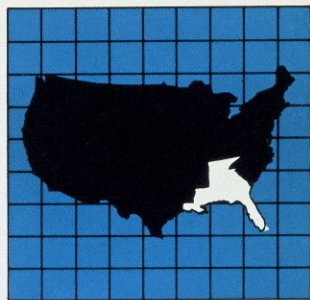


# Economic Review



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NOVEMBER/DECEMBER 1986

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The Southeast  
in 1987



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# Economic Overview



*What's in store for the Southeast in 1987? In this special issue of the Economic Review, economists in the Atlanta Fed's regional section project growth patterns for each of the six states in the Sixth District, which includes Alabama, Florida, Georgia, and parts of Louisiana, Mississippi, and Tennessee. States are presented in descending order of population. Gene Sullivan, coordinator of this issue and Research Officer in charge of the regional section, offers an overview of economic prospects for the Southeast as well. The outlook for the Southeast depends, of course, on national economic developments. These forecasts for the region assume national growth about the same as last year's. They also anticipate a shift in emphasis away from reliance on consumer spending as a source of strength nationally and toward a more vibrant manufacturing sector stimulated by the dollar's decline. Mary S. Rosenbaum, the Research Officer in charge of the Atlanta Fed's macropolicy section, provides a closer look at national developments that will affect the economic tenor of the region.*



# Prospects for the Southeast

In 1987 the Southeast could see a halt to last year's economic slowdown and perhaps even a modest upturn, given the right balance of regional, national, and international developments. How manufacturing and agriculture respond to the dollar's decline, the path of oil prices, the degree of weakness in construction, and consumer spending nationwide will determine whether the region's economy picks up or continues at the same pace as in 1986.

Regardless of the overall picture for the Southeast, any gains will be spread unequally across the states in the region, and no one state or area is likely to produce a spectacular performance. However, Louisiana's economy should finally bottom out after a three-year slide, and Alabama is expected to strengthen. Florida will probably continue, but not improve on, its strong expansion of recent years, and Mississippi seems likely to maintain its relatively weak pace. Georgia and Tennessee will struggle to match last year's good growth.

Continuing gains in population, employment, and income appear to be the source of the Southeast's economic strength. The regional rate of growth in these areas exceeded the nation's and stoked the demand for output in several of the Southeast's economic sectors. Attracted by a favorable climate, job opportunities, and amenities that contribute to the quality of life, people continue to migrate to the region, settling primarily in eastern metropolitan areas. Since 1980 population increases have averaged nearly 2 percent per year for the region and exceeded 3 percent in Florida. This growth has not been uniform throughout the Southeast, however. The western states of the region showed a meager increase of 0.7 percent or less in 1986 because of out-migration and negligible growth in Louisiana's population.

## Services and Trade Show Strength

Responding to the needs of an expanding population base, service industries, wholesale and retail trade, residential construction, as well as finance, insurance, and real estate showed the most strength in 1986. Manufacturers of transpor-

tation equipment, textiles, and food also performed relatively well, meeting burgeoning demand for products from both the growing region and the nation.

Weaknesses still exist, however. Sectors that were ailing in 1985 made little improvement in 1986, and some deteriorated even further. Agriculture, mining, most nondurable goods manufacturing, and export trade showed continuing or worsening strain. Nonresidential construction and durable goods manufacturing slumped in 1986 after increasing in 1985. The decline in the oil and gas industries struck a severe blow to the region's manufacturing sector, which was already hard-pressed by foreign competition in both domestic and export markets. Especially affected were those firms producing durable goods used in the drilling industry. Unfortunately, the side-effects from the troubled oil industry are likely to continue through 1987. A flattening of trends in the oil-dependent sectors, rather than a continuation of the downward slide, is about the best that can be hoped for.

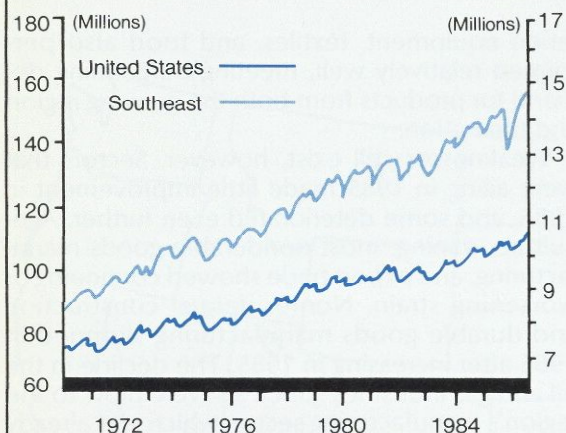
In spite of these problems, overall job gains should continue in the range of 3 to 4 percent, as they were in 1986. This was slightly higher than the 2 to 3 percent growth for the nation (Chart 1). The trade, service, government, and financial sectors, which account for over two-thirds of the region's total employment, will provide the majority of the 500,000 new jobs expected for 1987.

**Trade.** Mirroring population trends in the Southeast, the trade sector continued to grow more rapidly than in the nation and remained the region's largest employer, with one-fourth of the total jobs (Chart 2). Personal income expansion slowed in 1986 as dividend and interest payments fell off and manufacturing income edged up only slightly; nonetheless, consumer spending showed sufficient strength to keep trade moving, albeit at a slower rate than in 1984 and 1985. Trade sector employment rose more than 3 percent in 1986, adding about 100,000 jobs, and should continue that pace into 1987.

**Services.** Growth in the region's various service industries, which account for one-fifth of total employment, has surpassed even expansion in



**Chart 1.**  
Total Employment, Southeast and  
United States

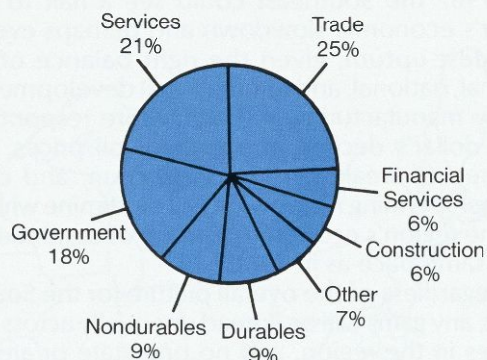


Source: Computed by Federal Reserve Bank of Atlanta from monthly data released by southeastern State Departments of Employment Security and U.S. Bureau of Labor Statistics (household survey).

the trade sector (Chart 3). In 1986 services employment posted a 4 percent increase and added over 105,000 employees, compared with an increase of less than 3 percent for the nation as a whole. This sector appears destined to do at least as well in 1987. Spurred by increases in population and expansion of businesses, the region's health, education, and legal services benefited most from developments in the service sector. Amusement and recreational enterprises have prospered as more people explore ways to spend their leisure time. Firms that maintain and repair the exploding inventory of computers and related equipment, now standard fixtures in most businesses, have also contributed to rapid gains in service employment. The lodging industry prospered from increased numbers of tourists and conventions attracted to the Southeast, especially during 1986, and prospects look good for these areas in 1987.

**Financial Services.** Financial services, which are closely related to the service sector, expanded with similar verve in 1986. Business growth and accompanying real estate development, along with changes and extensions in the region's financial institutions, have stimulated employment in the financial services sector markedly, adding about 30,000 new jobs to total employment during 1986. Although it appeared to be slowing as

**Chart 2.**  
Employment in the Southeast by Sector  
(As a percent of nonfarm  
employment, in thousands of workers)



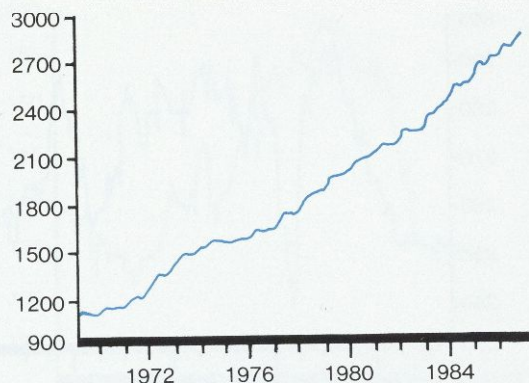
Source: Computed by Federal Reserve Bank of Atlanta from data released by southeastern State Departments of Employment Security.

the year drew to a close, financial services employment is still likely to contribute a significant number of new jobs in 1987.

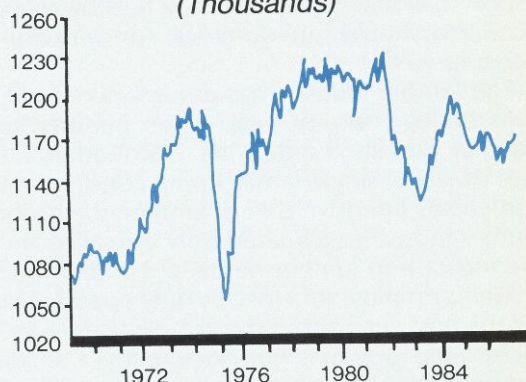
**Construction.** In the past, expansion in services and trade has gone hand in hand with growth in construction. An increasing population has typically stimulated demand for residential housing as well as buildings for offices, stores, warehouses, and new or enlarging businesses. However, past overbuilding in the commercial area and changes in depreciation allowances on rental properties forced the region to adjust to overcapacity in office buildings and multi-family residential structures during 1986. Consequently, construction began slowing during the first quarter and was faltering from its pace a year earlier as 1986 ended. Even though total construction employment registered little or no increase for the year as a whole, single-family residential building continued to be strong. The decline in mortgage interest rates during the year no doubt contributed to the brisk upturn in single-family building permits, which rose by 8 percent in 1986 as contrasted with a decline of nearly 0.5 percent in 1985. Multi-family permits, on the other hand, declined between 1 and 2 percent from their 1985 level—a sharp drop from previous years.

**Government.** The government sector, the region's third largest employer with 18 percent of



**Chart 3.****Services Employment in the Southeast  
(Thousands)**

Source: Computed by Federal Reserve Bank of Atlanta from monthly data released by southeastern State Departments of Employment Security, January 1969 to December 1986.

**Chart 4.****Nondurables Employment  
in the Southeast  
(Thousands)**

Source: Computed by Federal Reserve Bank of Atlanta from monthly data released by southeastern State Departments of Employment Security, January 1969 to December 1986.

the total number of jobs, held up rather well in 1986 despite earlier forebodings of a decline due to budget-cutting efforts. Even though employment gains slowed during the year, the government sector contributed nearly 45,000 additional jobs to the region's economy during 1986, and it should continue to provide support in 1987, although increases are likely to weaken.

### Manufacturing Remains Vulnerable

The Southeast's major vulnerability is the non-durable goods component of its manufacturing sector. Loss of markets abroad for domestic products and continuing inroads of imports to domestic markets have reduced output and cut employment in these industries (Chart 4). Strengths in other areas of manufacturing have helped offset these weaknesses, however; since 1985 manufacturing has declined by less than 0.5 percent in the Southeast, as compared to 1 percent nationwide. Most of the losses nationally were in the durable goods industry.

**Bright spots.** Despite its overall lethargy, the region's industrial complex shows promise in several areas. Automobile manufacturing is one of the bright spots. Producers of transportation equipment such as tires, alternators, wiring harnesses, and other automobile components had a

good year due to the continuing briskness of domestic auto sales. Airplane manufacturing has also strengthened this sector, though a slowdown in shipbuilding acted as a damper in the region. Job growth was not quite as robust in 1986 as in 1985 and fell far below the exceptionally high rate in 1984; nevertheless, the increase of 3.5 percent runs ahead of employment figures in any other area of manufacturing and exceeds national job gains in the transportation equipment industry as well.

Vigor in the Southeast's poultry and fish industries during 1986 also boosted total employment. The sharpened appetite of national consumers for these regional products has widened the market and opened opportunities for extending production and processing. Job increases in food manufacturing have approached the 1.5 percent rate of 1985, and prospects for 1987 may be even brighter if possibilities for increased food exports materialize as domestic prices drop to match prices abroad.

Paper and lumber products, keyed to the region's substantial forest products industry, remain areas of growth in manufacturing despite competition from abroad. Paper production climbed from 1985's plateau but has yet to regain 1984's pace. Ongoing expansion in the domestic economy and some cessation in paper imports from



abroad have helped to bolster regional output and employment. Further gains should be evident in 1987 as the dollar's decline begins to increase the U.S. share of the paper industry in export markets. Anticipation of a healthy national economy should spur domestic consumption of paper as well.

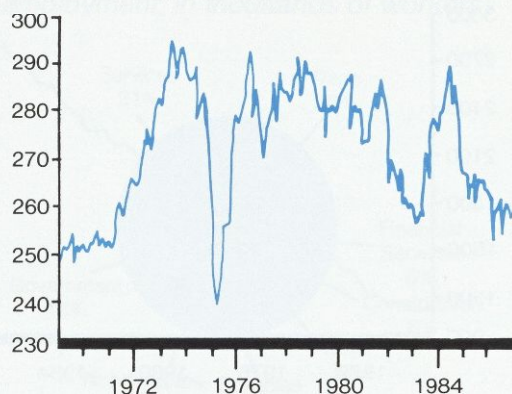
The lumber industry has done well to hold its own during the past year, when imports from Canada virtually flooded the U.S. market. Despite vitality in single-family home construction, a particularly intensive user of lumber, the region's lumber industries garnered only a small share of the increase in lumber demand. Lumber manufacturing employment rose by only 1 percent during the past year, about the same rate as in 1985. More rapid growth is not likely unless Canadian lumber products become more expensive relative to domestic lumber, or imports are restricted by some other means. (A Canadian export levy of 15 percent will be assessed in 1987.) The continuing demand anticipated for single-family homes should keep lumber use high in 1987.

**Serious weaknesses.** Even though strength in some areas has helped to prop manufacturing in the Southeast, weaknesses have dominated the sector as a whole. Total employment for 1986 fell by around 10,000 workers from 1985's level. Machinery manufacturing suffered the greatest job losses. The tailspin of the petroleum industry, and the attendant sharp reduction in demand for machinery and equipment used in oil and gas well drilling, contributed significantly to the drop in machinery manufacturing in 1986. The need for farm machinery remained weak as well because of economic pressures on farmers in the region. Last year the machinery sector lost around 6,000 workers, nearly 2 percent, following on the heels of a relatively slow 1985. Prospects are not favorable for much recovery in machinery demand for the year ahead.

Employment losses in primary and fabricated metals industries can be traced in part to languor in machinery manufacturing. As demand for machinery and equipment waned, metals manufacturing industries also slowed. In addition, competition from international markets in the aluminum industry has left domestic aluminum manufacturers hard-pressed, resulting in the closure of a number of plants in the Southeast.

**Apparel.** The apparel industry continues to slide, despite a sharp drop in 1985 (Chart 5). Although the rate of decline was somewhat slower during 1986, the recovery anticipated in response

**Chart 5.**  
Apparel Employment in the Southeast  
(Thousands)



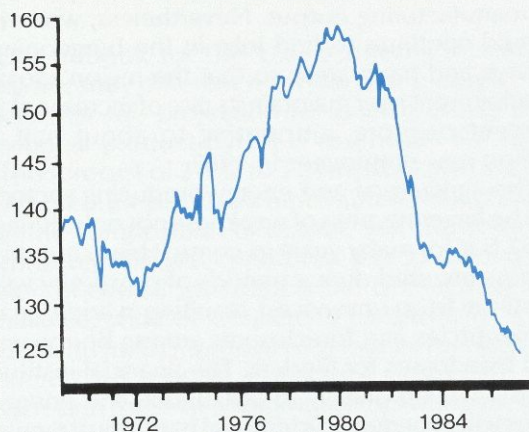
Source: Computed by Federal Reserve Bank of Atlanta from monthly data released by southeastern State Departments of Employment Security, January 1969 to December 1986.

to the falling dollar was not much in evidence as the year drew to a close, largely because the dollar did not drop significantly in relation to the currencies of key Asian competitors other than Japan. Import prices did not rise sufficiently to generate a turnaround in domestic apparel employment; however, modernization now makes it possible to increase output with fewer employees, and industry reports indicate that some expansion of production has indeed occurred. Nevertheless, imports still dominated a large segment of the apparel market at the close of 1986. If the competitive position of domestic manufacturers improves as expected in 1987, apparel employment should at least level out and could even begin regaining some of its losses.

**Chemicals.** Chemical production has been perhaps the bleakest area of manufacturing in the Southeast. In 1986, chemicals employment continued to crumble, a pattern almost uninterrupted since employment reached its peak in 1979 (Chart 6). In 1986 it slid by over 4 percent, more than double the drop in 1985, falling a total of 20 percent since 1979. Although the downward trend flattened during the latter portion of the year (in contrast to an upturn nationally) and could indicate the beginning of improvement, the industry is a long way from recovery in the Southeast. Domestic production has suffered market



**Chart 6.**  
Chemicals Employment in the Southeast  
(Thousands)



Source: Computed by Federal Reserve Bank of Atlanta from monthly data released by southeastern State Departments of Employment Security, January 1969 to December 1986.

losses due to noncompetitive pricing; and, to make matters worse, a significant share of the domestic market has shriveled due to hardship in the agricultural community. Financially burdened farmers have cut back on expenditures for fertilizers, insecticides, and herbicides in an effort to economize on production costs. Man-made fiber manufacturers have also reduced use of chemical raw materials as their former shares of domestic textile markets dwindle. Even with the dollar's decline, there was no evidence of substantial recovery in the Southeast's chemical manufacturing at the end of 1986.

## Primary Sector

**Agriculture.** The agricultural sector in the Southeast, as already indicated, has been faltering since prices for agricultural commodities began to break under the weight of oversupplies and reduced markets in 1981. In 1986 this dilemma was compounded in the Southeast by severe drought that reduced production by one-third or more in some locations. In Georgia, where the drought was the most intense, average yields of the soybean crop were cut by nearly 40 percent. Forages for grazing livestock were all but eradicated by the dry, hot weather, and large portions of cattle herds had to be marketed for lack of feed. Although

rains returned in August and September, the damage to most crops was irreversible, and farmers faced the dual problem of low market prices and low production. These difficulties have further eroded the financial condition of farmers, leaving increasing numbers of them with insufficient funds to make principal and interest payments on outstanding loans. Still dwindling land values have left some lenders seriously exposed because collateral values are no longer sufficient to secure loans outstanding to farmers. Lenders in the Farm Credit System and the Farmers Home Administration, especially, face heavy loan losses. The incidence of bankruptcies and foreclosures is likely to rise further in the aftermath of this unfortunate year for crop production.

On the brighter side, those farmers with little or no debt—about 45 percent—will be particularly helped by agricultural programs to provide supplemental income. The decline in corn prices sharply reduced feed costs to livestock and poultry producers, creating opportunities for profitable livestock feeding. Prices of feeder livestock increased in response to the prospects for profits, and incomes of southeastern herdsmen rose for the first time in several years. Thus, the livestock-producing sector can look forward to a significantly better year in 1987. Although crop surpluses are likely to hold down market prices and incomes for some time, large subsidy payments provided by commodity programs will make the crop income picture better than it would have been otherwise.

**Oil.** Debility in the oil sector pervaded the economy of the region's western area during 1986. The plunge in petroleum prices associated with the worldwide glut in energy supplies has had a major impact on energy-producing industries throughout the Southeast. Coal, natural gas, and oil production have dropped sharply, and employment in the mining sector has plummeted. Louisiana's economy has borne most of the brunt of this breakdown. Not only have oil field workers been put out of work, but most other sectors of the state's economy have been pulled down by the virtual collapse of the oil sector. Sharp contraction in overall business activity and the shrinkage in the state government's budget necessitated by revenue reductions have caused an economic squeeze that weighs down statistics for the entire region. Financial institutions that loaned heavily either to the oil industry or to other businesses affected by problems in the petroleum sector face severe difficulties. While



prices of crude oil seem to have stabilized during the second half of 1986, recovery of the oil industry's previous prosperity does not appear in the cards, either in 1987 or in the foreseeable future.

Ongoing erosion of the export market share for the region's agriculture and manufacturing industries has continued to slow trade flowing through the region's shipping and port facilities. Cargo volume moving along the extensive waterways of the region, for example, has been far below earlier expectations and signs of improvement are scarce. The decline of the dollar and measures to subsidize agricultural trade should begin to improve export trade flows in 1987 as domestic products attain a more competitive status in international markets.

### **Improvement Likely to Continue**

Overall, the economy of the southeastern region should continue to outdistance that of the nation in 1987. The continuing influx of population and corresponding gains in employment and personal income largely account for more rapid growth in the Southeast. Single-family residential construction should lead in the expected increases, while commercial construction is expected to remain lackluster until overcapacity has been absorbed. Manufacturing activities could expand to supply a larger share of domestic as

well as foreign markets, although, because of technical efficiencies achieved during recent adjustments (in the apparel industry, for example), employment probably will not rise in proportion to manufacturing output. Nevertheless, workers should continue to find jobs in the burgeoning service and trade areas so that the region's total employment may maintain its rate of increase at 3 percent or more, amounting to about half a million new employees in 1987.

The agricultural and energy-producing sectors will be lingering areas of weakness not only during 1987 but for many years to come. Heavy indebtedness incurred during periods of prosperity will continue to go unserved, resulting in additional bankruptcies and foreclosures among borrowers and loan losses for lenders. The financial institutions involved heavily in agricultural and energy loans will experience additional hard adjustments in the months and years ahead. For the preponderance of lenders across the region, however, encouraging economic prospects indicate opportunities for sound growth and improving prosperity. Overall, the Southeast seems likely to retain and perhaps enhance its appeal for new residents and businesses from elsewhere in the nation and abroad through 1987 and beyond.

— *Gene D. Sullivan*



# National Outlook

Our outlook for the U.S. economy in 1987 is significantly different from last year's, despite the fact that the projection for growth in the gross national product (GNP) is essentially the same. This forecast of 2-1/2 to 3 percent growth in GNP, adjusted for prices, includes substantial changes in the composition of output. In 1987 domestic consumption will contribute less to the expansion of overall spending in the United States on balance, without weakening dangerously, while demand for U.S.-produced goods by foreign consumers will emerge as a source of strength. Advances in these two leading sectors will more than offset the slump affecting business investment in structures and the flat profile anticipated for federal government spending, yielding moderate but sustained real growth for 1987.

Given these modest prospects for expansion, substantial additional progress in reducing the rate of unemployment is not expected; 1987 is likely to end with the civilian unemployment rate only slightly below its current level. However, barring additional tightness in the labor market and assuming that inflationary expectations continue winding down, price pressures should also be quite moderate. Inflation, whether measured by consumer prices or the GNP deflator, should remain moderate in 1987. The extraordinary price performance of 1986 will probably not repeat itself though, since no additional declines in oil prices are anticipated and import prices are likely to be higher as a result of the dollar's depreciation. Nevertheless, the underlying current of inflation should not show any alarming resurgence before the year's end. Specifically, the GNP deflator will probably increase 3.5 percent over the four quarters of 1987, as compared to a surprisingly low 2.2 percent during the same period of 1986.

## A Look at the Sectors

**Consumer Spending.** Household spending (personal consumption expenditure) accounts for nearly two-thirds of total spending in the economy. Because of its weight, even minor variations in the level and composition of consumer spending are extraordinarily important to the aggregate outlook.

In 1986, when the dollar level of indebtedness and the debt-to-income ratio had each reached unprecedented levels, it was common to describe the consumer as "debt-constrained." Economists generally supposed that at some point the burden of servicing the debt would begin to inhibit additional spending. However, other measures of the household debt burden, such as debt-to-asset levels and payment schedules, while rising, showed a less onerous obligation. Lower interest rates and lengthening maturities worked to keep monthly payments manageable. In fact, consumers continued spending and borrowing freely during 1986. Still, the assumption that increasing debt burdens will lead to a deceleration of spending is a reasonable one, and it is likely that debt levels will work to moderate consumer spending in 1987. The most important fundamentals of household spending—wage and salary growth, asset value growth, and consumer confidence—will also decline slightly in 1987. This slowdown should not be overemphasized, however: the fundamentals remain solid, and although household spending growth may be lower than in 1986, it will still lend strength to the economy.

Services will lead consumer spending, while demand for durable goods, especially autos, may fall below last year's level. Acceleration in purchases of durables and autos late in 1986 suggests less buying may be planned for 1987; but this slackening will probably have only a small impact on total household spending, and its effects should diminish after the first quarter.

**Investment.** Business fixed investment dropped off considerably in 1986 from its earlier pace, and continued weakness is expected in 1987. Several factors that determine investment in plant and equipment will not support additional spending in 1987. Investment in structures will be held down by fairly low and steady capacity utilization of plants, overbuilding in the office and retail space markets, continued difficulty and uncertainty in the energy sector, and certainly, the new tax laws, which treat such investments less favorably. The multiple negative factors influencing investment in structures make it easy to forecast marked contraction in this component. Investment in equipment is harder to predict. Though underutilization of plant implies some general



slack in equipment use, continuing automation and the decline in the value of the dollar bode well for equipment demand. Expenditures for investment in equipment will show moderate growth, with demand gaining strength toward the year's end.

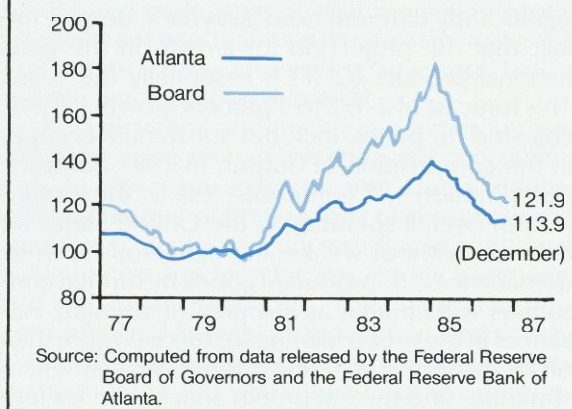
Inventory levels are typically lower during periods of low inflation than in times of high inflation or expected inflation. The continuation of only moderate inflation and tight inventory control measures put in place during the last recession should keep inventory levels down and fluctuations mild, thus making inventory spending a relatively neutral factor in the 1987 outlook.

**Housing.** Overbuilding and removal of tax incentives have already had an adverse impact on spending for multi-family housing. Since overbuilt markets are a problem in many areas, changes in the tax law will only exacerbate adjustments previously underway. The new tax treatment raises the break-even occupancy rate by lengthening the depreciation period for apartment and condominium units and restricting the usefulness of real estate partnerships.

The picture for single-family housing is much brighter, although still moderate. Building activity in this segment reached record-setting levels in early 1986 and subsided over the rest of the year. Construction should continue in 1987 at about the same speed as in late 1986. This slower pace, near 1.2 million units annually, is consistent with low mortgage rates working in a market with little remaining pent-up demand. While single-family housing activity for 1987 will fall below annual averages in 1986, no additional weakening over the year is expected.

**Government Expenditures.** In late 1985 and early 1986, government securities markets and interest rate forecasts responded to congressional moves to reduce federal government budget deficits through the Gramm-Rudman-Hollings Act. GNP forecasts also took into consideration government commitment to reduced debt, predicting lower real GNP growth on the basis that one source of aggregate demand, government spending, had been withdrawn without being completely offset by additions from other sectors. For good or for ill, the dramatic and rapid deficit reduction envisioned last year will not take place. (The 1986 deficit of \$220.7 billion was a record.) Neither are continued record deficits expected in the future, however. The profile for the federal deficit in 1987 and beyond is for a steady, gradual

**Chart 7.**  
Value of U.S. Dollar  
Measured by Two Currency Indices  
(1980 = 100)

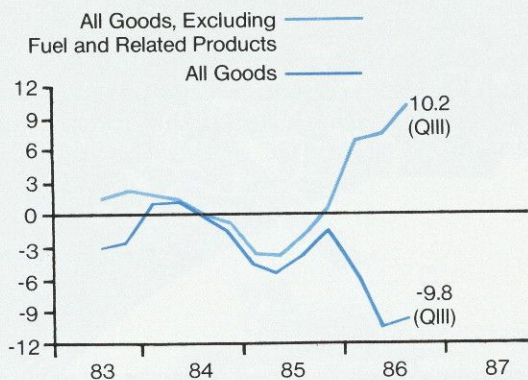


decline. Such a pattern requires true fiscal restraint, but not in the stringent proportions of the Gramm-Rudman-Hollings plan. Although the downsized forecast for the federal government budget suggests no additional programs will be created, the reduction can still accommodate funding of current services. This means less stimulus from government expenditure than in the early 1980s; hereafter, government's contribution to aggregate demand will be neutral for the outlook.<sup>1</sup>

**Net Exports.** The most important economic development in the United States during 1986 was the slowdown at year's end in the deterioration of the nation's net export position. Actual improvement is expected in 1987. The impact of the dollar's depreciation, which began in early 1985, was first felt in late 1986; but most of the adjustment has not yet materialized (Chart 7). The dollar's drop of nearly 35 percent since February 1985 will make goods produced in the United States relatively less expensive than foreign wares in both domestic and foreign markets, thus stimulating U.S. exports and moderating import demand (Chart 8).<sup>2</sup> This improvement in the trade picture has already begun to appear, but how much of the turnaround will be accomplished in 1987 remains to be seen. The average monthly change is likely to be small, and a number of factors argue against a rapid reversal. First, the dollar has not declined equally against the



**Chart 8.**  
**Import Prices**



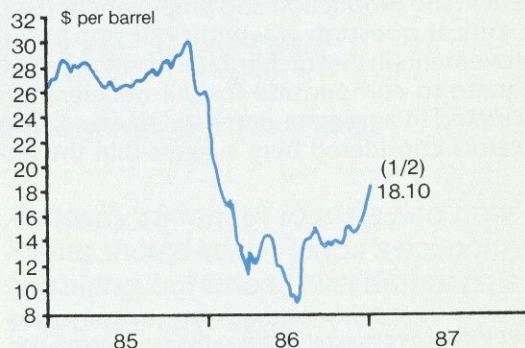
Source: Department of Labor, Bureau of Labor Statistics, International Division.

currencies of all U.S. trading partners. Importantly, the dollar has retained its strength or actually appreciated against the currencies of some of our major trading partners, such as Canada and the newly industrializing nations of the Pacific rim region. Secondly, currency movements are not the sole determinant of changes in trade patterns. Income growth within nations that import U.S. goods also affects trade. Western Europe currently lags behind the United States in economic expansion. Latin American nations remain burdened with financing external debt, and these countries also limit imports by various means. Finally, the petroleum-based economies of OPEC are in recession. Thus, the prospects are not good for a resurgence in demand for U.S. goods led by foreign income gains. Consequently, a narrowly-based dollar depreciation must produce a large adjustment. Still, this change is in the works, and its growing impact should be evident throughout 1987 and beyond.

## Inflation and Unemployment

Real GNP growth of 2-1/2 to 3 percent, other things remaining equal, is not likely to lead to either a substantial increase in underlying inflationary pressures or a marked reduction in the unemployment rate. However, in 1987 a major shift will occur in the factors that contribute to

**Chart 9.**  
**Spot Oil Prices**  
(Average of daily highs and lows,  
Brent, U.K.)



Source: Platt's Oilgram News, McGraw-Hill, weekly data.

price changes. Last year's extraordinary reductions in energy prices, especially in the price of petroleum products, led to very low measured inflation without materially changing fundamental price trends beneath the surface (Chart 9). Although the benefits of low oil prices will continue, no further declines below the 1986 average are expected for 1987. This year, then, actual measured inflation will more fully reflect latent price pressures. Moreover, dollar depreciation will lend some additional inflationary momentum by raising the cost of imports and loosening the constraints on prices of domestically produced goods that compete with foreign products. Taken together, however, these two factors will not lead to increases in the GNP deflator above 3 to 3-1/2 percent (as a year-over-year average), because other sources of inflation, especially wage and salary demands, will be quite subdued.

Job growth in 1987 may equal its rate in 1986 without having much impact on the civilian unemployment rate. As in recent years, the rate of labor force expansion may prevent healthy employment growth from being reflected in the jobless rate. The outlook for overall real growth suggests only minor additional declines in the level of unemployment unless the rate of increase in the labor force decelerates substantially.

The foregoing outlook is just as positive, albeit more cautious, than last year's. Although the forecast remains centered on a reasonable growth



rate, the downside alternative is more worrisome than before. Still, the long-awaited bottoming-out of the trade accounts seems to be taking place, and its slowly spreading effects are beginning to appear in the production and employment data. The critical question is whether or not future improvements in the foreign trade position will be adequate to compensate for the deceleration anticipated in aggregate domestic demand. The indicators considered here suggest that the an-

swer is "yes." However, the challenges confronting an economy adjusting to major changes in both the composition of domestic activity and the external environment are great. This outlook does not discount these adjustments but concludes that the economy is capable of adapting while still maintaining acceptable forward momentum.

— Mary S. Rosenbaum

#### NOTES

<sup>1</sup>See Thomas J. Cunningham and Rosemary Cunningham, "Projecting Federal Deficits and the Impact of the Gramm-Rudman-Hollings Budget Cuts," Federal Reserve Bank of Atlanta, *Economic Review*, vol. 71 (May 1986), pp. 19-24.

<sup>2</sup>An alternative trade-weighting of the dollar indicates a 22 percent depreciation over the same period. See Jeffrey A. Rosensweig, "A New Dollar Index: Capturing a More Global Perspective," Federal Reserve Bank of Atlanta *Economic Review*, vol. 71 (June/July 1986), pp. 12-23.





# Florida Stays Out Front

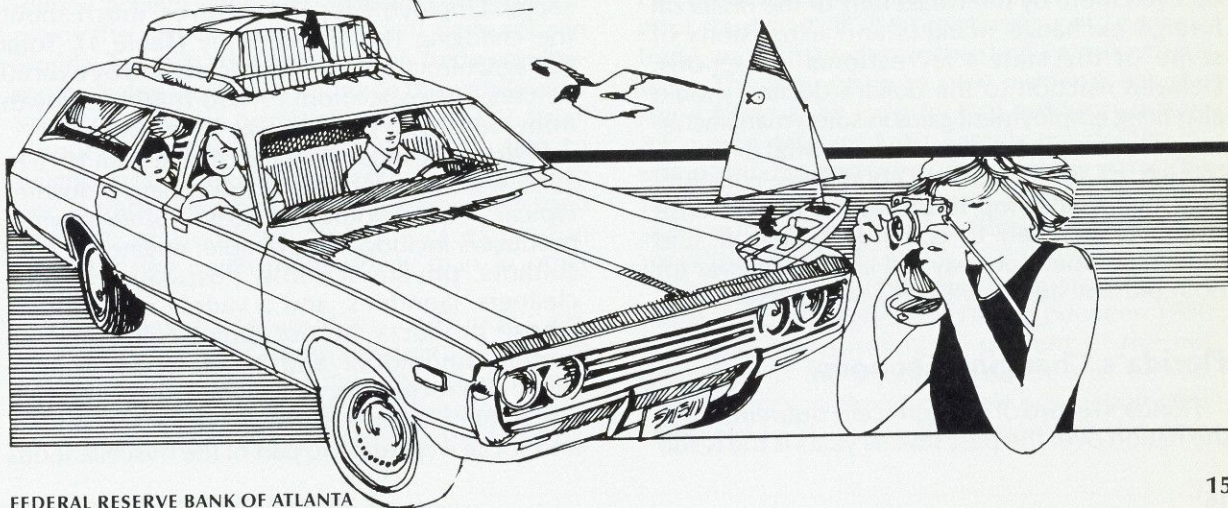
David Avery and B. Frank King

*A steady stream of tourists and new residents should keep Florida's economy rolling along, but its lead over the nation's rate of growth may narrow.*

Florida's economy continued its better-than-national growth into 1986, though it lost some ground as the pace of the national economy slackened. Migration into the state made for healthy population expansion, and a sharp rise in tourism boosted Florida's increasingly important trade and service sectors, providing a firm base for overall advance. Statewide, however, overbuilding put a damper on construction activity, and foreign competition limited manufacturing growth.

