Employment Survey Delivers JOLTS

The Role of the Dice

Brazil and Peru Economies Set to Flourish in Postrecession World

Southeastern Fishing Faces Strong Currents
Employment Survey Delivers JOLTS
The Job Opening and Labor Turnover Survey—more often known as JOLTS—allows a closer look at changes in the job market. During times of high unemployment, the insights gleaned from JOLTS are especially noteworthy.

The Role of the Dice
State governments have reaped big windfalls from legalized forms of gambling, including lotteries and casinos. But shrinking revenue streams and growing budget demands beg the question of whether governments have become too reliant on gaming.

Brazil and Peru Economies Set to Flourish in Postrecession World
Farsighted investments in infrastructure and policy reforms have enabled two South American economies to rebound from economic challenges that many economies around the world have found much more intractable.

Southeastern Fishing Faces Strong Currents
Fishing has been a staple of the Southeastern economy for centuries. But growing competition from imports and setbacks by Mother Nature have caused a historically robust industry to struggle.
Stumbling dice

When economic times are tough, counting on a roll of the dice may seem like the shortest path to prosperity. But during the most recent recession, individual players have backed away from the gaming tables and lotteries in the Southeast, dealing state governments some setbacks. Staff writer Ed English (in his story, “The Role of the Dice”) looks into both the range of gambling opportunities in the Southeast and the win-or-lose outcomes for state budgets that are currently stretched to the limit.

In researching his topic, English found one area of gaming that hasn’t, as yet, been embraced by Southeastern states looking to make up for tax revenue shortfalls: Internet gambling. English discovered that this is one gaming opportunity that, regardless of its legality, may be risky on several fronts. Continuing to allow this activity to operate in the shadows, illegally, means a reasonably large pot of unregulated revenue is left on the table. On the other hand, legalizing Internet gambling could create problems that may be much worse: Online gaming allows at-risk gamblers to wager in a private environment, where these individuals, at breakneck speed, can bring financial ruin down on their heads. The social implications, says English, are interesting to consider.

Both gamblers and nongamblers alike have been jolted into awareness that job creation in the United States has been slow to materialize in the economic recovery. Atlanta Fed research economist and policy adviser Julie Hotchkiss examines U.S. Bureau of Labor Statistics data to see how different the South’s recessionary experience with hiring and layoffs is from the rest of the country. Her initial assumption was that since Florida suffered one of the largest declines in its economy and Georgia continues to be among the leading states in bank failures and home foreclosures, those experiences would be reflected in the numbers. But that was not the case.

In fact, the South was not hit significantly harder than the rest of the nation, says economic analyst Menbere Shiferaw, writing with Hotchkiss. This determination, the authors explain, is the result of averaging the experiences of all Southern states, some of which didn’t fare as badly as Georgia and Florida. But they also found that this recession was fairly widespread, affecting nearly all geographic and industrial sectors.

Another industry in the Southeast that has been jolted by a range of economic factors is fishing. Both commercial and recreational fishing have long been an important part of coastal life in the Southeast, but they are under duress from environmental deterioration of fishing grounds, from the tough economy, and, perhaps most significantly, from seafood imports that threaten the livelihoods of Southeastern fishermen. Lela Pratte, staff writer for EconSouth, was surprised to learn how significant the U.S. seafood trade deficit really is—a whopping $9 billion. While the demand for fish and seafood has experienced hardly growth over the past couple of decades, domestic fishing is struggling despite the high demand for product, Pratte says. For example, farm-grown, imported shrimp from Asian markets such as Thailand are cheaper for retailers to sell than wild-harvested domestic shrimp brought in from the Gulf Coast and the Atlantic. And the Gulf Coast fishing industry is still recovering from the devastation of Hurricane Katrina and other ravaging storms.

Pratte explores the economic facets of fishing in “Southeastern Fishing Faces Strong Currents.”

Each of these articles provides insight into the challenges that face the Southeast during the current period of economic recovery. We hope you will enjoy reading this issue of EconSouth. Please visit our Web site, frbatlanta.org, for EconSouth archives and to listen to our podcast series, EconSouth Now.

Lynne Anservitz
Editorial Director

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Banking Reform Should Preserve Fed Independence, Regional Presence

As we receive data in early 2010, the U.S. economy is showing signs of improvement. Financial markets are continuing to heal, household spending is growing modestly, and business spending has picked up from low levels. Labor markets are still very weak, but the rate of job loss has lessened.

