes through north Mississippi on its way to its Gulf outlet at Mobile, Alabama, provides hope of increased state involvement in waterborne transportation. Unfortunately, goods exports that constitute the major share of business for the state's shipping facilities remained weak in 1985 despite some growth.

Of Mississippi's coastal cities, Pascagoula ranks as the major seaport, handling approximately 90 percent of the state's foreign trade. Pascagoula experienced a less favorable year in 1985, as total volume fell 11 percent during the first three quarters from the same period in 1984. The lower tonnage resulted from a 25 percent reduction in imports even though the quantity of goods exported through Pascagoula rose a moderate 6 percent. Almost half the increase in outbound volume was in grains and soybeans; over 250,000 more tons of these farm commodities were exported from Pascagoula last year than in 1984.

Gulfport continued expansion efforts in 1985, attempting to attract a greater flow of containerized cargo, which accounts for approximately one-third of the port's tonnage. The addition of a second container crane could heighten the port's ability to handle increasing volume. Refrigerated cargo makes up a larger portion of the trade volume through Gulfport, which is also a major handler of tropical fruit and banana imports.

Some of the state's industries are geared to export markets, and the erosion of market share has compounded their problems. Mississippi, like most states, lost jobs in the early 1980s due to recessions. The exporting segments of these industries came under exceptional pressure. The strength of the dollar and the slow economic growth of other countries left export-dependent companies in a precarious position. For example, the state's lumber industry lost only a small portion of its total employment—but fully a third of its export-related jobs. Another victim was the paper sector, forced to release more than a quarter of its export-related workers. These two industries represent Mississippi's largest employers of export-related workers.

Oil and Gas

The state's small mining sector is dominated by its oil and gas industries, which once again have been hurt by the continuing imbalance of domestic and world energy markets. Although Mississippi is a relatively low-volume energy producer, the industry contributes importantly to the state's economy, best reflected in its tax revenues. Severance taxes paid by oil and gas companies operating in the state currently account for about one-fifth of Mississippi's tax receipts.

Oil and gas companies face deteriorating market conditions, with sharply reduced prices. Drilling activity in the state has been cut back dramatically, as companies concentrate largely on servicing old contracts or holding leases. During 1985, the average number of rigs in operation slumped to just 29, down sharply from an average count of 80 rigs during the 1981 peak. Through last July, oil and gas companies in the state produced 16 and 7 percent less output respectively than during 1984. Reflecting the dismal state of the industry, severance tax collections during the previous fiscal year ending last June were off 2 and 11 percent from the same period a year earlier. Through the first half of the 1986 fiscal year, state severance tax collections for oil and gas fell 12 and 28 percent below the same period a year ago. Collections are sure to drop substantially in coming months in view of the sharp early-1986 decline in oil prices.

The state's energy sector undoubtedly will not recover this year from depressed 1985 levels. Falling oil prices are likely to stabilize sometime this year, largely because price declines should stimulate world energy demand. However, the industry's performance this year will be dismal as it adjusts to previous price declines. The main goal during 1986, as one industry executive summarized, will be to survive through the year.

Summary

Mississippi could experience some acceleration this year from the moderate economic expansion it enjoyed in 1985, although potential weakness in some sectors of the state's economy that provided an impetus last year may dampen growth. New job creation may be insufficient to reduce the rate of unemployment substantially. Continuing moderate strength in the durable goods industry and perhaps slight improvement in nondurable goods might add more new manufacturing jobs this year.

The outlook for construction appears to be no more favorable than in 1985, because of weaknesses in commercial and multifamily building; but, recent mortgage rate reductions could stimulate single-family housing in Mississippi as well as in the nation. New home building could help the lumber industry enjoy another reasonably good year despite the continuing inflow of Canadian products which will limit job growth.

In effect, the health of Mississippi's economy in 1986 will depend largely on the condition of the national economy and the particular sectors expected to expand. National growth in single-family housing would stimulate not only lumber but household appliance manufacturing, with obvious benefits to Mississippi's machinery sector. If the dollar's weakness against other currencies persists, apparel manufacturing employment should continue to improve, and other export-dependent industries such as farming and paper manufacturing could also reap modest benefits.

These pluses, combined with continuing development in the huge trade and services areas that seems virtually assured by expected national economic growth, should continue to expand the state's total employment.