In 1987 many of the same forces will be at work. Continuing health in the national economy should

*The authors are, respectively, an economic analyst in the regional section and associate director of the Research Department.*



FEDERAL RESERVE BANK OF ATLANTA



**Table 1.**  
Patterns of Nonfarm Employment in Florida  
(Thousands of employees)

	1976	Share	1986	Share	Absolute Change	Percent Change
Total Nonagricultural	2,812	100	4,668	100	1,856	66
Mining	10	0	10	0	0	0
Construction	167	6	342	7	175	105
Trade	743	26	1,280	27	537	72
Services	606	22	1,203	26	597	99
Transportation and Public Utilities	182	6	246	5	64	35
Financial, Insurance, and Real Estate	192	7	337	7	145	76
Government	552	20	720	15	168	30
Manufacturing	362	13	529	11	167	46
Lumber	28	1	28	1	0	0
Stone, Clay, and Glass	16	1	25	1	9	56
Fabricated Metal	26	1	37	1	11	42
Machinery	63	2	127	3	64	102
Transportation Equipment	33	1	61	1	28	85
Food	49	2	49	1	0	0
Apparel	29	1	32	1	3	10
Paper	17	1	15	0	-2	-12
Printing and Publishing	31	1	62	1	31	100
Chemicals	24	1	24	1	0	0

Source: Florida Department of Labor and Employment Security, Bureau of Labor Market Information, *Florida Employment Trends, November 1986 data*.

assure sustained migration to Florida, adding to the population and augmenting demand for goods and services. Tourism is likely to be stepped up even more by the weakening of the dollar on foreign exchange markets and expansions of some of the state's recreational attractions. Delayed reaction to the dollar's decline should also bring employment gains in some manufacturing industries. The outlook is somewhat dimmed, though, by several adverse conditions: construction may well slump throughout 1987, defense contracts are likely to continue tailing off, and foreign competition may still limit recoveries for both old-line and new Florida manufacturers.

### Florida's Changing Economy

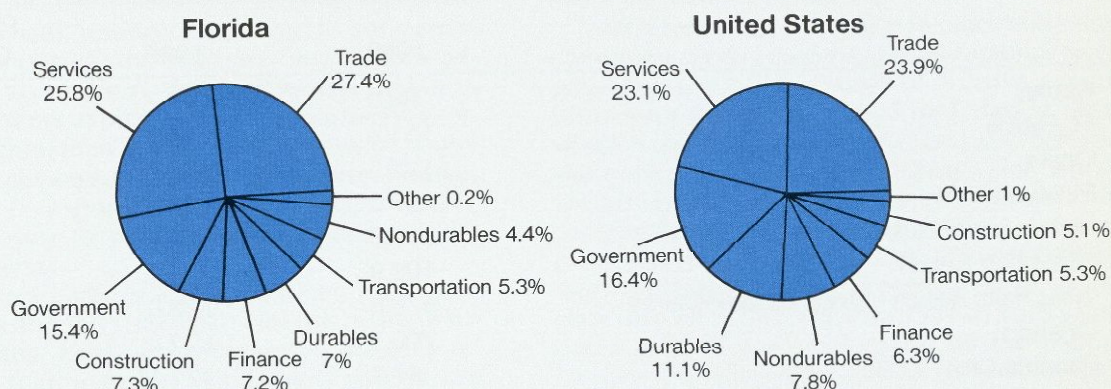
Florida's record of economically outperforming the nation over the past several years is the result

of the state's unusual economic structure, dominated by trade, service, and construction, as well as continuing diversification of its manufacturing sector. Employment patterns reveal much about the changing Florida economy (Table 1). Total nonagricultural employment increased by over 60 percent in the state from 1976 to 1986, but growth from industry to industry was quite diverse.

Perhaps the most dramatic change from 1976 to 1986 was recorded in the flourishing industries typically called "other services." Other services producers include, for example, engineers, consultants, private schools, hospitals, building cleaners, laundries, and a variety of providers whose products are not tangible. Hotels and motels, automotive and other repair, amusement and recreation, health care, legal counseling, architectural and surveying firms, accounting, and social work are also part of the miscellaneous



**Chart 1.**  
Distribution of Nonfarm Employment, November 1986  
(Florida versus United States)



Source: Computed by Federal Reserve Bank of Atlanta from data released by the U.S. Department of Labor, Bureau of Labor Statistics, in conjunction with the Florida Department of Labor and Security, Bureau of Labor Market Information, *BLS 790 Monthly Report on Employment, Hours, and Earnings for Florida*.

services. The number of employees added to these service firms in Florida between 1976 and 1986 registered as absolute change greater than total 1986 manufacturing employment in the state. Jobs in other services do not all fit the low-pay stereotype sometimes associated with service employment. Highly paid service professionals such as lawyers, doctors, and engineers boost the annual wages for service workers.

Trade employment accounts for a somewhat larger proportion of the workforce in Florida than nationwide (Chart 1). Although the state's trade sector distributes goods primarily to Florida residents, activity generated outside the state explains the higher concentration of trade jobs in Florida. Tourism adds to the state's trade employment, as does foreign commerce through several seaports and air terminals. A relatively small amount of wholesale and retail distribution to neighboring states also boosts trade. The growth rate in trade employment has generally reflected the rate of Florida's employment expansion overall, rising much more slowly than in other services.

The remaining components of Florida's service sector are measured separately and account for about 26 percent of total state employment. For the most part, job increases in these industries, as in trade, have mirrored or lagged behind the

state's economy rather than moved ahead of it. Transportation, communications, public utilities, and government jobs have grown at about half the state's overall rate. Financial institutions, on the other hand, have added jobs at a somewhat faster pace than nonagricultural employment as a whole. As an aggregate, service producers of one sort or another employ more than 81 percent of Florida's nonfarm workers; this is a significantly greater proportion than the 75 percent share of the labor force for the same industries nationwide.

A good deal of Florida's economic robustness can be traced to migrating retirees, who play an important part in the prominence of services, trade, and construction in the state's employment base. The flow of these new residents has the same effect as an industry that produces mainly for out-of-state markets, namely transferring income and demand from outside of the state. The influx stimulates employment, particularly in the services, trade, and construction industries which meet that demand.

The U. S. Census Bureau estimates that 1.4 million people migrated to Florida between 1980 and 1985, constituting 80 percent of the net migration to the Southeast during that period. Thanks to this influx the state's population grew three times as fast as the nation's in the early



**Table 2.**  
Florida's Population Growth by Metropolitan Area  
(Thousands)

	1980	1985	Percent Change
Naples	86.0	116.7	35.7
Ft. Pierce	151.2	199.2	31.7
Ocala	122.5	160.0	30.6
Ft. Myers	205.3	267.5	30.3
Melbourne—Titusville—Palm Bay	273.0	343.9	26.0
Ft. Walton Beach	109.9	138.1	25.7
West Palm Beach—Boca Raton—Delray	576.8	723.0	25.3
Orlando	700.1	872.2	24.6
Panama City	97.7	121.1	24.0
Daytona Beach	258.8	309.9	19.7
Sarasota	202.3	239.7	18.5
Bradenton	148.5	171.9	15.8
Tampa—St. Petersburg—Clearwater	1,613.6	1,865.0	15.6
Gainesville	171.4	197.2	15.1
Lakeland—Winter Haven	321.7	369.4	14.8
Jacksonville	722.3	825.1	14.2
Pensacola	289.8	330.5	14.0
Tallahassee	190.3	214.5	12.7
Ft. Lauderdale—Hollywood—Pompano Beach	1,018.3	1,130.3	11.0
Miami—Hialeah	1,625.7	1,762.4	8.4

Source: University of Florida, College of Business Administration, Bureau of Economic and Business Research, "The Florida Outlook," third quarter data.

1980s; newcomers to the state explained almost 90 percent of this rapid increase.

Rates of migration to Florida depend on economic conditions in the nation as well as the state. Past experience indicates that during periods of high interest rates or recession, migration to Florida slows. When the national housing market is weak, potential migrants, particularly retirees, are likely to have more difficulty selling their homes in other parts of the country. Florida's ability to produce jobs may also influence migration.

In recent years the state's population surge has spread both geographically and across age categories. Six smaller metropolitan areas in Florida (Naples, Fort Pierce, Ocala, Fort Myers, Melbourne-Titusville-Palm Bay, and Fort Walton Beach), are among the ten fastest growing in the country (Table 2). Each posted an average growth rate above 25 percent for the 1980-1985 period.

The age mix of residents has become more diverse in recent years, too. Retirees have been joined by large numbers of working-age people, who have filled the jobs created by the state's burgeoning economy. In fact, the share of working-age individuals has risen relative to those aged 65 and over. Since 1980 the percent increase in the number of residents between 25 and 44 years of age has been greater than in any other age category.

Tourism also heightens the importance of the service, trade, and construction sectors. About 10 percent of Florida's payroll workers provide food, lodging, and recreation for travelers, a larger share than employed in either financial services or construction. Though most travelers to Florida come from the United States, a significant number of foreigners also visit the state. Indeed, Florida attracts more foreign visitors than any other state.



Tourists stimulate business activity at general merchandise stores, restaurants, lodging facilities, car rental agencies, airlines, and the state's myriad recreational attractions. Out-of-state visitors also pump up the public sector by contributing sales tax revenue. Like most manufacturing, but unlike most services, tourism is exported to consumers who live outside the state and thus creates additional tax revenues that enable state and local governments to provide Floridians a level of service higher than they could otherwise enjoy without paying appreciably higher taxes. Florida's reliance on exporting tourism also links its economy closely to national and international developments.

Florida's harbors and its proximity to Latin America and the Caribbean fuel the demand for yet another kind of service, in this instance related to transportation. Florida ports now handle about \$21 billion in international shipments, representing approximately 5 percent of the value of the nation's merchandise trade. The Miami Customs District and that city's international airport are two of the busiest commercial and transportation facilities in the nation. In terms of the dollar value of trade, Miami's diversified seaport and airport activity accounts for more than half of the state's total shipments. Tampa and Jacksonville are the state's other major ports. Port activity, like manufacturing, depends heavily on circumstances outside of the state. Exchange rates and the economic conditions of international trading partners play a crucial role in the performance of this part of the economy.

Advances in manufacturing employment have trailed behind those in services, trade, and construction over the past decade. Florida manufacturing has responded by diversifying. Although manufacturing employment as a portion of the state's total employment fell nearly 2 percentage points from 1976 to 1986, it would have dropped even more without some 100,000 new jobs in machinery and transportation equipment manufacturing. Each of these industries produces significant amounts of technologically advanced military or space equipment. "Machinery" includes sophisticated electrical and electronic equipment, and "transportation equipment" includes space vehicles and their components. Firms supplying high technology products have been responsible for a substantial part of the recent climb in Florida's manufacturing employment.

Large defense contractors generate a considerable portion of the state's technologically oriented

production. At present, Florida ranks fifth among all states as a recipient of defense expenditures. These disbursements are largely for military payrolls and retirement pay, but the civilian payroll of the Department of Defense and defense contract spending are also significant.

Florida's employment gains in electronics and communications equipment manufacturing have paralleled the rapid upsurge of defense expenditures for these products. The Orlando area, which is a center for missile systems and defense electronics, and the West Palm Beach area, where aircraft engines and components are produced, account for nearly one-half of defense contracts in the state (see map). The dollar value of Department of Defense prime contract awards in the state rose by 23 percent from 1984 to 1985 compared to a 15 percent increase for the nation. However, a damper on federal defense budget expansion in 1986 and planned reductions in 1987 foreshadow a decline in contract awards over the next several years. Florida's economy seems unlikely to escape the adverse impacts of a defense spending slowdown.

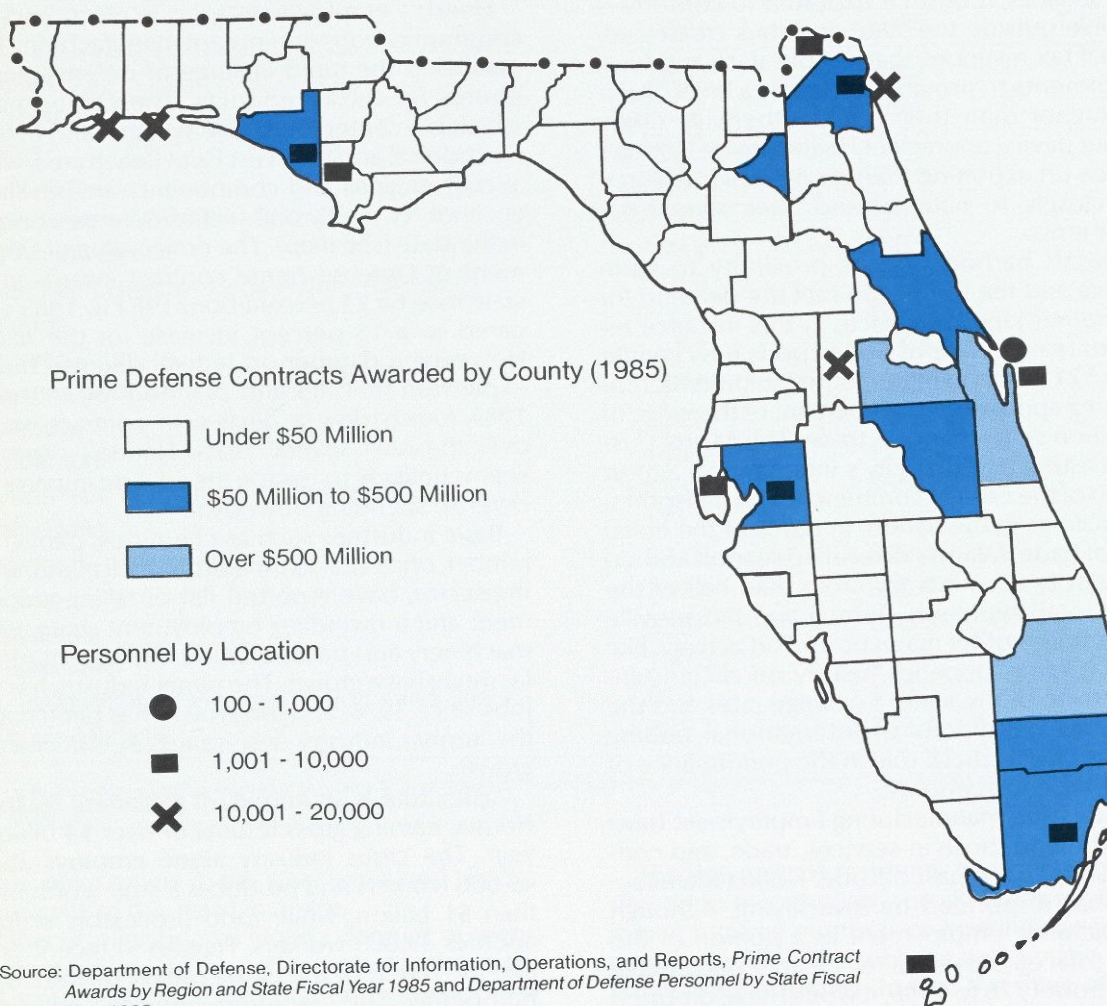
Basic industries such as chemicals, paper, and lumber, once vital to the state's small manufacturing sector, have reported flat or falling employment and a dwindling employment share, while machinery and transportation equipment manufacturing have grown. The paper industry has lost jobs since 1976, and job growth has been flat for the lumber industry despite robust construction growth.

Agriculture is an important exporting sector in Florida, earning gross returns of over \$4 billion a year. The citrus industry alone employs about 45,000 workers and produces a crop worth more than \$1 billion, while food processors employ another 49,000 workers. Freezes in recent years and the threat of the citrus canker disease have hurt orange and grapefruit growers, and groves are shifting to the southern, less frost-prone, part of the state. Despite shrinking citrus acreage and increasing import competition, however, the total value of Florida's citrus crop has risen over the last few years.

Other Florida farm products have not done so well. Vegetable prices have been held down by the rising tide of imports from Mexico and by freezing weather. Cattle prices have also fallen as demand for beef sagged. While sugar cane growers generally remain prosperous, their well-being depends heavily on government assistance through import quotas and price supports.



## Department of Defense Contract Awards and Personnel



Thus the structure of Florida's economy, which is both highly dependent on services and trade and especially sensitive to national and international economic conditions, is quite open. Developments outside the Florida economy influence migration rates, tourism, and demand for many of the state's manufactured goods. Exchange rates and the conditions of foreign economies play an important role in port activity, affect tourism, and determine to some extent the need for manufactured goods and services. This

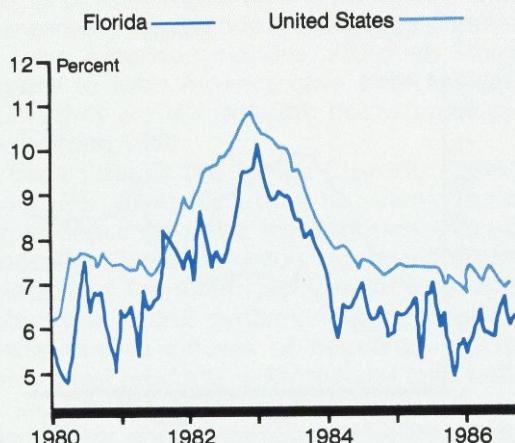
structure has generally stood the Florida economy in good stead, providing job and income gains at rates well above the nation's for the last eight years and a jobless rate consistently lower than that of the United States since 1982 (Chart 2).

### The Economy in 1986

Even though long-range projections typically foresee strong expansion for the state, Florida's economic performance decelerated along with



**Chart 2.**  
Unemployment Rates  
(Seasonally adjusted)



Source: U.S. Department of Labor, Bureau of Labor Statistics, Current Population Survey.

the nation's in 1986. Both newly important sectors and old standbys were troubled. Growth in nonfarm employment dropped from 5.2 percent in the first eleven months of 1985 to 3.4 percent in the same period of 1986, as compared to national figures of 3.5 percent in 1985 and 2.7 percent in 1986. The state's unemployment rate stayed well below the national average. As employment growth in the state slackened, personal income gains also slowed from the 7.9 percent gain in 1985. Florida's income growth rate nevertheless ran ahead of that of the nation and the rest of the Southeast.

Personal income gains in Florida generally followed the employment developments in various sectors of the economy. Income earned in other services and in finance, insurance, and real estate took the lead, with advances well above the state average, while income earned in retail trade kept pace with the state's average. Weak components included manufacturing, transportation, communication, and public utilities as well as wholesale trade. Mining income fell dramatically from levels a year earlier as dropping oil prices and subdued demand for phosphate eroded earnings. Earnings from mining reached nearly \$1.1 billion in its peak year, 1984, but slid to an annual rate of \$620 million in the first half of 1986.

**Table 3.**  
Changes in Florida's  
Nonfarm Employment by Industry  
(Percent, year-over-year)

Industry	November 1984-1985	November 1985-1986
Nonmanufacturing	4.5	3.9
Mining	0.0	-4.0
Construction	2.4	1.6
Trade	4.5	5.0
Services	6.7	4.5
Finance, Insurance, and Real Estate	5.9	3.8
Transportation and Public Utilities	0.8	0.5
Government	3.0	3.5
Manufacturing	1.6	2.2
Durables	2.0	3.8
Machinery	0.8	3.0
Transportation Equipment	5.6	6.5
Lumber and Wood	1.0	3.7
Fabricated Metals	0.0	1.4
Stone, Clay, and Glass	0.0	1.6
Nondurables	1.0	-0.5
Printing and Publishing	5.4	5.1
Food	0.0	-0.6
Apparel	0.0	-3.0
Chemicals	-3.7	-7.7
Paper	0.0	-0.3

Source: Computed by Federal Reserve Bank of Atlanta from data released by the Florida Department of Labor and Employment Security, Bureau of Labor Market Information, in cooperation with the U.S. Department of Labor, Bureau of Labor Statistics, BLS 790, *Monthly Report on Employment, Hours, and Earnings*.

Florida's two most important individual sources of income—transfer payments and government payrolls—accounted for nearly three-tenths of the state's total income in early 1986. This proportion far exceeds the income share attributable to any other income source. Income from both sources grew at a rate somewhat above the state average during the first half of 1986.

**Services.** Nonmanufacturing employment growth mirrored both the strength of Florida's economy in relation to the nation's and its decline from 1985 rates (Table 3). Except for government



and trade, which showed employment increases, most service industries added jobs at about the same rate as in 1985 or more slowly. Still, the majority of service industries fared better than manufacturers. Hotels and other lodging places, health care facilities, business services, and recreational attractions registered strong year-over-year employment gains. Both state and local government employment also increased in the first eleven months of 1986. Job growth in finance, insurance, and real estate slowed from its rapid 1985 pace but still maintained momentum.

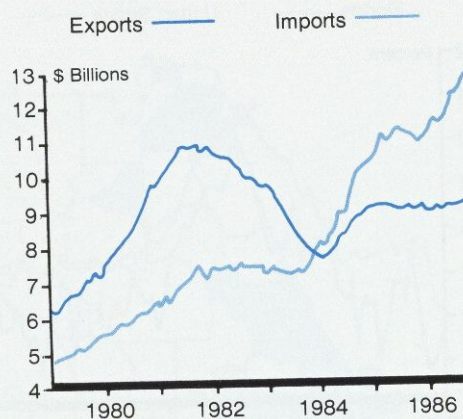
Fueling the nonmanufacturing sector, migration maintained its high rate through 1986. Labor force expansion which continued at almost twice the nation's pace confirms this. At least one respected forecast (Hank Fishkind and Pam Schenker, *M. G. Lewis Econometric Forecast*, 3rd quarter 1986) stated that net migration into the state for the year would be the highest ever. This projected growth is consistent with National Planning Association estimates that Florida's population will increase from 11.2 million in 1985 to 16.9 million in the year 2000.

Florida tourism, which also boosted the service sector, was off to a good start in 1986, but growth in the number of visitors slowed as summer approached. Air travel to the state jumped sharply in the first quarter. The uptrend tapered during the latter part of the year, even though a rising penchant for air rather than auto travel to Florida persisted. Discount airfares and package tours to competing vacation spots in the Caribbean may have also played a role in the slowdown.

In contrast to air travel, auto travel, as measured by welcome center registrations, decreased from 1985. After rapid growth from January to March, the next four months were all down compared to a year ago. This pattern continues a trend which began in 1984 toward increasing air travel and declining or moderating auto travel, a reflection of the impact of discounted airfares on transportation patterns.

Deregulation has lowered airfares for heavily traveled routes, thus encouraging more travelers to fly rather than drive. The change has not been entirely favorable for Florida. Discounted fares to such popular destinations as California along with new entries on popular routes have, in some instances, dropped the cost of travel to more distant locations below the cost of travel to Florida.

**Chart 3.**  
Value of Florida's International Trade  
(12-month moving totals<sup>1</sup>)



<sup>1</sup>Data for the Customs District Ports of Miami and Tampa.  
Source: Computed by Federal Reserve Bank of Atlanta from data released in U.S. Department of Commerce, *Highlights of U.S. Export Trade*, various issues.

The dollar's decline has not only stimulated domestic travel by Americans but also encouraged foreigners to travel in the United States. More Latin Americans, particularly Brazilians, traveled to southern Florida.

Boosted by in-migration and tourism, Florida's retail sales through the first half of 1986 continued to surpass the nation's, expanding at an accelerating pace while national growth was falling off. Led by strong car sales, retail purchases were up 9 percent in Florida during the first six months of 1986 compared with the same period the previous year. Auto companies' generous financing deals gave car sales a good boost through September, but retail increases in Florida were still down sharply from increases in the mid-teens registered in 1984.

Both the Miami and Tampa Customs Districts have recovered some lost ground following a period of severely depressed export activity that began in 1981 and ended in late 1983, but most of the export rebound was achieved in 1984. Export shipments continue to be very sluggish in the Tampa District. Imports, on the other hand, have been rising dramatically at most Florida ports throughout the current national economic expansion. These diverging trends have turned Florida's overall foreign trade position from that of a net exporter of goods to a net importer (Chart 3).



Total tonnage shipped through the port of Miami was up 3.1 percent during the fiscal year ending in September 1986. The Miami Customs District's export dollar volume in September 1986 was 12 percent higher than in the same month a year earlier, primarily due to a pickup in shipments to Latin American markets. Although Miami's exports to Latin America have been increasing lately, they are still one-fifth below peak levels recorded in 1980.

Trade through the Tampa Customs District is much less diversified than in Miami. Tampa's dependence on just a few products often dramatically influences the port's trade performance. The ports of Tampa and Jacksonville, for example, recently recorded dynamic import growth, primarily due to influxes of petroleum and petrochemical products in Tampa and automobiles in Jacksonville. On the other hand, soft world markets for phosphate rock and allied products have hurt Tampa's export trade.

In contrast to other Florida ports, Jacksonville's trade activity has been vigorous. The Port of Jacksonville continues to rank among the nation's top centers for automobile imports. In response to the strong demand for imported autos in the United States, the port handled 460,700 vehicle units in fiscal year 1985, a jump of 11 percent from imports one year earlier. Through August of 1986 Jacksonville auto imports were almost 20 percent above the comparable period in 1985.

Government expansion also added to state employment rolls. State and local governments took on 23,400 workers from November 1985 to November 1986 for an increase of 4 percent, while the federal government increased by 2.2 percent. Florida ended fiscal 1986 with a \$60 million state budget surplus. Revenues were up by 12.3 percent over 1985, and expenditures rose by 9.7 percent. The state is moderately expanding its sales tax base in 1987 by cancelling all sales tax exemptions for services, effective July 1987. The National Governors' Association expects this change to raise about \$1 billion during 1987. The Gramm-Rudman-Hollings budget balancing plan has made it more difficult to predict receipts from federal programs. Because of uncertainty about federal aid, several fiscally strong states, including Florida, are finding alternative ways to budget for these receipts. Florida has appropriated \$30 million from its working capital fund for transfer to the general fund should offsets to significant federal funds reductions be needed.

**Manufacturing.** Rates of employment growth in manufacturing were up from 1985. Still, manufacturing jobs increased at only about half the pace of nonmanufacturing gains. Production in some parts of the machinery industry slowed. Heavy construction, agricultural, and nuclear equipment producers faced unchanged domestic demand. Electrical and electronic machinery production moved ahead in 1986 as companies with defense contracts and ties to the aircraft industry prospered. Their healthy advance was partially obstructed by a slump in semi-conductor sales. The Challenger accident made matters worse for both electronic and transportation equipment makers. In its wake, contractors laid off about 2,000 workers. Strong aircraft and boat demand bolstered transportation equipment production and employment, though.

Lumber and wood manufacturing rallied somewhat in 1986 from its sluggish performance in 1985, but job gains are still far from the double-digit levels of 1984 and 1983. Despite substantial new construction in the Sunshine State and surrounding states, the lumber industry experienced weak prices and mounting inventories. Large amounts of Canadian lumber were reportedly sold in the Florida market.

Import competition had an adverse impact on nondurable manufacturing industries. Food processing registered marginal employment losses. Chemical industry employment slid down sharply from levels a year ago as agricultural chemicals faced both feeble demand and foreign competition. Job levels in apparel and paper industries shrank.

**Construction.** Between 1982 and 1984, construction in Florida raced ahead of overall economic growth as the state bounced back from the effects of a national recession. Construction slowed some in 1985, but the state began 1986 with overbuilding in almost all categories of construction and in nearly all geographic areas. Total building permits were down 11 percent for the first half of 1986 and continued to tumble during the rest of the year. Construction employment increases were meager. A surfeit of multi-family residential and commercial building exists nationally, but vacancy rates are even higher in Florida. More than three years' supply of office space is reported in Tampa and Miami at present rates of new occupancy. Like the state's other real estate markets, Florida's retail space is also overly abundant.



Single-family residential permit growth in Florida dropped to a low 0.8 percent rate during 1986, compared to a 15 percent rate nationally. Although Florida's employment and personal income gains have also declined since 1984, these rates are still substantially above national rates. In light of Florida's continuing population boom, low single-family permit increases suggest excessive housing inventories rather than weakening demand. After strong strides in 1983 and 1984, multi-family building permits fell by 3.2 percent in 1985 and by about twice that in 1986.

Following a national trend, office construction also slumped. During 1986, permit values dropped 12 percent from their 1985 levels. Vacancy rates in all major Florida office markets (Fort Lauderdale, Orlando, Tampa, and Miami) exceeded the national rates.

Industrial construction fell more dramatically than any other building activity in Florida. High rates of unused capacity and dropping growth rates in manufacturing employment and personal income have all contributed to the curtailment of industrial construction activity. Industrial vacancy rates in Miami were nearly twice the national rate.

**Agriculture.** Like construction, Florida's agriculture, buffeted by bad weather in recent years, lost ground. There was some good news for farming in 1986, but not enough. Total farm income appears to be heading for its second straight downturn, even though the citrus season saw continued recovery in orange groves from past freeze damage. Total orange production rose 19 percent from the 1984-1985 season, while the less damaged grapefruit industry increased production 7 percent; nevertheless, falling orange prices resulted in returns \$200 million less than in the 1984-85 season. Drought and acreage reductions have also cut soybean and peanut revenues in the northern part of the state. Livestock revenue was virtually unchanged through the first half of the year.

Largely as a result of the problems in citrus and row crop production, farmland values have fallen about 10 percent since 1984. Consequently, farmers have seen the paper value of land drop by about \$2 billion. Substantial nonfarm demand for land suggests that favorable prices are nevertheless being paid for land destined to be used as

subdivisions or for some other nonagricultural purpose.

## The Outlook for 1987

Overall, Florida's economy next year should continue to develop at a respectable pace, but its lead over the U.S. economy may narrow. Most of the strengths and weaknesses of 1986 are likely to persist. On the positive side, a moderately healthy national and international economy, the residual effects of past dollar declines, relatively stable energy and credit costs, recovering agriculture, and resumption of serious work on the space shuttle should inject some vigor into the state's economy. The impact of these circumstances will be most evident in service and trade income and employment but should also extend to agriculture, construction, and some manufacturing industries. Continuing foreign competition for Florida lumber, paper, chemicals, and electronic products, along with a defense spending slowdown and past overbuilding, will offset some of this strength, however.

**Population and Tourism.** Migration into the state will probably continue to fuel the rise in service and trade employment in 1987. The continuing stimulus from national developments—the weaker dollar, low oil prices, and falling interest rates—may well set the stage for migration that approaches the high numbers of 1985 and 1986. The moderate U.S. economic growth expected in 1987 should step up incomes nationally, thus prompting travel to the state and stimulating consumer spending.

Advances in tourism in 1987 promise to approach 1986's pace. Rising incomes, stable employment, and central Florida promotions should bring more travelers to the state. The state's appeal to tourists will probably be enhanced by new local attractions, such as a \$300 million movie studio and entertainment complex being built by the Disney Corporation outside of Orlando. A fifteenth anniversary celebration for Walt Disney World begun in October 1986 should increase the number of visitors to the state. A similar event at California's Disneyland boosted attendance there by 19 percent.

The economic stabilization efforts of Brazil and Argentina have produced rising tourist and business travel from these countries after a hiatus from



1982 to 1985, but recent economic troubles in those two countries threaten this trend. Any adverse impact will be felt mainly in Miami, which is again starting to grow as the business and banking center for U.S.-South American trade. A steady dollar exchange rate indicates that Canada will not make a strong contribution to Florida's tourist growth in 1987, but travel from Germany and the United Kingdom is likely to increase.

**Construction.** Despite in-migration and a significant dip in mortgage rates through much of 1986, the outlook for overall residential construction is not good. Single-family home sales will probably be strong, but many of those sales will merely reduce currently high inventories. Little if any growth is expected. Florida's multi-family construction is likely to drop again in 1987. The new tax reform act will have a negative impact on investment in multi-family housing. High apartment vacancy rates in many Florida cities will also discourage construction. Nor is the Florida condominium market likely to recover from its malaise. The majority of the thousands of vacant units, especially in the Miami area, will probably remain on the market unless the dollar's depreciation or rapid recovery from debt problems strongly stimulates Latin American demand. Neither of these developments is expected to bring sufficient recovery in 1987, though. Tax reform and limited prospects for price appreciation are putting a damper on local buying and investing as well, so that it may take several more years to absorb available condominium markets.

High office vacancy rates in all major markets will carry over into 1987 and depress office construction. Although strong gains in service, financial, insurance, and real estate employment indicate lively demand for office space, 1987 will probably be the year in which developers wait to see vacant space absorbed before beginning new ventures. The tax reform act will reinforce developers' hesitancy because it removes many of the tax advantages for office construction.

Expansion in store construction has slipped to match slowed retail sales growth since 1983 and will probably continue to slide in 1987. No retail sales surge is expected in 1987, and some overbuilding plagues the retail space market also. Shrinking growth in manufacturing employment, manufacturing personal income, and retail construction have all contributed to the curtailment

of industrial construction. These factors, along with Miami's high industrial vacancy rate (twice the nation's), point to a slowdown in industrial construction that will make this sector Florida's most vulnerable construction category in 1987 and possibly beyond.

**Manufacturing.** Manufacturers, especially those in high-technology industries, face uncertain prospects in the near term. Cuts in defense spending are likely to slow growth in this important Florida industry during 1987. The Department of Defense estimates that direct defense purchases in the state will rise by 1.9 percent from 1986 to 1987, about the same as for the nation. From 1985 to 1986, defense purchases in Florida outpaced those of the nation by a considerable margin. Employment in high-technology industries will benefit from the revival of the space shuttle program, which is scheduled to begin full-fledged rehiring in April. Current National Aeronautics and Space Administration plans call for the first launch in early 1988.

Some renewed demand for the products of Florida's manufacturers seems probable as the domestic economy expands moderately and the dollar's decline continues to affect the U. S. trade balance. These developments will stimulate most of the state's manufacturers, though some will feel the stimulus more than others. Electronics competition may ease some, but not enough to overcome crimps in defense spending and stagnant demand. A holding pattern in electrical equipment manufacturing employment is about the best that can be expected.

Some basic industries may be helped by the weaker dollar and slowing of the nation's agricultural slide. As a consequence of the weak Canadian dollar, Canadian wood and paper exports have remained highly competitive. At year's end the Canadian government agreed to impose a 15 percent export levy on Canadian lumber shipments to the United States. This should make Florida lumber more competitive; however, the United States also made changes in treatment of capital gains for tax purposes which tend to reduce profits from timbering. Although the combined effects of the duty and tax changes are difficult to project, marked recovery in the lumber industry is not likely.

Excess supplies and low prices in the agriculture sector nationally are diminishing the demand for



fertilizer so that Florida's phosphate industry is currently operating at about 80 percent of capacity. In 1987 domestic demand should stabilize as acreage reductions slow, but foreign demand may decline further. Because the phosphate industry has been in a lengthy period of adjustment, supply capabilities should be increasingly in balance with demand, but any growth in the industry is unlikely.

**Farming.** Prospects for the state's agriculture in 1987 are somewhat improved over recent years. The citrus industry continues to recover from past freeze damage, but canker remains a threat. The crop for 1986-87 is expected to be the largest in three years. Sugar cane growers still have a farm program which will assist them in earning acceptable returns. Even though vegetable growers face accelerating imports from Mexico and the Caribbean, their outlook is mostly optimistic, since domestic demand for vegetables is rising and pro-

duction costs are declining. Vegetable prices have not suffered the sharp price declines experienced by other crops.

## Conclusion

In the year ahead, Florida's employment and income should continue to rise at a rate somewhat above the nation's. The pace of growth will be influenced strongly by the way the U.S. economy and economies abroad react to past declines in the dollar. The speed at which the state can absorb its excess inventory of buildings is another important factor that will bear on Florida's economic prognosis. Unless migration and tourist flows slow substantially, however, the Sunshine State's economic outlook for 1987 will remain fairly bright.



# Georgia Takes Problems in Stride

Joel Parker and Jody Lipford

*A rebound in manufacturing will help Georgia's economy grow faster than the nation's again in 1987, despite construction slowdowns and an ailing farm sector.*

Georgia's economy grew faster than the nation's in 1986, in spite of a lagging manufacturing sector, farm woes, and slackening construction activity. The state's economic expansion will probably continue exceeding that of the United States and most of the Southeast in 1987, but the pace will again slow and growth will become more uneven than in the recent past. No striking departures from the pattern of 1986 trends are predicted for 1987.