Despite these signs of recovery in the near term, some troubling ideas are in play that could affect the country’s economic policy institutions for the long haul. I am referring to some of the proposals in Congress that are a reaction to things gone wrong during the last two years. A look back to identify fixable problems is entirely appropriate, but a reaction fashioned in a heated aftermath can overshoot the mark.

In particular, I’m concerned about measures that would have the effect of politicizing the Federal Reserve and especially the Fed’s decision making on matters of monetary policy.

Monetary policy often takes effect with lags and interacts with other fundamental, longer-term forces in the economy. In my experience, monetary policy is about setting a course and making periodic adjustments in response to major changes in conditions. Importantly, monetary policy should not swing with the daily news or be influenced by short-term political pressures.

Risk of central bank politicization
I’m concerned that certain legislative proposals could compromise the independence that enables the Fed to stay on course. I’m referring to the “Audit the Fed” amendments that the U.S. House of Representatives passed late in 2009. Under this legislation, the Government Accountability Office (GAO) would perform the audits of the Federal Reserve.

Let me provide some background. Congress created the Federal Reserve and exercises oversight of it in a variety of ways, including audits. In 1978, with the passage of the Federal Banking Agency Audit Act, Congress enhanced the GAO’s auditing responsibilities but thought it wise to exempt monetary policy from GAO review. This exclusion is in line with established international practice and studied opinion that independent central banks do a better job of keeping prices stable than the central banks that are subject to more political influence.

Some proposals now pending in Congress would, in effect, roll back the clear exclusion of monetary policy from auditing. The Federal Reserve has no
argument with audits in the conventional meaning of the term. The Fed is already subject to many audits by the GAO as well as external auditors. In 2009, the GAO completed or began 34 audits of the Federal Reserve, and each of these reviews pertained to operations outside of monetary policy.

In government, the word “audit” can be misleading. GAO audits can amount to full-blown policy reviews. The “Audit the Fed” proposal that passed the U.S. House (part of HR 4173, “Wall Street Reform and Consumer Protection Act of 2009”) is about ad hoc, after-action reviews of monetary policy. If enacted into law, these reviews could be frequent. In my view, this is not about transparency and accountability, both of which are bedrock principles to which the Fed should continue to be held. Rather, what’s at stake is politicization of a process that should remain apolitical.

The Federal Reserve must have the capacity to make unpopular decisions. For example, in the early 1980s the Federal Open Market Committee (FOMC) under Chairman Paul Volcker sharply raised the federal funds rate. This action induced a painful recession but proved successful over the long term in halting persistent high inflation and inflation expectations. One should ask: Would Volcker have been effective if the intense opposition to his policies were joined with formal, statutory methods to bring pressure?

**Importance of regional-based policymaking**

In addition to latitude from Congress to make decisions for the long term, the Fed also benefits from a policymaking process with considerable regional impact. I am concerned about ideas recently floated that could have the effect—if taken too far—of politicizing the input of regional Federal Reserve Banks in policy deliberations. From its inception, the Federal Reserve System was designed to have checks and balances. The founders of the Fed wisely devised a decentralized system that limits concentration of power in New York and Washington. This regional structure, with Reserve Banks in 12 cities, gives every part of the country an apolitical voice in policy formulation.

At the Atlanta Fed, we work hard to give voice to the people in the Southeast. During the time between FOMC meetings, the Federal Reserve Bank of Atlanta collects economic intelligence and policy views from some 44 board members of the Atlanta Reserve Bank and its five branches. These board members make calls to collect input from their community contacts.

Also, we meet periodically with members of six advisory councils representing a range of major Southeast industries and constituencies. Before each FOMC meeting, my staff and I call informal advisers in industry and finance. I estimate about 1,000 citizens in the Southeast provide input—either to the Fed or to our directors—on grassroots economic conditions and policy impact. I feel strongly that this interactive channel of citizen input to national policy should be preserved.

**Reform wisely, not reactively**

I agree with those who say that financial and regulatory reform is needed. But unfortunately, public anger and an impulse to punish have infected the atmosphere of the discussion. I fully understand these sentiments. We need to fix things, but “reforms” that weaken how the country’s economic affairs are governed may be harmful. Moreover, such changes would be difficult to undo.