Growth will be dampened, however, by belt-tightening in the government sector and by the persistent, severe problems bearing down on the agricultural and energy sectors. Lingering weakness in most foreign trade-related business activities also inhibits the state's prospects. In spite of these deterrents, however, most Mississippians are likely to experience a somewhat better year in 1986 than in 1985.

FINANCE

$ millions

	DEC 1985	NOV 1985	DEC 1984	ANN. % CHG.		DEC 1985	NOV 1985	DEC 1984	ANN. % CHG.
UNITED STATES									
Commercial Bank Deposits	1,540,576	1,523,046	1,441,444	+ 7	Savings & Loans**				
Demand	337,429	329,545	316,501	+ 7	Total Deposits	745,647	744,481	717,731	+ 4
NOW	108,753	107,488	94,063	+16	NOW	27,365	26,804	21,493	+27
Savings	432,868	436,110	372,528	+16	Savings	176,595	177,471	163,392	+ 8
Time	697,968	695,973	698,650	- 1	Time	543,086	541,181	535,820	+ 1
Credit Union Deposits	65,290	65,073	58,264	+12		NOV	OCT	NOV	
Share Drafts	7,634	7,524	6,355	+20	Mortgages Outstanding	647,984	644,368	598,425	+ 8
Savings & Time	57,676	57,481	55,543	+ 4	Mortgage Commitments	65,256	64,862	68,515	- 5
SOUTHEAST									
Commercial Bank Deposits	176,736	175,797	165,195	+ 7	Savings & Loans**				
Demand	38,628	37,446	36,948	+ 5	Total Deposits	98,018	98,990	95,617	+ 3
NOW	14,573	14,404	12,131	+20	NOW	4,292	4,283	3,430	+25
Savings	48,633	48,246	42,223	+16	Savings	22,091	22,463	20,711	+ 7
Time	80,294	80,404	78,404	+ 2	Time	71,824	71,988	72,252	- 1
Credit Union Deposits	7,559	7,536	6,511	+16		NOV	OCT	NOV	
Share Drafts	734	709	595	+23	Mortgages Outstanding	92,810	92,971	75,225	+23
Savings & Time	6,622	6,511	5,813	+14	Mortgage Commitments	5,039	4,959	4,507	+12
ALABAMA									
Commercial Bank Deposits	17,650	17,394	17,448	+ 1	Savings & Loans**				
Demand	4,001	3,941	3,819	+ 5	Total Deposits	6,349	6,553	5,998	+ 6
NOW	1,428	1,402	1,141	+25	NOW	263	273	224	+17
Savings	3,794	3,752	3,350	+13	Savings	1,105	1,152	903	+22
Time	8,818	9,024	9,649	- 9	Time	5,031	5,162	4,937	+12
Credit Union Deposits	1,189	1,189	979	+21		NOV	OCT	NOV	
Share Drafts	140	135	109	+28	Mortgages Outstanding	5,791	5,778	3,306	+75
Savings & Time	966	961	860	+12	Mortgage Commitments	351	400	174	+102
FLORIDA									
Commercial Bank Deposits	64,541	64,551	58,276	+11	Savings & Loans**				
Demand	14,327	13,624	13,076	+10	Total Deposits	63,309	63,692	61,454	+ 3
NOW	6,211	6,088	4,985	+25	NOW	2,846	2,829	2,357	+20