Economists expected advances to taper last year from the brisk rate in 1985, and the number of new jobs created dropped dramatically from 117,000 in 1985 to an estimated 79,000 in 1986. The balance of strengths and weaknesses in the state provided some surprises, nonetheless. Employment in wholesale and retail trade showed the most gains. The cheaper dollar, however, did not deliver the benefits anticipated by Georgia's large manufacturing sector, which barely edged ahead. The service sector, usually a boon

*The authors are, respectively, an economist and former intern in the regional section of the Atlanta Fed's Research Department.*



**Table 1.**  
**Percent of Employment Growth**  
**(1985 to 1986)**

Employment Categories	United States	Georgia	Atlanta	Georgia excluding Atlanta
Mining	-10.6	3.9	14.3	2.0
Construction	6.7	7.9	12.9	2.8
Manufacturing	-0.1	0.3	0.9	.0
Durables	-1.1	0.5	2.0	-0.7
Nondurables	1.3	0.2	-0.2	0.3
Transportation and Public Utilities	1.1	1.5	2.1	0.5
Trade	3.0	4.1	4.3	3.9
Wholesale	2.8	2.4	3.4	0.4
Retail	3.1	4.8	4.7	5.0
Finance, Insurance, and Real Estate	5.8	4.4	4.1	5.0
Services	4.7	3.8	4.5	2.8
Government	1.7	1.3	2.6	0.4
Federal	n/a	2.7	3.5	2.1
State	n/a	-0.1	0.9	-0.6
Local	n/a	1.4	2.7	0.4
<b>TOTAL NONFARM EMPLOYMENT</b>	<b>2.5</b>	<b>2.8</b>	<b>3.9</b>	<b>1.8</b>

Source: Computed by Federal Reserve Bank of Atlanta from January through November 1986 data released by the Georgia Department of Labor, Labor Statistic System and the U.S. Department of Labor, Bureau of Labor Statistics, *BLS 790 Monthly Report on Employment, Hours, and Earnings*.

to the state's economic health, hesitated a bit as a result of problems in agriculture and construction. Government employment also expanded, but more slowly than in 1985. Commercial construction lost ground as predicted, but single-family residential building exceeded the expectations of most analysts (Table 1).

Manufacturing, the backbone of Georgia's economy outside Atlanta, faces the prospect of a ragged mixture of advances and declines among its component industries and can count on only slightly faster overall growth than last year. Commercial construction will slow further. Nevertheless, the combined influences of trade, services, government, single-family home building, and Atlanta's moderating economic vigor should bolster areas of weakness and push the state ahead. The rapidly growing Atlanta economy has

typically been strong enough to draw the rest of the state, but its decelerating pace may not be enough to fully compensate for weaknesses in other parts of Georgia in 1987. The solid performance of some of Georgia's smaller cities in 1986 gives hope that they will reinforce Atlanta's positive influence on other areas of the state. Augusta, Columbus, Macon, and Savannah recorded moderate employment expansion in 1986. Although job growth in Augusta failed to match unusually high gains recorded in 1985, employment rates in the latter three cities improved from 1985. Advances outside Atlanta, however, still depend on manufacturing and farm-related businesses. Unless one or both of these sectors turns around, Georgia may find it more difficult to maintain its economic lead over the nation in the coming year.



**Table 2.**  
**Distribution of Nonfarm Employment in Georgia**  
**(1986)**

Employment Categories	Georgia		Atlanta		Georgia Excluding Atlanta	
	Number of Employees (thousands)	Percent Distribution	Number of Employees (thousands)	Percent Distribution	Number of Employees (thousands)	Percent Distribution
Mining	8.3	0.31	1.4	0.11	6.9	0.52
Construction	157.2	5.96	82.9	6.27	74.3	5.64
Manufacturing	556.1	21.07	184.7	13.98	371.4	28.19
Durables	218.7	8.29	97.3	7.36	121.4	9.21
Nondurables	337.4	12.78	87.4	6.61	250.0	18.97
Transportation & Public Utilities	164.9	6.25	106.8	8.08	58.1	4.41
Trade	674.5	25.56	379.9	28.75	294.6	22.36
Wholesale	202.7	7.68	136.0	10.29	66.7	5.06
Retail	471.8	17.88	243.9	18.46	227.9	17.30
Finance, Insurance, & Real Estate	143.1	5.42	93.0	7.04	50.1	3.80
Services	480.9	18.22	291.0	22.02	189.9	14.41
Government	453.1	17.17	181.6	13.74	271.5	20.61
Federal	96.6	3.66	39.6	3.00	57.0	4.33
State	104.3	3.95	35.6	2.69	68.7	5.21
Local	252.2	9.56	106.3	8.05	145.9	11.07
TOTAL NONFARM EMPLOYMENT	2,638.7	100.00	1,321.3	100.00	1,317.4	100.00

Source: Computed by Federal Reserve Bank of Atlanta from January through November 1986 data released by the Georgia Department of Labor, Labor Statistic System and the U.S. Department of Labor, Bureau of Labor Statistics, *BLS 790 Monthly Report on Employment, Hours, and Earnings*.

## A Concise Guide to the Georgia Economy

Wholesale and retail trade play a greater role in Georgia's economy than they do in the nation's. About 25 percent of the state's jobs in 1986, as compared to 23.5 percent in the United States, came from businesses in those sectors (Table 2). Trade accounts for 15 percent of Georgia's personal income (Table 3). More than half the state's trade workers live in the 18-county metropolitan Atlanta area, which serves as a regional distribution center for the state and the Southeast and maintains a high concentration (67 percent) of Georgia's wholesale employment. Atlanta's role in distribution makes the entire state responsive to economic conditions elsewhere in the Southeast.

While trade is the largest employer in Atlanta and in the state as a whole, manufacturing occupies the lead position in the rest of Georgia and

is likely to be the swing factor in Georgia's economy during 1987. In 1986 manufacturing produced 15 percent of Georgia's total personal income and employed about 21 percent of the state's nonfarm workers. Textile and apparel firms account for 12 percent of the state's manufacturing jobs and hold a strategic position in the Georgia economy outside Atlanta, where 28 percent of all nonfarm jobs depend on manufacturing. Textiles claim a share of employment in Georgia five times that of the nation, and apparel employment is nearly twice its proportion nationally. In Atlanta, where only 14 percent of the jobs are in manufacturing, producers of automobiles and aircraft form the single most important manufacturing group.

The wide range of activities included in "other services" constitute the third largest component of Georgia's economy and supplied 18 percent of its jobs in 1986. Services account for 22 percent of Atlanta's employment, just slightly less than in the



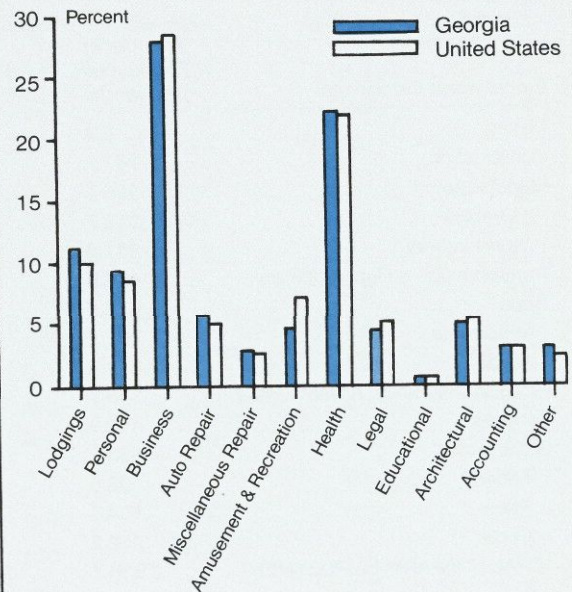
**Table 3.**  
Sources of Personal Income in Georgia  
(Second quarter 1986, seasonally  
adjusted annual rate)

	Total (\$ million)	Percent of Total
Mining	572	0.7
Construction	4,295	5.2
Manufacturing	12,504	15.0
Durables	5,805	7.0
Nondurables	6,699	8.0
Transportation, Communication and Public Utilities	5,663	6.8
Trade	12,271	14.7
Retail Trade	6,424	7.7
Wholesale Trade	5,847	7.0
Finance, Insurance, and Real Estate	4,131	5.0
Services	11,505	13.8
Government	10,581	12.7
Farming	713	0.9
Dividends, Interest, and Rent	10,658	12.8
Transfer Payments	10,418	12.5
	83,311	100.0

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

United States as a whole. Outside Atlanta, however, as is the case in trade, services provided only 14 percent of all nonfarm jobs, lagging behind manufacturing and government. This group of businesses appears to exert a stabilizing influence on employment. Major segments of the service category, such as automotive and other repair as well as medical and legal services, provide relatively steady work and depend more on population growth and demographic factors than on business cycles (Chart 1). Atlanta, with its large share of service jobs, has benefited most from that stability in the past. However, as the city increases its share of more cyclically sensitive service providers such as advertising firms, architects, engineers, consultants, and convention and tourist

**Chart 1.**  
Employment Distribution in  
Miscellaneous Services  
(Georgia versus United States, 1982)



Source: Computed by Federal Reserve Bank of Atlanta from data released in U.S. Department of Commerce, Bureau of the Census, 1982 Census of Service Industries, Geographic Area Studies, Georgia, November 1984.

businesses, it becomes more vulnerable to national and international events such as business cycles and changes in the dollar's value.

Government has been one of the most stable elements of Georgia's economy, though its employment share has declined in recent years. By 1986, it had slipped behind services to fourth place in share of total nonfarm employment but still almost matched services in percent of the state's personal income.

Although trade, manufacturing, services, and government together account for over 80 percent of Georgia's nonfarm workers, the remaining industries often exert an important influence on the state's economy. Two of the smaller employment categories that remain relatively stable are the transportation, communication, and public utilities industries as well as finance, insurance, and



real estate. Though employment gains in transportation have slowed and communications employment has been cut back as an efficiency measure in response to increased competition, this area has nevertheless remained steady. Employment in finance has enjoyed more rapid but similarly stable growth.

Construction and agriculture are strongly cyclical. Though these two sectors employ a relatively small proportion of the state's labor force, their influence is magnified by their strong responses to changes in factors affecting them. Construction typically responds sharply to statewide changes in income and to over- or undersupply of buildings. Agriculture, which exerts a significant influence on the economy of rural Georgia, likewise reacts to external influences such as weather, the dollar's value, and the level of farm output in other areas of the world.

## **Georgia's Recent Progress and the 1987 Outlook**

Over the past several years, trade, transportation, and the services orientation of Atlanta's economy have combined to fuel a growth rate in Georgia faster than the nation's. Because of this economic strength, Georgia yearly attracts and employs large numbers of new residents, who in turn contribute to the state's prosperity by adding to income and increasing demand. Slowing economic growth has tapered the inflow somewhat, but it remains substantial. Georgia's economy created enough new jobs in 1985 and 1986 to employ newcomers to the work force from outside and inside the state as well as to help reintegrate some of the state's unemployed. Georgia's unemployment rate has declined from 6.5 to 6.0 percent over the last two years.

Even though the margin between Georgia's growth rate and that of the nation has been diminishing yearly, the state will probably continue expanding at a pace slightly faster than the nation's in 1987. Weaknesses in manufacturing and construction seem likely to worsen, but momentum or even acceleration in other segments of the state economy should ensure progress.

This forecast for Georgia depends on the assumption that the real gross national product will grow between 2.5 and 3.0 percent in 1987. It also assumes a weaker dollar vis-a-vis other major currencies will raise the price of imported goods

and precipitate a moderate shift toward consumption of domestically produced goods as well as strengthen exports.

**Manufacturing.** Because the outlook for wholesale and retail trade, services, and government is relatively stable, manufacturing will exert a powerful influence on any changes in overall economic performance. Georgia's manufacturing, in turn, responds to external forces, since most of the state's manufactured goods are consumed elsewhere. A turnaround in the nation's foreign trade deficit would benefit many Georgia manufacturing firms; still, they could well respond sluggishly, because most measures of the dollar's value abroad reflect only moderate exchange rate movements against some important foreign competitors. Thus, this large segment of the state's manufacturing sector may see slight improvement at best.

Despite the fact that manufacturing jobs in Georgia expanded faster than in the nation, they have grown more slowly than total nonfarm employment in the state for a number of years. The former strength of the dollar on foreign exchange markets contributed to manufacturing's torpor and especially hurt Georgia's important textile, apparel, and automobile producers. The dollar's decline since early 1985 has not thus far provoked a response in import prices sufficient to shift consumer purchases dramatically toward domestic goods or to stimulate exports. Exporters to the United States have apparently cut their profit margins to maintain competitive prices, and the dollar's value has not dropped against the currencies of some Asian nations competing vigorously for textile and apparel market share. Although in the rest of the nation lumber and wood products and chemicals showed signs of improved foreign demand, these industries have not yet picked up in Georgia.

The number of jobs in nondurables and durables industries grew at markedly different rates in 1986. Nondurable industries, including textiles, apparel and paper, account for 61 percent of the state's manufacturing jobs. With the exception of printing and publishing, they are registering poor gains. Recent influxes of textile and apparel imports as well as implementation of labor-saving technology limited expansion of employment in these industries to a lethargic 0.2 percent over the 1985-86 period.

In contrast, most segments of the durable goods industries performed relatively well; employment in this category jumped 19 percent over the last 3



years, propelled by a major defense contract with an Atlanta aircraft manufacturer and expansion and modernization of automobile assembly plants. The state's transportation equipment industry, which employs almost 2 percent of Georgia's work force, boasted 42 percent job growth from 1983 to 1986. Employment in the state's stone, clay, and glass firms also advanced during this period in response to brisk demand from the then vibrant construction industry.

Growth in manufacturing varied throughout the rest of Georgia, showing some signs of new activity. Columbus, for example, will soon be home to the headquarters of an automobile battery factory that will create new jobs. A new paper plant in Effingham County, near Savannah, will employ approximately 1,000 workers when construction is completed. Augusta, the state's most rapidly growing city outside Atlanta, continues to enjoy strong employment gains from new industries and expansion of existing ones. The Macon area is developing a base of defense industries. However, in areas of Georgia with high concentrations of textile and apparel firms, the long-run outlook is lukewarm at best, and more plant closings are likely.

The impact of the dollar's decline on the competitive position of Georgia manufacturers in worldwide markets is a critical factor in the fate of this sector. The stimulative effects of the falling dollar were not fully realized in 1986; if they materialize in 1987, Georgia's manufacturing sector will be a primary beneficiary. Some economists believe prices for imports will rise as foreign producers become increasingly unable to absorb losses of market share by cutting profits. Third quarter 1986 data on import prices reveal significant increases for autos, equipment, and softwood lumber. Imported textile prices have risen moderately, but prices for the apparel component have held steady. These price movements should favor Georgia's lumber and machinery production as well as textiles. The outlook for the state's apparel firms remains unimproved, though. Georgia's manufacturing will remain particularly susceptible to competition with textile and apparel exporters like Korea and Taiwan. Because the shift in the dollar's value has barely affected exchange rates with these nations, manufacturing in Georgia may not gain as much from the dollar's decline as it does in the United States as a whole.

Even though imported car prices rose, the high volume of sales generated by financing incentives in 1986 will probably prevent a surge of sales in

1987. Inventory clearance made room for 1987 models on dealers' lots, but brisk sales in 1986 absorbed some 1987 demand. Georgia's automobile manufacturing employment should be stable in 1987 unless excessive inventories become a problem. Then, employment in late 1987 and 1988 could decline.

Finally, Georgia's textile industry is heavily concentrated in carpet production, and much of the textile rebound in 1986 was due to strong housing sales and office construction, which prompted the demand for carpet. While single-family construction should continue stimulating carpet demand, barring a rise in mortgage rates, the curtailment of multi-family construction and most types of commercial building will weaken the carpet segments of the textile industry in the coming year. Combined, these effects will still bolster manufacturing employment in Georgia, but the support will be modest.

**Construction.** An expected decline in the construction industry will be the second most important factor in Georgia's 1987 economic outlook. Construction in the state faced slower expansion in 1986, but its rate of employment gain was higher than most other industries. Single-family residential building, propelled by falling interest rates, starred in this show, taking off at a pace exceeding that of 1984 and 1985 (Table 4). The average effective rate on 30-year fixed rate mortgages in Atlanta dipped below 10 percent in 1986, the lowest level since 1974. Vigorous population and employment gains, both exceeding the national averages, further stimulated demand for housing. Of the state's six largest metropolitan areas, only Savannah failed to show a strong increase in residential building during 1986.

Georgia's store and industrial construction showed surprising tenacity and strength as well. The retail building pace accelerated throughout 1986, while industrial construction gains slowed but maintained a healthy level. New store construction was motivated partly by the need to serve the state's expanding residential neighborhoods and partly by speculation. Though current demand may be insufficient to support many recently constructed malls and shopping centers, retailers are reserving space on the basis of anticipated demand. Additional store space stimulated building of more warehouse and distribution facilities. This flurry of construction has resulted in a superabundance of both retail and industrial facilities, especially in Atlanta.



**Table 4.**  
Construction Permits  
(Annual percentage growth of  
dollar value)

	United States	Georgia
<b>TOTAL:</b>		
1983	39.66	59.58
1984	14.08	23.75
1985	12.16	12.94
1986	-5.90	6.02
<b>Single-family Residential:<sup>1</sup></b>		
1983	65.79	57.86
1984	3.55	4.90
1985	3.32	6.91
1986	14.06	14.08
<b>Multifamily Residential:<sup>1</sup></b>		
1983	56.21	96.32
1984	8.62	5.01
1985	1.80	3.89
1986	-13.14	-10.12
<b>Offices:</b>		
1983	3.43	97.51
1984	17.96	25.43
1985	16.94	-2.37
1986	-18.32	-38.39
<b>Stores:</b>		
1983	33.78	88.99
1984	36.35	88.81
1985	17.63	8.61
1986	7.78	60.89
<b>Industrial</b>		
1983	8.65	12.23
1984	58.56	15.69
1985	-0.89	67.22
1986	0.75	11.39

<sup>1</sup>Annual percent growth of units.

Source: Computed by Federal Reserve Bank of Atlanta from data in U.S. Department of Commerce, Bureau of the Census, *Housing Units Authorized by Building Permits and Public Contracts (C-40)*. 1986 figures represent a comparison between data from January to November 1986 and January to November 1985.

Not surprisingly, office and apartment construction declined from 1985 levels; for offices, 1986 was the second consecutive year of decline. Both office and apartment markets in the state, and particularly in Atlanta, had developed excess capacity that forced down effective lease rates and, thus, profitability. This factor alone would have eventually triggered construction slow-downs; however, imminent tax reform sealed the issue and precipitated office and apartment development decreases in Georgia as well as the nation. Buildings that could scrape along financially with 70 percent occupancy will need higher levels under the new tax law. As a result, construction activity tumbled.

Construction-related employment and personal income in Georgia during the coming year are expected to be below their 1986 levels. Single-family residential activity, though difficult to anticipate for 1987, will probably finish the year below its 1986 level. This prognosis is based on the fact that population and total employment growth, two key factors in housing demand, are expected to increase more slowly in 1987 than 1986. Atlanta may nevertheless show some single-family housing growth because it generates more jobs than the rest of the state and attracts a disproportionately large share of new Georgia residents.

Multi-family residential and office construction in Georgia will decline again during 1987. For the most part, lenders will be hesitant to fund new development. During 1987, and perhaps 1988, these two real estate categories will be absorbing current excess space. Vacancy rates, especially in Atlanta where much of the activity has been in the past, are so high that little new activity is likely.

**Trade.** Trade, services, and government should anchor Georgia's economic prosperity in 1987. Each segment will probably advance more slowly than in 1986, though. Trade sector job growth in Georgia slackened from a strong 7 percent average annual rate between 1983 and the end of 1985 to a little over 4 percent during 1986. This rapid deceleration may have been partially in response to Atlanta's tapering general merchandise sales growth, which dipped from 7.6 percent in 1985 to 6.2 percent in 1986. The drop in sales growth suggests that the rapid 7 percent yearly trade employment advances would have been unsustainable over the long haul, since the pool of personnel would then have grown faster than the demand for their services.



Trade activity and employment will move ahead in 1987 but less vigorously than in 1986. The overall economic expansion expected for the state should pull trade activity along with it. The state's vibrant single-family housing market has been an important source of trade growth in past years because recent home buyers, allowing for some lag time, tend to make major purchases of appliances and home furnishings as well as secure the services of lawyers, real estate agents, inspectors, landscapers, and decorators. Despite the marginal decline in demand expected for single-family units, there is still room for a relatively brisk level of sales in 1987. The improvement anticipated in the state's manufacturing sector could also generate income growth and fuel retail and wholesale sales and employment growth. Lower income tax rates will give consumers more disposable income to spend as well.

On the negative side, lack of vigorous growth in the regional economy will slow employment gains in the state's wholesale trade. Tax reform legislation, because it eliminates the deductibility of interest on revolving credit and charge card accounts used to finance an important segment of retail sales, could also constrain spending. However, gains in population and income should balance these hindrances to reinforce trade sector growth.

**Services.** Almost as surprising as the manufacturing sector's weak response to the falling dollar was slower growth in Georgia's usually stalwart service industries. Services employment expanded at an average annual rate of over 6 percent from 1983 through 1985, but the pace tapered to 4 percent from 1985 through 1986. The nation experienced a similar but smaller slowdown.

The damper on Georgia's services growth can be traced to the state's 1986 drought, continuing agricultural recession, and the beginning of a decline in commercial construction, all of which cut into demand for business services. Business services such as advertising, credit reporting, employment agencies, and data processing firms constitute the state's single largest service component, accounting for 28 percent of all service employment. Much-needed rain and the resulting resurgence of Georgia's farm industry in the fall of 1986 boosted services demand by the agricultural sector, but the market for business services among real estate and construction firms slowed throughout the year. The state economy's less vigorous rate of advance in 1986 also acted as a general drag on services. Though the lodging

and amusements components of the service industries performed well, riding the crest of a strong wave of tourism, this strength was not sufficient to overcome weakness among business services.

Setbacks in the service sector were more severe in Georgia than the United States as a whole because the precipitating industries, farming and construction, constitute larger parts of the state's economy than the nation's. Georgia's farm sector accounts for about 4 percent of total state employment, compared to roughly 3 percent for the nation, and construction's share of 1986 employment in Georgia is 22 percent above the national norm.

The tempo of services expansion during 1987 is not likely to regain its previous pace. Weaknesses in the state's construction and agriculture industries are not expected to improve much in 1987; indeed, they may worsen. The vigor anticipated in lodging and amusements will not be enough to lift services expansion in 1987 above its level in 1986.

**Tourism.** Georgia tourism reinforces demand for services as well as goods sold by the state's retailers and wholesalers. Tourism enjoyed an excellent year in 1986, thanks to a variety of economic developments. The home mortgage refinancing surge of 1985 and 1986 may have created discretionary funds, often channeled toward vacations and other non-essentials. Some contend that the 1986 stock market surge caused a "wealth effect," which loosened consumers' purse strings by giving them a cushion of appreciating equities. A national inflation rate of less than 2 percent in 1986 combined with moderate personal income growth also enabled households to budget more for travel. In addition, the dollar's decline relative to many other currencies and the threat of terrorism against Americans abroad made international travel more expensive and risky.

Tourists are expected to spend even more in the state in 1987 after a good year in 1986. The dollar's fall will probably continue to inhibit foreign travel. Moderate gasoline prices and effective advertising at the state level have boosted prospects for car travel in the State of Adventure, and concern about violence to Americans traveling in Europe may divert many vacation dollars to domestic travel.

**Government.** In contrast to trade and services, government has captured a declining proportion of Georgia's jobs and income. Over the period



from 1983 to 1986, government employment in the state grew 1.3 percent annually, compared to a 5 percent increase for total nonagricultural employment. Total personal income gains likewise outstripped growth in personal income from government sources by more than four percentage points over the same period.

To finance its expenditures, Georgia relies on sales tax receipts for almost 50 percent of its total tax revenues; individual income taxes account for 38 percent; and corporate income taxes supply another 9 percent. Compared with state governments across the nation, Georgia's reliance on individual and corporate income taxes is relatively high; its dependence on sales tax revenues is comparable to that of other states. Unadjusted for income differentials, Georgia ranks 37th (one being the highest) in per capita taxes.

Though Georgia has not changed its tax rates in recent years, its tax revenues have grown rapidly in response to strong population and per capita personal income gains. The state's faster-than-national population growth alone would increase personal income and tax revenues; however, the substantial rise in revenues is largely the result of marked advances in per capita personal income. Both have led to hefty increases in sales and individual income tax receipts.

Georgia revenue collections will be tempered in the future by slowing income growth and possible reductions in federal revenue sharing. As Georgia's per capita income growth regresses towards the national average, tax collections may slow as well. The availability of federal funds is also in question as congressional concern about reining in federal deficits casts a shadow over federal transfers to all levels of government. Georgia's 1987 budget assumes the same federal funding as in 1986, which means that state general revenues could be reduced if federal revenue sharing cutbacks are implemented.

**Transportation, Communication, and Public Utilities.** Paralleling the deceleration of government jobs, the state's transportation, communication, and public utilities industries fell from a 4 percent annual average rate of employment increase between from 1983 and the end of 1985 to just short of 2 percent from 1985 to 1986. This sluggishness, largely attributable to slower expansion by long distance telephone carriers and electric utilities, has also resulted in a falling share of Georgia employment for transportation, communication, and public utilities. The weak growth experienced in 1986 is expected to continue in

1987. No developments appear on the horizon to accelerate growth in this usually sedate group of industries. Still, these industries are too small a part of the state's economy to hamper overall state growth significantly.

**Finance, Insurance, and Real Estate.** Finance, insurance, and real estate industries are another relatively small group of employers in the state, which have nonetheless added jobs at a fast, consistent pace.

Employment growth in this industry group shows no signs of peaking yet, though the national growth rate exceeded the state's early in 1986 for the first time in several years. The outlook for this component of Georgia's economy is for continuing, though slowing, growth during the coming year.

Finance, insurance, and real estate jobs in Atlanta constitute a higher percentage of the area's employment than in the nation as a whole, indicating some saturation may be taking place. Atlanta's employment growth in these industries stood at 4 percent compared to national figures of almost 6 percent over the same period in 1986, suggesting that opportunities for expansion in Georgia's financial segment may be better outside the capital city.

**Agriculture.** Georgia agriculture continues to endure hard times. Personal income from farming plummeted a dramatic 40 percent in 1985 to reach a five-year low of \$2.7 billion. Totals for 1986 will probably show further losses. Unprofitably low yields and government acreage reduction programs have slashed the number of acres planted by 33 percent since 1981, when 6 million acres were in production. Over the past 3 years, an estimated 6,000 Georgia farms have either ceased operation or been absorbed into other farms. The financial distress of Georgia's farm sector has had an adverse impact on the entire state economy, especially in rural counties.

A combination of factors has led to the difficulties facing Georgia's agricultural sector. Low prices as a result of excess world supplies have been at the root of Georgia farmers' misfortune. The price of soybeans, for example, has dropped nearly 30 percent over the past two years. Lower crop and livestock revenues reduced farm cash receipts by 14 percent during 1985. The summer of 1986 brought still another disastrous drought, the worst in recent years, prompting cattle herd sell-offs that depressed beef prices. Compared with 1985, estimated yields per acre for peanuts, cotton, and corn were down substantially. High



production in other areas of the nation ruled out an increase in crop prices and further hurt farm revenues. Although government aid has mitigated the effects of the drought, weather-related losses by the state's farmers are still estimated at \$339 million.

Barring another drought, Georgia farmers can look for improvement in 1987. Current liquidations are painful, but they will reduce the supply of agricultural commodities and consequently improve prices. A strong government program during 1987 will also help boost farm incomes. Prospects for farm exports are more promising because the falling dollar and lower support prices should begin stimulating demand for U.S. agricultural commodities.

## Conclusion

Georgia's economic performance was mixed in 1986. Typically strong sectors such as retail trade, single-family residential construction, and financial services advanced markedly. Last year's employment growth in each of these industry groups exceeded the average rate for the three previous years. Stung by setbacks in commercial construction and agriculture, services employment, which

has been among the state's fastest growing industry groups, slipped well below its usual pace in 1986. Strong performances among transportation equipment firms helped Georgia manufacturing escape the decline suffered by that sector nationally, but expansion was weak by any other standard. Demand for domestically produced goods accelerated less vigorously than expected in response to the rising costs of imports. Overall, the state's growth was moderately above the nation's.

Georgia's economy will probably advance in 1987 but less briskly than in 1986. Slowing commercial construction, waning automobile demand, and the continuing strength of the U.S. dollar against some Asian currencies will hold the economy back. Atlanta's strong service base and its expanding role as a financial center should anchor growth there, and a moderate turnaround in manufacturing will spur some progress in the state's smaller towns. Perhaps just as important, the state's image as a land of opportunity will continue to draw newcomers, spark employment, and contribute to the income gains that fuel the state's economy. If Georgia can avoid further farm distress and escape federal revenue sharing cuts, the state's economy should sustain some lead on national growth.





# Tennessee: Challenges Ahead

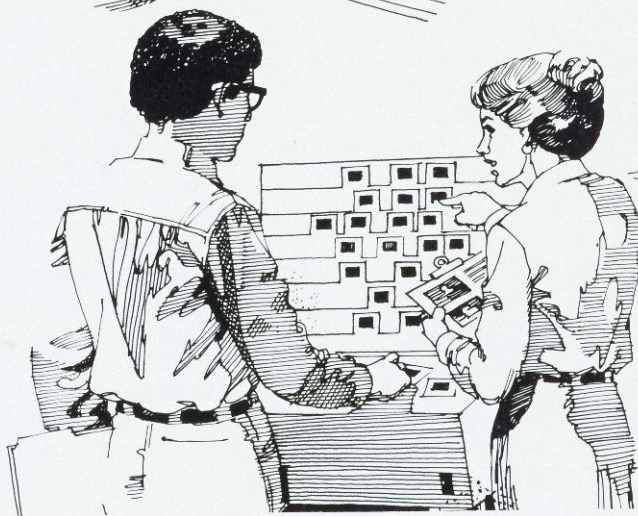
Jon Moen

*Slower growth in household spending nationwide spells only modest expansion for this heavy producer of consumer goods.*



Prospects for Tennessee in 1987 are mixed and depend largely on national and international developments. The state's economy is similar to the nation's and should respond to the same forces that help or hinder U.S. economic growth during the year ahead. Decelerating consumer demand anticipated in 1987 may cut into expansion of the state's important manufacturing sector, which produces mainly consumer goods rather than business or industrial equipment. Although a turnaround in the trade balance could offset this effect as more consumer needs are met through

*The author is an economist in the regional section of the Atlanta Fed's Research Department.*





domestic production, the modest advance expected in the national economy portends moderate growth at best for Tennessee.

In 1986 Tennessee's personal income expanded slightly faster than the nation's. Most of the 6 percent average increase for the first three quarters in 1986 came from a dramatic surge in construction earnings that helped balance the state's lagging manufacturing sector. Employment gains in Tennessee of roughly 4 percent between 1985 and 1986 were better than the nation's and those of all other southeastern states. Although the figures may be somewhat misleading since they include part-time workers and those taking second jobs, they still indicate good growth. Most of the increase took place in the nonmanufacturing sector.

Trends in 1987 will mirror developments in 1986. Despite the fact that strong consumer spending mitigated losses caused by foreign imports, income gains in manufacturing advanced at a rate far below the average increase in earnings for the state. Manufacturing, which accounts for 20.5 percent of the state's income, will probably continue to flag in 1987. Tourism, a bright spot in 1986, should provide even more strength in the year ahead. The new tax bill and overbuilding will cause commercial and multi-family construction to continue sliding, but single-family residential construction should maintain some of its 1986 momentum. Moderate strength in housing activity nationally may help the state by stimulating its lumber and furniture industries. Transfer payments and government employment, the second largest source of income in Tennessee, did not strengthen the economy in 1986 and are not expected to contribute much in 1987; nor will employment in finance, insurance, and real estate increase substantially in 1987.

Agriculture showed no significant improvement in 1987, but neither did farmers in Tennessee experience the same financial distress that afflicted those elsewhere in the country. Some indications suggest that 1987 will be the bottom of the trough for farming in Tennessee as well as in the nation as a whole.

All in all, the outlook for 1987 is remarkably like last year's, though it lacks some of the optimism of the 1986 forecast. The new tax bill, uncertainty about the strength of consumer buying, and an unpredictable export market have all introduced caution about the state's performance vis-a-vis the nation's in 1987.

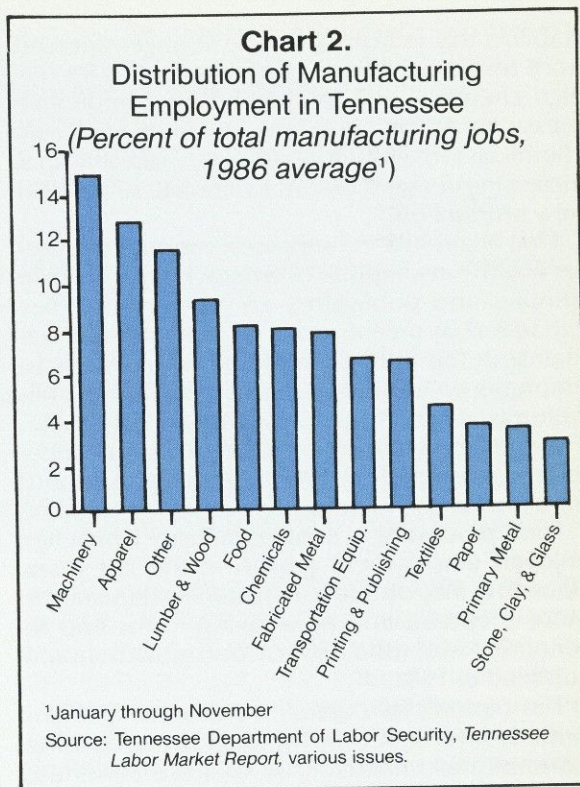
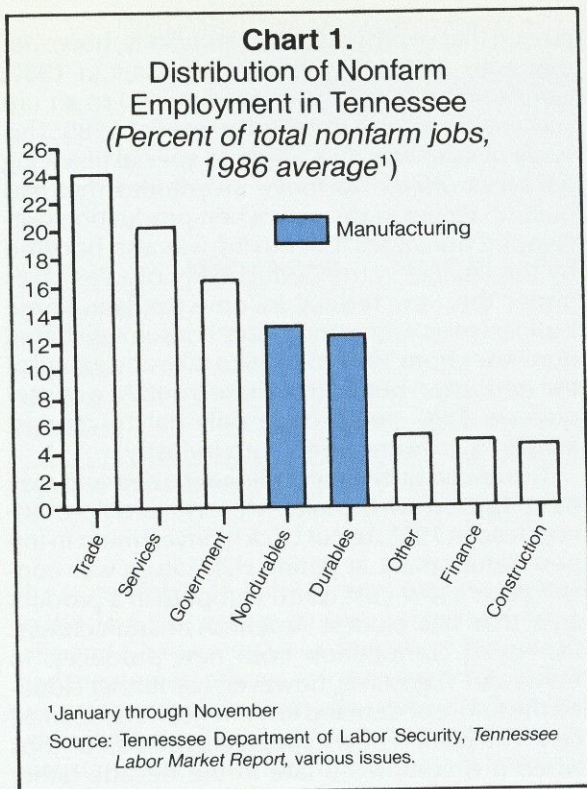
## The Shift Away From Industry

Although the manufacturing sector's share of total employment has been falling for the last twenty years in Tennessee, as in the United States generally, industry still looms larger in this state's economy than in the nation's. As a result, Tennessee has not participated as extensively as some other southeastern states in the national expansion of the past few years. National trends characterized by a weak domestic manufacturing sector, a growing service sector, and higher defense spending have not helped states that depend heavily on nondefense industry. Instead, U.S. economic developments have favored states like Florida and Georgia where services and production of electronics and transportation equipment for military use play an important role.