Market participants around the world are closely watching the debate in Washington on our nation’s future financial architecture. Markets’ uncertainty of the independence of Federal Reserve monetary policy could cast doubt on the country’s commitment to price stability. In the real world, uncertainty resulting from injudicious reforms will be factored into asset prices and borrowing rates by the world’s markets and will make recovery more expensive.

*This article is adapted from a January speech by Dennis Lockhart.*
Savannah, Georgia

Georgia’s First City Combines Looks With Commerce

Dripping with charm and Spanish moss, Savannah, Ga., has long been a town people want to hug. Taken by its beauty, Union General William Sherman spared Savannah after his March to the Sea in 1864 and presented it to President Abraham Lincoln as a Christmas gift.

Beauty, history, and a touch of intrigue make good business.

As one of the largest historic districts in the country, helped by the popular nonfiction murder mystery *Midnight in the Garden of Good and Evil*—both the book and the movie—Savannah attracts 6.5 million visitors a year, according to the Savannah Area Convention and Visitors Bureau.

Working through unemployment

Photogenic as it is, a jewel-box downtown is only one facet of an economy that has weathered recession comparatively well and shows glimmers of rebounding faster than the state around it. At the end of 2009, metro Savannah’s unemployment rate was 8.4 percent, versus 10.3 percent throughout Georgia and 10 percent in the United States, according to the U.S. Bureau of Labor Statistics (BLS).

Jobs have not begun rebounding yet. But the ingredients for a revival are coalescing, Michael Toma, an economist at the city’s Armstrong Atlantic State University, said in early February. Growth, he added, will depend on whether hopeful signs emerging in the 2009 third quarter were fleetingly based on government stimulus policy.

“The numbers are starting to firm up in two very important areas—tourism and the port,” Toma said.

Jobs were still disappearing as 2009 ended, though more slowly than in the past several quarters. On a bright note, the Georgia Ports Authority (GPA) reported an 18 percent year-over-year increase in December 2009 compared with December 2008 in the Port of Savannah’s volume of boxcar-sized containers that are transferred between ships, trucks, and railcars. Hotel sales, airport boardings, tour bus, and trolley ridership began climbing late in 2009 after slumping through most of the year, Toma said.

And another nudge to tourists could be coming to the big screen. As the buzz over *Midnight in the Garden of Good and Evil* has waned in recent years, local boosters hope a movie shot on nearby Tybee Island in 2009, the Miley Cyrus picture *The Last Song*, will lure a new tourist demographic: tweens and their parents. The area now draws many affluent visitors 50 and older, Toma said.

Industrial might fortifies the picturesque

Historic city squares aside, Savannah’s other economic pillars are decidedly less quaint—manufacturing, the port, healthcare, and military bases.

Indeed, tourists milling about the 150-year-old buildings on River Street routinely watch container ships that practically blot out the sun cruise into and out of the nation’s fourth-busiest seaport, based on the number of containers handled. Savannah’s other major employers include Gulfstream Aerospace, one of the world’s biggest manufacturers of corporate jets, Hunter Army Airfield, hospitals, and paper mills.

For most of those businesses, global markets are important. Early in the 2000s,
strong demand from prosperous overseas governments and businesses fed an expansion that made Gulfstream the area’s biggest manufacturing employer, with a local payroll exceeding 5,000 jobs. However, Gulfstream’s sales have slumped amid the global recession, which forced employee furloughs in Savannah last summer.

Longer-term prospects are bright for the Gulfstream plant’s Savannah operations, according to Moody’s Economy.com, in part because the company is experiencing greater demand for its larger jets, which will be built primarily in Savannah.

Savannah’s manufacturing employment has dwindled over the years, but not as severely as that of Georgia and the nation. Nationally, manufacturing jobs declined 33 percent from the end of 1999 through December 2009, while Georgia lost 37 percent of its manufacturing jobs and Savannah only 19 percent, down to 13,700 jobs, according to the BLS.

Alongside Gulfstream, Savannah’s largest manufacturing employers are pulp and paper mills, including Georgia-Pacific Corp.’s Fort James Savannah River Mill and International Paper. Together, those mills employ about 2,300, down from past employment levels.