Savings	22,382	22,286	19,795	+13	Savings	15,084	15,470	14,039	+ 7
Time	24,336	24,243	21,933	+11	Time	45,108	45,189	45,191	- 1
Credit Union Deposits	3,414	3,393	2,925	+17		NOV	OCT	NOV	
Share Drafts	364	353	294	+24	Mortgages Outstanding	56,660	56,802	44,447	+27
Savings & Time	2,892	2,880	2,510	+15	Mortgage Commitments	3,498	3,385	2,916	+20
GEORIGA									
Commercial Bank Deposits	27,985	27,598	25,678	+ 9	Savings & Loans**				
Demand	7,835	7,557	7,434	+ 5	Total Deposits	8,372	8,391	8,222	+ 2
NOW	1,966	1,963	1,626	+21	NOW	526	513	295	+78
Savings	7,647	7,582	6,319	+21	Savings	1,818	1,842	1,823	- 1
Time	11,956	11,881	11,655	+ 3	Time	6,190	6,196	6,242	- 1
Credit Union Deposits	1,546	1,538	1,371	+13		NOV	OCT	NOV	
Share Drafts	123	115	93	+32	Mortgages Outstanding	10,663	10,664	9,004	+18
Savings & Time	1,442	1,434	1,280	+13	Mortgage Commitments	401	413	420	- 5
LOUISIANA									
Commercial Bank Deposits	28,237	28,058	26,806	+ 5	Savings & Loans**				
Demand	5,427	5,322	5,600	- 4	Total Deposits	10,870	10,831	11,067	- 2
NOW	1,729	1,734	1,562	+11	NOW	332	328	281	+18
Savings	6,938	6,799	5,512	+26	Savings	2,371	2,380	2,272	+ 4
Time	14,597	14,688	14,638	- 1	Time	8,275	8,225	8,679	- 5
Credit Union Deposits	191	192	183	+ 4		NOV	OCT	NOV	
Share Drafts	17	17	20	-15	Mortgages Outstanding	10,343	10,293	9,304	+11
Savings & Time	183	184	177	+ 3	Mortgage Commitments	257	275	511	-50
MISSISSIPPI									
Commercial Bank Deposits	12,998	13,025	12,465	+ 4	Savings & Loans**				
Demand	2,496	2,491	2,373	+ 5	Total Deposits	2,121	2,539	1,611	+32
NOW	1,001	1,001	869	+15	NOW	75	74	52	+44
Savings	2,646	2,640	2,346	+13	Savings	339	338	434	-22
Time	7,166	7,205	7,198	- 1	Time	1,703	1,717	1,362	+25
Credit Union Deposits	*	*	*			NOV	OCT	NOV	
Share Drafts	*	*	*		Mortgages Outstanding	2,618	2,686	2,074	+26
Savings & Time	*	*	*		Mortgage Commitments	207	203	147	+41
TENNESSEE									
Commercial Bank Deposits	25,325	25,171	24,486	+ 3	Savings & Loans**				
Demand	4,542	4,511	4,629	- 2	Total Deposits	6,997	7,004	7,265	- 4
NOW	2,238	2,216	1,948	+15	NOW	267	266	221	+21
Savings	5,226	5,187	4,893	+ 7	Savings	1,374	1,281	1,240	+11
Time	13,421	13,363	13,342	+ 1	Time	5,509	5,501	5,841	- 6
Credit Union Deposits	1,219	1,224	1,051	+16		NOV	OCT	NOV	
Share Drafts	90	89	79	+14	Mortgages Outstanding	6,735	6,748	6,090	+11
Savings & Time	1,139	1,052	986	+16	Mortgage Commitments	325	283	339	- 6