In 1985, Tennessee's per capita earnings were just 81.1 percent of the nation's, up only slightly from 80.3 percent in 1982. Tennessee's lead over the nation's rate of income growth, then, is only slowly closing a considerable gap. However, over the last five years the state's income trends have stabilized and begun to follow national patterns of growth and decline—a relatively recent development related to the shift away from manufacturing. Before 1982, Tennessee's consumer-oriented manufacturing industries made the state's economy especially sensitive to fluctuations in the national economy, so that nationwide declines resulted in even sharper drops for Tennessee. After the 1981-82 recession the pressure of import competition and labor-saving modernization, especially in chemical and textile firms, caused industrial job growth to slow significantly. Even so, these adverse effects were partly offset during the current expansion by strong gains in aggregate consumption that have not been characteristic of other upswings in the national economy. Over the long run, the waning importance of manufacturing should serve to steady the state's historically more volatile reactions to the national business cycle.

Despite the fact that service and trade jobs have more than compensated for reductions in Tennessee's industrial employment, the state will increasingly face the problem of structural (and hence hard-to-remedy) unemployment created by job losses in the manufacturing sector. Even if demand for manufactured goods becomes stronger, automation makes it unlikely that employment in Tennessee's industries will rise in proportion to output.





## Manufacturing

The share of manufacturing employment in Tennessee is larger than in the rest of the United States, 25 versus 20 percent (Chart 1). The largest employer in the nonagricultural sector, manufacturing provides jobs for 486,000 persons out of a total of 1.92 million. Several key factors influence the level of manufacturing employment in Tennessee, and their particular combination suggests only weak expansion in 1987 or possibly a continued decline. Unlike other states in the Southeast, Tennessee's manufacturing industry is geared more towards consumer goods such as appliances, automobiles, and apparel rather than heavy equipment (Chart 2). Consumer spending is likely to grow more slowly in 1987 than in 1986, when increased discretionary income following the oil price cuts led to a strong surge in buying. Although the decline in the value of the dollar will mitigate overseas competition for several of Tennessee's industries, others will not benefit unless the dollar depreciates more dramatically against the currencies of all our trading partners—particularly Korea, Singapore, and Hong Kong. Producers

in these countries have made substantial inroads into U.S. markets in recent years, and many foreign products compete with nondurable goods like apparel and textiles produced in Tennessee. In industries such as textiles that anticipate stronger demand, manufacturers have invested heavily in labor-saving equipment; therefore, any expansion in output will be accompanied by less job growth than in the past. Prospects for the textile industry are a little better than for apparel, and business showed signs of improving last year as the fall in the dollar's value provided some relief from competing exports. Even though the number of jobs in textiles has been dropping steadily for nearly 20 years, it increased slightly in the third quarter of 1986 and could stabilize or rise slightly more in 1987. Employment in the apparel industry, which has also been contracting over the long term, did not experience a turnaround in 1986, and none is expected this year.

Little job growth is likely in the chemical industry, which has also seen steadily declining employment over the past 20 years, largely due to intensive modernization and labor-saving efforts. The decline in the dollar's value may help to



stabilize this industry because stronger demand from textile producers and higher prices for foreign chemicals will tend to lessen competitive pressures. At the same time, inventories of bulk chemicals remain high worldwide, suggesting that increasing demand may not stimulate substantial new production.

One bright spot in Tennessee's nondurable sector was the resumption of employment growth in printing and publishing, an industry that has expanded in recent years. Its output has been mainly in the form of book publishing, with an emphasis on religious publications. Music publication is also important, especially in Nashville. The number of school textbooks printed is expected to grow rapidly in 1987 as elementary school enrollments rise nationwide.

Food processing is another industry which has enjoyed employment growth in the last three years. This may be due to heightening demand for more prepared and time-saving foods and to generally lower food prices. Good growth should continue in 1987.

The outlook for durable manufacturing is uncertain for 1987. Should the fairly strong housing expenditures characteristic of 1986 continue, Tennessee's lumber and furniture manufacturers will probably keep on seeing moderately strong demand. Employment in this area expanded 2.4 percent in the first nine months of 1986, following three consecutive years of increase. The lumber industry in Tennessee, which specializes in hardwoods, has been less affected than softwood producers elsewhere in the Southeast by import competition with Canada. Hardwoods like oak are used mostly in furniture, cabinetry, flooring, and other specialty products, while softwoods are used more heavily as structural components in construction and for paper. Not only does a strong housing industry bolster demand for cabinetry and other hardwood products, but it also leads eventually to furniture buying; so, this industry should perform well in 1987. Tennessee's home appliance manufacturers should also benefit from continuing momentum in single-family housing construction in the state and the nation as a whole.

Transportation equipment is another major durable goods industry that has shown relatively good growth over the past 20 years. Expansion in this area was quite strong in 1986 thanks to auto plant extensions, and the rate of growth in Tennessee's output of cars and trucks probably sur-

passed that of other states. It is unlikely, however, that auto demand will be as vigorous in 1987. Consumer auto purchases were raised to an unsustainable level in the third quarter of 1986. This surge of sales was due largely to special financing packages offered to move inventories that had built up earlier in the year when production outstripped purchases. Car buying was also boosted by the change in the deductibility of sales taxes under the new federal income tax law. Some businesses as well as individual consumers shifted purchases from 1987 to 1986 to take advantage of the deduction before it is phased out. As a consequence, 1987 could bring only flat to modest advances in Tennessee's auto industry.

The uncertainty surrounding auto demand may have figured in General Motors' decision, announced in 1985, to cut back its investment in the new Saturn plant at Spring Hill. Saturn was conceived as a low-cost car to compete in a product area that has eluded American manufacturers. Increasing competition from new producers in Korea and Yugoslavia, however, has further clouded the future of demand for American-made small cars. The plant is now expected to add 3,000 jobs when it is completed late in the decade rather than the 6,000 originally anticipated. A smaller plant will probably limit expansion in related manufacturing, and General Motors plans to buy some components for the Saturn car overseas as well, instead of producing them domestically as originally planned. General Motors claims, nevertheless, that this cutback is not permanent but rather reflects a lengthening of the development and introduction phase of production.

Fortunately, Tennessee's manufacturing output is only lightly concentrated in the production of heavy business and investment equipment, as the removal of the investment tax credit and the lengthening of depreciation schedules starting in 1987 will keep demand for capital equipment modest. Even though the new tax law should encourage investment in computers nationally, this positive stimulus will not affect Tennessee's electronics industry, which produces mainly electrical machinery and electrical components of transportation equipment. Exports of U.S. capital equipment should show some improvement in 1987, but whether or not such an upswing would substantially help Tennessee manufacturing remains to be seen.

Declining employment in manufacturing resulted in disparities among job growth rates across



**Table 1.**  
**Nonfarm Employment in Tennessee's Major Cities**  
*(Thousands)*

	1985		1986		Percent Change 1985 - 1986	
	Monthly Average <sup>1</sup>	November	Monthly Average <sup>1</sup>	November	Monthly Average <sup>1</sup>	November
Chattanooga	175	182	179	181	2.3	-0.9
Knoxville	230	231	232	235	0.8	1.7
Memphis	384	389	387	394	0.8	1.3
Nashville	426	435	431	441	1.3	1.4
Tennessee	1,858	1,902	1,930	1,980	3.9	4.1

<sup>1</sup>January through November.

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

the state (Table 1). Employment expanded most in the Tri-Cities area in eastern Tennessee. Knoxville and Chattanooga, also in eastern Tennessee, had the slowest advances in employment. Farther west, job growth in Nashville proceeded rapidly, while in Clarksville it was much slower. Several circumstances account for the slackness in Knoxville and Chattanooga. Manufacturing jobs in these cities have been dwindling, and trade and service sector employment was barely strong enough to keep overall employment growing (Table 2). Cutbacks at the Tennessee Valley Authority (TVA) and Oak Ridge facilities also limited job growth in these two cities.

All in all, 1987 is not likely to bring any reversal of the long-term decline in manufacturing's importance as a source of employment in Tennessee. A slowdown in consumer durable purchases and flat demand from business investment will probably work against whatever improvement results from better foreign trade. Income originating in this sector should be somewhat higher due to reasonably good productivity growth, but not strong enough to push beyond the reduced pace in 1986.

## Service and Trade Sectors

Broadening of the service sector in Tennessee more than offset shrinkage in manufacturing. Service employment rose from 359,000 in 1985 to 389,000 in 1986 (Table 3). Growth in wholesale and retail trade was another source of job gains:

employment rose from 438,000 in 1985 to 466,000 in 1986. The trade and service sectors are a more stable source of new jobs and tend to vary less over business cycles than does manufacturing.

The trade sector is slightly larger as a source of income in Tennessee than in the United States as a whole, due in part to the state's central location and its position on the interstate highway and national rail systems, which make it a natural distribution center. Tourism and population increases in the state's metropolitan areas have also fed the growth of services and retail trade in Tennessee. While the state's overall population rose slowly compared with that of the nation or the Southeast between 1980 and 1985, some of Tennessee's metropolitan areas experienced significant expansion during this period. The average annual population gain for Tennessee over the past six years was 0.8 percent, the same as for Mississippi; however, the Nashville metropolitan statistical area grew at a markedly faster average annual rate of about 1.4 percent. Knoxville also expanded more rapidly than the state. The new residents came from shifts of population within the state between rural and urban areas and from an in-migration of Northerners. (Flows between Tennessee and other southeastern states resulted in population losses for Tennessee.) Between July 1985 and July 1986, population increased 0.8 percent, suggesting that the growth trends of the past five years are continuing. The density of Tennessee's population, which, at 116 persons per square mile, is greater than the U.S. average or than that of any other southeastern state except



**Table 2.**  
Distribution of Employment by City and Percent Change 1985 to 1986

	Chattanooga		Knoxville		Memphis		Nashville	
	Thousands 1986	Percent Change	Thousands 1986	Percent Change	Thousands 1986	Percent Change	Thousands 1986	Percent Change
Manufacturing	43.5	-0.6	47.9	-3.6	50.9	-2.5	90.2	-0.3
Durable	16.9	-4.3	27.8	-3.9	21.9	-3.5	51.9	1.3
Nondurable	26.5	2.0	20.0	-3.3	28.9	-1.8	38.3	-2.2
Nonmanufacturing	136.2	3.4	184.4	2.1	336.5	1.4	341.0	1.6
Mining	1.0	-6.6	1.5	-19.4	0.1	10.0	0.7	4.7
Construction	7.0	9.9	11.5	7.8	17.8	2.6	27.4	9.6
Transportation and Public Utilities	8.0	-1.5	8.7	0.0	33.4	3.2	20.1	-8.9
Trade	38.9	-1.9	55.2	-0.5	106.3	-0.8	104.4	1.4
Wholesale	10.1	0.8	13.1	-1.7	34.6	-1.1	27.6	3.2
Retail	28.7	-2.8	42.1	-0.1	71.6	-0.6	76.7	0.8
Finance, Insurance and Real Estate	11.2	6.8	8.3	-6.4	23.3	4.5	29.8	2.4
Services	40.1	11.7	50.3	3.7	87.8	0.5	95.1	1.2
Government	30.0	-0.7	48.8	4.9	67.9	3.7	63.6	2.8
Total	179.6	2.4	232.2	0.8	387.4	0.8	431.2	1.2

<sup>1</sup>January through November.

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

**Table 3.**  
Changes in Employment  
(*Tennessee versus the United States*)

	Tennessee			United States
	1985 Average Employment (Thousands)	1986 v. 1985 <sup>1</sup> Percent Change	1985 v. 1984 Percent Change	1986 v. 1985 <sup>1</sup> Percent Change
Total Nonfarm Employment	1,860.9	3.9	2.9	2.7
Manufacturing	489.4	-0.7	-2.1	-0.8
Nonmanufacturing	1,371.2	5.6	4.8	3.5
Mining	8.1	-9.5	-6.3	-14.5
Construction	82.1	4.3	0.6	6.6
Trade	437.7	7.0	8.4	2.9
Services	359.3	8.4	5.3	5.1
Transportation and Public Utilities	91.1	0.9	3.3	0.6
Finance, Insurance, and Real Estate	89.3	0.9	4.3	6.0
Government	304.3	3.9	1.3	2.2

<sup>1</sup>First eleven months of each year.

Source: Computed by Federal Reserve Bank of Atlanta from data released by the Tennessee Department of Employment Security, *Tennessee Labor Market Report*, various issues, and U.S. Department of Labor, Bureau of Labor Statistics, *News*, various issues.



**Table 4.**  
**Construction in Tennessee**  
**(Percent change, 1985 to 1986<sup>1</sup>)**

	Single-Family Permits			Multi-Family Permits			Value of Nonresidential Construction (\$ millions)		
	1985	1986	Percent Change	1985	1986	Percent Change	1985	1986	Percent Change
Chattanooga	1,425	1,571	10	1,605	1,213	-24	85.3	133.4	56
Knoxville	1,761	1,770	1	1,512	605	-60	129.3	156.4	21
Memphis	5,383	6,218	16	3,783	1,819	-52	263.6	288.6	9
Nashville	5,225	7,569	45	8,465	6,293	-26	553.5	473.7	-14
Tennessee	17,314	21,685	25	19,193	12,883	-33	1,289.7	1,334.2	3

<sup>1</sup>January through November.

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

Florida, also creates a good environment for retail trade and services industries.

With slight exceptions, retail trade and services showed modest to sizable gains for both employment and income in 1986. In the first eight months of 1986 the value of retail sales rose by 10.3 percent over the same period in 1985, and department store sales were up 11.2 percent over 1985. These increases were among the highest in the nation. For 1987 moderate growth in the trade sector seems most likely, in keeping with the slowdown in consumption expected for Tennessee and the United States as a whole as consumers become wary of incurring more debt.

Jobs in finance, insurance, and real estate edged ahead by about 1.0 percent in 1986, down sharply from the 4.0 percent gain a year ago; employment in transportation, communication, and public utilities advanced slowly as well. These industries are not expected to add workers any more quickly in 1987. The impact of the new interstate banking laws is just beginning to be felt in Tennessee with the takeover of Third National Corporation in Nashville by SunTrust Bank of Atlanta, but how the legislation will affect employment in the banking industry is still unclear. Although the real estate industry will feel the slowdown in certain types of residential and commercial construction, continued strong demand for single-family dwellings should help maintain earlier job gains.

## Construction

The pattern of new construction in Tennessee is mixed across the state and from city to city (Table 4). Statewide, single-family building permits rose 27 percent in 1986 over 1985, while the number of permits for multi-family buildings—condominiums and apartments—fell sharply. The value of nonresidential construction was also down slightly. This pattern, similar to Georgia's, is expected to continue in light of an overbuilt office market and changes in tax laws that make commercial real estate investment less attractive.

The larger cities in Tennessee show disparate construction trends: single- and multi-family permits registered less change between 1985 and 1986 in Chattanooga than in other cities. Permits issued in both categories declined in Knoxville, with the number of multi-family permits falling more than for the state as a whole. Nashville and Memphis reflected statewide trends, showing a large increase in the number of single-family permits. In all cases, the prospect for an upturn in Tennessee's multi-family construction is not good—a prediction that applies to the rest of the Southeast and the nation as well.

## Travel and Tourism

Travel to Tennessee increased dramatically last year. State and national parks enjoyed a 9 percent



gain in visitors during 1986, and registrations at state visitor centers jumped 21 percent for the period from January to October compared to the same period in 1985. August registrations were up a full 95 percent over those in August 1985; this unusual increase was probably the result of special advertising for "Homecoming 1986." The state promotional budget in 1986 was the third largest in the United States, surpassed only by Illinois and Michigan, and will probably be maintained in 1987.

Homecoming 1986 was the largest statewide celebration and promotional project in Tennessee's history, involving 39 communities around the state. Each community researched its history, planned for its future, selected a Homecoming project, and staged a community celebration at some point in 1986. Memphis's advertising campaign was particularly successful in attracting visitors.

Air travel increased in 1986, especially in Nashville. Airplane passenger arrivals between January and September 1986 were up 44 percent statewide, 24 percent in Memphis, and 42 percent in Nashville. Nashville's importance as an air transportation center has grown as a result of its selection by American Airlines as a regional hub. Airfare competition, discounting, and promotional packages have also increased air travel to Nashville. American Airlines activity there recently met with protest concerning runway expansion and overflight noise in surrounding residential areas. American responded by threatening to revoke Nashville's designation as a hub; if the company follows through, a substantial number of anticipated jobs in the area would not be created, hindering Nashville's potential as a major southeastern transportation link.

The outlook for the tourism industry in Tennessee is as promising for 1987 as for 1986. Modest but stable GNP growth, combined with the lagged effects of the state's promotional efforts in 1986, should make 1987 another good year for travel. Slowly rising gasoline prices probably will not deter tourists bound for the state by car. New facilities and hotel renovations scheduled for completion by the end of 1986 to take advantage of accelerated depreciation rules should further boost travel by lowering room rates. Declining occupancy rates suggest that hotels in some cities like Chattanooga and Memphis are overbuilt relative to recent growth in demand.

## Farming and Mining

On the whole, the outlook for agriculture in Tennessee is more optimistic than for the rest of the Southeast because Tennessee's agricultural sector is more diversified than that of most other states in the region. Financial distress is less problematic for Tennessee's farmers, but even so the number of farms has shrunk from 98,000 to 96,000 (about 2 percent) since 1985. Although the value of farmland increased slightly in 1986, it is still well below its peak of 1981.

Last summer's drought in the southeastern United States resulted in lower levels of crop output and reduced yields per acre. At the same time, crop prices are down about 14 percent from the same time last year. Total production of grains like corn soybeans and sorghum is expected to drop by at least 20 percent in Tennessee compared to 8 percent nationwide. On the other hand, livestock prices are up 15 percent. The drought's effect on feed supplies caused milk and egg production to fall off slightly from last year, and tobacco and cotton will probably register prices and output for 1986 lower than in 1985. In 1987, livestock income could rise, but crop income will be down.

The state's major mining activity—coal—is located in the eastern half of Tennessee. Employment in coal mining fell 9 percent from its 1985 average, continuing a trend begun in 1984. Demand from the TVA has helped to keep coal employment in Tennessee from falling even faster. Low water levels caused by the drought have cut into the TVA's hydroelectric generating capacity so that through much of 1986 hydroelectric generation was about half of the normal level. The shortfall was replaced largely by more expensive coal-fired generation. Thus, additional demand brought about increased employment in the second half of 1986.

Aluminum production continues contracting as producers of raw aluminum shift to countries where electricity is cheap and bauxite is readily available; Brazil, for example, has benefited from this relocation. Fabrication of aluminum products in Tennessee should not, however, be affected by the shift.

## Government

The outlook for government and related employment is not particularly optimistic. First, the



TVA and Oak Ridge Laboratories do not provide as many jobs as they did in the past. Second, in comparison to Florida and Georgia, Tennessee has fewer industries based on defense—one area where federal expenditures are likely to continue despite cutbacks in 1987. State and local government employment grew faster between 1985 and 1986 than between 1984 and 1985, thus reversing the trend toward declining government employment earlier in the decade. Much of the loss in employment, then, was at the federal level, and next year won't show much improvement. Despite last year's advance, state government employment is expected to grow only modestly in 1987.

Tennessee relies on sales taxes for a large portion—about 76 percent—of its state and local revenue and draws the rest from specific commodity taxes, licenses, and fees. The state constitution forbids the imposition of an income tax. Because sales taxes will no longer be deductible from federal income taxes in 1987, people may have shifted expenditures on expensive items to the end of 1986, and this could create a one-time windfall in sales tax receipts. Some states have tied their personal income taxes to federal taxes in a way that will generate additional state revenue under the new tax bill. Unfortunately, because Tennessee has no personal income tax, it will not benefit from this change. Falling federal appropriations and cutbacks in revenue sharing will also limit growth in state programs. While federal contributions to the state's general fund are expected to increase by about 6 percent, contributions to transportation and highway projects will probably fall by 15 percent. Federal funds for other capital projects are likely to be cut by almost 50 percent; however, the amounts involved are small compared to other federal transfers. Spending on highways and other transportation projects will nevertheless be expanded in Tennessee if the state goes ahead with plans to issue a substantial volume of bonds that would increase the Department of Transportation's budget by almost 40 percent.

Tennessee relies on federal transfers for about 31 percent of its general revenue. Although several other states receive a large share of their general revenue from the federal government, they, unlike Tennessee, maintain a variety of methods for collecting revenue. Tennessee's dependence on sales taxes and license fees may make the state more susceptible to cutbacks in

federal funding owing to its inability to raise revenue by other means. A large increase in sales tax rates could be politically more difficult to enact than modest increases spread across several different taxes. Debt financing of the sort proposed to fund Tennessee highways may become more widespread in this traditionally fiscally conservative area of the United States.

## The Problem of Structural Unemployment

Tennessee's similarity to the United States suggests that it, too, is vulnerable to the problems of economic transition and the shift in industrial structure now affecting the U.S. economy as a whole. Increasing structural unemployment may become a new concern for state policymakers in 1987 and beyond. Structural unemployment is caused by the loss of jobs in industries that are either in long-run decline or in the process of modernizing or automating production. The chances that workers laid off from these industries will return to their old jobs are slim, and their skills are not in demand by other industries. The jobs that are available for such workers would probably pay substantially less than previous jobs, and many of the unemployed are unwilling to accept such work. The decline of the U.S. steel industry provides a textbook example.

Structural unemployment differs from short-run joblessness caused by business cycles. Cyclically unemployed individuals are more likely to move where their skills are still in demand or to wait until they are recalled from layoff. Alternatives for the structurally unemployed are less clear-cut in the sense that migration or perhaps a little patience will not help solve their problem. There's no place to move that will offer better opportunities in the same line of work. Younger workers may be able to acquire new skills by returning to school, but older workers could have difficulty finding new jobs even if they are retrained.

Decline in employment in chemicals, durables manufacturing, and apparel may present Tennessee's government with the new problem of how to deal with this increasing structural unemployment, an issue that northern industrial states have been facing since the late 60s. The combination of cutbacks in federal transfers and a tax structure heavily weighted towards sales taxes and licenses could make it more difficult than expected to finance state programs to aid or relocate



these unemployed individuals. While Tennessee has been successful in attracting new manufacturing, the long-run feasibility of such a policy for dealing with structural unemployment is not clear. New industry may benefit overall economic development, but unless the structurally unemployed happen to fit the new industry's labor requirements, selectively attracting new industry will be a cumbersome solution at best. This is not to say that structural unemployment is a massive problem hovering on the horizon; rather, it is a new problem that the state will have to cope with continually as its economy becomes more and more like that of the United States. In the past, displaced agricultural workers moved to cities or areas where factory labor was in demand; the alternatives for unemployed factory workers are not yet obvious.

## Summary and Outlook

In the year ahead, Tennessee's economy should expand modestly, but its growth is contingent on several factors. First, consumer demand for durables as well as non-durables needs to remain strong; as noted earlier, Tennessee's manufacturing sector is geared towards producing consumer goods. If consumer confidence falters, perhaps in response to increasing levels of consumer debt, continuing growth in Tennessee would be doubt-

ful. Second, manufacturing will have to hold its own. Recent improvement in the international balance of payments will not necessarily help Tennessee's manufacturing sector. Most of the shift in exchange rates has been with countries like Japan and West Germany. Because trade with these countries includes industrial and investment goods as well as electronic and other types of consumer goods not produced in Tennessee, Tennessee manufacturers may not see much upswing in their exports. The exchange rates for countries like Taiwan and Korea, which compete with Tennessee's textile and apparel industries, have not yet fallen much; unless they do, decreased competition from imports will not be a significant source of growth for Tennessee's manufacturing sector in 1987.

Continuing strong construction of single-family homes will support manufacture of furniture and appliances. The current farm crisis did not affect Tennessee as severely as other states in the South and Midwest, and so further farming growth is expected.

Because no one sector of Tennessee's economy is expected to be a substantial drag on its overall performance in 1987, national and international developments will be the factors that influence the course of expansion. Most forecasts for the United States in 1987 predict moderate growth at rates similar to those of 1986; the same will be true of Tennessee.



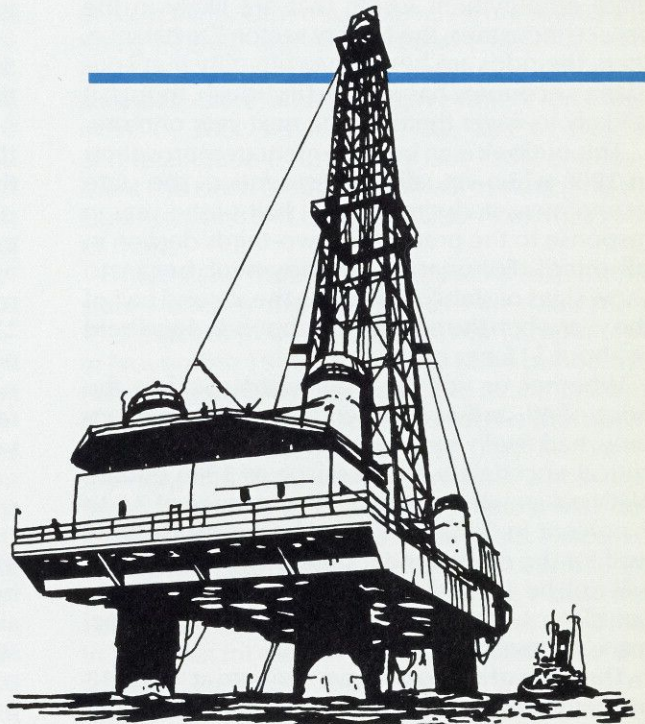
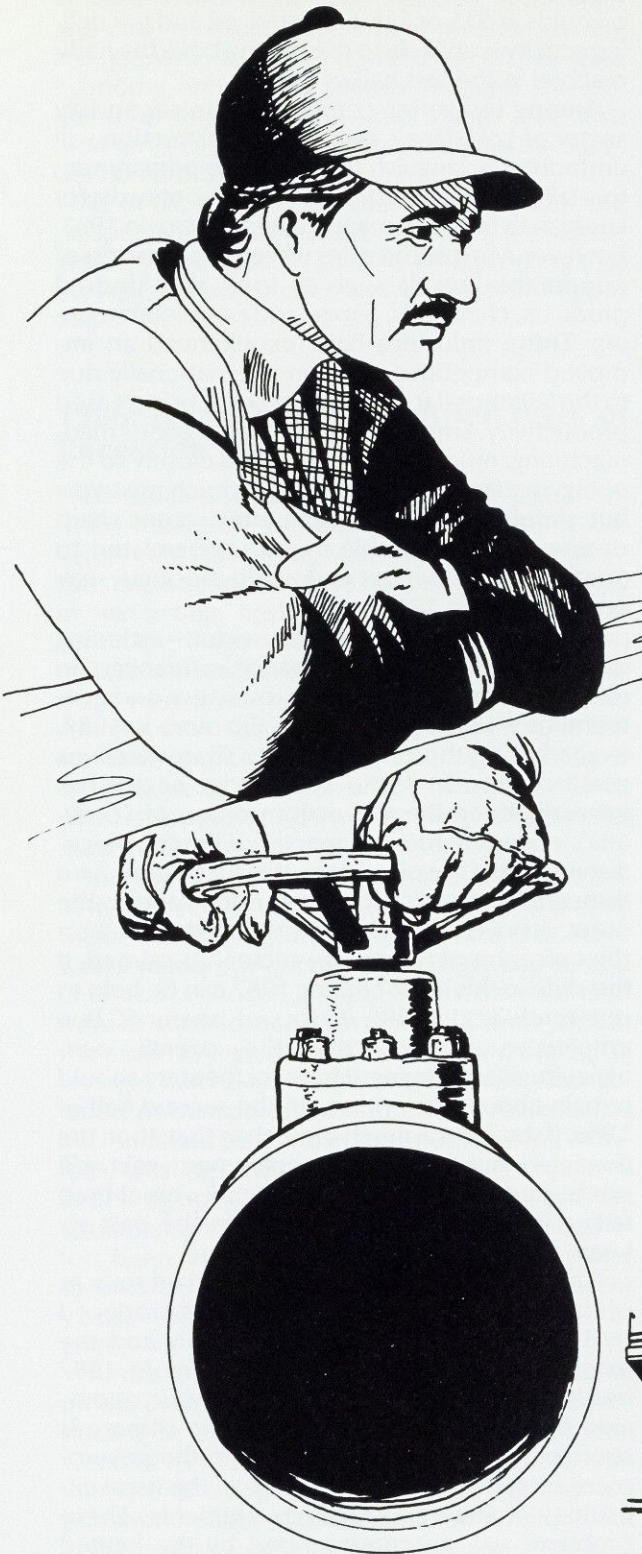
# Louisiana: The Worst May Be Over

William J. Kahley  
and Gustavo A. Uceda

*The good news for Louisiana is that less bad news lies ahead—as long as oil prices stay fairly stable.*

Louisiana's economic outlook remains subdued compared with prospects for the United States as a whole, but a continuation of last year's dramatic skid is unlikely in 1987. Over the last five years, deterioration of Louisiana's economically crucial energy sector has caused an almost continuous widening of the gap between the state's jobless level and that of the United States as a whole,

*The authors are, respectively, an economist and a research assistant in the regional section of the Atlanta Fed's Research Department.*





culminating in unemployment rates double the nation's. In 1987, however, world energy prices are expected to be more stable than in previous years of this decade, and this stability will help to halt the local economy's slide into recession. Nevertheless, chronic fiscal problems have necessitated state and local government spending cuts and tax increases that dim the prospect for overall employment growth; and, if oil prices should fall, the state's economy surely would ratchet downward again.

Lack of diversification links the entire Louisiana economy to the fortunes of the oil and gas extraction and petrochemical industries, and the impact of the drop in oil prices has affected different sectors of the economy at different times. The state's industrial strengths and weaknesses are also shifting within the broad, energy-sector-determined movement of the general state economy in response to market changes in the national economy. In 1987 overall employment as well as the number of jobs is likely to remain flat in primary or raw materials-producing industries such as agriculture, forestry, fishing, mining, and oil and gas extraction. Modest employment growth is in store for Louisiana's secondary sector, which includes manufacturing industries and construction. Manufacturing job gains should offset moderate employment losses that are likely in the service industries, the tertiary sector. On balance, then, the odds are better than fifty-fifty that Louisiana's economy has reached its trough, though it is likely to linger there for the next year or more.

This outlook is an improvement over prospects in 1986 when virtually all segments of the state economy sank during the first half of the year in response to the precipitous two-thirds decline in oil prices. Fortunately, employment began to show signs of stabilizing during the second half of the year when the price of oil rebounded and held at about \$15 per barrel.

Whether or not the downward spiral in the price of oil, and consequently in the state economy, had finally run its course continued to be a critical uncertainty for Louisiana as 1986 ended. National growth anticipated in the range of 2.5 to 3 percent in 1987, though it bodes moderately well for the employment outlook in most states, will not be sufficient to fuel overall advances in Louisiana. Local industries producing for national markets nevertheless will benefit.

The price of oil would have to rise to at least \$18 per barrel and be expected to stay there for some time in order for the Pelican State economy to

expand more than marginally in 1987. As long as oil holds at \$15 or \$16 per barrel, oil and gas drilling activity is unlikely to rise much above the nadir reached in the first half of 1986.

Among industries comprising the secondary sector of Louisiana's economy, construction will undoubtedly languish in 1987 if the primary sector stalls as anticipated. Some bright spots exist for Louisiana's battered manufacturing sector in 1987, however. Most of the gains will go to producers of nondurable goods such as food and kindred products, chemicals, paper, and petroleum refining. These industries have experienced an improved competitive position internationally due to the falling dollar, lower input costs, or increased productivity. Employment in durable goods manufacturing, much of which is linked closely to the energy sector, is not likely to rise much next year but should at least stabilize after recent sharp declines. A few durable industries unrelated to energy, such as lumber and wood products, may see job gains in 1987.

Employment in the service sector—including wholesale and retail trade; finance, insurance, and real estate; health, education, business, and government—is probably going to slip more in 1987, exacerbating the unexpectedly sharp declines that occurred in 1986. The service sector has generally been the last major portion of Louisiana's economy to experience the fiercely negative impact of the oil price bust, which has moved through the economy with a ripple effect: the outer, service sector is still disturbed even after the epicenter of the energy sector has calmed. If the slide in this sector during 1987 can be held to one-tenth or one-fifth its loss of nearly 50,000 employees during 1986, the overall non-agricultural employment base for the state should remain about where it was in the second half of 1986. If the drop is much more than that, then the expected manufacturing employment gain will not be enough to keep overall employment from falling in 1987 for the fifth time in the past six years.

Tourism and port activity, two important sources of demand for the goods and services produced by Louisiana industries, will probably add the most strength to the state's economy in 1987 because they are driven primarily by sources outside the state where the economic climate is stronger. In contrast, demand from the government sector will be slow because of the fiscal difficulties of state and local governments. These problems will be compounded by the limited



increase in federal defense spending in the state and cuts in federal government revenue sharing and grants-in-aid. The downsizing of the state economy, which has already reduced the demand for important consumer goods and business services produced and sold within the state, will be hard to reverse.

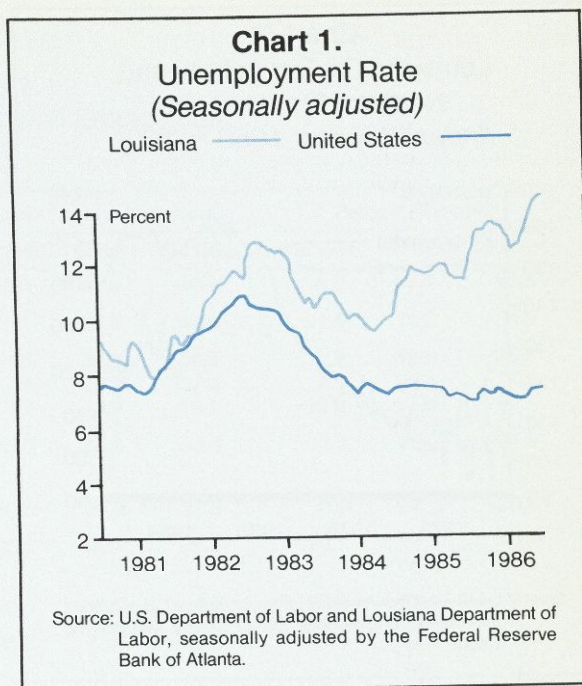
All in all, then, when viewed either from the perspective of final purchases or from the side of industrial production, there is little promise that the Pelican State's economy will climb very high in 1987.

## 1986: Near Depression After Years of Recession

Historically Louisiana's economy has been more vulnerable to international economic developments than most state economies, because the state's economic base has been concentrated in extracting and processing primary commodities. Large volumes of these goods and materials have traditionally gone to foreign nations with fewer energy, food, and forestry resources than the United States. New Orleans' status as a great port and international city is attributable to the flow of the Mississippi River, which serves as a mighty integrating vehicle to the global waterway transportation network.

In most years of this decade international trade activity overall has eroded, seriously affecting major Louisiana industrial producers that serve world markets. Agricultural, energy, paper, and chemical producers, among others, have suffered from economic recession abroad, a strong dollar, increased foreign competition, and technological changes that have reduced employment. Deregulation of transportation and energy markets has also shocked port and energy transmission activities, creating new competitive problems (as well as new opportunities). Adjusting to these cyclical, structural, and institutional changes has nonetheless been relatively easy for Louisiana compared to the pain of falling oil and gas prices in recent years, which caused the economy to disintegrate.