Exports flow east
The port’s nascent uptick is based on exports fueled by a relatively low dollar. According to the GPA, which the Savannah Area Chamber of Commerce says directly employs about 860 people, China-bound exports of unfinished products such as clay, cotton, agricultural goods, and poultry have been growing quickly.

But a vibrant seaport also creates more ancillary jobs, Toma points out: local truckers, logistics specialists, and warehouse workers, to name a few. Since 1999, the supply of warehouse/distribution space in Savannah and Chatham County has nearly tripled to 33 million square feet, based largely on handling cargo entering and exiting the port, according to Colliers Neely Dales, a Savannah real estate firm and a unit of Colliers International.

In early 2008, the logistics services firm National Retail Systems opened a quarter-mile-long warehouse near the port that employs 200 people. In the same month, Heineken USA opened a distribution center designed to handle seven million cases of Heineken and Amstel beer a year. The port also processes imports for Wal-Mart, The Home Depot, Target, and IKEA.

Much of that business has developed recently, as the Port of Savannah has grown dramatically. In the 2009 fiscal year, which ended in June 2009, the port handled 2.4 million cargo containers, down from more than 2.6 million in fiscal 2008, according to the GPA. But those numbers have climbed from 1.7 million in 2004 and just 550,000 in 1994.

To stay competitive, the GPA plans to deepen the Port of Savannah from 42 to 48 feet below the low-water tidal mark. Some approvals and funding are still pending as port officials hurry to finish the estimated $550 million project in time for the Panama Canal widening, scheduled for completion in 2014. The deepening in Savannah would allow the port to accommodate larger ships from Asia that will be able to sail through a wider, deeper Panama Canal.

In addition to the port, tourism, and a comparatively stable manufacturing base, Savannah is blessed by something that’s absent. The area is not digging out from under excesses plaguing some other Southeastern markets, notably Atlanta and south Florida, noted Ed Sibbald, director of the Center for Excellence in Financial Services at Georgia Southern University in Statesboro, 50 miles from Savannah.

“We’re not as reliant as other regions in Georgia are on real estate and financial services,” he said.

That’s just another way Savannah is a little bit different. }

This article was written by Charles Davidson, a staff writer for EconSouth.
The job losses that accompanied the recession continue to attract scrutiny. JOLTS is a survey that provides a unique way to read changes in the turbulent employment landscape.
The media are filled with reports parsing job market data, not surprising given the disturbing job losses accompanying the recession. Payroll employment, the unemployment rate, and the number of jobless claims are understandably the typical headline-making numbers, both because they provide useful labor market information at the establishment and household levels and because they are released on a timely basis. But other data collected by the U.S. Bureau of Labor Statistics (BLS) provide a more in-depth look behind the numbers that grab the headlines. The Job Opening and Labor Turnover Survey (JOLTS) allows a look inside the black box of the more frequently cited labor statistics, giving an assessment of the state of the labor market and more details about the imbalances between the supply of and demand for labor.

Surveying the survey

JOLTS, which is administered monthly, covers roughly 16,000 business establishments in nonagricultural, public, and private industries across the United States. Through the survey, the BLS collects data on total employment, job openings, hires, quits, layoffs, and other separations, dating back to 2001 (see the glossary on page 8). While the data have a two-month lag, they provide valuable information on the movement of workers in and out of jobs and on the number of jobs that go unfilled.

Prior to JOLTS, very little information about available job openings was available. The standard count of newspaper job postings (such as the Conference Board's Help Wanted Advertising Index) was becoming obsolete by the time JOLTS came along in 2001 as the Internet began to play a larger role in worker/job matching. (Responding to this shift, the Conference Board began providing data about online advertised job demand in 2005 with its Help Wanted Online Series.)

An establishment's reports of job separations provide information not only on the total pool of workers who separate from the establishment but also on how many of the workers quit voluntarily, were laid off, or left because of other reasons such as retirement. For instance, in 2006, when the economy was expanding, the quitting rate was approximately 2.2 percent, but by 2009 it had fallen to 1.4 percent. Together with existing unemployment indicators such as the unemployment rate, JOLTS data provide a more complete picture of the current state of labor markets.