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 Monday of the month. This data, reported by institutions with over $15 million in deposits and $2.1 million of reserve requirements as of June 1984, represents 95% of deposits in the six state area. The annual rate of change is based on most recent data over December 31, 1980 base, annualized. 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 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.

CONSTRUCTION

12-month cumulative rate

	DEC 1985	NOV 1985	DEC 1984	ANN. % CHG.		DEC 1985	NOV 1985	DEC 1984	ANN. % CHG.
UNITED STATES									
Nonresidential Building Permits - $ Mil.					Residential Building Permits				
Total Nonresidential	69,309	68,888	61,483	+13	Value - $ Mil.	83,107	81,782	74,412	+12
Industrial Bldgs.	8,722	8,791	8,800	- 1	Residential Permits - Thous.				
Offices	17,319	17,121	14,810	+17	Single-family units	953.4	944.2	922.8	+ 3
Stores	11,224	11,016	9,542	+18	Multifamily units	773.1	760.3	759.4	+ 2
Hospitals	2,134	2,189	1,851	+15	Total Building Permits				
Schools	1,133	1,147	993	+14	Value - $ Mil.	152,416	150,671	135,895	+12
SOUTHEAST									
Nonresidential Building Permits - $ Mil.					Residential Building Permits				
Total Nonresidential	11,457	11,427	9,497	+21	Value - $ Mil.	14,903	14,564	13,854	+ 8
Industrial Bldgs.	1,192	1,216	988	+21	Residential Permits - Thous.				
Offices	2,639	2,565	2,247	+17	Single-family units	197.9	194.9	190.2	+ 4
Stores	2,280	2,276	1,902	+20	Multifamily units	165.5	161.3	176.8	- 6
Hospitals	344	416	402	-14	Total Building Permits				
Schools	157	159	105	+50	Value - $ Mil.	26,359	25,990	23,351	+13
ALABAMA									
Nonresidential Building Permits - $ Mil.					Residential Building Permits				
Total Nonresidential	624	673	730	-15	Value - $ Mil.	552	537	449	+23
Industrial Bldgs.	55	72	198	-72	Residential Permits - Thous.				
Offices	150	149	99	+52	Single-family units	9.9	9.8	8.2	+21
Stores	160	162	127	+26	Multifamily units	8.0	7.8	7.1	+13
Hospitals	13	40	53	-75	Total Building Permits				
Schools	14	14	7	+100	Value - $ Mil.	1,176	1,210	1,179	- 0
FLORIDA									
Nonresidential Building Permits - $ Mil.					Residential Building Permits				
Total Nonresidential	5,868	5,896	4,747	+24	Value - $ Mil.	8,477	8,271	7,964	+ 6
Industrial Bldgs.	537	554	479	+12	Residential Permits - Thous.				
Offices	1,170	1,177	1,079	+ 8	Single-family units	105.9	103.3	103.1	+ 3
Stores	1,255	1,258	1,071	+17	Multifamily units	98.5	97.3	101.8	- 3
Hospitals	189	221	162	+17	Total Building Permits				
Schools	50	49	46	+ 9	Value - $ Mil.	14,345	14,167	12,711	+13
GEORGIA									
Nonresidential Building Permits - $ Mil.					Residential Building Permits				
Total Nonresidential	2,049	1,955	1,809	+13	Value - $ Mil.	3,188	3,104	2,828	+13
Industrial Bldgs.	316	311	189	+67	Residential Permits - Thous.				
Offices	545	485	558	- 2	Single-family units	46.6	46.4	43.6	+ 7
Stores	318	308	293	+ 9	Multifamily units	27.7	25.9	26.7	+ 4
Hospitals	25	33	51	-51	Total Building Permits				
Schools	20	21	18	+11	Value - $ Mil.	5,237	5,059	4,637	+13
LOUISIANA									
Nonresidential Building Permits - $ Mil.					Residential Building Permits				
Total Nonresidential	1,324	1,331	1,166	+14	Value - $ Mil.	785	779	1,039	-24
Industrial Bldgs.	50	49	31	+61	Residential Permits - Thous.				
Offices	421	413	283	+49	Single-family units	11.5	11.5	15.0	-23
Stores	251	255	228	+10	Multifamily units	7.3	7.1	13.1	-44
Hospitals	45	46	99	-55	Total Building Permits				
Schools	55	56	26	+112	Value - $ Mil.	2,108	2,110	2,205	- 4
MISSISSIPPI									
Nonresidential Building Permits - $ Mil.					Residential Building Permits				
Total Nonresidential	305	295	250	+22	Value - $ Mil.	335	333	383	-13
Industrial Bldgs.	25	22	12	+108	Residential Permits - Thous.				
Offices	54	53	40	+35	Single-family units	5.7	5.7	6.5	-12
Stores	65	60	56	+16	Multifamily units	2.7	2.4	5.1	-47
Hospitals	17	15	9	+89	Total Building Permits				
Schools	7	8	3	+133	Value - $ Mil.	640	628	633	+ 1
TENNESSEE									
Nonresidential Building Permits - $ Mil.					Residential Building Permits				
Total Nonresidential	1,287	1,277	795	+62	Value - $ Mil.	1,566	1,540	1,191	+31
Industrial Bldgs.	209	208	79	+165	Residential Permits - Thous.				
Offices	299	288	188	+59	Single-family units	18.3	18.2	13.8	+33
Stores	231	233	127	+82	Multifamily units	21.3	20.8	23.0	- 7
Hospitals	55	61	28	+96	Total Building Permits				
Schools	11	11	5	+120	Value - $ Mil.	2,853	2,816	1,986	+44

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.