Almost 90,000 jobs, or one out of twenty, came off the payrolls of Louisiana employers in the year ending in November 1986, while 2.3 million workers were added to payrolls nationally—an increase of 2.5 percent. Louisiana's energy exploration collapsed and extraction employment alone dropped by 22,300 in the same year-long

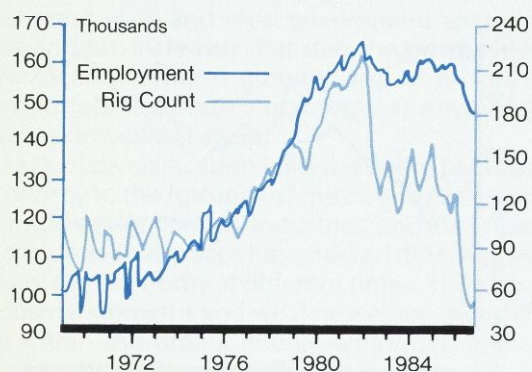


period—accounting for nearly half of the 47,000 jobs lost in mining during the entire past five years of its decline. Other major losers were manufacturing (-7,000) and construction (-15,500), both industries that supply and support exploration activities; state and local government employment (-7,200); services (-6,700); and wholesale and retail trade (-16,100). By late 1986, employment had been dropping in all but a few segments (such as health and educational services) for a year or more.

The drilling shutdown prompted a leap in the state's already high unemployment rate, from 11.3 percent in December 1985 to 13.9 percent in November 1986. During the same period the nation's unemployment rate held near 7 percent (Chart 1). Another consequence of the shutdown was that in 1986, for the first time in recent memory, industrial employment fell across the board in Louisiana. Nationally employment declined in mining and manufacturing but increased throughout the service sector, in construction, and in many individual manufacturing industries. Louisiana's economic performance was so dismal in 1986 that for months it claimed headlines as the state afflicted with the highest unemployment rate in the country. The unfavorable spread between Louisiana's unemployment rate and that of



**Chart 2.**  
Louisiana Oil Rig Activity and  
Nonfarm Employment  
(Indexed series, 1969 = 100)



Source: Louisiana Department of Labor, *Louisiana Labor Market Information*, and Hughes Tool Company, *Monthly Rig Count*.

the nation has been climbing by one percentage point per year since 1981.

### 1981-1986: Employment Change from Peak to Trough

Louisiana's economy peaked in 1981 when the price of a barrel of oil topped out at \$35. Since then a series of downturns in the price of oil and in drilling activity have pulled the entire Louisiana economy downward (Chart 2). Employment in the state now is not much different from what it might have been without the oil boom of the 1970s. In the first five years out of the last ten, Louisiana payrolls grew by 24 percent compared to 13 percent for the nation; in the last five years, jobs declined by 8 percent in Louisiana versus an 11 percent gain nationally. For the entire 1976-1986 period, employment rose only 13 percent in Louisiana compared to 26 percent nationally.

The magnitude of employment decline in Louisiana since 1981 is enormous (Table 1). Over 150,000 jobs have been lost in mining, construction, and manufacturing, most due to a slumping energy sector. Transportation and wholesale trade employment, crimped by the troubled energy

sector and dwindling port activity, are also down substantially.

The boom-and-bust pattern shown by Louisiana's recent industrial change is similar whether measured by absolute or percentage changes in industrial employment or income or by changing industrial shares. Durable goods producers expanded employment by one-fifth in the 1976-81 period. Industries that are closely linked to energy exploration and production such as primary and fabricated metals, electronic and non-electronic machinery, and electrical and transportation equipment fared best, while nondurable goods producers expanded employment by only 5 percent. By contrast, in the most recent five-year period employment dropped 34 percent for durable goods producers compared to half that for nondurable goods producers. Moreover, income generated in the nondurables industries (such as food, paper, printing, and publishing) has actually grown over the past five years.

The changing employment pattern nationally over the past ten years has been one of moderate oscillation compared to Louisiana's volatile performance. Both economies are marked by a long-term shrinkage in manufacturing's employment share and a rise in service's share, but the more subdued national pattern reflects a diversified economic structure as opposed to Louisiana's undiversified, energy-based economy.

### Local Labor Market Developments

The geographic pattern of employment change in Louisiana appears to correspond roughly to the overall pattern of industrial weaknesses. The unemployment rate tended to rise more for the entire state than it did for metropolitan areas during 1986 (Table 2). (Unemployment rates are generally lower for metropolitan areas of the state than for nonmetropolitan areas.)

It is reasonable to suppose that these disparities indicate healthier, more diversified economies in service-based metro areas and shaky economic structures in rural areas that are mired in dependency on natural resources currently selling at low prices. This explanation is in part sound because relatively stable and fast-growing service industries cluster in urban areas due to obvious location advantages. The economies of metro areas are, however, by no means uniformly healthy. Alexandria and Baton Rouge are the only places



**Table 1.**  
**Louisiana Nonfarm Payroll Employment<sup>1</sup>**

	Percentage Share			Absolute Change (thousands)			Percent Changes		
	1976	1981	1986	1976-86	1976-81	1981-86	1976-86	1976-81	1981-86
Mining	4.7	6.3	3.8	-5.0	41.8	-46.8	-8.0	66.7	-44.8
Construction	8.6	8.3	5.9	-25.1	21.9	-47.0	-21.8	19.0	-34.3
Manufacturing	14.9	13.6	11.1	-31.6	24.9	-56.5	-15.9	12.5	-25.2
Durable	6.7	6.6	4.8	-17.4	20.0	-37.4	-19.4	22.4	-34.2
Nondurable	8.2	6.9	6.3	-14.2	4.9	-19.1	-12.9	4.5	-16.7
Transportation and Public Utilities	7.9	8.2	6.7	-3.5	29.5	-33.0	-3.3	28.0	-24.5
Wholesale Trade	6.3	6.3	5.5	-0.7	20.3	-21.0	-0.8	24.3	-20.2
Retail Trade	17.1	16.2	19.5	66.5	39.2	27.3	29.1	17.1	10.2
Finance, Insurance, and Real Estate	4.7	4.7	5.5	20.9	15.2	5.7	33.2	24.1	7.3
Services	16.6	17.9	21.0	95.5	73.2	22.3	42.9	32.9	7.5
Government	19.4	18.8	21.2	61.6	51.5	10.1	23.8	19.9	3.3
Total (Absolute)	(1,339.5)	(1,657.0)	(1,518.1)	(178.6)	(317.5)	(-138.9)	13.3	23.7	-8.4

<sup>1</sup>Data for November

Source: Computed by Federal Reserve Bank of Atlanta from data released by the Louisiana Department of Labor, *Louisiana Labor Market Information*, various issues.

where employment and the labor force have grown, and even their gains have been meager.

In New Orleans, where the jobless rate declined briefly despite a drop in employment, the misleading statistical gain shown by the unemployment figures resulted because some laid-off workers went to other states and other jobless individuals left the work force as they became discouraged and stopped looking for work. A shrinking labor force—composed of both those working and those looking for work—also helped the Lake Charles unemployment rate hold its ground. Shreveport, Houma-Thibodaux, and Lafayette experienced extremely hard times as their labor force and employment bases dropped and their unemployment rates and number of unemployed rose. In Lafayette the unemployment rate was 15.5 percent in November, more than six percentage points higher than a year earlier.

A few salient facts provide stark evidence of the poor conditions in smaller Louisiana labor market areas. By late 1986, 22 out of the 45 nonmetro

parishes registered unemployment rates above 15 percent (compared to 12 areas in 1985); unemployment rates dropped below 1985 levels in only five parishes, and their rates still ranged between 10 percent and 18 percent. Only two parishes had unemployment rates under 10 percent, and only the Ruston area (Lincoln parish) registered an unemployment rate lower than the nation's.

Put together in a geographic composite, these statistics reveal that the economy has gone from bad to worse for virtually all areas of the state. The southern parishes once benefited dramatically from energy sector activity. Now, rural parishes there must depend more heavily on fishing activity or on cultivation of traditional crops such as rice or sugar cane that are aided by government programs. In the metro areas, some slight economic support comes from tourism or other services, or from nondurable manufacturing industries like chemicals. Northeast delta parishes heavily reliant upon farming had another tough



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

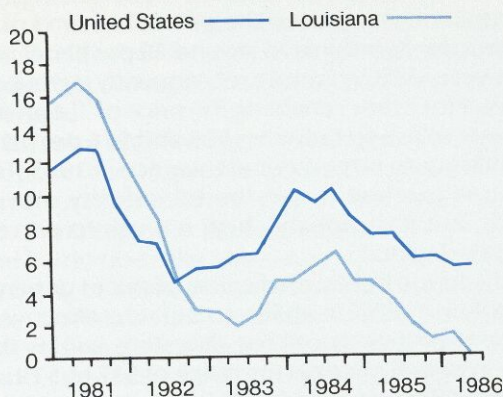
Area and Employment	November 1986	November 1985	Percent Change 1985-1986
<b>United States</b>			
Civilian Labor Force	118,623	116,097	2.2
Employed	110,751	108,282	2.3
Unemployed	7,872	7,815	0.7
Rate (percent)	6.5	6.6	—
<b>Louisiana</b>			
Civilian Labor Force	1,968.6	1,987.5	-1.0
Employed	1,703.9	1,763.1	-3.4
Unemployed	264.7	224.4	18.0
Rate (percent)	13.4	11.3	—
<b>Alexandria</b>			
Civilian Labor Force	59.6	58.6	1.7
Employed	53.1	53.0	0.2
Unemployed	6.5	5.6	16.1
Rate (percent)	10.9	9.6	—
<b>Baton Rouge</b>			
Civilian Labor Force	260.4	259.9	0.2
Employed	232.5	232.8	-0.1
Unemployed	27.9	27.1	3.0
Rate (percent)	10.7	10.4	—
<b>Houma-Thibodaux</b>			
Civilian Labor Force	75.6	79.1	-4.4
Employed	61.0	70.2	-13.1
Unemployed	14.6	8.9	64.0
Rate (percent)	19.3	11.2	—
<b>Lafayette</b>			
Civilian Labor Force	105.8	110.5	-4.3
Employed	89.4	100.4	-11.0
Unemployed	16.4	10.1	62.4
Rate (percent)	15.5	9.2	—
<b>Lake Charles</b>			
Civilian Labor Force	72.1	74.0	-2.6
Employed	61.5	63.9	-3.8
Unemployed	10.6	10.1	5.0
Rate (percent)	14.7	13.7	—
<b>Monroe</b>			
Civilian Labor Force	68.9	68.6	0.4
Employed	61.5	62.0	0.8
Unemployed	7.4	6.6	12.1
Rate (percent)	10.8	9.6	—
<b>New Orleans</b>			
Civilian Labor Force	592.9	605.5	-2.1
Employed	526.8	542.1	-2.8
Unemployed	66.1	63.4	4.3
Rate (percent)	11.1	10.5	—
<b>Shreveport</b>			
Civilian Labor Force	164.7	167.9	-1.9
Employed	143.5	150.3	-4.5
Unemployed	21.2	17.6	20.5
Rate (percent)	12.9	10.5	—

\*Data not seasonally adjusted.

Source: U.S. Department of Labor, Bureau of Labor Statistics, *The Employment Situation*, and Louisiana Department of Labor, *Louisiana Labor Market Information*, December 29, 1986.



**Chart 3.**  
**Personal Income Growth**  
**(Annual percent change)**



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

year as did agricultural communities across the nation, and the situation for lumber production in the north central and western areas deteriorated as Canadian softwood heightened competition for southern pine growers.

## Population, Income, and Consumer Spending

The loss of 139,000 payroll jobs in Louisiana over the past five years, a decrease of 8.3 percent, reflects the woeful condition of the local economy. It is little wonder that employment declines of this degree have adversely affected consumer spending, business investment, and state and local government fiscal positions.

A smaller rate of increase in personal income compared to that of the nation was the initial indication that Louisiana's economy was misfiring five years ago. Since mid-1982 Louisiana's personal income growth has been consistently below the nation's, and, over the most recent 12 months for which data are available, even its nominal increase has been barely positive (Chart 3). Taking into consideration the inflation rates of 2 percent or more during 1986, total real personal income in the state has fallen significantly.

More unfortunate yet, real income per capita may also be lower now because natural population increase (births minus deaths) has outpaced the loss of population attributable to migration,

thus lowering the amount of real income available for each person. Even if per capita income has not fallen as a consequence of population growth, laid-off workers who previously received unemployment compensation have migrated from the state. Although they were not earning paychecks in Louisiana, these jobless workers did receive unemployment compensation from a "kitty" provided by Louisiana employers, which was then spent locally on food, housing, transportation, and other goods and services. When they departed, these consumers took spending dollars with them, leaving the shelves of Louisiana retailers stocked with items that would now turn over at a slower rate, further depressing retailers' cash flow and incomes.

Calculating precisely the amount of out-migration from Louisiana is difficult. The most recent estimates available (1985) suggest that net migration (the number entering minus the number leaving Louisiana) was between -21,000 (based on Internal Revenue Service income tax filing data) and -27,000 (based on a U.S. Bureau of the Census survey). Given the extent of the economic slump in the state, it would not be surprising if net migration from the state in 1986 ends up being twice the figure for 1985, representing about 1 percent of the state's population. That amount would be sufficient to offset natural population increase.

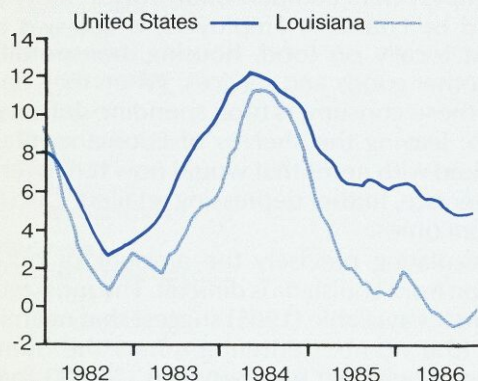
The upshot of these population and income movements for Louisiana retailers has been distressing. Total retail sales in Louisiana were off 1.3 percent in the first ten months of 1986 compared to figures a year earlier. Nondurable goods sales of items such as food and clothing have been flat while durable goods sales have slumped sharply. New vehicle registrations were down 13 percent from the January to October 1985 period. Car sales were, however, stimulated at the end of the model year by auto manufacturers' rebates and cheap financing programs. Even so, sales were lower than in September 1985.

Looking ahead, it is hard to imagine that sales activity could be robust, even though retailers are selling from a weakened sales base. Louisiana's sales performance has been below the nation's since 1982 and is likely to lag again in 1987 (Chart 4). Some retailers selling into selected markets, such as the New Orleans tourist and convention trade, will gain sales at a moderately healthy pace, but the overall climate for retailers is poor.

Basically, the consumer spending outlook is gloomy. The degree of spending strength is determined largely by the number of buyers and the



**Chart 4.**  
Retail Trade  
(Annual percent change)



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

amount of money they have to spend. In Louisiana, employment and income growth are both sputtering along, and too few industries in the state's primary, secondary, or tertiary sectors will be strong enough to serve as engines for growth in 1987.

## Primary Sector Activities

**Oil and Gas.** Louisiana's drilling rig count rose to 487 in December 1981. Since that time the number of working rigs dropped fitfully until 1986, when the count collapsed to between 105 and 110 around mid-year. Drilling has since rebounded somewhat from depths not reached in decades, but increases in activity during the second half of 1986 can by no means serve to stimulate the general oil patch economy. The major benefit of renewed drilling will be to keep employment from falling more severely than it would otherwise.

The pace of drilling towards the year's end in 1986, as measured by the rig count, was only half the level of the previous year. But even the level at the year's end in 1985, around 250, was only about half as much as the peak in 1981. Thus, instead of recovering in 1986 from a rather lackluster performance in 1985, the Louisiana oil and gas

industry was virtually swamped in the worst scenario imaginable. An early 1986 pricing and production war caused the price of a barrel of oil to drop by two-thirds to around \$9 per barrel near mid-year. OPEC countries subsequently regrouped, at least for a time, enabling the price of "Louisiana sweet" to rise to between \$15 and \$16 per barrel in 1986, or to 60 percent of the price in 1985. This price is too low to get the oil industry moving again, but it is probably high enough to prevent further decline.

The future behavior of crude oil prices depends heavily on OPEC's ability to collude effectively. Current proposals call for allocating quotas that would put oil prices in the range of \$17 to \$19 per barrel. If the price of oil settles in the upper part of that range in 1987, then this could be the year the oil industry stabilizes and starts to recover from its highly depressed condition. Whether or not that will happen is open to question, but 1987 is likely to be a better year than 1986.

**Agriculture.** Agriculture is Louisiana's second most important natural resource industry after energy. The good news for 1986 was that the severe drought which affected the Southeast largely bypassed Louisiana. As a consequence, yields for major crops equaled or exceeded those of 1985.

The bad news is that farming is diminishing in Louisiana as it is elsewhere in the country largely due to sluggish markets and yet another wave of productivity-enhancing technological improvements in farming. Greater international competition continues to erode the return on investment in U.S. agriculture, and farmers have responded by cutting acreage or going out of business. Louisiana farmers idled another half-million acres in 1986, lowering crop acreage to a level nearly one-quarter less than in the peak year of 1981, before commodity prices began their five-year decline.

For farm suppliers, acreage reductions mean less demand for fertilizer, pesticides, and other farming materials as well as farm labor. Downsizing the agricultural sector also lowers farm land values. The U.S. Department of Agriculture estimates that farm land asset values dropped 20 percent in 1986, costing the state's farmers \$2.5 billion in losses.

There are some indications that land values and the amount of planted acreage have reached a plateau. Stabilization of agriculture probably will not have much of a positive impact on the general economy, however. Federal government farm programs will help supplement farm income,



especially for sugar cane producers, and the outlook is improved for producers of soybeans and cotton, two of the state's leading crops. Nevertheless, it will be some time, if ever, before agriculture again becomes a source of state economic strength.

**Forestry and Fishing.** Most of the demand for products from Louisiana's forests originates from three sources: southern pine is used in construction, primarily for framing residential buildings, and hardwoods like oak are used by the oil industry for rig building and related activities or by furniture manufacturers. In 1986 demand for hardwoods from the oil industry was nil. On the other hand, demand from furniture manufacturers tended to be relatively strong. As a result of these offsetting forces, prices showed little movement but offered profits for some sellers; producers who usually sell to the oil industry were struggling, while suppliers to furniture makers fared well.

During the first half of 1986 unfavorable weather kept southern pine production down while housing-related demand for the wood remained satisfactory. However, after mid-year the cumulative economic impacts of the depressed oil industry, continuing competition from Canadian producers, and a seasonal production increase led to a substantial fall in prices during the third quarter.

Prospects for 1987 remain mixed. If recovery in the oil industry is limited, as expected, demand for hardwoods from that source would increase only slightly. The demand for hardwoods by furniture manufacturers is not likely to increase much either, because abatement of the nation's home building boom is reducing the need for their product. Depression in the Louisiana and Texas housing industries, which are important buyers of Louisiana lumber, will probably limit growth for southern pine producers, too, although a new 15 percent Canadian tax on exports of softwood will help boost demand in other U.S. housing markets.

Louisiana's shrimp industry, which accounts for over half of Louisiana fishermen's revenues, fared well in 1986 for the second year in a row. Not only were costs substantially lower as a result of cheaper fuel, but catches set a new record. During the first nine months of the year nearly one-fifth more shrimp were harvested than in the same record-breaking period in 1985. Prices also tended to be relatively stable despite the supply increase. Because so much of the nation's shrimp is imported at high transportation cost, local produc-

tion enjoys a strong natural comparative advantage.

The outlook for forestry and fishing in 1987 depends on the same factors that will affect agriculture: commodity price, amount of production, and fuel costs. As in agriculture, weather plays a large role in determining production and cannot be forecast with great accuracy; other factors determining profits are positive but not strongly so.

## Secondary Sector Activities

Construction and manufacturing activities have lost more jobs over the past five years (47,000 and 57,000, respectively) than mining has, although their percentage declines have not been quite as large. Weakness in the secondary sector is linked largely to the failing energy sector, but until recently other international economic crosscurrents such as the strong dollar and the slow pace of world economic growth have been working against the secondary sector as well. These forces are now turning in favor of manufacturing and offer hope for expansion of important Louisiana industries during the year ahead. Because it is produced and consumed locally, construction unfortunately will not benefit from improved conditions for U.S. suppliers to world markets.

**Construction.** Construction accounts for a larger share of employment in Louisiana employment than it does in the nation (6 percent versus 5.1 percent), even though construction has fallen for the last three years in the state while booming nationwide. In 1981, when Louisiana construction was prospering along with the rest of the state economy, its employment share was 8.3 percent compared to 4.9 percent for the nation. In 1987, construction's share of Louisiana's non-agricultural payrolls could drop yet again for the fourth consecutive year, but the odds are better that its share will be roughly the same as in 1986.

The new U.S. tax law will sap certain construction markets, such as office, industrial, and multi-family housing structures, that are already in cyclical decline. Construction in Louisiana must cope not only with less generous subsidies and tax shelter provisions but also with above-average office building vacancy rates and the out-migration of people and businesses. The above-average vacancy rates signal a glut of buildings that must be occupied, and out-migration makes



office, industrial, and residential space harder to absorb.

Though evidence is not conclusive, some information supports the view that Louisiana's building may have reached the bottom of its precipitous drop. Permit and construction contract data show that the pace of construction is at its slowest in fifteen years; construction employment is also no higher now than it was back in 1973 before the energy-prompted construction boom. In addition, residential construction, at least, has rebounded in the areas hardest hit by the energy slump. Houma and Lake Charles both show higher residential contract values (as reported by F. W. Dodge) through November 1986 than through the same period in 1985.

Although construction's downside may be ending or due to end soon, it is hard to imagine much rebound, if any, in 1987. Important segments of the energy exploration, drilling, and production processes that directly or indirectly influence construction are not likely to strengthen significantly in the year ahead. The standstill in the energy sector directly limits construction of pipelines and industrial and commercial buildings used by related suppliers of goods, materials, and services. Indirectly, construction is further hindered by the absence of a positive spillover from the energy sector to the general economy. Moreover, tax reform has stripped away many of the advantages for building, and less infrastructure is needed in Louisiana's downsized economy. These factors suggest that, while construction may stabilize in 1987, this sector will not have the power to pull the state's economy forward.

**Manufacturing.** The 57,000 jobs lost in Louisiana's manufacturing industries over the past five years accounted for 7 percent of the shrinkage in manufacturing employment nationally over that period. Many of these job losses, like those in construction, were due to weakness in the energy sector. Some jobs were also shed as manufacturers lost share in foreign and domestic markets to rivals from other countries. In the important chemical and allied products industries, for example, world market share declined for several reasons—a strengthening dollar, recession, and slow growth of markets, and increased production from new competitors. Other jobs were lost as producers adopted new labor-saving technologies and processes.

As chemical producers lost sales, say, to German manufacturers because of exchange rate changes or to Saudi Arabian producers who were

opening up new plants, Louisiana producers responded by shutting down less efficient and more labor-intensive plants along the Mississippi River between Baton Rouge and New Orleans as well as in the Lake Charles area. Demand for agricultural chemicals also slackened as a result of the debt-servicing problems and economic recessions in South America and in developing nations elsewhere. Similar problems hampered Louisiana manufacturers of food and kindred products, lumber and wood products, paper, petroleum, primary metals, and other goods for sale in export or domestic markets.

Two-thirds of the drop in manufacturing employment since 1981 came in the durable goods industries. By contrast, durable goods jobs increased sharply in the five years before 1981 and reached about the same number as the 114,000 workers in nondurable goods industries. Fortunately, the drop in jobs in both types of manufacturing appears to be nearing an end, and the outlook for several nondurable goods industries actually is fairly bright. September marked the first month in 1986 that employment increased for durable and nondurable goods producers. Even so, on a year-over-year basis, employment in major manufacturing sectors remained below levels a year earlier, and only a few specific industries gained workers during 1986 (Table 3).

Looking ahead to 1987, industries that produce food, paper, chemicals, petroleum, and other nondurable goods (chiefly leather, rubber, and textile products) should finally begin to benefit from the decline in the foreign exchange value of the dollar. Some durable goods industries, such as lumber, metals, machinery, and electronic equipment, will also benefit, though lingering malaise in the energy sector probably will limit employment gains in these industries to very modest increases.

## Louisiana's Service Sector

The service sector in Louisiana is large and diverse, accounting for four out of five jobs among the 1.5 million workers on all payrolls in the state. Nationally, three out of four workers, or 75 million, are employed in service sector jobs. These service jobs run the gamut from government positions to work in all the various establishments that provide consumer goods or personal services. They also include all of the jobs in finance, transportation, and public utility industries



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

	November 1986	November 1985	Absolute Change 1985-1986
Manufacturing	167.7	174.7	-7.0
Durable Goods	72.1	76.9	-4.8
Lumber and Wood	13.0	12.9	0.1
Furniture and Fixtures	0.5	0.6	-0.1
Stone, Clay, and Glass	6.3	6.7	-0.4
Primary Metals	3.0	3.4	-0.4
Fabricated Metals	11.9	13.4	-1.5
Machinery, except Electrical	8.1	9.6	-1.5
Electrical and Electronic Equipment	7.2	7.8	-0.6
Transportation Equipment	19.8	19.9	-0.1
Other Durable Goods	2.3	2.6	-0.3
Nondurable Goods	95.6	97.8	-2.2
Food	23.4	23.5	-0.1
Apparel	8.4	9.1	-0.7
Paper	11.3	11.3	0.0
Printing and Publishing	10.2	10.3	-0.1
Chemicals	25.9	27.6	-1.7
Petroleum and Coal	12.0	12.2	-0.2
Other Nondurable Goods	4.4	3.8	-0.6

Source: Louisiana Department of Labor, *Louisiana Labor Market Information*, December 29, 1986.

that accommodate businesses and consumers, as well as legal, health, education, accounting, and other professional services.

Louisiana's concentration of service employment, which is higher than the nation's, is due in part to the dominance of the state's energy sector and in part to the prominence of New Orleans as a port and tourist center. The predicament facing Louisiana's service sector and the well-being of its workers may be summed up simply: the health of this crucial sector depends on the vitality of the energy sector and on international economic conditions affecting port trade. With most of its eggs in too few baskets, Louisiana's service industry, like its nonservice employment, depends on a narrow range of economic activities. Because neither its manufacturing nor its service sectors are diversified, Louisiana experiences volatile booms and busts associated with raw material or commodity price cycles. By contrast, Florida and

Georgia supply more varied manufactured goods and services to buyers from other states or nations and thus experience faster and less volatile growth.

Aside from wholesale and retail establishments, the largest service industries in Louisiana are related to port or tourism activities, finance, insurance, and real estate activities, or government. Port and tourism services are driven largely by demands from outside the local economy, while government and financial services meet mostly demands for local services. Because of the sources of demand, prospects in 1987 for tourism and port activities are understandably brighter than prospects for government and finance, insurance, and real estate activities.

**Tourism.** Tourism is a significant industry in Louisiana, third after oil and agriculture. In 1986, tourism indicators, such as visitor center and park registrations, hotel occupancy, and airline



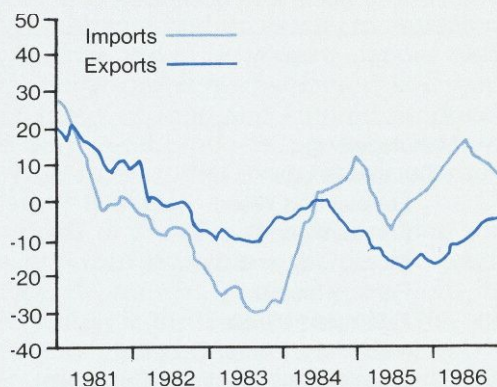
travel increased compared to 1985 levels. Depressed travel within the oil patch states (from Texas to Louisiana, for example) due to layoffs and reduced local spending limited overall tourism increases in Louisiana, despite healthy vacation travel gains from other states.

Long a mainstay of New Orleans' economy and second only to port activity in jobs generated, tourism is now targeted to provide even stronger support. As a legacy of the ill-fated Louisiana World's Fair, New Orleans now has an expanded convention infrastructure with more hotel rooms, convention space, and retail establishments. A new convention center, site of the state pavilion for the fair, reportedly is booked at half its capacity into the next century. Proposals have been made to add a riverfront aquarium, a theme park and science center, casino gambling in the French Quarter, and to double current convention center facilities to encourage more tourism and generate more jobs. Tourism can probably become a more important source of growth, creating new jobs and businesses that will, in turn, spawn others. Traveler surveys consistently show that New Orleans remains a favorite spot for visitors, and proposals have been made to develop the tourist potential of outlying, "Cajun Country" areas.

The 1987 outlook for tourism in New Orleans and the state is mostly positive. An increase in activity will depend in part on recovery of employment in Texas, the number one supplier of visitors to the state. (California, New York, and Florida are the three states next in importance.) One negative factor is that state government's money crunch has forced a reduction in the tourism budget and closing of some highway rest stops and state attractions. However, Louisiana has also instituted new advertising campaigns that may be effective in attracting visitors, especially in light of the fact that domestic travel will be less costly in 1987 than vacations abroad and does not present the same potential dangers. Finally, business, government, and convention travel should strengthen in response to the pricing promotions that accompanied tourism ad campaigns. New Orleans operators, in particular, are pricing their many new hotel rooms aggressively. As a result, overall occupancy is likely to rise somewhat in 1987.

**Port Activity.** The New Orleans Customs District was the nation's largest in terms of cargo volume at the beginning of the 1980s. It has been rebounding for two years now following sharp declines in activity during the recession years

**Chart 5.**  
New Orleans Customs  
District Shipments  
(Annual percent change)



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

earlier this decade (Chart 5). Even so, sluggish export growth for agricultural and energy commodities, along with still-shrinking manufactured exports, continues to cause port-related employment to drop. The drop in the dollar's exchange value against other currencies will help boost export shipment levels in 1987, but increasing competition from other U.S. ports will hold down both shipments and employment gains.

The recent trade performance figures for the Port of New Orleans, the state's largest port by far, are revealing. Over the past five years, the port's total tonnage has fluctuated sharply between 15 and 19 million tons and the cargo mix has changed dramatically. The volume of export shipments has dropped by 2.1 million tons to 11 million, while import volume has increased from 4.3 million tons to 5.9 million. The loss of bulk shipments of grain and other commodities has not been a major setback for the state's economy though. Much of the flow of commodities represents production from outside the state, and the movement of these goods down the Mississippi River generates relatively few jobs in transportation and port-related service industries.

A modest decline in general cargo shipments and relatively slow growth of container shipments have hurt the Port of New Orleans. Manufactured



goods that comprise general cargo shipments usually boost port revenues because of their relatively high value compared to bulk commodities. General cargo and container shipments also create more employment. Since 1980, about 9,000 of the 22,000 water transportation jobs in New Orleans have been lost as a result of reduced trade activity and lost oil industry servicing jobs.

In search of an economic cure, the Port of New Orleans has developed a \$38 million strategic plan to revitalize port facilities and improve the basic economic character and value of the port. The plan calls for management and marketing changes that will help the port compete more effectively and generate an improved product mix which emphasizes general cargo shipments. The decision by the U.S. government to pay for much of the cost of deepening the Mississippi River channel to 55 feet from Baton Rouge to the Gulf will also certainly improve long-run prospects for trade activity in Louisiana.

In 1987 trade shipments with Latin America, Asia, and Europe should continue to improve and perhaps accelerate. The falling dollar and faster economic growth should boost commodity trade, as will elements of a new U.S. farm program that uses subsidies to encourage exports. However, increased exports of agricultural commodities, energy products, and derivatives such as chemicals will not create many port jobs.

**Finance.** Troubled economic times frequently result in acceleration of industry adjustments that would have to be made over the long haul in any event. Often this process of adjustment brings new opportunities that enable an industry to bounce back stronger than ever. Just as Port Authority and state officials hope that their strategic planning will revitalize port prospects, bankers hope that changes in the state banking law will revitalize the troubled financial industry in Louisiana. Lenders, under stress because many of their energy, agricultural, and real estate borrowers are illiquid and threatened by insolvency, may get much-needed flexibility from new laws that make mergers across parish and state lines possible.

Louisiana's finance, insurance, and real estate employment grew at a faster pace than the nation's in the 1970-83 period. Over the past three years, however, employment growth in this sector has been accelerating nationally but decelerating in Louisiana. Indeed, in several months this year employment in finance, insurance, and real estate

dropped in Louisiana compared to last year's levels.

Thus far, financial industry troubles in Louisiana have been manageable, and the state legislature has passed an interstate banking bill that will allow banks from fourteen southern states to acquire or merge with Louisiana banks. This legislation, like the 1984 law enabling bank holding companies to cross parish boundaries to merge and seek deposits from around the state, gives banks more options to diversify both assets and liabilities on their balance sheets.

Debt servicing problems of borrowers from banks and thrift institutions have contributed to bank failures and shrinking net worth of financial institutions around the state. Eight bank failures were recorded by the year's end in 1986 compared to only one in the 1983-1985 period, and regulatory net worth at Louisiana's thrifts has been declining for three years. Banks, because they concentrate on commercial loans, are faced with problem loans in all types of businesses, but agricultural, energy, and commercial real estate loans head the queue. Savings and loan associations' problems stem chiefly from residential lending or commercial lending secured by real estate. Many of these loans have turned sour in the state's shrinking economy.

Lenders will continue to be burdened with the need to restructure problem loans in 1987. Some of the weaker financial institutions in the state are likely to be acquired by more financially secure ones in Louisiana or other states as loan burdens become overwhelming. For the short run this will mean stagnating employment in the industry while consolidations occur. However, the opening up of banking markets on a statewide and regional basis improves the prospect that the necessary partnerships and workout agreements will be made in a timely and efficient manner.

**Government.** The poor fiscal condition of Louisiana's state and local governments is a topic that has received widespread attention from national and local news media. The growing danger exists that local government's fiscal feebleness in New Orleans, Baton Rouge, Shreveport, and other metro areas, as well as in the entire state government, will cause employment in the state to drop substantially more. The situation is compounded by limited increases in federal defense spending in Louisiana and curtailment of federal government revenue sharing and grants-in-aid. Additional cuts in government spending and employment, combined with tax hikes, threaten to



drag the economy down into a vicious circle, exacerbating the state's economic recession.

On numerous occasions over the past five years state and local government budgets have had to be revised downward in response to new and lower estimates for revenues that resulted from a narrowing tax base and falling energy prices. Since 1981, the severance tax on oil and gas has fallen from one-third of total state revenues to about 11 percent in the current fiscal year projection. Even at the year's end in 1986, the state government was grappling with the effects of a budget that had been knocked out of kilter by even lower revenues than anticipated just a few months before.

Anticipated severance tax receipts on oil were calculated at the beginning of the current fiscal year (FY1987 that began July 1) on the assumption that the price of Louisiana oil would be \$15.50. By September, a projected \$255 million deficit prompted Governor Edwards to slash most state agency spending by 10 percent (5 percent for education). The budget cuts, which were expected to cause the layoff of more than 2,000 state workers, still left the state with a \$30 million general fund deficit. To make matters worse, new deficit figures produced by the Legislative Fiscal Office in December put the shortfall much higher; in response, a special session of the legislature was called to consider where further savings could be made in the budget. Shifting some tax revenues from planned construction to use in covering operating expenses was one solution along with still more sharp spending cuts. A statewide lottery proposed as a way of raising as much as \$150 million per year was not adopted.

The huge deficit projected by the fiscal office resulted only in part from overestimating the average oil price for the fiscal year. Louisiana loses up to \$50 million in annual revenue for every \$1 drop in the price, and by the end of October Louisiana oil was selling for a little over \$14 a barrel before climbing to \$16 near the year's end. The gap in the forecast price of oil, then, does not

account for the major portion of the higher deficit projection. Instead, the deficit is largely due to the negative "multiplier" impact on the entire state economy that results from a debilitated energy sector. The ailing energy industry causes the state economy as a whole to shrink, lowering corporate and individual income tax receipts along with sales tax collections.

Besides these state government fiscal difficulties, local governments have also been forced to curtail locally funded services. Cutbacks have been mandated across the state by cities and municipalities. The most highly publicized measures have been undertaken in New Orleans. There, virtually all city services closed on Fridays for the last quarter of 1986, and the city's 5,600 workers earned 20 percent less salary for the short work week. This latest action followed earlier layoffs of more than 1,400 city employees to help combat a \$30 million deficit at the beginning of 1986.

In light of the severe fiscal problems in the state and local government sector, overall government employment is bound to weigh down rather than stimulate Louisiana's economy in 1987. Worse yet, there is the possibility that government fiscal problems will destabilize the economy further. Uncertainty concerning this possibility coupled with uncertainty over the future price of a barrel of oil give ample cause for worry about Louisiana's employment prospects in 1987.

