

The Atlanta Fed's Place in the Southeast Economy

The Atlanta Fed has a tradition of engagement with the Southeast through its economic research, financial institution services and supervision, and public outreach.

On many issues in 2007—from the dynamics affecting the present and future workforce to the rapid rise of electronic payment methods to helping consumers avoid home foreclosures—the Atlanta Fed, both at its headquarters and its branches, continued to deepen its active involvement with its varied constituencies in the region.

One of the bank's core responsibilities is to contribute to monetary policy deliberations. In pursuit of this goal, nearly two dozen Ph.D. economists dissect the regional, national, and global economies both to help inform the nation's monetary policy and to advance knowledge of our ever-changing economy and the methods used to study it. That work not only sheds light on current conditions but also analyzes underlying dynamics and longer-term trends significant to the region, nation, and world.

For instance, Atlanta Fed research economists—along with experts in the Retail Payments Office, under the auspices of the bank's Americas Center—have taken a leading role in studying monetary remittances that Latin American immigrants send from the United States to their native countries. Since 2000, remittances have grown into a multibillion-dollar annual phenomenon.

At the center of the payments evolution

The Atlanta Fed benefits not only from robust economic research but also from the perspective it gains as the seat of the Federal Reserve System's Retail Payments Office (RPO). The Federal Reserve manages large parts of the nation's payments system, and the RPO directs the System's retail payment activities.

The RPO's mission, among other initiatives, includes payments research. In recent years, that research has focused on a fundamental shift by American consumers and businesses away from writing paper checks and toward electronic payment methods.

An Economic Timeline of the Southeast: Poor to Prosperous

1938: President Franklin Roosevelt declares the South to be America's "economic problem No. 1."

1946: An Atlanta Fed economist writes that the Southeast region suffers from "an adherence to an agricultural economy built on . . . cotton, corn, and tobacco."

1947: Two major automakers open plants in the Atlanta area—Ford, in Hapeville, and General Motors, in Doraville.

The Fed's most recent study of noncash payments revealed that from 2003 to 2006, the period covered by the study, all types of electronic payments grew while check payments decreased. By 2006 more than two-thirds of all U.S. noncash payments were made electronically—a significant shift from 2003, when the number of electronic payments and check payments was roughly equal.

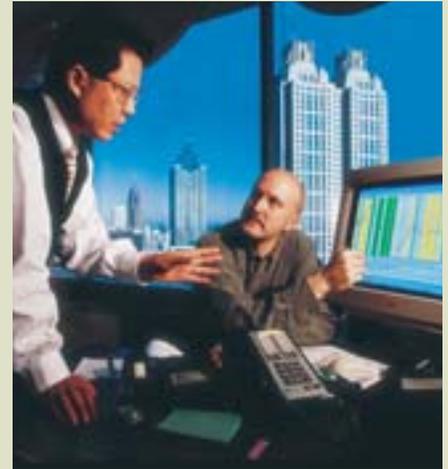
With the ongoing declines in check writing and the rising use of electronic payments, the Atlanta Fed continued in 2007 to consolidate paper check processing operations. At the end of 2007, only the Jacksonville and Atlanta offices maintained a check processing unit, and the Jacksonville operation is scheduled to move to Atlanta in 2008.

On the cash front, the Sixth Federal Reserve District's Miami Branch serves as the Southeast's currency gateway to the world. Miami processes U.S. currency—counting it, destroying worn bills, and keeping accounts for customers in about forty countries. The highest volume of foreign-originated currency comes from Mexico, Panama, Ecuador, and Europe. Nearly half of the cash processed by the Miami Branch comes from outside the United States, and that figure will likely exceed 50 percent by the end of 2008. Among thirty-one Federal Reserve System cash processing centers nationwide, Miami handles the fourth-largest volume.

Taking a closer look at banks

Different components of the Atlanta Fed are engaged in various aspects of the region's and nation's economy and financial system. For instance, the bank's Supervision and Regulation Division (S&R) is charged with ensuring that the region's commercial banking organizations operate safely and soundly and treat consumers fairly and equitably.

During the past year, S&R focused much of its attention on the widely discussed downturn in housing markets. For many banks in the Southeast, residential real estate development lending is a substantial business. Concerns in the real estate sector are therefore of significant interest to Atlanta Fed examiners, who monitor the safety and soundness of financial institutions.



Atlanta Fed Research Economist and Senior Policy Adviser Tao Zha and Vice President John Robertson use forecasting models to inform monetary policy.

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1950: Homeownership rates in the six southeastern states average 51.4 percent versus 55 percent in the country as a whole.

1960: The combined six-state Southeast region's population is 24 million.

1970: Farm workers make up 5.6 percent of the Southeast's labor force.

1973: The number of textile and apparel jobs in the United States reaches a peak of 2.4 million; 46 percent of these jobs are in the Southeast.

Developments in the real estate sector in 2007 were sufficiently important that the Atlanta Fed focused considerable energy on real estate analysis to deepen understanding of how that industry's dynamics affect lending institutions and borrowers.

S&R's Community Affairs unit faced new challenges across the Sixth Federal Reserve District, particularly in Florida and Georgia, with rising foreclosure volume, which threatens progress in raising homeownership rates. One bright spot in the midst of the foreclosure crisis has been the resilience of families who sought reputable prepurchase counseling before buying a home and, therefore, made better-informed choices. But foreclosures in general remain serious because of not only their damaging effects on families and communities but also their potential systemic effects on the financial system.