GENERAL

UNITED STATES

	LATEST DATA	CURR. PERIOD	PREV. PERIOD	YEAR AGO	ANN. %. CHG.
Personal Income ($bil. - SAAR)	3Q	3,211.6	3,190.7	3,057.3	+ 5
Taxable Sales - $bil.		N.A.	N.A.	N.A.	
Plane Pass. Arr. (000's)		N.A.	N.A.	N.A.	
Petroleum Prod. (thous.)	JAN	8,950.2	8,959.0	8,796.0	+ 2
Consumer Price Index 1967=100	JAN	328.4	327.4	316.1	+ 4
Kilowatt Hours - mils.	JAN	179.1	183.8	183.2	- 4

	JAN 1986	DEC (R) 1985	JAN 1985	ANN. % CHG.
Agriculture				
Prices Rec'd by Farmers Index (1977=100)	124	128	136	- 9
Broiler Placements (thous.)	87,918	89,155	85,507	+ 3
Calf Prices ($ per cwt.)	58.9	58.8	64.1	- 8
Broiler Prices (¢ per lb.)	30.5	30.0	30.9	- 1
Soybean Prices ($ per bu.)	5.12	5.00	5.90	-13
Broiler Feed Cost ($ per ton)	191	186	221	-14

SOUTHEAST

	LATEST DATA	CURR. PERIOD	PREV. PERIOD	YEAR AGO	ANN. %. CHG.
Personal Income ($bil. - SAAR)	3Q	392.0	388.2	373.1	+ 5
Taxable Sales - $bil.		N.A.	N.A.	N.A.	
Plane Pass. Arr. (000's)	NOV	4,369.4	4,310.6	4,358.2	+ 0
Petroleum Prod. (thous.)	JAN	1,526.0	1,532.0	1,479.0	+ 3
Consumer Price Index 1967=100		N.A.	N.A.	N.A.	
Kilowatt Hours - mils.	NOV	28.5	30.4	28.5	0

	JAN 1986	DEC (R) 1985	JAN 1985	ANN. % CHG.
Agriculture				
Prices Rec'd by Farmers Index (1977=100)	113	113	129	-12
Broiler Placements (thous.)	33,895	34,378	32,984	+ 3
Calf Prices ($ per cwt.)	55.3	54.8	59.2	- 7
Broiler Prices (¢ per lb.)	29.1	28.0	29.7	- 2
Soybean Prices ($ per bu.)	5.12	5.01	6.02	-15
Broiler Feed Cost ($ per ton)	184	179	215	-14

ALABAMA

	LATEST DATA	CURR. PERIOD	PREV. PERIOD	YEAR AGO	ANN. %. CHG.
Personal Income ($bil. - SAAR)	3Q	42.2	42.1	40.4	+ 4
Taxable Sales - $bil.		N.A.	N.A.	N.A.	
Plane Pass. Arr. (000's)	NOV	123.0	132.4	109.4	+13
Petroleum Prod. (thous.)	JAN	58.0	58.0	52.0	+12
Consumer Price Index 1967=100		N.A.	N.A.	N.A.	
Kilowatt Hours - mils.	NOV	3.8	4.0	4.0	- 5

	JAN 1986	DEC (R) 1985	JAN 1985	ANN. % CHG.
Agriculture				
Farm Cash Receipts - $ mil. (Dates:NOV, NOV)	1,888	-	2,031	- 7
Broiler Placements (thous.)	11,469	11,569	11,152	+ 3
Calf Prices ($ per cwt.)	54.6	56.1	59.9	- 9
Broiler Prices (¢ per lb.)	29.0	26.5	29.0	0
Soybean Prices ($ per bu.)	5.25	5.11	6.03	-13
Broiler Feed Cost ($ per ton)	183	178	205	-11

FLORIDA

	LATEST DATA	CURR. PERIOD	PREV. PERIOD	YEAR AGO	ANN. %. CHG.
Personal Income ($bil. - SAAR)	3Q	151.2	149.0	142.6	+ 6
Taxable Sales - $bil.	JAN	94.1	92.8	85.1	+11
Plane Pass. Arr. (000's)	NOV	2,117.9	2,005.2	2,081.9	+ 2
Petroleum Prod. (thous.)	JAN	34.0	35.0	42.0	-19
Consumer Price Index		**JAN**	**NOV**	**JAN**	
1967=100		174.6	173.9	168.6	
Kilowatt Hours - mils.	NOV	9.0	9.7	8.2	+10