## Conclusion

If the national and international economies grow at 1986 rates and if the price of oil stabilizes, then Louisiana's economy has a good chance to begin a slow recovery from recession by the second half of the year. Another drop in the price of oil, however, or a slowdown in the United States or abroad, would probably mean further employment declines in a state economy already threatened by a deteriorating government sector.





## Alabama: A Stronger Year Ahead?

Gene D. Sullivan

*The improvement expected in the U.S. trade balance should give Alabama's manufacturing sector a lift, fueling faster growth for 1987.*

Alabama's prospects for a stronger economy in 1987 hinge on the performance of its manufacturing sector. If the dollar's decline on foreign exchange markets raises import prices and slows the influx of foreign goods, then manufacturing is likely to improve. Growth in manufacturing employment would increase personal income, which would in turn stimulate trade, services, and housing industries in the state. Advances in these important areas would push the 1987 economy beyond its pace last year toward the more rapid growth rate that marked the 1983-84 period. Signs of improvement at the end of 1986 support this

*The author is the Research Officer in charge of the regional section of the Atlanta Fed's Research Department.*



forecast of a stronger year ahead for Alabama's economy.

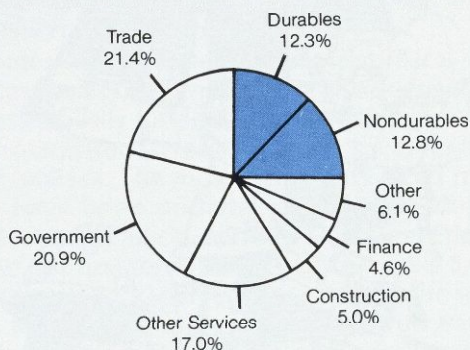
Despite malaise in manufacturing during the past year, Alabama's economy in 1986 was a bit stronger than in 1985. Total employment, including self-employed as well as those on the payrolls of business establishments, rose at an annual rate of more than 3.4 percent, ahead of the 3.2 percent increase in 1985. About 55,000 more people found jobs last year as opposed to 50,000 new employees in 1985.

Nevertheless, an influx of migrants from troubled "oil patch" areas caused the labor force to rise even more rapidly than employment; in 1986 it recorded its highest annual increase since the late 1970s. The 76,000 additional people looking for jobs drove the state's unemployment rate back up to the double-digit range by mid-year so that the rate in 1986 was well above the average level for 1985. On the positive side, the arrival of new people helped wholesale and retail trade employment during 1986 and promises to stimulate demand for housing and consumer goods during 1987 if the economy grows as expected and provides new jobs. The recent increase in the work force contrasts sharply with trends between 1980 and 1985, when Alabama's work force expanded at an annual rate of less than 1.5 percent, far below the average performance for the region.

Despite new residents in the state and rising total employment, personal income growth in Alabama during 1986 did not keep pace with 1985. Slack gains in 1986 are attributable largely to two factors: lapses in dividends and interest (reflecting the drop in interest rates on savings instruments) and government's slowing rate of wage and salary increases, which largely offset the rise in employment. The pickup in total employment projected for 1987, particularly in manufacturing, should raise personal income from its sluggish 1986 performance, but the increase is unlikely to match 1984's nominal rate of 8.8 percent.

Diversification of Alabama's economy in recent years has helped buffer the impact of downturns in the goods-producing sectors. Although manufacturing is the state's largest single economic sector, with one-fourth of total employment, the sector comprising trade, government, and other services accounts for another 60 percent of total employment. Along with manufacturing these industries constitute about 85 percent of Alabama's total economic activity (Chart 1). Finance,

**Chart 1.**  
Distribution of  
Nonfarm Employment in Alabama  
(Percent of total nonfarm jobs,  
1985 annual average)



Source: Computed by Federal Reserve Bank of Atlanta from data released in the U.S. Department of Labor, Bureau of Labor Statistics, BLS 790 Monthly Report on Employment, Hours, and Earnings.

insurance, real estate, construction, and other activities such as mining and agriculture provide a relatively minor share of the state's jobs.

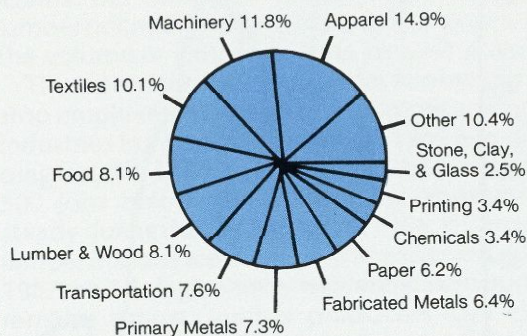
## Manufacturing

A closer look at manufacturing reveals diversity (Chart 2). The apparel industry stands out, providing about 15 percent of manufacturing employment—jobs for about 53,000 workers in 1985. It has also been Alabama's most troubled producer during the difficult period of rising import competition since job levels reached their peak in 1984. Inroads from abroad have especially threatened manufacturing of men's and boys' suits and coats, the state's largest apparel category. Apparel employment in 1986 averaged about 5,000 workers below 1984's peak level, with most of the drop occurring after mid-1985. Following a severe dip in March 1986, the number of workers edged upward and held through the fall months of 1986.

As imports become more costly, Alabama's manufacturers are likely to expand their market share and could add to employment growth during 1987. Falling corporate tax rates are also expected to help labor-intensive producers in the year ahead. These improvements should bolster



**Chart 2.**  
**Alabama's Leading**  
**Manufacturing Industries**  
*(Percent of total manufacturing jobs,*  
*1985 annual average)*



Source: Computed by Federal Reserve Bank of Atlanta from data released in the U.S. Department of Labor, Bureau of Labor Statistics, *BLS 790 Monthly Report on Employment, Hours, and Earnings*.

manufacturing's largest industry and thus contribute strength to the industrial sector as a whole, especially to the dominant nondurable goods production component, which was hardest hit by import competition. These industries, including paper and chemicals, accounted for over 1,500 of the nearly 2,500 jobs lost in manufacturing during 1986.

Paper manufacturing fell sharply from 1985 to 1986. Initially troubled by weak demand, paper producers then suffered from labor strikes that idled 2,000 workers at important mills during July and August, and production slid even further.

Demand for paper in 1987 should be buoyed by health in the U.S. economy and a weaker dollar abroad, which could stimulate some recovery in international markets for U.S. paper products. If Alabama manufacturers can avoid further labor disputes and plant shutdowns, paper employment should at least regain its 1985 level if not resume the annual growth trend of 1.5 to 2 percent that characterized the industry from 1981 through 1985. Over the long run, paper manufacturing is likely to continue to be one of Alabama's growth industries because of the state's advantages in timber production.

Conditions are not as favorable in the chemical industry. Fortunately, chemical workers constitute only about 3 percent of Alabama's total

manufacturing employment. Though employment seemed to have steadied in 1984-85 following several years of precipitous decline, it fell still further during 1986. Despite recent indications that a turnaround is beginning elsewhere in the Southeast, Alabama's employment in chemicals production averaged nearly 3 percent or 300 employees below its level in 1985. Prospects for better export markets in 1987 should at least stabilize jobs in chemicals production, thus easing one of the drags on nondurables employment during 1986.

Weaknesses in nondurable manufacturing would have been more marked without a relatively good performance in textiles and food manufacturing. The textile industry, which added 1,000 jobs over 1985's level, was especially positive: weaving, knitting, yarn, and thread mills registered the most notable gains. Employment in textiles advanced steadily throughout 1986 and should continue to rise during 1987. Strong demand for carpet has prompted expansion of production facilities in Phenix City. The market for textile products used in automobiles, residential buildings, and furnishings is likely to remain strong if the nation's economy maintains its pace as anticipated in 1987. The elimination of the investment tax credit, though, may hamper further expansions in the capital-intensive textile manufacturing area.

Although food manufacturing grew less rapidly in 1986 than in 1985, it still added over 800 jobs to 1985's record high employment. The prominence of the broiler chicken industry in Alabama along with increasing demand for poultry has been a major force in bringing 3,000 new workers to food manufacturing since 1982. The rising popularity of chicken and fish (another locally produced product) and growing numbers of residents in the region ensure that 1987 will be a good year for food manufacturing.

The durable goods-producing industries, which account for a little less than half of the state's manufacturing work force, were stronger than nondurables industries in 1986, though durables industries, too, lost ground. Employment turned down after mid-year, resulting in a drop of around 1,000 workers from 1985. Even so, some particular industries did well and partially offset other less vigorous industries.

Machinery manufacturing, with approximately 43,000 employees, is the state's largest durables industry. In 1986 it did little more than maintain the levels reached after the brisk growth of 1983 and 1984. The industry has done well, though, to

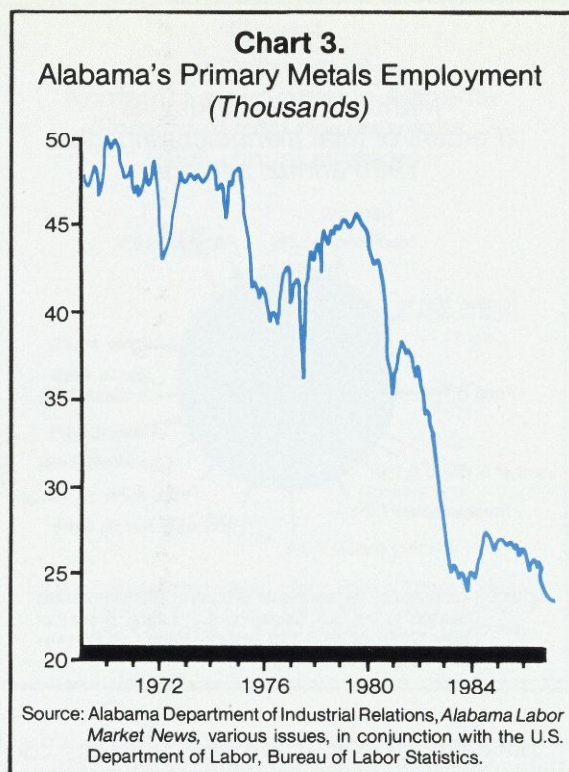


avoid losses like those suffered in Mississippi and Louisiana. As in those states, demand for machinery in Alabama, stemming from oil and gas well drilling in the southwest region of the state, has dropped. Problems with the space program have crimped machinery manufacturing employment in the Huntsville area as well. However, Huntsville will gain about 3,500 new jobs as a result of a new electronics manufacturing plant and a large compact disk manufacturing plant planned for that area. Stabilization in the petroleum industry in 1986 and the return of normal activity in the space program should bring renewed strength to machinery manufacturing in 1987.

Transportation equipment was one of the most robust areas in manufacturing during most of 1986. Alabama's extensive tire manufacturing industry and various auto parts plants enjoyed a continuing increase in business due to brisk demand for automobiles in the first half of 1986. As auto buying slumped during the fourth quarter of 1986, the market for auto parts and accessories slowed and employment dropped in the state's manufacturing plants. Even so, defense spending for ship and boat building on the Gulf Coast gave transportation manufacturing an additional boost. Employment gains for the industry in 1986 averaged well above 3 percent, or 1,000 jobs, making it a bright spot in Alabama's employment picture.

Auto demand seems likely to slow a bit from its pace in 1986, especially since the special low-rate financing packages offered during the second half of 1986 may have pulled some 1987 demand forward into 1986. This means that employment in the transportation equipment industry will at best remain near the high level posted in 1986. However, if prices of imported cars escalate sharply in 1987 in response to the decline of the dollar against other currencies, especially the yen, more American-made cars might be sold, with the result that domestic manufacturing would expand to supply a larger share of the market. Whether or not the prices of imported cars rise sharply probably depends in large part on additional depreciation of the dollar against foreign currencies. Through 1986 Japanese auto manufacturers tempered price increases in U.S. markets by shrinking their substantial profit margins, but presumably they now have less leeway to adjust profits if the dollar should drop further against the yen.

An increase in domestic manufacturers' share of the U.S. auto market and leveling out in the



energy industry could help Alabama's metals manufacturing industries recover somewhat from their languor in 1986. Combined job losses in primary and fabricated metals manufacturing affected over 2,000 workers. Hardships were especially severe in the steel and aluminum industries. The slump in the petroleum industry curtailed demand not only for machinery but for pipe used in oil and gas well drilling. While drilling activity could improve slightly in 1987 with stabilizing oil prices, demand for steel products is not likely to recover much. Chart 3 shows that employment in Alabama's primary metals industries has been cut in half since 1970.

A number of Alabama's aluminum plants closed during 1986 due to dwindling demand for metals and competition from foreign manufacturers. These plant closures do not bode well for recovery of the domestic aluminum manufacturing industry in the near future. When and if expansion resumes, it will probably be at technologically improved plants with reduced labor requirements so that even rising output would not increase employment much.

The swelling tide of imports in 1986 brought bad news for another of Alabama's durable goods



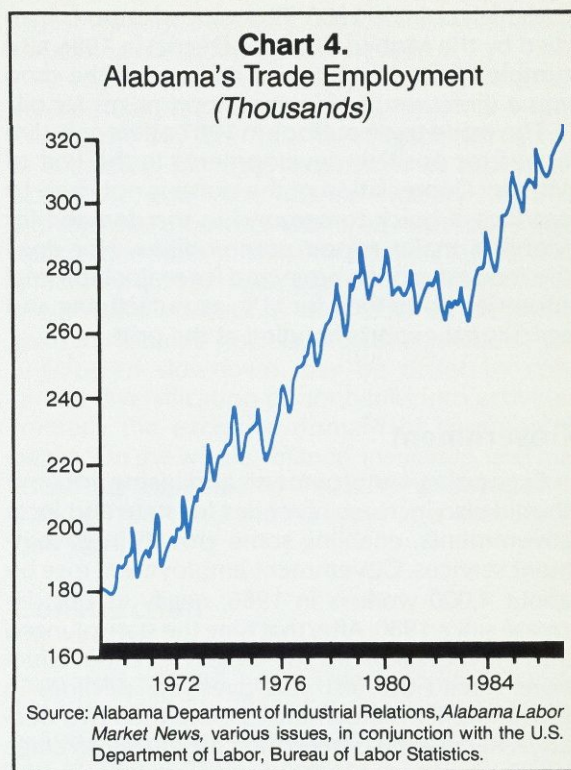
industries, lumber and wood products. Even though vigorous housing construction stimulated demand for lumber, an increasing share of the market was taken by Canadian producers. Despite the fact that the dollar depreciated against most foreign currencies last year, it rose slightly against the Canadian dollar. Hence, Canadian lumber prices dropped relative to U.S. prices, and the volume of lumber imports jumped sharply.

Thus, even the brisk market for lumber did not stop employment in Alabama's lumber and wood industries from dipping slightly in 1985 and dropping faster in 1986. Employment measured about 500 jobs below 1985's level but appeared to steady during the second half of 1986. If Canadian lumber imports are controlled as expected during 1987, and if single-family residential construction remains robust, lumber producers may enjoy some improvement in the coming year. This component of Alabama's manufacturing sector would then add its momentum to several other industries which together could return manufacturing employment to an upward path in 1987. Expansion in manufacturing would probably spill over into nonmanufacturing sectors as well.

## Trade

Trade, the state's largest nonmanufacturing industry, with 310,000 employees, is likely to benefit most directly from the rising income that would accompany an upturn in manufacturing. Combined with the population increase in 1986, improvement in manufacturing could easily push 1987 trade employment beyond the 3 percent increase posted the previous year. Although advances slipped in 1986, reflecting a slowdown in personal income growth, trade employment rallied after the first quarter to add around 10,000 jobs to Alabama's total employment during the year (Chart 4). The number could easily approach 13,000 or more in 1987 to accommodate the state's growing population.

Department stores in Birmingham and Mobile performed remarkably well in 1986. Sales in both metro areas climbed over 12 percent from 1985, far exceeding their rate of growth in the nation. Statewide consumer activity, as reflected in sales tax collections, was disappointing, however. Alabama's sales tax revenues during the fiscal year ending in June 1986 rose only 1.2 percent over levels a year earlier. This disparity indicates that rural and less dense urban areas with undiversified manufacturing industries have been growing slowly.



Alabama's sluggish overall consumer spending activity in 1986 did, however, come in the wake of healthy growth in 1985, when the state collected 14.4 percent more revenue than in 1984. Most retailers indicate optimism about the sales outlook for 1987.

Unfortunately, the state's export trade sector does not share the optimistic outlook projected for domestic trade. Were it not for the relatively small size of the state's export segment, prospects for Alabama's total economy would be considerably worse. Alabama's overall international trade has weakened steadily over the last two years. Dollar exports performed poorly in 1985-86, and imports shrank from their peak in 1984. The decline of the dollar with respect to major currencies since early 1985 has not thus far improved the flow of goods. Export activity was flat in 1985-86 as world demand for Alabama's coal and soybeans continued to flag in response to increasing competition from suppliers abroad. The McDuffie Coal terminal, which was designed to handle about 25 million tons annually for export, is currently operating at less than 50 percent of its capacity. By 1986 Alabama's total exports had dropped almost 60 percent from



their high point in 1980. The value of imports handled by the Mobile Customs District in 1986 also tumbled from levels a year earlier, but the drop was a direct result of lower import prices for oil.

The world trade outlook in 1987 offers only slim hopes for positive developments in the Port of Mobile. Depreciation of the dollar is not likely to produce a quick turnaround in the demand for Mobile's major export commodities. Nor does the modest growth projected for major industrial countries bode well for U.S. manufacturing and agricultural exports handled at the port.

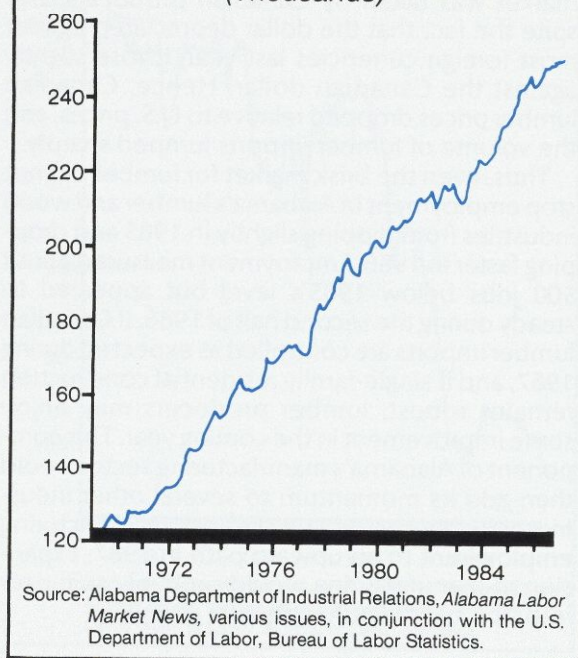
## Government

Expanding employment and rising income should also increase revenues for state and local governments, enabling some growth in government services. Government employment rose by about 4,000 workers in 1986, nearly its best increase since 1980. After that time the state plunged into the recession of 1981-82 and revenue reductions forced the first year-over-year declines in government employment in more than two decades. Recovery has been difficult: in 1986 average employment of 301,000 workers finally moved the number of government jobs above the 1980 level. Advances in computerization, which make office workers more productive, should keep government employment from climbing to match the economy's expansion. However, as living standards improve, demand for the quantity and quality of government services increases; and an economic upturn in 1987 should at least maintain employment advances made during 1986 in the government sector.

## Other Services

Services, which were a major source of new employment in 1984 and 1985 and averaged an increase near 5 percent in both years, faltered in 1986, reflecting the effects of the slowdown in income expansion (Chart 5). Alabama's third largest nonmanufacturing group, services employed about 247,000 workers and provided about 6,000 new jobs in 1986 as compared with 12,000 in 1985. Employment gains stagnated during the summer months of 1986 but recovered toward the year's end, offering more evidence that Alabama's economic vigor may be returning as 1987 begins.

**Chart 5.**  
Alabama's Services Employment  
(Thousands)



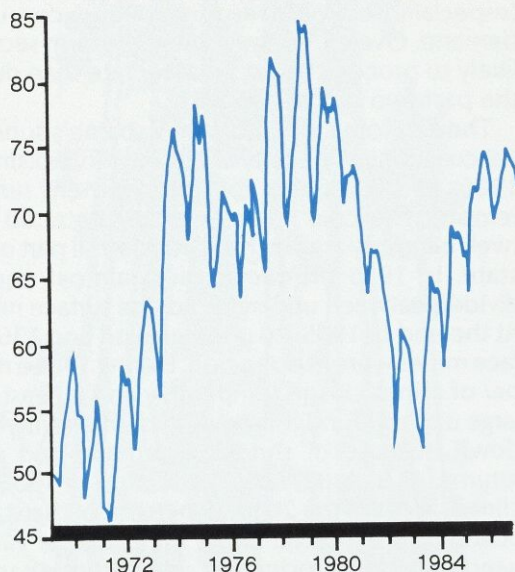
Alabama's lodging and restaurant industries were a particular source of strength during the past year. Tourist activity and conventions drew visitors to the state, though certainly not in the same numbers as in neighboring Florida. Nevertheless, tourism had a good year in 1986. Air travel was up slightly from already high levels in 1985, but the increase masked variation from month to month and from city to city. Birmingham retained its position as Alabama's busiest airport, while Mobile had fewer passengers in 1986 than in 1985.

The number of visitors registering at the state's welcome centers indicates that auto travel rose in 1986, aided by the sharp drop in gasoline prices. Many of the state's attractions recorded marked growth in visitor attendance between January and March of 1986, and the space shuttle accident apparently drew a wave of visits to the Alabama Space and Rocket Center in Huntsville.

The outlook for Alabama's tourism industry is brighter for 1987. Business, government, and convention travel to Birmingham, Huntsville, and Montgomery should continue to boost the demand for lodgings in those local markets and help



**Chart 6.**  
**Alabama's Construction Employment**



Source: Alabama Department of Industrial Relations, *Alabama Labor Market News*, various issues, in conjunction with the U.S. Department of Labor, Bureau of Labor Statistics.

absorb the new rooms that are being added. Projections estimate that tourism should be up 4 to 6 percent for Alabama in 1987 compared with 7 to 10 percent for the region as a whole.

Growth in manufacturing, trade, and government employment would also move the service sector forward at a faster clip. The service sector has traditionally been less volatile than other areas of the economy; while it is slower to drop off during recessions, it is also slower to recover. Thus, although improvement should begin in 1987 if past patterns hold, return to the advances of 1984 and 1985 may not occur until 1988 or later. Even so, 1987 is likely to bring 7,000 to 8,000 new service jobs to the state.

## Finance, Insurance, and Real Estate

The finance, insurance, and real estate component of the economy—related to services though considerably smaller—normally reacts more to downturns in the business cycle than do service industries. However, in 1986 it posted gains of 5.4 percent. This increase was the highest on record, even more rapid than in 1984 and 1985. These

industries added about 3,600 jobs last year, easily surpassing the 3,000 figure of 1985.

All segments of the finance, insurance, and real estate industries are prospering, with real estate leading the way. The drop in mortgage rates acted as a catalyst for rapid expansion in activity all across the state. The finance industry has also experienced a burst of vitality as institutions prepare for the state's interstate banking law to take effect July 1, 1987. After that date acquisitions by out-of-state institutions may slow employment gains in Alabama's banks. However, some of the anticipated slowdown may be offset by continued diversification of nonbanks into activities formerly the exclusive domain of commercial banks. On the whole, finance, insurance, and real estate are expected to maintain healthy growth through 1987 and should again add over 3,000 new jobs.

## Construction

Construction was Alabama's strongest industry from 1983 to 1985, but in 1986 it skidded sharply from an employment growth rate near 10 percent in 1985 to a paltry 1.8 percent (Chart 6). After the first quarter of 1986, advances essentially halted as both residential and nonresidential construction slid below levels a year earlier. The largest downturn was registered by nonbuilding construction, but nonresidential structures such as office buildings and warehouses were also faltering dramatically toward year's end. At the same time, permits for residential building were moving up briskly with multi-family building permits leading the way. The spurt in multi-family activity was apparently related to builders' efforts to get projects underway before tax reform legislation discontinued breaks for this kind of construction. The new legislation also put caps on the volume of tax exempt revenue bonds used liberally in the past to finance apartment construction.

Single-family building is responding well to the recent influx of population. Furthermore, comparatively low mortgage interest rates make home ownership more attractive than it has been since 1978. Multi-family activity is expected to drop sharply after the first of the year, but vigor in single-family building should hold construction employment near its 1986 level. Increases in total construction employment are not likely until the overabundance of commercial structures is absorbed and demand picks up again. If the overall economy improves in 1987, the space should be



used more quickly, possibly bringing new life to construction as early as 1988.

## Transportation and Natural Resources

Industries such as agriculture, transportation, coal mining, and gas and oil unfortunately can boast neither progress in 1986 nor much promise of recovery in the foreseeable future. Following a feeble performance in 1985, transportation lost nearly 2 percent (1,200) of its workers in 1986. Reductions in production and dropping shipments of natural products such as coal, timber, farm commodities, and oil and gas are largely responsible for dwindling employment in transportation. Some recovery anticipated in export markets for agricultural products, timber, and paper products should bring slight improvement in shipping activities during 1987. The number of transportation workers could hold at 72,000 to 73,000 workers, echoing figures for the past two years.

The agricultural sector, with around 50,000 workers, continues to languish due to excess supply, weak demand, and intensifying financial pressures. The field crop portion of Alabama's farm sector faced especially difficult times as the state's farmers endured still another severe drought in 1986. Yields of leading crops fell substantially below normal levels. In addition, crop plantings were reduced by 17 percent in 1986, when much marginal acreage was idled. Since its peak in 1981, crop land has been cut by 45 percent—a sizable 1.5 million acres.

Total farm cash receipts in Alabama shrank by 9 percent in 1985. Although crop revenue continued to slide in 1986, livestock revenue improved thanks to higher prices for most products. Livestock earnings helped hold total farm cash receipts close to their level in 1985.

A sign of continuing hardship in Alabama's farm sector in 1986, another 2,000 farms ceased operation or were merged into existing farms. Farm asset values dropped \$472 million, due primarily to the diminishing value of farmland. Since their highpoint in 1981, Alabama farmland values have plummeted approximately \$1.5 billion, and modest declines are likely to continue in 1987 as crop farming remains unprofitable on most of the state's low-yielding, high-cost acreage.

The importance of Alabama's crops continues to wane compared with livestock and poultry as more producers discover that crop farming in Alabama is not competitive with that of other

states or regions given current yields, costs, and product prices. For livestock producers, however, 1987 may be another prosperous year thanks to low feed costs and increasing prices for meat (especially poultry) in response to brisk consumer demand. Overall, contraction of the farm sector is likely to proceed but at a slower rate than during the past two or three years.

The economic situation for Alabama's substantial coal mining industry also grew more dismal in 1986, and prospects for improvement remain remote. The coal industry is concentrated in a twelve-county area in the north central part of the state. In 1985 production was almost equally divided between underground and surface mines. At the end of 1985, 20 underground and 136 surface mines were in operation. During 1986 a number of mines closed temporarily and at least two large underground mines were permanently shut down because of shrinking demand and poor returns. As a result, coal production in 1986 declined. Most of the 20 to 25 percent of the state's coal that is exported is the metallurgical variety used for steel production, largely in Japanese mills. If Japan's auto production gears down as a result of a loss in share of the U.S. market, Alabama's coal exports are likely to shrink as well, spelling still further contractions for the state's mining activities.

The slump in coal demand is related to the continued energy glut, which, as noted elsewhere, has cut back oil and gas production and exploration in the southwestern portion of the state. Stabilization, as opposed to the collapses of 1986, is about the best that 1987 can offer. The most the energy industry can contribute to the state's economic growth is probably an end to the drag produced by its steep slide in 1986. Stability in the energy industry will nevertheless allow the state's economy to make a better showing in 1987.

## Conclusion

The pickup anticipated in manufacturing, trade, services, and single-family housing—the bulwarks of Alabama's economy—should boost economic activity in 1987 beyond its performance in 1986 toward the more rapid rate of growth that characterized the 1983-84 period. Recent signs of improvement, such as rising export volume and slight employment upturns in the apparel, chemical, and paper manufacturing industries, bolster confidence that 1987 will, in fact, be a stronger year for Alabama's economy.



# Mississippi in 1987: Mixed Prospects

W. Gene Wilson and Gene D. Sullivan

*Slight improvement may be in store for Mississippi, though rural areas will continue to lag due to farm and energy weaknesses while cities move ahead on the strength of services and trade.*

The passing year embroidered Mississippi's economic tapestry with good news and bad. Despite substantial worsening of the unemployment rate, the state's economy showed modest expansion in 1986. Sectors such as services added thousands of jobs; industries like machinery, on the other hand, suffered job losses (Table 1). Personal income gained less than in 1985, but consumer spending was robust.

Prospects for 1987 are also checkered by a mixture of negative and positive factors. Moderately higher energy prices, if maintained, may revive the moribund oil and natural gas industries. Major

*The authors are, respectively, a senior economic analyst and the Research Officer in the regional section of the Atlanta Fed's Research Department.*





**Table 1.**  
Job Gains or Losses in Mississippi  
From 1985 to 1986\*

	Gains or Losses
Manufacturing	1,000
Durables	-600
Machinery	-1,580
Primary Metals	-260
Transportation Equipment	1,200
Other	40
Nondurables	1,600
Food	850
Apparel	300
Paper	-20
Textiles	210
Other	260
Construction	-640
Trade	5,850
Services	5,200
Government	980

\*1986 data estimated.

Source: Estimated by Federal Reserve Bank of Atlanta from data released in the U.S. Department of Labor, Bureau of Labor Statistics, *BLS 790 Monthly Report on Employment, Hours, and Earnings*.

industry, which is especially important in some of the state's rural counties.

Much of the state's economic activity appears to be developing a dual nature. In rural areas, where primary industries and manufacturing dominate the entire economy, conditions will remain weak. In urban areas where services, government, and trade are important, the economy should at least remain stable and will probably show moderate growth in 1987. Overall, the state's economy will repeat a familiar pattern in 1987; it will be 1986 all over again but with a slightly different mixture of strong and weak industries, though Mississippi may see moderate improvement in 1987.

## Labor

Mississippi's economic health depends heavily on a few individual industries within the state, but it is also affected by other factors. The size of the labor force, for example, determines the supply of available workers. An imbalance between labor force growth and job creation will either raise unemployment rates or constrain economic expansion, depending on the type of imbalance. During 1986 the Magnolia State's labor supply increased between 2 and 3 percent, more slowly than in 1985 but otherwise at the highest rate since 1980 (Chart 1). Growth in the labor force outpaced the economy's creation of jobs by almost two to one.

Swelled with the return of unemployed oil workers from Louisiana and Texas, Mississippi's expanding pool of workers led to a rise in the unemployment rate. Although labor force growth slowed dramatically during the third quarter, the unemployment rate climbed even faster than before as total employment dropped from its peak in the first half of the year. Seasonally adjusted rates in the double digits represented the highest level of unemployment since 1983. Despite the increase in unemployed Mississippians, the average number employed during 1986 rose about 10,000 from 1985.

## Income and Spending

Demand for the products of Mississippi's factories and fields depends not only on the number of people working but also on the amount they earn. Manufacturing payrolls registered about 3 percent higher than in 1985, and average weekly earnings climbed about 2 percent. Reflecting

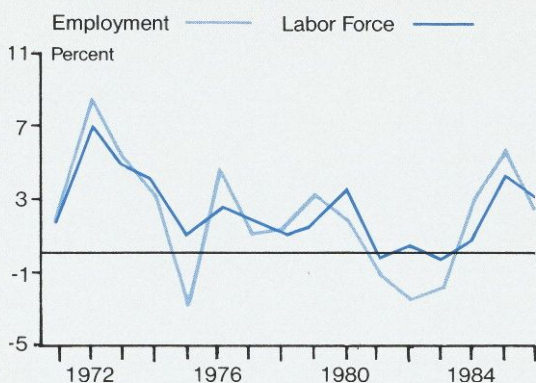
improvement will not occur, however, until prices move to much higher levels.

Lower interest rates and higher personal income apparently stimulated greater consumer spending in 1986 and will probably continue making a positive impact in 1987. Incentives by automobile companies spurred car sales in 1986 but may have cut into business for 1987.

Changes in federal tax regulations are likely to lead to reductions in commercial and multi-family construction. Considerable interest rate declines in 1986 helped only to level residential construction from its downward slide, and there seems little reason to expect more housing activity in 1987. A fall-off in construction will also hurt the lumber



**Chart 1.**  
A Comparison of Labor Force and  
Employment Growth Rates in Mississippi  
(1971-1986)



Source: Computed by Federal Reserve Bank of Atlanta from data released in U.S. Department of Labor, Bureau of Labor Statistics, *Employment and Earnings*, various issues.

these and other gains, total personal income in the Magnolia State rose approximately 6 percent in 1986, a rate of growth higher than in 1985.

Over half of the state's income comes from just three sectors—manufacturing, transfer payments, and government—with shares of 19, 18, and 14 percent, respectively. Manufacturing and government have helped raise the state's average income in recent years. Whereas manufacturing continued to play a positive, albeit weaker, role in 1986, the public sector faced a stringent state budget hampered by lower revenues. Moreover, the possibility that less federal money will flow to the state because of deficit reduction measures suggests a more limited role for government in 1987.

In conjunction with Mississippi's income growth, consumer spending enjoyed a healthy increase. Total sales tax collections for the fiscal year ending in June 1986 were up 6 percent from a year earlier, when state sales revenues were catapulted by unusually strong consumer spending. (The 19 percent upswing in collections in 1985 marked the best year for state retailers in some time.) The car sales recovery, attributable to pent-up demand after several years of slow sales and manufacturers' incentives, provided a major boost to total retail sales. New car and truck registrations for the first half of the year were 3.8 percent higher than in

the first half of 1985. General department store sales activity, on the other hand, has been weak, perhaps reflecting slack home sales and growing consumer caution about the use of debt.

Consumer spending in 1987 will probably improve but is not expected to be robust. Car sales in the coming year may suffer from the manufacturers' incentives that drew so many customers late in 1986. Although retailers in the state are guardedly optimistic about increases in their sales next year, they also fear some loss of consumer confidence as people become more concerned about the liberal use of credit and the state's economic prospects. Loss of confidence typically exerts a negative influence on retailers' sales and, consequently, on profits.

## Primary Industries

The economy in a particular geographic area usually develops in roughly three stages, each dominated by primary, secondary, or tertiary industries. In the first stage of development most economic activities involve such industries as agriculture, mining, forestry, or fishing. In the case of Mississippi, agriculture held sway over the state's economy until well into the twentieth century. As recently as 1950, over 40 percent of the work force was employed in agriculture.

Primary industries have continued to be, if not the economic backbone of the state, a decidedly important segment of it. In 1960, over one-fifth of the work force in 53 of Mississippi's 82 counties were employed in agriculture; in six of these counties over half of the total labor force farmed. In 12 of the same counties over one-fifth of the workers were employed in either mining or forest products. Today 9 percent of Mississippi's employees still work in primary industries compared to 5 percent nationwide. These industries remain especially crucial in rural counties.

**Agriculture.** The agricultural sector contributes more than \$2 billion annually to the state's economy, which has a gross output of roughly \$26 billion. Farming generates even more indirectly. A small number of commodities produce most of the state's farm income. Cotton and soybeans, the two leading crops statewide, are responsible for about half the farm cash receipts. Cotton has receded from its historical prominence, while soybeans have come forward to constitute a major source of farm revenue. The cattle and broiler industries account for another 30 percent of agricultural cash receipts.