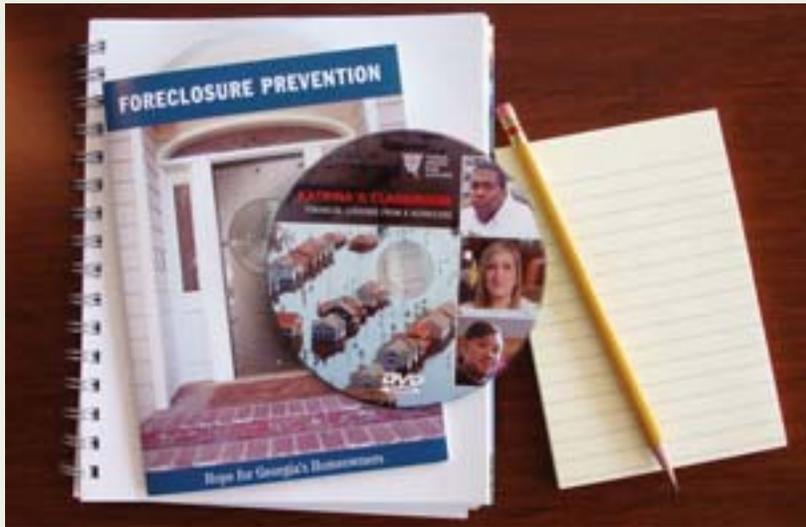
Community Affairs continues to direct significant resources toward early intervention of preventable foreclosures and, in the process, works with many groups that share this goal.

Finally, the Miami Branch of the Atlanta Fed is also the nexus of the Sixth Federal Reserve District's international banking supervision operations. A team of more than two dozen examiners in Miami has primary oversight responsibility for some sixty foreign banking operations doing business in the Southeast. The international supervision team monitors these foreign banks' financial condition, corporate governance, and activities, including compliance with the Sarbanes-Oxley Act and anti-money-laundering regulations.

Atlanta Fed bank supervision also assesses the strength of the parent financial institutions, which are located outside the United States. Those parent organizations include many financial entities based in Latin America as well as others headquartered across the globe. In recent years, an increasing number of Spanish banks, in particular, have expanded into the southeastern United States by establishing agencies and branches and acquiring U.S.-based institutions. Overseas banking firms are drawn to the United States because of its large economy and stable political, legal, and regulatory climate.

FACT:

Gulf Coast oil extraction off the shores of Louisiana, Alabama, and Mississippi could bring a potential 1.3 billion barrels of oil to market, more than four times 2006 production.



To meet the needs of its wide audiences, the Atlanta Fed has developed DVD-based materials covering topics that range from assistance with foreclosure prevention to personal finance.

On the economic education front

The Atlanta Fed in 2007 continued to expand its economic and financial education offerings. This program's primary focus is helping the region's middle and high school educators to teach economics and personal finance. The bank's regionwide economic education team offers numerous services for educators and students, including hosting frequent teacher workshops throughout the Southeast and providing publications and other materials such as the DVD-based curriculum about the financial lessons Gulf Coast teenagers learned in the wake of Hurricane Katrina.

The Atlanta Fed is not only offering more economic education but is also formulating tools to analyze and measure the effectiveness of its economic education efforts. The objective is to sharpen the outreach to best serve the region's teachers, students, and citizens.

Improving information gathering

Another economic research initiative is the newly launched Local Economic Analysis and Research Network (LEARN). An online marketplace of ideas and

Research is wide-ranging

In 2007 the Atlanta Fed produced economic and financial research covering a diverse array of issues, including

- creating a single indicator to track the southeastern economy;
- the economic significance of financial market frictions, such as transaction costs, taxes, regulations, and agency and information problems;
- the consequences of a public perception that monetary policy could at times relax its stance on inflation fighting to accommodate other economic concerns;
- the role of Federal Home Loan Bank advances in stabilizing their member banks' residential mortgage lending activities;
- small businesses' access to credit;
- how much of the gender differential in wages can be explained by the tendency of women to intermittently enter and leave the workforce; and
- how much smoking affects whether low-income families can afford proper nutrition.



Part of the Atlanta Fed's grassroots economic intelligence comes from its directors, who provide insight into local businesses, such as this carpet manufacturer.

information for academics and researchers with intimate knowledge of the region's local economies, LEARN's data bank and research network are vehicles for information sharing.

LEARN's fundamental objective is to enhance the bank economists' and analysts' understanding of the region's economy by helping to inform the bank's economic analysis and expand professional relationships. Simply put, more information leads to greater insights.

Ultimately, all the bank's research and intelligence-gathering and -sharing initiatives provide rich raw materials for the economic analysis from which monetary policy is formulated. The bank's research analysts, for instance, track important industries in the region—from auto manufacturing to residential real estate to high-tech medical research. The analysts' work is to assess those businesses' contributions to the regional economy.

In addition to economists, the Atlanta Fed's directors of the boards at the head office and the branches are another critical component of the bank's

information-gathering network. Directors play a crucial monetary policy role by contributing anecdotal, grassroots economic intelligence they learn from their own industries and from other local contacts. In order to present a comprehensive and nuanced view of local and regional economies, directors and other Atlanta Fed advisers are drawn from a range of industries including commercial banking, real estate, agriculture, labor, retail, health care, and logistics.

Thus, in contributing to the nation's monetary policy, the Atlanta Fed blends hard data and econometric modeling with knowledge gathered from firsthand accounts of southeastern businesspeople. These efforts—like those of the staff in Community Affairs, Supervision and Regulation, and other areas of Federal Reserve Bank of Atlanta—are continuous. But they assume particular prominence amid a challenging economic climate like the one the region and nation began to experience during 2007.

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