	JAN 1986	DEC (R) 1985	JAN 1985	ANN. % CHG.
Agriculture				
Farm Cash Receipts - $ mil. (Dates:NOV, NOV)	3,832	-	4,070	- 6
Broiler Placements (thous.)	2,195	2,224	2,087	+ 5
Calf Prices ($ per cwt.)	57.5	57.0	62.4	- 8
Broiler Prices (¢ per lb.)	29.0	28.0	29.0	0
Soybean Prices ($ per bu.)	5.25	5.11	6.03	-13
Broiler Feed Cost ($ per ton)	235	230	235	0

GEORGIA

	LATEST DATA	CURR. PERIOD	PREV. PERIOD	YEAR AGO	ANN. %. CHG.
Personal Income ($bil. - SAAR)	3Q	73.0	71.8	68.4	+ 7
Taxable Sales - $bil.		N.A.	N.A.	N.A.	
Plane Pass. Arr. (000's)	NOV	1,631.4	1,637.2	1,688.5	- 3
Petroleum Prod. (thous.)		N.A.	N.A.	N.A.	
Consumer Price Index		**DEC**	**OCT**	**DEC**	
1967=100		335.3	333.0	318.2	+ 5
Kilowatt Hours - mils.	NOV	4.5	4.9	4.4	+10

	JAN 1986	DEC (R) 1985	JAN 1985	ANN. % CHG.
Agriculture				
Farm Cash Receipts - $ mil. (Dates:NOV, NOV)	2,944	-	3,335	-12
Broiler Placements (thous.)	13,697	13,866	13,165	+ 4
Calf Prices ($ per cwt.)	51.3	51.3	57.3	-10
Broiler Prices (¢ per lb.)	28.5	28.0	29.0	- 2
Soybean Prices ($ per bu.)	5.16	5.10	5.86	-12
Broiler Feed Cost ($ per ton)	181	176	245	-26

LOUISIANA

	LATEST DATA	CURR. PERIOD	PREV. PERIOD	YEAR AGO	ANN. %. CHG.
Personal Income ($bil. - SAAR)	3Q	49.8	49.6	49.0	+ 1
Taxable Sales - $bil.		N.A.	N.A.	N.A.	
Plane Pass. Arr. (000's)	NOV	292.9	318.4	285.5	+ 3
Petroleum Prod. (thous.)	JAN	1,350.0	1,355.0	1,296.0	+ 4
Consumer Price Index 1967=100		N.A.	N.A.	N.A.	
Kilowatt Hours - mils.	NOV	4.4	4.8	4.8	- 8

	JAN 1986	DEC (R) 1985	JAN 1985	ANN. % CHG.
Agriculture				
Farm Cash Receipts - $ mil. (Dates:NOV, NOV)	1,310	-	1,288	+ 2
Broiler Placements (thous.)	N.A.	N.A.	N.A.	
Calf Prices ($ per cwt.)	56.0	56.0	59.4	- 6
Broiler Prices (¢ per lb.)	31.0	31.0	32.0	- 3
Soybean Prices ($ per bu.)	4.62	4.70	5.97	-23
Broiler Feed Cost ($ per ton)	250	245	255	- 2

MISSISSIPPI

	LATEST DATA	CURR. PERIOD	PREV. PERIOD	YEAR AGO	ANN. %. CHG.
Personal Income ($bil. - SAAR)	3Q	23.0	23.7	23.0	0
Taxable Sales - $bil.		N.A.	N.A.	N.A.	
Plane Pass. Arr. (000's)	NOV	32.6	34.8	33.8	- 4
Petroleum Prod. (thous.)	JAN	84.0	84.0	89.0	- 6
Consumer Price Index 1967=100		N.A.	N.A.	N.A.	
Kilowatt Hours - mils.	NOV	1.9	2.1	1.9	0

	JAN 1986	DEC (R) 1985	JAN 1985	ANN. % CHG.
Agriculture				
Farm Cash Receipts - $ mil. (Dates:NOV, NOV)	2,074	-	1,808	+15
Broiler Placements (thous.)	6,533	6,720	6,580	- 1
Calf Prices ($ per cwt.)	56.5	57.6	60.0	- 6
Broiler Prices (¢ per lb.)	30.5	30.0	32.0	- 5
Soybean Prices ($ per bu.)	5.24	5.00	6.03	-13
Broiler Feed Cost ($ per ton)	159	155	162	- 2