**Table 2.**  
Population Changes in Mississippi  
(1984 compared with 1970)

	1970	1984	Difference	Percent Change
<b>Agricultural Counties</b>				
Bolivar	49,500	45,414	-4,086	-8
Sunflower	37,100	37,087	-13	0
Tunica	11,800	9,377	-2,423	-21
Leflore	42,000	42,219	219	1
Coahoma	40,200	35,737	-4,463	-11
Humphreys	14,500	13,940	-560	-4
Sharkey	8,800	8,060	-740	-8
Quitman	15,700	11,604	-4,096	-26
Tallahatchie	19,300	16,338	-2,962	-15
<b>Urban Counties</b>				
Jackson	88,600	123,556	34,956	39
Harrison	135,300	168,742	33,442	25
Hinds	215,100	259,400	44,300	21
Rankin	44,900	78,061	33,561	75
De Soto	36,000	57,278	21,278	59
<b>State Total</b>	<b>2,217,000</b>	<b>2,597,952</b>	<b>380,952</b>	<b>17</b>

Source: U.S. Department of Commerce, Bureau of the Census, Current Population Reports, Local Population Estimates, Series P-26.

Mississippi's farm sector remains in a generally weak condition: financial distress appears widespread, crop prices are sagging, and profits remain elusive. The number of liquidated farms has been high in recent years, and the trend toward consolidation is continuing. In fact, from 1984 to mid-1986, more farms—4,000 in all—ceased operation in Mississippi than in any other southeastern state. Those farmers still in business face substantial declines in wealth. The value of farmland has plummeted almost 30 percent since its peak in 1981, eroding nearly \$4 billion in farm asset value.

In Mississippi, as in the nation, 1987 may be the year that agriculture begins the long road to recovery. Because land prices are approaching parity with the land's income-earning capacity, asset values are unlikely to fall much lower and could even rise slightly. Farm debts outstanding should

continue shrinking and so cause farmers' equity to rise. Government commodity payments provided an important supplement to farm income in 1986 and will again in 1987. However, net farm income is expected to remain low, and profits will accrue only to the most efficient, well-managed farms.

Agriculture's short-run impact on income growth in the state, especially in rural counties, is accompanied by a more long-term, structural effect. The economic organization of Mississippi today is the logical descendant of the state's agrarian past. Strong reliance on primary industries, in contrast to economic diversification in the nation and elsewhere in the Southeast, has laid the groundwork for much of Mississippi's present economic environment. As agriculture became increasingly capital-intensive, farm labor became overly abundant. Poor returns to farming, low farm wages, and



better job opportunities elsewhere led to dramatic population shifts.

Many people in rural, agricultural counties moved either out of the state or to the few urban areas such as Jackson, where more favorable economic opportunities exist. Counties in the Mississippi Delta typically have lost between 5 and 20 percent of their population since 1970. Urban areas, on the other hand, generally have gained from 20 to 75 percent in the same period (Table 2). Migration from rural to urban areas is likely to continue, although at a slower pace. Consequently, the state's economic growth must supply enough jobs not only for new entrants to the labor force but also for people leaving agriculture or other declining primary industries.

**Wood.** Forestry contributes about \$500 million each year to the Magnolia State's economy, primarily from the sale of lumber. The lumber industry suffered from decreasing demand in 1986 as construction weakened and lumber imports remained competitive. Employment in the lumber and wood industry averaged approximately 2 percent below its 1985 level. This decline makes 1986 the first year employment fell in the industry since 1982. Although 3,000 jobs were added between 1983 and 1986, labor-saving technological advances will reduce prospects for further job growth.

Employment in lumber and wood industries may slacken in 1987 if demand weakens further. Nonresidential and multi-family residential construction is expected to have a poor year that will result in less need for lumber and other wood products. Single-family residential construction will also be slower, thus decelerating demand for lumber and furniture. Mississippi's thriving furniture industry, located largely in the northeastern part of the state, will be affected by sluggish furniture sales. An export tax on Canadian lumber may help to offset the impact of diminished construction temporarily by increasing the market share of domestic lumber. Also, lumber exports began rising in 1986 and could play a positive role in 1987.

**Energy.** Because the average cost of producing oil in Mississippi is \$15 per barrel, the state's small oil industry was devastated by the dramatic plunge in petroleum prices. The major impact has been on state tax revenues, one-fifth of which come from severance taxes on oil and gas. In 1986 severance taxes plunged along with the price of oil. The state taxes crude oil and natural gas at 6 percent of its value, and the drop in the price of

oil, rather than reduced production, was primarily responsible for the state's losses. Oil production showed only a slight downward trend in 1986, because small, unprofitable wells were capped. Exploration declined as the number of drilling rigs operating in the state fell by nearly half from the third quarter in 1985 to the third quarter in 1986.

The price of natural gas declined approximately 30 percent from its level in 1985 because domestic supplies exceeded demand. Since 1981, sales have dropped 15 percent as a result of increased competition from other energy sources. In 1986 production fell almost 10 percent due to well closures, but prices remained low. By the end of 1987 supply and demand may once more be in balance, resulting in a moderate price increase. In the meantime, the industry should not lose any ground and may find itself reviving somewhat.

## Secondary Industries

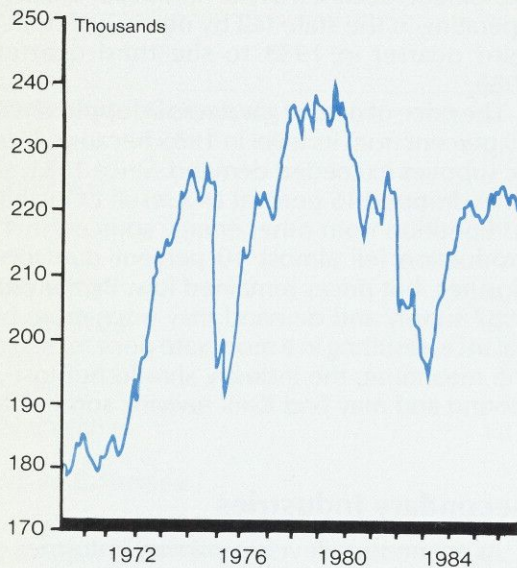
As economies develop, primary industries concerned with extracting resources from the environment give way in relative importance to secondary industries that process products of primary industries into marketable goods. Manufacturing and construction are two leading examples. The importance of manufacturing is proportionately greater for Mississippi than for either the nation or the Southeast. Unfortunately, secondary industries are not the same source of strength they would have been, say, two decades ago.

**Manufacturing.** Employment in manufacturing peaked in 1978 in Mississippi, and, although it has recovered markedly from the 1982 recession trough, it has not thus far regained its earlier level in the current expansion (Chart 2). Large quantities of imports into the United States due to increased competition from foreign producers and the impact of an expensive dollar on foreign exchange markets proved detrimental to the state's manufacturers in recent years. Nevertheless, almost 30,000 jobs were restored after the recession of 1981-82. In 1986 manufacturing employment experienced only slight growth and so remained close to 1985 levels.

Most job losses in the manufacturing sector during 1986 were among workers producing durable goods, that is, goods which can be used longer than three years. This was a change from 1985 when durable goods production boasted the



**Chart 2.**  
Mississippi Manufacturing Employment  
(1969-1986)



Source: U.S. Department of Labor, Bureau of Labor Statistics, *BLS 790 Monthly Report on Employment, Hours, and Earnings*.

majority of new jobs in manufacturing. Since durable goods account for 14 percent of the state's employment, conditions in these industries have a noticeable effect.

Job gains of roughly 6 percent in transportation equipment industries in 1986 offset losses in machinery and primary metals, so employment in the durable goods sector overall remained stable. Other durables industries experienced only slight gains or stayed essentially the same.

Employment in the somewhat less important nondurable goods sector showed modest growth, rising about 1 percent. Specific industries, for the most part, followed suit. Apparel, textile, and food employment, which make up over two-thirds of nondurable goods employment, rose about 1, 4, and 3 percent, respectively. Paper employment also improved a little.

In summary, job growth in manufacturing industries has been generally stable. The nondurable goods sector added about 1,600 jobs, a welcome turnaround from 1985. Employment in the durable goods sector declined from 1985, although some industries gained while others lost.

What are the developing trends for manufacturing in 1987? The dollar's realignment suggests some improvement. Since the value of the dollar relative to various foreign currencies has fallen, more dollars are needed to buy foreign products. As foreign-made products become more expensive, further improvement is likely for producers of nondurable goods. Employment in durable goods production is likely to improve in some industries but may weaken again in others. Prospects for primary metals and machinery production remain uncertain, but makers of transportation equipment probably will experience losses. Ingalls Shipbuilding, which alone employs roughly 1 percent of the durables work force, won additional ship contracts in 1986, but the impact of these gains will not be felt until at least 1988. In the interim, employment at Ingalls may decline as existing projects conclude before new ships are started.

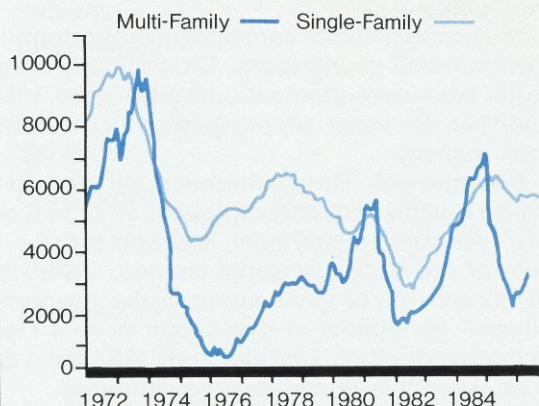
Mississippi's automotive parts industry also may face harder times. Should 1987 prove a poor year for auto sales, some workers who turn out parts and accessories for autos could lose their jobs. There are approximately 60 auto parts factories in the state. Whether or not auto dealers face a bad year depends on the effects of substantial incentive-induced sales in 1986, new tax regulations, higher import prices, and the state of the economy. Considering the overall impact of these factors, the negative potential seems to outweigh the positive.

**Construction.** Workers in construction account for about 5 percent of nonfarm employment. Over the last two decades their numbers have fluctuated between 30,000 and 45,000. A rise of approximately 9 percent in construction employment in 1986 from the seasonal low early in the year represented an improvement, but average employment remained 2 percent below last year's level.

Total residential construction stabilized in 1986 after enduring a very weak year in 1985. Although construction picked up, it remained almost 30 percent less (as measured by residential units) than in 1984. After declining throughout 1985, multi-family building permits showed a surprising 2 percent gain in 1986. Single-family building permits, in contrast, remained relatively weak (Chart 3). Residential construction is not likely to change much in 1987. Since mortgage rates fell markedly in 1986, much of the demand for single-family homes may have been satisfied. A stable or declining mortgage rate is unlikely to elicit much



**Chart 3.**  
Multi-Family and Single-Family  
Building Permits in Mississippi  
(Units, 12-month rate)



Source: U.S. Department of Commerce, Bureau of the Census, Housing Units Authorized by Building Permits and Public Contracts (C-40).

further demand for housing in 1987. Multi-family construction should also fall off as tax changes reduce investment.

Much of the activity in the construction industry during 1986 occurred in nonresidential building. After some weakness in 1985, nonresidential construction resumed the expansion it had begun in 1983. In 1986 this construction ran 10 percent above the previous year as measured in square footage. Continuation of this trend through 1987 appears doubtful because changes in tax laws will reduce investors' incentives to engage in commercial construction, prompting a downturn.

## Tertiary Industries

Tertiary industries, the next stage of development in the economic pattern, have been a powerhouse for Mississippi's economic growth in recent years. Here, not only services, trade, finance, insurance, and real estate, but also the public sector is placed under the framework of the tertiary sector; government, though not a private industry, is a purveyor of services. Thus defined, the tertiary sector accounts for roughly 60 percent of nonfarm employment in Mississippi. Employment in this sector has increased substantially in the nation, the region, and the state, and the trend indicates that future employ-

ment gains will be largely within the tertiary group. For Mississippi's economy, however, this sector plays a less central role than it does in the Southeast or the nation.

**Services.** Service industries, which include business services, lodging, health care, recreation, and similar nontangible transactions, are becoming an increasingly important source of jobs and income for Mississippi's economy. As in the nation and the Southeast, Mississippi's employment growth can be traced to services, which account for 15 percent of the nonfarm jobs and 10 percent of the personal income generated in the state. During 1986, over 5,000 people entered service jobs, pushing the employment average almost 4 percent above its level in 1985.

Major job growth occurred in health and business services, both in absolute numbers and percentages. The outlook for 1987 remains positive, although employment gains will not keep pace with the high rates recorded during the past three years.

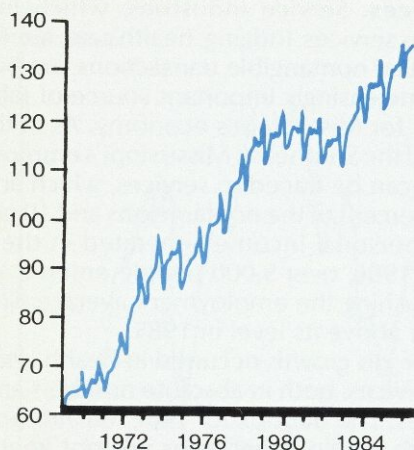
While tourism is a small segment of Mississippi's economy, it does generate approximately \$1 billion of the state's gross product. Roughly one-third of the total is generated in the counties along the Gulf Coast. Registrations at visitor centers and national parks during 1986 indicate improved tourism statewide, but tourist activity on the Gulf Coast nevertheless declined from 1985's levels. While the number of visitors was up, dollar-based measures such as hotel sales tax receipts were either flat or down slightly. The depressed Louisiana economy and greater competition from Alabama and Florida help explain the drop in tourist trade along the coast. Air traffic showed a mixed picture, varying from city to city, but was up slightly statewide.

Tourism in 1987 will probably fare no worse than in 1986. Higher gasoline prices than 1986's average appear likely, but the modest increase should have little effect on travel by car. The Gulf Coast area will face the same competition and difficulties as in 1986, but some improvement in the oil and natural gas industries may prompt visitors from Louisiana to return to this traditional vacation spot.

**Trade.** Trade employment, which includes all workers in wholesale and retail businesses and accounts for over 20 percent of the nonfarm work force, maintained its strong growth in 1986. Since the recession trough approximately 22,000 people have been added to the payrolls of wholesale and retail trade firms, almost 6,000 of these in



**Chart 4.**  
Mississippi Trade Employment  
(Thousands)



Source: U.S. Department of Labor, Bureau of Labor Statistics, BLS 790 Monthly Report on Employment, Hours, and Earnings.

1986 (Chart 4). The rise in trade jobs slowed, though, during the latter half of the year. In 1987 trade will probably grow as consumer spending continues rising, but at a slower pace than in 1986. Much of the improvement can be expected in urban areas.

**Finance, Insurance, and Real Estate.** Employment in Mississippi's financial, insurance, and real estate industries has risen more than 3 percent per year since 1984. In 1986, personal income growth in this sector outstripped total increases for all industries by a ratio of nearly two-to-one. This trend indicates that the financial sector, though a small component of total employment and personal income, is increasing in importance in the Magnolia State and may be even stronger in 1987.

Major changes which should have a positive impact on the economy are pending for the state's financial services industries. In 1986, the Mississippi state legislature passed a two-phase interstate banking law. The first phase, effective July 1, 1988, will permit acquisitions and mergers among banks in Mississippi and those in Alabama, Arkansas, Louisiana, and Tennessee. The second phase, effective July 1, 1990, will allow banks from most southern states to enter Mississippi's borders. Both phases require reciprocity by affected states. These developments, plus the new ability

of in-state banks to make acquisitions and merge beyond 100-mile limits, will undoubtedly change the face of Mississippi banking over the next few years. These regulatory changes should facilitate a more efficient flow of capital within the state and make a greater variety of services available to the public.

Mississippi's thrifts are strongly outperforming their national counterparts. Growth rates of net worth have exceeded national rates since 1984, and 1986 was especially prosperous for the state's thrift industry.

**Government.** The government sector, which claims roughly 180,000 employees or 22 percent of all nonfarm employment, accounts for 18 percent of the state's personal income. Given the significant role of government in the economy, adverse conditions in that sector have a clear impact on the state. Unfortunately 1986 was a difficult year for state and local governments.

From the beginning of the 1986 fiscal year in July 1985, revenue consistently ran below the estimated levels that formed the basis of the state budget. By November 1985, budget adjustments and cutbacks totaling \$70 million became necessary under state law. Despite continued shortfalls in tax revenue, especially in oil and gas severance taxes, the state managed to end fiscal year 1986 with no further budget cuts and even began the new fiscal year almost \$11 million ahead. Although revenue in the last quarter of fiscal year 1986 fell under projections, tax collections since the start of the 1987 fiscal year have exceeded earlier estimates. While oil and gas severance taxes remained dismally low in the third quarter, sales taxes displayed considerable strength and corporate taxes were above projection. Because oil prices moved higher, there is reason to believe that severance taxes will improve at least modestly in the last quarter of 1986 and in 1987. Sales tax growth may not continue as strongly as in the beginning of the fiscal year due to a slower rise in consumer spending. Revenue estimates for fiscal year 1987 were reportedly quite conservative; therefore, unless some major event results in a serious revenue shortfall, the state budget should not run into difficulty.

The severe budget cutbacks in fiscal year 1986 limited job opportunities in government and led to job losses for some employees. A five-month hiring freeze, along with layoffs and early retirements, reduced the number of employees working for the state by about 1,400, or 6 percent. Since the start of the new fiscal year, however, roughly



## Outlook Summary for Mississippi's Major Industries

Sector or Industry	Percent of Employment	Percent of Personal Income	Outlook
Government	22	14	Job losses in local government. Some recovery in state government.
Services	15	10	Moderately strong.
Construction	5	3	Weaker in 1987. Job losses likely.
Trade	20	10	Modest growth.
Manufacturing	18	18	Slight improvement in nondurable industries. Stable in durable industries.
Primary Industries	9	5	Agriculture weak but improving. Loss of jobs in lumber. A few jobs gained in oil and natural gas.

300 employees have been rehired as funds allowed some vacancies to be filled.

In 1987 state government will not be a source of strength in the economy. While a limited number of jobs may be filled during the year, total employment in this sector will remain below the peak of 1986. Nor will employment in local governments fare any better, since layoffs and reduced budgets seem to be in store as a result of the potential loss of revenue sharing from the federal government.

### Summary

An overview of the Mississippi economy suggests that 1987 will see modest improvement over 1986, though the year may begin with high unemployment and modest consumer spending. As 1986 neared its end, unemployment remained pervasive throughout the state. During third quarter, 21 counties experienced at least one month with over 15 percent unemployment. Most of those counties were in the southern half of the state, reflecting the distress in the oil and natural gas industries and perhaps the spillover effects from Louisiana's ailing economy.

In 1987, slight job growth in trade, government, manufacturing, and primary industries seems likely. Trade should benefit from additional consumer spending, and the state government will probably fill some of the positions left empty in 1986. Nondurable goods manufacturing may recover partially from the inroads of foreign competitors and the durable goods sector should remain stable. Primary industries are also expected to begin a period of recovery in 1987. Unemployment will decline as displaced oil workers either return to their jobs, find different employment, or move to other areas. Services should continue to add jobs but probably at a slower rate because the rapid job growth of recent years appears unsustainable. Partially offsetting some of these gains will be the job losses expected in construction as a result of over-building and tax regulation changes.

In summary, labor force expansion will probably be slower than in 1986 while job creation may improve slightly, giving the economy a chance to match labor and job growth. Consequently, unemployment is expected to fall in 1987. Consumer spending may rise as the year progresses, providing fuel for the state's economy.



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—Compiled by George Briggs





# FINANCE

	DEC 1986	NOV 1986	DEC 1985	ANN. % CHG.		DEC 1986	NOV 1986	DEC 1985	ANN. % CHG.
\$ millions									
<b>UNITED STATES</b>									
Commercial Bank Deposits	1,666,574	1,644,604	1,515,691	+10	S&Ls Total Deposits	698,799	702,321	622,291	+12
Demand	373,046	358,880	333,320	+12	NOW	32,073	31,071	25,014	+28
NOW	140,482	135,859	109,974	+28	Savings	166,105	165,279	144,048	+15
Savings	503,516	497,152	428,283	+18	Time	498,307	503,249	451,825	+10
Time	688,715	691,712	680,180	+1	Credit Union Deposits	59,774	59,159	42,632	+40
					Share Drafts	8,274	7,936	6,109	+35
					Time	50,843	50,388	35,395	+44
<b>SOUTHEAST</b>									
Commercial Bank Deposits	194,179	191,884	176,404	+10	S&Ls Total Deposits	91,030	90,960	N.A.	...
Demand	40,910	39,445	38,495	+6	NOW	5,141	4,941	N.A.	...
NOW	19,279	18,569	14,824	+30	Savings	20,762	20,732	N.A.	...
Savings	55,833	54,894	48,390	+15	Time	64,570	64,748	N.A.	...
Time	82,621	83,226	79,040	+5	Credit Union Deposits	6,638	6,581	4,839	+37
					Share Drafts	788	739	534	+48
					Time	5,604	5,564	4,022	+39
<b>ALABAMA</b>									
Commercial Bank Deposits	19,511	19,407	17,121	+14	S&Ls Total Deposits	6,040	6,068	N.A.	...
Demand	4,177	4,119	3,898	+7	NOW	329	326	N.A.	...
NOW	1,919	1,856	1,386	+38	Savings	1,169	1,174	N.A.	...
Savings	4,258	4,239	3,627	+17	Time	4,570	4,602	N.A.	...
Time	9,600	9,693	8,687	+11	Credit Union Deposits	890	883	748	+19
					Share Drafts	149	144	123	+21
					Time	730	725	619	+18
<b>FLORIDA</b>									
Commercial Bank Deposits	73,881	72,777	65,481	+13	S&Ls Total Deposits	58,137	58,454	N.A.	...
Demand	15,702	14,823	14,285	+10	NOW	3,230	3,113	N.A.	...
NOW	8,464	8,088	6,434	+32	Savings	14,050	14,139	N.A.	...
Savings	25,672	25,231	22,405	+15	Time	40,308	40,665	N.A.	...
Time	25,904	26,264	24,185	+7	Credit Union Deposits	3,479	3,443	2,502	+39
					Share Drafts	392	370	266	+47
					Time	2,790	2,772	1,984	+41
<b>GEORGIA</b>									
Commercial Bank Deposits	31,133	30,679	27,739	+12	S&Ls Total Deposits	7,515	7,521	N.A.	...
Demand	8,510	8,213	7,849	+8	NOW	735	700	N.A.	...
NOW	2,785	2,694	1,966	+42	Savings	1,639	1,646	N.A.	...
Savings	9,000	8,917	7,603	+18	Time	5,200	5,242	N.A.	...
Time	12,263	12,248	11,596	+6	Credit Union Deposits	1,254	1,240	835	+50
					Share Drafts	138	120	69	+100
					Time	1,145	1,136	749	+53
<b>LOUISIANA</b>									
Commercial Bank Deposits	28,485	28,380	27,802	+2	S&Ls Total Deposits	10,552	10,099	N.A.	...
Demand	5,182	5,094	5,357	-3	NOW	393	363	N.A.	...
NOW	2,022	1,984	1,752	+15	Savings	2,290	2,158	N.A.	...
Savings	7,973	7,844	6,915	+15	Time	7,880	7,597	N.A.	...
Time	13,744	13,899	14,235	-3	Credit Union Deposits	*	*	*	...
					Share Drafts	*	*	*	...
					Time	*	*	*	...
<b>MISSISSIPPI</b>									
Commercial Bank Deposits	13,540	13,503	13,003	+4	S&Ls Total Deposits	2,199	2,227	N.A.	...
Demand	2,347	2,336	2,517	-7	NOW	113	110	N.A.	...
NOW	1,239	1,224	1,010	+23	Savings	310	310	N.A.	...
Savings	3,027	2,963	2,643	+15	Time	1,688	1,697	N.A.	...
Time	7,215	7,247	7,117	+1	Credit Union Deposits	*	*	*	...
					Share Drafts	*	*	*	...
					Time	*	*	*	...
<b>TENNESSEE</b>									
Commercial Bank Deposits	27,629	27,138	25,258	+9	S&Ls Total Deposits	6,587	6,591	N.A.	...
Demand	4,992	4,860	4,589	+9	NOW	341	329	N.A.	...
NOW	2,850	2,723	2,276	+25	Savings	1,304	1,305	N.A.	...
Savings	5,903	5,700	5,197	+14	Time	4,924	4,945	N.A.	...
Time	13,895	13,875	13,220	+5	Credit Union Deposits	1,015	1,015	754	+35
					Share Drafts	109	105	76	+43
					Time	939	931	670	+40

**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 \$26.8 million in deposits and \$2.6 million of reserve requirements as of June 1986, represents 95% of deposits in the six state area. The annual rate of change is based on most recent data over comparable year ago data. 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 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. 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.  
N.A. = Not Available.





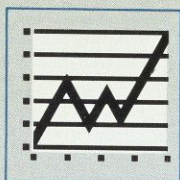
# EMPLOYMENT

	NOV 1986	OCT 1986	NOV 1985	ANN. % CHG		NOV 1986	OCT 1986	NOV 1985	ANN. % CHG
<b>UNITED STATES</b>									
Civilian Labor Force - thous.	118,623	118,699	116,097	+ 2	Nonfarm Employment - thous.	101,876	101,587	99,428	+ 2
Total Employed - thous.	110,751	110,857	108,282	+ 2	Manufacturing	19,220	19,247	19,313	- 0
Total Unemployed - thous.	7,872	7,842	7,815	+ 1	Construction	5,158	5,267	4,909	+ 5
Unemployment Rate - % SA	7.0	7.0	7.0		Trade	24,293	24,081	23,645	+ 3
Mfg. Avg. Wkly. Hours	41.1	40.8	40.9	+ 0	Government	17,187	17,030	16,894	+ 2
Mfg. Avg. Wkly. Earn. - \$	402	397	394	+ 2	Services	23,481	23,481	22,406	+ 5
					Fin., Ins. & Real Est.	6,421	6,393	6,054	+ 6
					Trans., Com. & Pub. Util.	5,371	5,367	5,296	+ 1
<b>SOUTHEAST</b>									
Civilian Labor Force - thous.	15,787	16,111	15,468	+ 2	Nonfarm Employment - thous.	13,172	13,114	12,918	+ 2
Total Employed - thous.	14,834	14,871	14,436	+ 3	Manufacturing	2,316	2,318	2,320	- 0
Total Unemployed - thous.	1,253	1,240	1,124	+11	Construction	797	801	795	+ 0
Unemployment Rate - % SA	8.1	7.9	7.5		Trade	3,344	3,307	3,222	+ 4
Mfg. Avg. Wkly. Hours	41.3	41.3	41.5	- 0	Government	2,319	2,313	2,287	+ 1
Mfg. Avg. Wkly. Earn. - \$	352	348	352	0	Services	2,809	2,791	2,692	+ 4
					Fin., Ins. & Real Est.	765	762	743	+ 3
					Trans., Com. & Pub. Util.	719	720	729	- 1
<b>ALABAMA</b>									
Civilian Labor Force - thous.	1,901	1,910	1,813	+ 5	Nonfarm Employment - thous.	1,451	1,451	1,441	+ 1
Total Employed - thous.	1,715	1,729	1,666	+ 3	Manufacturing	352	355	356	- 1
Total Unemployed - thous.	185	182	147	+26	Construction	74	73	74	0
Unemployment Rate - % SA	10.9	9.8	8.5		Trade	322	319	308	+ 5
Mfg. Avg. Wkly. Hours	41.1	41.4	41.3	- 0	Government	302	301	305	- 1
Mfg. Avg. Wkly. Earn. - \$	359	358	355	+ 1	Services	249	249	244	+ 2
					Fin., Ins. & Real Est.	70	70	66	+ 6
					Trans., Com. & Pub. Util.	71	72	72	- 1
<b>FLORIDA</b>									
Civilian Labor Force - thous.	5,394	5,667	5,354	+ 1	Nonfarm Employment - thous.	4,667	4,618	4,499	+ 4
Total Employed - thous.	5,375	5,336	5,059	+ 6	Manufacturing	528	526	520	+ 2
Total Unemployed - thous.	319	331	295	+ 8	Construction	342	341	339	+ 1
Unemployment Rate - % SA	5.6	5.4	5.4		Trade	1,280	1,258	1,214	+ 5
Mfg. Avg. Wkly. Hours	41.4	40.6	42.3	- 2	Government	720	716	694	+ 4
Mfg. Avg. Wkly. Earn. - \$	334	327	337	- 1	Services	1,203	1,187	1,153	+ 4
					Fin., Ins. & Real Est.	337	335	324	+ 4
					Trans., Com. & Pub. Util.	246	244	245	+ 0
<b>GEORGIA</b>									
Civilian Labor Force - thous.	3,027	3,040	2,900	+ 4	Nonfarm Employment - thous.	2,696	2,689	2,616	+ 3
Total Employed - thous.	2,856	2,868	2,721	+ 5	Manufacturing	557	558	560	- 1
Total Unemployed - thous.	171	172	179	- 4	Construction	166	166	153	+ 8
Unemployment Rate - % SA	5.9	6.0	6.4		Trade	700	693	666	+ 5
Mfg. Avg. Wkly. Hours	41.1	40.9	41.2	- 0	Government	457	455	453	+ 1
Mfg. Avg. Wkly. Earn. - \$	344	341	338	+ 2	Services	496	496	472	+ 5
					Fin., Ins. & Real Est.	146	147	140	+ 4
					Trans., Com. & Pub. Util.	166	167	164	+ 1
<b>LOUISIANA</b>									
Civilian Labor Force - thous.	1,969	1,987	1,987	- 1	Nonfarm Employment - thous.	1,518	1,519	1,606	- 5
Total Employed - thous.	1,703	1,728	1,763	- 3	Manufacturing	168	168	175	- 4
Total Unemployed - thous.	265	259	224	+18	Construction	90	92	105	-14
Unemployment Rate - % SA	13.9	13.7	11.8		Trade	378	377	394	- 4
Mfg. Avg. Wkly. Hours	42.4	42.0	42.5	- 0	Government	321	321	329	- 4
Mfg. Avg. Wkly. Earn. - \$	445	439	442	+ 1	Services	318	317	322	- 1
					Fin., Ins. & Real Est.	84	84	86	- 2
					Trans., Com. & Pub. Util.	102	103	115	-11
<b>MISSISSIPPI</b>									
Civilian Labor Force - thous.	1,162	1,172	1,127	+ 3	Nonfarm Employment - thous.	860	860	854	+ 1
Total Employed - thous.	1,029	1,042	1,111	- 7	Manufacturing	221	222	223	- 1
Total Unemployed - thous.	133	130	107	+24	Construction	36	37	38	- 5
Unemployment Rate - % SA	12.3	12.2	9.9		Trade	187	185	182	+ 3
Mfg. Avg. Wkly. Hours	40.1	40.4	40.8	- 2	Government	194	194	194	0
Mfg. Avg. Wkly. Earn. - \$	301	302	299	+ 1	Services	137	137	133	+ 3
					Fin., Ins. & Real Est.	37	37	36	+ 3
					Trans., Com. & Pub. Util.	41	41	40	+ 3
<b>TENNESSEE</b>									
Civilian Labor Force - thous.	2,335	2,335	2,286	+ 2	Nonfarm Employment - thous.	1,980	1,976	1,902	+ 4
Total Employed - thous.	2,155	2,168	2,115	+ 2	Manufacturing	489	489	486	+ 1
Total Unemployed - thous.	179	167	171	+ 5	Construction	90	91	85	+ 6
Unemployment Rate - % SA	8.1	8.0	7.9		Trade	477	475	456	+ 5
Mfg. Avg. Wkly. Hours	41.8	42.3	41.2	+ 1	Government	326	325	312	+ 4
Mfg. Avg. Wkly. Earn. - \$	327	321	344	- 5	Services	406	405	369	+10
					Fin., Ins. & Real Est.	91	91	90	+ 1
					Trans., Com. & Pub. Util.	93	94	92	+ 1

**NOTES:** All labor force data are from Bureau of Labor Statistics reports supplied by state agencies.  
Only the unemployment rate data are seasonally adjusted.  
The Southeast data represent the total of the six states.