TENNESSEE

	LATEST DATA	CURR. PERIOD	PREV. PERIOD	YEAR AGO	ANN. %. CHG.
Personal Income ($bil. - SAAR)	3Q	52.8	52.0	49.7	+ 6
Taxable Sales - $bil.		N.A.	N.A.	N.A.	
Plane Pass. Arr. (000's)	NOV	171.6	182.6	159.1	+ 7
Petroleum Prod. (thous.)		N.A.	N.A.	N.A.	
Consumer Price Index 1967=100		N.A.	N.A.	N.A.	
Kilowatt Hours - mils.	NOV	4.9	4.9	5.2	- 6

	JAN 1986	DEC (R) 1985	JAN 1985	ANN. % CHG.
Agriculture				
Farm Cash Receipts - $ mil. (Dates:NOV, NOV)	1,917	-	1,748	+10
Broiler Placements (thous.)	N.A.	N.A.	N.A.	
Calf Prices ($ per cwt.)	54.9	53.4	56.3	- 2
Broiler Prices (¢ per lb.)	27.5	27.0	29.0	- 5
Soybean Prices ($ per bu.)	5.43	5.26	6.18	-12
Broiler Feed Cost ($ per ton)	186	178	188	- 1

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

	DEC 1985	NOV 1985	DEC 1984	ANN. % . CHG		DEC 1985	NOV 1985	DEC 1984	ANN. % CHG
UNITED STATES									
Civilian Labor Force - thous.	115,780	116,097	114,028	+ 2	Nonfarm Employment - thous.	99,700	99,527	96,719	+ 3
Total Employed - thous	108,063	108,282	106,049	+ 2	Manufacturing	19,375	19,423	19,557	- 1
Total Uemployed - thous.	7,717	7,815	7,978	- 3	Construction	4,707	4,900	4,418	+ 7
Unemployment Rate - % SA	6.9	7.0	7.2		Trade	24,110	23,757	23,284	+ 4
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	16,741	16,742	16,298	+ 3
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	22,383	22,358	21,159	+ 6
Mfg. Avg. Wkly. Hours	41.6	40.9	41.2	+ 1	Fin., Ins. & Real. Est.	6,049	6,024	5,760	+ 5
Mfg. Avg. Wkly. Earn. - $	404	393	387	+ 4	Trans. Com. & Pub. Util.	5,385	5,365	5,272	+ 2
SOUTHEAST									
Civilian Labor Force - thous.	15,316	15,333	15,057	+ 2	Nonfarm Employment - thous.	12,948	12,914	12,601	+ 3
Total Employed - thous	14,199	14,225	13,885	+ 2	Manufacturing	2,307	2,309	2,323	- 1
Total Uemployed - thous.	1,118	1,107	1,172	- 5	Construction	788	799	775	+ 2
Unemployment Rate - % SA	7.4	7.4	7.8		Trade	3,239	3,196	3,133	+ 3
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	2,303	2,305	2,232	+ 3
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	2,703	2,704	2,571	+ 5
Mfg. Avg. Wkly. Hours	42.4	41.5	41.6	+ 2	Fin., Ins. & Real. Est.	740	739	706	+ 5
Mfg. Avg. Wkly. Earn. - $	364	353	343	+ 6	Trans. Com. & Pub. Util.	739	734	730	+ 1
ALABAMA									
Civilian Labor Force - thous.	1,801	1,808	1,798	+ 0	Nonfarm Employment - thous.	1,411	1,410	1,394	+ 1
Total Employed - thous	1,657	1,666	1,589	+ 4	Manufacturing	347	348	349	- 1
Total Uemployed - thous.	144	142	208	-31	Construction	68	70	67	+ 1
Unemployment Rate - % SA	7.8	8.2	11.3		Trade	305	300	303	+ 1
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	301	304	296	+ 2
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	235	235	229	+ 3
Mfg. Avg. Wkly. Hours	42.4	41.4	41.4	+ 2	Fin., Ins. & Real. Est.	67	66	64	+ 5
Mfg. Avg. Wkly. Earn. - $	370	357	344	+ 8	Trans. Com. & Pub. Util.	72	72	72	0
FLORIDA									
Civilian Labor Force - thous.	5,300	5,266	5,196	+ 2	Nonfarm Employment - thous.	4,560	4,534	4,369	+ 4
Total Employed - thous	5,005	4,976	4,879	+ 3	Manufacturing	526	524	517	+ 2