FEDERAL RESERVE BANK OF ATLANTA





# GENERAL

	LATEST DATA	CURR. PERIOD	PREV. PERIOD	YEAR AGO	ANN. % CHG.		DEC. 1986	NOV. 1986	DEC. 1985	ANN. % CHG.
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## UNITED STATES

Personal Income (\$ bil. - SAAR)	Q3	3,497.1	3,479.6	3,319.9	+ 5	Agriculture				
Taxable Sales - \$ bil.		N.A.	N.A.	N.A.		Prices Rec'd by Farmers				
Plane Pass. Arr. (thous.)		N.A.	N.A.	N.A.		Index (1977=100)	121	124	128	- 5
Petroleum Prod. (thous.)	NOV	8,458.6	8,636.6	8,900.7	- 5	Broiler Placements (thous.)	86,527	80,700	82,706	+ 5
Consumer Price Index						Calf Prices (\$ per cwt.)	63.2	62.2	58.8	+ 7
1967=100	NOV	330.8	330.5	326.6	+ 1	Broiler Prices (\$ per lb.)	30.6	34.9	30.0	+ 2
Kilowatt Hours - mils.	SEP	203.1	216.8	179.1	+13	Soybean Prices (\$ per bu.)	4.66	4.64	5.00	- 7
						Broiler Feed Cost (\$ per ton)	(Q4)177	(Q3)190	(Q4)181	- 2

## SOUTHEAST

Personal Income (\$ bil. - SAAR)	Q3	427.0	422.5	399.7	+ 7	Agriculture				
Taxable Sales - \$ bil.		N.A.	N.A.	N.A.		Prices Rec'd by Farmers				
Plane Pass. Arr. (thous.)	NOV	5,184.5	4,833.6	4,369.4	+19	Index (1977=100)	111	117	113	- 2
Petroleum Prod. (thous.)	NOV	1,452.0	1,467.0	1,525.0	- 5	Broiler Placements (thous.)	35,870	33,120	34,378	+ 4
Consumer Price Index						Calf Prices (\$ per cwt.)	58.6	57.3	54.8	+ 7
1967=100		N.A.	N.A.	N.A.		Broiler Prices (\$ per lb.)	29.8	34.0	28.0	+ 6
Kilowatt Hours - mils.	SEP	36.3	37.8	28.5	+27	Soybean Prices (\$ per bu.)	4.80	4.83	5.01	- 4
						Broiler Feed Cost (\$ per ton)	179	184	182	- 2

## ALABAMA

Personal Income (\$ bil. - SAAR)	Q3	45.0	44.8	43.0	+ 5	Agriculture				
Taxable Sales - \$ bil.		N.A.	N.A.	N.A.		Farm Cash Receipts - \$ mil.				
Plane Pass. Arr. (thous.)	NOV	130.8	145.0	123.0	+ 6	Dates: SEPT., SEPT.	1,345		1,394	- 4
Petroleum Prod. (thous.)	NOV	56.0	58.0	58.0	- 3	Broiler Placements (thous.)	12,542	11,483	11,569	+ 8
Consumer Price Index						Calf Prices (\$ per cwt.)	58.5	56.7	56.1	+ 4
1967=100		N.A.	N.A.	N.A.		Broiler Prices (\$ per lb.)	28.0	33.7	26.5	+ 6
Kilowatt Hours - mils.	SEP	4.8	5.1	3.8	+26	Soybean Prices (\$ per bu.)	4.79	4.91	5.11	- 6
						Broiler Feed Cost (\$ per ton)	191	189	176	+ 9

## FLORIDA

Personal Income (\$ bil. - SAAR)	Q3	167.4	165.3	157.5	+ 6	Agriculture				
Taxable Sales - \$ bil.						Farm Cash Receipts - \$ mil.				
Plane Pass. Arr. (thous.)	NOV	2,523.8	2,359.9	2,117.9	+19	Dates: SEPT., SEPT.	3,727		3,809	- 2
Petroleum Prod. (thous.)	NOV	26.0	29.0	36.0	-28	Broiler Placements (thous.)	2,380	2,227	2,224	+ 7
Consumer Price Index						Calf Prices (\$ per cwt.)	61.0	60.5	57.0	+ 7
1977=100	MIAMI	175.8	174.3	173.9	+1	Broiler Prices (\$ per lb.)	30.0	33.0	28.0	+ 7
Kilowatt Hours - mils.	SEP	11.5	11.3	9.0	+28	Soybean Prices (\$ per bu.)	4.79	4.91	5.11	- 6
						Broiler Feed Cost (\$ per ton)	191	189	230	-17

## GEORGIA

Personal Income (\$ bil. - SAAR)	Q3	81.4	80.2	75.6	+ 8	Agriculture				
Taxable Sales - \$ bil.		N.A.	N.A.	N.A.		Farm Cash Receipts - \$ mil.				
Plane Pass. Arr. (thous.)	NOV	1,901.1	1,645.1	1,631.4	+17	Dates: SEPT., SEPT.	2,174		2,340	- 7
Petroleum Prod. (thous.)		N.A.	N.A.	N.A.		Broiler Placements (thous.)	14,230	13,072	13,866	+ 3
Consumer Price Index						Calf Prices (\$ per cwt.)	53.5	53.9	51.3	+ 4
1967=100	ATLANTA	339.9	338.9	330.0	+ 1	Broiler Prices (\$ per lb.)	29.5	33.0	28.0	+ 5
Kilowatt Hours - mils.	SEP	5.8	6.3	4.5	+29	Soybean Prices (\$ per bu.)	4.71	4.75	5.10	- 8
						Broiler Feed Cost (\$ per ton)	191	189	182	+ 5

## LOUISIANA

Personal Income (\$ bil. - SAAR)	Q3	50.5	50.5	50.7	- 0	Agriculture				
Taxable Sales - \$ bil.		N.A.	N.A.	N.A.		Farm Cash Receipts - \$ mil.				
Plane Pass. Arr. (thous.)	NOV	302.7	324.9	292.8	+ 3	Dates: SEPT., SEPT.	698		795	-12
Petroleum Prod. (thous.)	NOV	1,291.0	1,300.0	1,347.0	- 4	Broiler Placements (thous.)	N.A.		N.A.	
Consumer Price Index						Calf Prices (\$ per cwt.)	58.5	57.5	56.0	+ 4
1967=100		N.A.	N.A.	N.A.		Broiler Prices (\$ per lb.)	30.0	36.0	31.0	- 3
Kilowatt Hours - mils.	SEP	5.8	5.9	4.4	+32	Soybean Prices (\$ per bu.)	4.70	4.63	4.70	0
						Broiler Feed Cost (\$ per ton)	144	169	230	-37

## MISSISSIPPI

Personal Income (\$ bil. - SAAR)	Q3	25.1	25.2	23.6	+ 6	Agriculture				
Taxable Sales - \$ bil.		N.A.	N.A.	N.A.		Farm Cash Receipts - \$ mil.				
Plane Pass. Arr. (thous.)	NOV	38.0	41.2	32.6	+16	Dates: SEPT., SEPT.	966		1,136	-15
Petroleum Prod. (thous.)	NOV	79.0	80.0	84.0	- 6	Broiler Placements (thous.)	6,718	6,337	6,7120	- 0
Consumer Price Index						Calf Prices (\$ per cwt.)	62.0	58.8	57.6	+ 8
1967=100		N.A.	N.A.	N.A.		Broiler Prices (\$ per lb.)	33.2	36.4	30.0	+11
Kilowatt Hours - mils.	SEP	2.6	2.7	1.9	+37	Soybean Prices (\$ per bu.)	4.88	4.95	5.00	- 2
						Broiler Feed Cost (\$ per ton)	144	169	137	+ 5

## TENNESSEE

Personal Income (\$ bil. - SAAR)	Q3	57.6	56.5	53.6	+ 7	Agriculture				
Taxable Sales - \$ bil.		N.A.	N.A.	N.A.		Farm Cash Receipts - \$ mil.				
Plane Pass. Arr. (thous.)	NOV	288.1	317.5	171.6	+68	Dates: SEPT., SEPT.	1,128		1,238	- 9
Petroleum Prod. (thous.)		N.A.	N.A.	N.A.		Broiler Placements (thous.)	N.A.		N.A.	
Consumer Price Index						Calf Prices (\$ per cwt.)	56.8	55.7	53.4	+ 6
1967=100		N.A.	N.A.	N.A.		Broiler Prices (\$ per lb.)	30.0	32.0	27.0	+11
Kilowatt Hours - mils.	SEP	5.8	6.5	4.9	+18	Soybean Prices (\$ per bu.)	4.88	4.89	5.26	- 7
						Broiler Feed Cost (\$ per ton)	181	205	178	+ 2

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.





# CONSTRUCTION

(12-month cumulative rate)

	NOV 1986	OCT 1986	NOV 1985	ANN. % CHG.		NOV 1986	OCT 1986	NOV 1985	ANN. % CHG.
<b>UNITED STATES</b>									
Nonresidential Building Permits - \$ Mil.					Residential Building Permits				
Total Nonresidential	49,008	50,844	68,889	-29	Value - \$ Mil.	93,226	93,044	81,782	+14
Industrial Bldgs.	8,591	8,572	8,791	-2	Residential Permits - Thous.				
Offices	14,336	14,631	17,121	-16	Single-family units	1,056.0	1,055.6	944.2	+12
Stores	11,962	12,007	11,016	+9	Multifamily units	684.0	695.5	760.3	-10
Hospitals	2,545	2,542	2,189	+16	Total Building Permits				
Schools	1,236	1,227	1,147	+8	Value - \$ Mil.	142,243	143,897	150,670	-6
<b>SOUTHEAST</b>									
Nonresidential Building Permits - \$ Mil.					Residential Building Permits				
Total Nonresidential	8,001	8,215	11,427	-30	Value - \$ Mil.	15,875	15,933	14,562	+9
Industrial Bldgs.	1,091	1,095	1,200	-9	Residential Permits - Thous.				
Offices	1,958	2,014	2,565	-24	Single-family units	205.6	205.5	195.0	+5
Stores	2,304	2,327	2,276	+1	Multifamily units	145.9	148.9	161.0	-9
Hospitals	422	394	416	+1	Total Building Permits				
Schools	160	158	158	+1	Value - \$ Mil.	24,086	24,358	25,991	-7
<b>ALABAMA</b>									
Nonresidential Building Permits - \$ Mil.					Residential Building Permits				
Total Nonresidential	577	564	673	-14	Value - \$ Mil.	668	668	537	+24
Industrial Bldgs.	76	66	55	+38	Residential Permits - Thous.				
Offices	133	136	150	-11	Single-family units	10.9	10.9	9.8	+11
Stores	171	170	162	+6	Multifamily units	8.0	8.4	7.8	+3
Hospitals	24	23	40	-40	Total Building Permits				
Schools	17	19	13	+31	Value - \$ Mil.	1,245	1,232	1,210	+3
<b>FLORIDA</b>									
Nonresidential Building Permits - \$ Mil.					Residential Building Permits				
Total Nonresidential	3,922	4,065	5,896	-33	Value - \$ Mil.	8,671	8,685	8,271	+5
Industrial Bldgs.	422	425	554	-24	Residential Permits - Thous.				
Offices	963	1,005	1,177	-18	Single-family units	105.9	105.1	103.3	+3
Stores	1,118	1,154	1,125	-11	Multifamily units	91.3	93.4	97.3	-6
Hospitals	241	224	221	+9	Total Building Permits				
Schools	45	43	49	-8	Value - \$ Mil.	12,593	12,750	14,167	-11
<b>GEORGIA</b>									
Nonresidential Building Permits - \$ Mil.					Residential Building Permits				
Total Nonresidential	1,752	1,788	1,955	-10	Value - \$ Mil.	3,771	3,794	3,104	+21
Industrial Bldgs.	341	341	311	+10	Residential Permits - Thous.				
Offices	389	393	485	-20	Single-family units	51.5	51.9	46.4	+11
Stores	493	483	308	+60	Multifamily units	26.1	26.4	25.9	+1
Hospitals	37	32	33	+12	Total Building Permits				
Schools	38	41	21	+81	Value - \$ Mil.	5,523	5,582	5,059	+9
<b>LOUISIANA</b>									
Nonresidential Building Permits - \$ Mil.					Residential Building Permits				
Total Nonresidential	581	592	1,331	-56	Value - \$ Mil.	587	609	779	-25
Industrial Bldgs.	45	45	49	-8	Residential Permits - Thous.				
Offices	172	174	412	-58	Single-family units	8.8	9.1	11.5	-23
Stores	152	155	255	-40	Multifamily units	2.8	3.1	7.1	-61
Hospitals	43	41	46	-7	Total Building Permits				
Schools	41	37	56	-27	Value - \$ Mil.	1,168	1,201	2,110	-45
<b>MISSISSIPPI</b>									
Nonresidential Building Permits - \$ Mil.					Residential Building Permits				
Total Nonresidential	257	253	295	-13	Value - \$ Mil.	356	365	333	+7
Industrial Bldgs.	28	26	22	+27	Residential Permits - Thous.				
Offices	62	65	53	+17	Single-family units	5.8	5.9	5.7	+2
Stores	83	81	60	+38	Multifamily units	2.7	2.8	2.2	+23
Hospitals	22	16	15	+47	Total Building Permits				
Schools	8	7	8	0	Value - \$ Mil.	614	618	628	-2
<b>TENNESSEE</b>									
Nonresidential Building Permits - \$ Mil.					Residential Building Permits				
Total Nonresidential	912	954	1,277	-29	Value - \$ Mil.	1,821	1,812	1,539	+18
Industrial Bldgs.	180	191	208	-13	Residential Permits - Thous.				
Offices	238	241	288	-17	Single-family units	22.7	22.6	18.2	+25
Stores	285	284	233	+22	Multifamily units	15.0	14.8	20.8	-28
Hospitals	55	58	61	-10	Total Building Permits				
Schools	12	11	11	+9	Value - \$ Mil.	2,943	2,976	2,816	+5

**NOTES:** Data supplied by the U. S. Bureau of the Census, Housing Units Authorized By Building Permits and Public Contracts, C-40. Nonresidential data exclude the cost of construction for publicly owned buildings. The Southeast data represent the total of the six states.





# FINANCE

	JAN. 1987	DEC. 1986	JAN. 1986	ANN. % CHG.		JAN. 1987	DEC. 1986	JAN. 1986	ANN. % CHG.
\$ millions									
<b>UNITED STATES</b>									
Commercial Bank Deposits	1,742,238	1,666,670	1,566,786	+11	S&Ls Total Deposits	699,947	698,806	616,032	+14
Demand	432,799	373,035	370,832	+17	NOW	34,283	32,076	25,125	+36
NOW	155,379	140,485	114,865	+35	Savings	166,905	166,112	141,261	+18
Savings	515,431	503,518	435,673	+18	Time	496,671	498,286	448,749	+11
Time	693,591	688,756	692,663	+ 0	Credit Union Deposits	61,038	59,777	43,493	+40
					Share Drafts	8,523	8,257	6,262	+36
					Savings & Time	51,623	50,844	36,155	+43
<b>SOUTHEAST</b>									
Commercial Bank Deposits	203,528	194,219	182,336	+12	S&Ls Total Deposits	90,141	90,671	N.A.	...
Demand	46,398	40,910	41,121	+13	NOW	5,361	5,141	N.A.	...
NOW	21,796	19,279	15,516	+40	Savings	20,739	20,762	N.A.	...
Savings	57,817	55,826	50,831	+14	Time	63,552	64,570	N.A.	...
Time	83,868	82,659	80,154	+ 5	Credit Union Deposits	6,790	6,638	5,317	+28
					Share Drafts	819	788	591	+39
					Savings & Time	5,690	5,604	4,442	+28
<b>ALABAMA</b>									
Commercial Bank Deposits	20,496	19,512	17,565	+17	S&Ls Total Deposits	6,077	6,040	4,605	+32
Demand	4,645	4,177	4,139	+12	NOW	355	329	227	+56
NOW	2,155	1,919	1,468	+47	Savings	1,160	1,169	842	+38
Savings	4,347	4,251	3,627	+20	Time	4,597	4,570	3,539	+30
Time	9,949	9,608	8,932	+11	Credit Union Deposits	896	890	800	+12
					Share Drafts	154	149	131	+18
					Savings & Time	739	730	652	+13
<b>FLORIDA</b>									
Commercial Bank Deposits	79,068	73,882	67,396	+17	S&Ls Total Deposits	57,097	58,137	56,319	+ 1
Demand	18,017	15,702	15,291	+18	NOW	3,341	3,230	2,849	+17
NOW	9,749	8,464	6,677	+46	Savings	14,011	14,050	13,375	+ 5
Savings	27,009	25,672	22,797	+18	Time	39,220	40,308	39,766	- 1
Time	27,102	25,904	24,784	+ 9	Credit Union Deposits	3,559	3,479	2,710	+31
					Share Drafts	414	392	294	+41
					Savings & Time	2,834	2,790	2,168	+31
<b>GEORGIA</b>									
Commercial Bank Deposits	32,359	31,133	29,903	+ 8	S&Ls Total Deposits	7,560	7,156	6,254	+21
Demand	9,591	8,510	8,401	+14	NOW	790	735	485	+63
NOW	3,107	2,785	2,029	+53	Savings	1,640	1,639	1,346	+22
Savings	9,222	9,000	9,159	+ 1	Time	5,203	5,200	4,483	+16
Time	12,214	12,263	11,758	+ 4	Credit Union Deposits	1,303	1,254	1,013	+29
					Share Drafts	139	138	85	+64
					Savings & Time	1,161	1,145	911	+27
<b>LOUISIANA</b>									
Commercial Bank Deposits	29,050	28,505	28,578	+ 2	S&Ls Total Deposits	10,568	10,552	N.A.	...
Demand	5,785	5,182	5,727	+ 2	NOW	400	393	N.A.	...
NOW	2,325	2,022	1,940	+20	Savings	2,310	2,290	N.A.	...
Savings	8,114	7,973	7,261	+12	Time	7,881	7,880	N.A.	...
Time	13,497	13,765	14,268	- 5	Credit Union Deposits	*	*	*	
					Share Drafts	*	*	*	
					Savings & Time	*	*	*	
<b>MISSISSIPPI</b>									
Commercial Bank Deposits	13,890	13,540	13,222	+ 5	S&Ls Total Deposits	2,215	2,199	N.A.	...
Demand	2,656	2,347	2,678	- 1	NOW	114	113	N.A.	...
NOW	1,357	1,239	1,058	+28	Savings	312	310	N.A.	...
Savings	3,060	3,027	2,650	+15	Time	1,696	1,688	N.A.	...
Time	7,190	7,215	7,157	+ 0	Credit Union Deposits	*	*	*	
					Share Drafts	*	*	*	
					Savings & Time	*	*	*	
<b>TENNESSEE</b>									
Commercial Bank Deposits	28,665	27,647	25,672	+12	S&Ls Total Deposits	6,624	6,587	5,596	+18
Demand	5,704	4,992	4,885	+17	NOW	361	341	239	+51
NOW	3,103	2,850	2,344	+32	Savings	1,306	1,304	1,025	+27
Savings	6,065	5,903	5,337	+14	Time	4,955	4,924	4,360	+14
Time	13,916	13,904	13,255	+ 5	Credit Union Deposits	1,032	1,015	794	+30
					Share Drafts	112	109	81	+38
					Savings & Time	956	939	711	+34

**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 \$26.8 million in deposits and \$2.6 million of reserve requirements as of June 1986, represents 95% of deposits in the six state area. The annual rate of change is based on most recent data over comparable year ago data. 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 \$26.8 million in deposits as of June 1986. 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. 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.



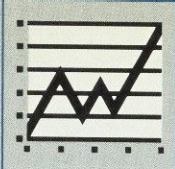


# EMPLOYMENT

	DEC 1986	NOV 1986	DEC 1985	ANN. % CHG.		DEC 1986	NOV 1986	DEC 1985	ANN. % CHG.
<b>UNITED STATES</b>									
Civilian Labor Force - thous.	118,049	118,623	115,780	+2	Nonfarm Employment - thous.	101,991	101,874	99,546	+2
Total Employed - thous.	110,588	110,751	108,063	+2	Manufacturing	19,182	19,216	19,272	+0
Total Unemployed - thous.	7,461	7,872	7,717	-3	Construction	4,934	5,143	4,721	+5
Unemployment Rate - % SA	6.7	6.8	6.9		Trade	23,649	23,322	23,016	+3
Mfg. Avg. Wkly. Hours	41.7	41	41.7	+0	Government	17,181	17,213	16,860	+2
Mfg. Avg. Wkly. Earn. - \$	411	401	406	+1	Services	23,468	23,444	22,389	+5
					Fin., Ins. & Real. Est.	6,450	6,416	6,080	+6
					Trans. Com. & Pub. Util.	5,389	5,373	5,307	+2
<b>SOUTHEAST</b>									
Civilian Labor Force - thous.	16,057	16,106	15,417	+4	Nonfarm Employment - thous.	13,263	13,194	12,955	+2
Total Employed - thous.	14,859	14,843	14,285	+4	Manufacturing	2,321	2,319	2,318	+0
Total Unemployed - thous.	1,197	1,263	1,132	+6	Construction	790	798	786	+1
Unemployment Rate - % SA	7.6	8.1	7.5		Trade	3,419	3,355	3,269	+5
Mfg. Avg. Wkly. Hours	41.8	41.3	42.3	-1	Government	2,323	2,325	2,282	+2
Mfg. Avg. Wkly. Earn. - \$	365	356	362	+1	Services	2,820	2,630	2,695	+5
					Fin., Ins. & Real. Est.	768	765	743	+3
					Trans. Com. & Pub. Util.	723	720	732	-1
<b>ALABAMA</b>									
Civilian Labor Force - thous.	1,887	1,905	1,798	+5	Nonfarm Employment - thous.	1,454	1,452	1,440	+1
Total Employed - thous.	1,707	1,718	1,648	+4	Manufacturing	352	353	354	-1
Total Unemployed - thous.	180	187	149	+21	Construction	72	73	73	-2
Unemployment Rate - % SA	9.2	10.1	8.0		Trade	325	322	314	+4
Mfg. Avg. Wkly. Hours	41.9	41.3	42	+0	Government	302	303	301	+0
Mfg. Avg. Wkly. Earn. - \$	364	359	366	-1	Services	249	249	244	+2
					Fin., Ins. & Real. Est.	71	70	67	+5
					Trans. Com. & Pub. Util.	71	71	73	-2
<b>FLORIDA</b>									
Civilian Labor Force - thous.	5,710	5,694	5,391	+6	Nonfarm Employment - thous.	4,738	4,685	4,532	+5
Total Employed - thous.	5,446	5,375	5,091	+7	Manufacturing	533	531	522	+2
Total Unemployed - thous.	263	319	300	-12	Construction	342	343	339	+1
Unemployment Rate - % SA	4.7	5.6	5.6		Trade	1,326	1,290	1,231	+8
Mfg. Avg. Wkly. Hours	42.2	41.4	42.5	-1	Government	724	723	695	+4
Mfg. Avg. Wkly. Earn. - \$	345	334	343	+1	Services	1,216	1,026	1,164	+4
					Fin., Ins. & Real. Est.	339	337	325	+4
					Trans. Com. & Pub. Util.	249	246	246	+1
<b>GEORGIA</b>									
Civilian Labor Force - thous.	3,029	3,030	2,885	+5	Nonfarm Employment - thous.	2,708	2,696	2,626	+3
Total Employed - thous.	2,858	2,857	2,708	+6	Manufacturing	558	558	559	+0
Total Unemployed - thous.	171	173	178	-4	Construction	164	166	153	+7
Unemployment Rate - % SA	5.9	5.9	6.4		Trade	712	699	679	+5
Mfg. Avg. Wkly. Hours	41.6	41.2	42.1	-1	Government	456	457	453	+1
Mfg. Avg. Wkly. Earn. - \$	357	340	344	+4	Services	497	496	469	+6
					Fin., Ins. & Real. Est.	146	146	140	+4
					Trans. Com. & Pub. Util.	167	166	165	+1
<b>LOUISIANA</b>									
Civilian Labor Force - thous.	1,958	1,975	1,963	+0	Nonfarm Employment - thous.	1,512	1,518	1,600	-6
Total Employed - thous.	1,690	1,706	1,740	-3	Manufacturing	166	168	174	-5
Total Unemployed - thous.	268	269	223	+20	Construction	87	90	100	-13
Unemployment Rate - % SA	14.3	14.1	12.0		Trade	380	378	397	-4
Mfg. Avg. Wkly. Hours	42.8	42.3	42.7	+0	Government	321	321	328	-2
Mfg. Avg. Wkly. Earn. - \$	452	443	448	+1	Services	315	317	321	-2
					Fin., Ins. & Real. Est.	84	84	86	-2
					Trans. Com. & Pub. Util.	103	103	115	-10
<b>MISSISSIPPI</b>									
Civilian Labor Force - thous.	1,153	1,164	1,111	+4	Nonfarm Employment - thous.	860	860	856	+0
Total Employed - thous.	1,018	1,030	1,007	+1	Manufacturing	220	221	224	-2
Total Unemployed - thous.	135	134	105	+29	Construction	35	36	37	-5
Unemployment Rate - % SA	12.3	12.4	9.8		Trade	190	187	185	+3
Mfg. Avg. Wkly. Hours	40.7	40.1	41.6	-2	Government	194	194	193	+1
Mfg. Avg. Wkly. Earn. - \$	309	301	307	+1	Services	137	137	133	+3
					Fin., Ins. & Real. Est.	37	37	36	+3
					Trans. Com. & Pub. Util.	40	41	40	0
<b>TENNESSEE</b>									
Civilian Labor Force - thous.	2,320	2,339	2,269	+2	Nonfarm Employment - thous.	1,992	1,981	1,901	+5
Total Employed - thous.	2,140	2,158	2,091	+2	Manufacturing	491	489	485	+1
Total Unemployed - thous.	180	181	178	+1	Construction	90	90	83	+8
Unemployment Rate - % SA	7.7	8.2	7.7		Trade	487	479	464	+5
Mfg. Avg. Wkly. Hours	41.7	41.5	42.7	-2	Government	326	327	313	+4
Mfg. Avg. Wkly. Earn. - \$	362	360	364	-1	Services	407	406	365	+12
					Fin., Ins. & Real. Est.	91	91	89	+2
					Trans. Com. & Pub. Util.	93	94	94	-1

NOTES: All labor force data are from Bureau of Labor Statistics reports supplied by state agencies.  
Only the unemployment rate data are seasonally adjusted.  
The Southeast data represent the total of the six states.





# GENERAL

	LATEST DATA	CURR. PERIOD	PREV. PERIOD	YEAR AGO	ANN. % CHG.		JAN. 1987	DEC. 1986	JAN. 1986	ANN. % CHG.
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## UNITED STATES

Personal Income (\$ bil. - SAAR)	Q3	3,497.1	3,479.6	3,319.9	+ 5	Agriculture				
Taxable Sales - \$ bil.		N.A.	N.A.	N.A.		Prices Rec'd by Farmers				
Plane Pass. Arr. (thous.)		N.A.	N.A.	N.A.		Index (1977=100)	119	121	124	- 4
Petroleum Prod. (thous.)	JAN	8,437.4	8,334.9	9,081.0	- 7	Broiler Placements (thous.)	86,574	85,554	81,167	+ 7
Consumer Price Index						Calf Prices (\$ per cwt.)	65.1	62.2	58.9	+11
1967=100	JAN	333.1	331.1	328.4	+ 1	Broiler Prices (\$ per lb.)	31.1	30.6	30.5	+ 2
Kilowatt Hours - mils.	SEP	203.1	216.8	179.1	+13	Soybean Prices (\$ per bu.)	4.69	4.67	5.12	- 8
						Broiler Feed Cost (\$ per ton)	(Q1)174	(Q4)177	(Q1)191	- 9

## SOUTHEAST

Personal Income (\$ bil. - SAAR)	Q3	427.0	422.5	399.7	+ 7	Agriculture				
Taxable Sales - \$ bil.		N.A.	N.A.	N.A.		Prices Rec'd by Farmers				
Plane Pass. Arr. (thous.)		N.A.	N.A.	N.A.		Index (1977=100)	111	111	113	- 2
Petroleum Prod. (thous.)	JAN	1,422.0	1,438.0	1,535.0	- 7	Broiler Placements (thous.)	35,797	35,592	33,895	+ 6
Consumer Price Index						Calf Prices (\$ per cwt.)	60.8	58.6	55.3	+10
1967=100		N.A.	N.A.	N.A.		Broiler Prices (\$ per lb.)	30.1	29.8	29.1	+ 3
Kilowatt Hours - mils.	SEP	36.3	37.8	28.5	+27	Soybean Prices (\$ per bu.)	4.75	4.80	5.02	- 5
						Broiler Feed Cost (\$ per ton)	168	179	184	- 9

## ALABAMA

Personal Income (\$ bil. - SAAR)	Q3	45.0	44.8	43.0	+ 5	Agriculture				
Taxable Sales - \$ bil.		N.A.	N.A.	N.A.		Farm Cash Receipts - \$ mil.				
Plane Pass. Arr. (thous.)	NOV	130.8	145.0	123.0	+ 6	Dates: NOV., NOV.	1,818		1,895	- 4
Petroleum Prod. (thous.)	JAN	54.0	54.0	62.0	-13	Broiler Placements (thous.)	12,648	12,517	11,469	+10
Consumer Price Index						Calf Prices (\$ per cwt.)	61.6	58.5	54.6	+13
1967=100		N.A.	N.A.	N.A.		Broiler Prices (\$ per lb.)	29.0	28.0	29.0	0
Kilowatt Hours - mils.	SEP	4.8	5.1	3.8	+26	Soybean Prices (\$ per bu.)	4.69	4.79	5.25	-11
						Broiler Feed Cost (\$ per ton)	175	191	183	- 4

## FLORIDA

Personal Income (\$ bil. - SAAR)	Q3	167.4	165.3	157.5	+ 6	Agriculture				
Taxable Sales - \$ bil.		N.A.	N.A.	N.A.		Farm Cash Receipts - \$ mil.				
Plane Pass. Arr. (thous.)	NOV	2,523.8	2,359.9	2,117.9	+19	Dates: NOV., NOV.	4,225		4,551	- 7
Petroleum Prod. (thous.)	NOV	26.0	29.0	36.0	-28	Broiler Placements (thous.)	2,289	2,353	2,195	+ 4
Consumer Price Index	JAN		NOV	JAN		Calf Prices (\$ per cwt.)	63.0	61.0	57.5	+10
1977=100	MIAMI	177.2	175.8	174.6	+ 1	Broiler Prices (\$ per lb.)	29.0	30.0	29.0	0
Kilowatt Hours - mils.	SEP	11.5	11.3	9.0	+28	Soybean Prices (\$ per bu.)	4.69	4.79	5.25	-11
						Broiler Feed Cost (\$ per ton)	175	191	235	-26

## GEORGIA

Personal Income (\$ bil. - SAAR)	Q3	81.4	80.2	75.6	+ 8	Agriculture				
Taxable Sales - \$ bil.		N.A.	N.A.	N.A.		Farm Cash Receipts - \$ mil.				
Plane Pass. Arr. (thous.)	NOV	1,901.1	1,645.1	1,631.4	+17	Dates: NOV., NOV.	2,849		3,087	- 8
Petroleum Prod. (thous.)		N.A.	N.A.	N.A.		Broiler Placements (thous.)	14,143	14,044	13,697	+ 3
Consumer Price Index	DEC		OCT	DEC		Calf Prices (\$ per cwt.)	59.1	53.5	51.3	+15
1967=100	ATLANTA	342.2	339.9	335.3	+ 2	Broiler Prices (\$ per lb.)	29.5	29.5	28.5	+ 4
Kilowatt Hours - mils.	SEP	5.8	6.3	4.5	+29	Soybean Prices (\$ per bu.)	4.82	4.71	5.16	- 7
						Broiler Feed Cost (\$ per ton)	175	191	181	- 3

## LOUISIANA

Personal Income (\$ bil. - SAAR)	Q3	50.5	50.5	50.7	- 0	Agriculture				
Taxable Sales - \$ bil.		N.A.	N.A.	N.A.		Farm Cash Receipts - \$ mil.				
Plane Pass. Arr. (thous.)	DEC	306.2	302.7	286.7	+ 7	Dates: SEPT., SEPT.	1,093		1,246	-12
Petroleum Prod. (thous.)	JAN	1,265.0	1,280.0	1,359.0	- 7	Broiler Placements (thous.)	N.A.		N.A.	
Consumer Price Index						Calf Prices (\$ per cwt.)	60.0	58.5	56.0	+ 7
1967=100		N.A.	N.A.	N.A.		Broiler Prices (\$ per lb.)	32.5	30.0	31.0	+ 5
Kilowatt Hours - mils.	SEP	5.8	5.9	4.4	+32	Soybean Prices (\$ per bu.)	4.62	4.70	4.62	0
						Broiler Feed Cost (\$ per ton)	147	144	250	-41

## MISSISSIPPI

Personal Income (\$ bil. - SAAR)	Q3	25.1	25.2	23.6	+ 6	Agriculture				
Taxable Sales - \$ bil.		N.A.	N.A.	N.A.		Farm Cash Receipts - \$ mil.				
Plane Pass. Arr. (thous.)	DEC	40.5	38.0	35.2	+15	Dates: SEPT., SEPT.	1,540		1,803	-15
Petroleum Prod. (thous.)	JAN	78.0	79.0	84.0	- 7	Broiler Placements (thous.)	6,717	6,678	6,533	+ 3
Consumer Price Index						Calf Prices (\$ per cwt.)	61.2	62.0	56.5	+ 8
1967=100		N.A.	N.A.	N.A.		Broiler Prices (\$ per lb.)	32.5	33.2	30.5	+ 7
Kilowatt Hours - mils.	SEP	2.6	2.7	1.9	+37	Soybean Prices (\$ per bu.)	4.81	4.88	5.24	- 8
						Broiler Feed Cost (\$ per ton)	147	144	159	- 8

## TENNESSEE

Personal Income (\$ bil. - SAAR)	Q3	57.6	56.5	53.6	+ 7	Agriculture				
Taxable Sales - \$ bil.		N.A.	N.A.	N.A.		Farm Cash Receipts - \$ mil.				
Plane Pass. Arr. (thous.)	NOV	288.1	317.5	171.6	+68	Dates: SEPT., SEPT.	1,595		1,767	-10
Petroleum Prod. (thous.)		N.A.	N.A.	N.A.		Broiler Placements (thous.)	N.A.		N.A.	
Consumer Price Index						Calf Prices (\$ per cwt.)	59.8	56.8	54.9	+ 9
1967=100		N.A.	N.A.	N.A.		Broiler Prices (\$ per lb.)	31.0	30.0	27.5	+13
Kilowatt Hours - mils.	SEP	5.8	6.5	4.9	+18	Soybean Prices (\$ per bu.)	4.84	4.88	5.43	-11
						Broiler Feed Cost (\$ per ton)	187	181	186	+ 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.





# CONSTRUCTION

12-month cumulative rate				ANN. % CHG					ANN. % CHG
					DEC 1986	NOV. 1986	DEC. 1985		
<b>UNITED STATES</b>									
Nonresidential Building Permits - \$ Mil.					Residential Building Permits				
Total Nonresidential	47,657	49,008	69,309	-31	Value - \$ Mil.	94,694	93,226	83,107	+14
Industrial Bldgs.	8,879	8,591	8,722	+2	Residential Permits - Thous.				
Offices	14,079	14,336	17,319	-19	Single-family units	1,070.7	1,056.0	953.4	+12
Stores	11,889	11,962	11,224	+6	Multifamily units	673.2	684.0	773.1	-13
Hospitals	2,574	2,545	2,134	+21	Total Building Permits				
Schools	1,212	1,236	1,133	+7	Value - \$ Mil.	142,360	142,243	152,416	-7
<b>SOUTHEAST</b>									
Nonresidential Building Permits - \$ Mil.					Residential Building Permits				
Total Nonresidential	7,895	8,001	11,457	-31	Value - \$ Mil.	15,696	15,875	14,903	+5
Industrial Bldgs.	1,127	1,091	1,192	-5	Residential Permits - Thous.				
Offices	1,983	1,958	2,639	-25	Single-family units	204.5	205.6	197.9	+3
Stores	2,328	2,304	2,280	+2	Multifamily units	137.7	145.9	165.3	-16
Hospitals	473	422	344	+38	Total Building Permits				
Schools	160	160	157	+2	Value - \$ Mil.	23,763	24,086	26,359	-10
<b>ALABAMA</b>									
Nonresidential Building Permits - \$ Mil.					Residential Building Permits				
Total Nonresidential	569	577	624	-9	Value - \$ Mil.	677	668	552	+23
Industrial Bldgs.	74	76	55	+34	Residential Permits - Thous.				
Offices	133	133	150	-11	Single-family units	11.0	10.9	9.9	+11
Stores	173	171	160	+8	Multifamily units	8.2	8.0	8.0	+2
Hospitals	24	24	13	+85	Total Building Permits				
Schools	18	17	14	+29	Value - \$ Mil.	1,246	1,245	1,176	+6
<b>FLORIDA</b>									
Nonresidential Building Permits - \$ Mil.					Residential Building Permits				
Total Nonresidential	3,850	3,922	5,868	-34	Value - \$ Mil.	8,528	8,671	8,477	+1
Industrial Bldgs.	425	422	537	-21	Residential Permits - Thous.				
Offices	988	963	1,170	-16	Single-family units	104.5	105.9	105.9	-1
Stores	1,114	1,118	1,255	-11	Multifamily units	86.6	91.3	98.5	-12
Hospitals	288	241	189	+52	Total Building Permits				
Schools	43	45	50	-14	Value - \$ Mil.	12,379	12,593	14,345	-14
<b>GEORGIA</b>									
Nonresidential Building Permits - \$ Mil.					Residential Building Permits				
Total Nonresidential	1,764	1,752	2,049	-14	Value - \$ Mil.	3,783	3,771	3,188	+19
Industrial Bldgs.	354	341	316	+12	Residential Permits - Thous.				
Offices	418	389	545	-23	Single-family units	51.8	51.5	46.6	+11
Stores	510	493	318	+60	Multifamily units	24.5	26.1	27.7	-12
Hospitals	37	37	25	+48	Total Building Permits				
Schools	40	38	20	+100	Value - \$ Mil.	5,548	5,523	5,237	+6
<b>LOUISIANA</b>									
Nonresidential Building Permits - \$ Mil.					Residential Building Permits				
Total Nonresidential	551	581	1,323	-58	Value - \$ Mil.	565	587	785	-28
Industrial Bldgs.	47	45	50	-6	Residential Permits - Thous.				
Offices	155	172	421	-63	Single-family units	8.6	8.8	11.5	-25
Stores	158	152	251	-37	Multifamily units	2.3	2.8	7.3	-68
Hospitals	44	43	45	-2	Total Building Permits				
Schools	39	41	55	-29	Value - \$ Mil.	1,077	1,168	2,108	-49
<b>MISSISSIPPI</b>									
Nonresidential Building Permits - \$ Mil.					Residential Building Permits				
Total Nonresidential	247	257	305	-19	Value - \$ Mil.	343	356	335	+2
Industrial Bldgs.	28	28	25	+12	Residential Permits - Thous.				
Offices	63	63	54	+17	Single-family units	5.7	5.8	5.7	+0
Stores	79	84	65	+22	Multifamily units	2.3	2.7	2.5	-8
Hospitals	22	22	17	+29	Total Building Permits				
Schools	8	8	7	+14	Value - \$ Mil.	590	614	640	-8
<b>TENNESSEE</b>									
Nonresidential Building Permits - \$ Mil.					Residential Building Permits				
Total Nonresidential	914	912	1,287	-29	Value - \$ Mil.	1,800	1,821	1,566	+15
Industrial Bldgs.	200	180	209	-4	Residential Permits - Thous.				
Offices	225	238	299	-25	Single-family units	22.8	22.7	18.3	+25
Stores	294	286	231	+27	Multifamily units	13.8	15.0	21.3	-35
Hospitals	58	55	55	+5	Total Building Permits				
Schools	12	12	11	+9	Value - \$ Mil.	2,924	2,943	2,853	+2

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 represents the total of the six states.



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Address Correction Requested

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