Total Uemployed - thous.	295	290	316	- 7	Construction	341	342	339	+ 1
Unemployment Rate - % SA	5.5	5.2	5.8		Trade	1,197	1,185	1,167	+ 3
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	725	723	677	+ 7
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	1,182	1,175	1,104	+ 7
Mfg. Avg. Wkly. Hours	43.4	42.3	41.7	+ 4	Fin., Ins. & Real. Est.	324	323	307	+ 6
Mfg. Avg. Wkly. Earn. - $	353	337	326	+ 8	Trans. Com. & Pub. Util.	254	252	248	+ 2
GEORGIA									
Civilian Labor Force - thous.	2,875	2,865	2,843	+ 1	Nonfarm Employment - thous.	2,626	2,616	2,534	+ 4
Total Employed - thous	2,707	2,686	2,687	+ 1	Manufacturing	559	560	556	+ 1
Total Uemployed - thous.	168	179	157	+ 7	Construction	153	153	139	+10
Unemployment Rate - % SA	6.0	6.5	5.6		Trade	679	666	645	+ 5
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	453	453	449	+ 1
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	469	472	443	+ 6
Mfg. Avg. Wkly. Hours	42.1	41.2	41.8	+ 1	Fin., Ins. & Real. Est.	140	140	132	+ 6
Mfg. Avg. Wkly. Earn. - $	349	338	329	+ 6	Trans. Com. & Pub. Util.	165	164	161	+ 2
LOUISIANA									
Civilian Labor Force - thous.	1,965	1,985	1,893	+ 4	Nonfarm Employment - thous.	1,590	1,594	1,611	- 1
Total Employed - thous	1,738	1,763	1,708	+ 2	Manufacturing	172	173	184	- 7
Total Uemployed - thous.	227	222	186	+22	Construction	108	113	114	- 5
Unemployment Rate - % SA	12.2	11.3	10.5		Trade	391	388	390	+ 0
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	327	328	326	+ 0
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	316	317	313	+ 1
Mfg. Avg. Wkly. Hours	42.4	42.3	41.7	+ 2	Fin., Ins. & Real. Est.	84	84	83	+ 1
Mfg. Avg. Wkly. Earn. - $	447	441	427	+ 5	Trans. Com. & Pub. Util.	114	114	118	- 3
MISSISSIPPI									
Civilian Labor Force - thous.	1,119	1,127	1,073	+ 4	Nonfarm Employment - thous.	859	858	843	+ 2
Total Employed - thous	1,007	1,019	963	+ 5	Manufacturing	221	221	220	+ 0
Total Uemployed - thous.	112	107	110	+ 2	Construction	41	42	38	+ 8
Unemployment Rate - % SA	10.2	10.2	10.5		Trade	191	188	186	+ 3
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	192	192	189	+ 2
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	130	130	127	+ 2
Mfg. Avg. Wkly. Hours	41.5	40.8	41.0	+ 1	Fin., Ins. & Real. Est.	35	35	35	0
Mfg. Avg. Wkly. Earn. - $	306	299	292	+ 5	Trans. Com. & Pub. Util.	40	40	40	0
TENNESSEE									
Civilian Labor Force - thous.	2,256	2,282	2,254	+ 0	Nonfarm Employment - thous.	1,902	1,902	1,850	+ 3
Total Employed - thous	2,085	2,115	2,059	+ 1	Manufacturing	482	483	497	- 3
Total Uemployed - thous.	172	167	195	-12	Construction	77	79	78	- 1
Unemployment Rate - % SA	7.4	7.8	8.5		Trade	476	469	442	+ 8
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	305	305	295	+ 3
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	371	375	355	+ 5
Mfg. Avg. Wkly. Hours	42.5	41.2	41.7	+ 2	Fin., Ins. & Real. Est.	90	91	85	+ 6
Mfg. Avg. Wkly. Earn. - $	358	344	340	+ 5	Trans. Com. & Pub. Util.	94	92	91	+ 3

NOTES: All labor force dara 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.

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