Most labor market indicators today, including JOLTS, tell a consistent story: Although fewer people are losing jobs now compared with late 2008 and early 2009, high unemployment, reluctant hiring, and continued layoffs still indicate a weak labor market that is only slowly improving (see chart 1 on page 9). The national layoff rate reported by JOLTS rose from a cyclical trough of 3.7 percent in the first quarter of 2006 to 5.7 percent in the first quarter of 2009, a change that starkly contrasts with the 2001 recession, when the layoff rate remained more or less
stagnant. Though the layoff rate of 4.7 percent in the fourth quarter of 2009 is an improvement over the previous year, it remains elevated as a sizable number of people continue to get laid off across the United States.

If enough workers are laid off and enter the ranks of the unemployed, the unemployment rate gets pushed upward. Despite this excess supply of labor, businesses remain reluctant to expand their workforce during an economically difficult time, a reluctance seen in the precipitous decline of the hiring rate since the onset of the recession, down 2.1 percentage points since the fourth quarter of 2007 (see the sidebar “Straightening Out the Beveridge Curve”). This level compares with only a 0.4 percentage point decline in the hiring rate during the 2001 recession.

To varying degrees, each region of the country exhibits this national mismatch between the supply and demand of labor. JOLTS collects and reports information corresponding to the four U.S. Census regions: the South, Northeast, Midwest, and West. (The Census’s South region includes Alabama, Arkansas, Delaware, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, Washington, DC, and West Virginia.) A closer
look at the data reveals the South’s vital role in U.S. labor market expansions as well as its downturns.

**JOLTS’s southern exposure**

Employment in the South as the region is defined by the U.S. Census Bureau makes up approximately one-third of total employment in the United States, and thus hiring and layoffs in the South have a big effect on the overall patterns in the United States. As the largest region in the nation, the South typically has the largest number of hires and layoffs in any given quarter.

During the expansionary period between 2004 and 2005, when much of the nation was adding jobs, the South and the West dominated the year-over-year hiring increases (see chart 2). Propped up by the housing boom that was particularly strong in these regions, the South and West experienced a hiring boom to match. Then both regions saw dramatic declines in hiring following the housing bust. However, these regions found company in their misery: The Midwest was also hurting, its woes precipitated by the slumping auto industry. As the economy began to contract in 2007, business confidence waned and hiring slowed across the country. Between 2008 and 2009, the South, along with the West and Midwest, experienced large year-over-year declines in hiring. The South had the largest year-over-year decline in hiring in the fourth quarter of 2008 when its hiring was about 20 percent below year-earlier levels, compared with roughly 15 percent in the other regions.

In contrast to the hiring picture, changes in layoffs were not concentrated in any one region between 2004 and 2006 (see chart 3). Layoffs increased across the board on a year-over-year
The economy will always have unemployed people as individuals switch jobs or enter the labor force. But when the number of vacancies equal unemployment, or where the market is somewhat balanced. For example, movement outward along the 45-degree line, in a southeasterly direction, shows an increase in both vacancies and unemployment—an indication of inefficiencies in the labor market: Jobs aren’t finding people and vice versa. The Southeast experienced some of these inefficiencies between 2003 and 2007, a period of such rapid growth that vacancies were increasing faster than unemployment was decreasing; in effect, jobs couldn’t find people to fill them.

Significant deviation away from the 45-degree line implies a labor market with imbalances between employment and vacancies. A movement away from the line, in a southeasterly direction, indicates that the number of workers per vacancy is growing, which leads to higher unemployment rates. This imbalance occurred between 2007 and 2009 as the curve moved from the northwest to a southeasterly direction—the economy contracted and the number of unemployed people grew and vacancies declined; people couldn’t find jobs. Vacancy declines have been spread widely across industries (see the sidebar “Vacancy Declines Widespread”). A similar downward movement also occurred in the Southeast during the 2001 recession, although not at such a great magnitude.

Notes: Data are through the fourth quarter of 2009. The number of unemployed is greater than the number of vacancies, and movement of the curve has been southeasterly since the fourth quarter of 2007.

This article was written by Julie Hotchkiss, a research economist and policy adviser at the Atlanta Fed, and Menbere Shiferaw, an economic analyst at the Atlanta Fed.

Reluctance to hire on display
Looking merely at the unemployment rate (or, alternatively, the decline in overall employment levels), the only conclusion to draw is that the number of people who want jobs has increased dramatically since 2007. JOLTS data tell us more: The rate of hiring dropped by more than 2 percentage points between the fourth quarter of 2007 and its trough in the second quarter of 2009, whereas the layoff rate rose by only 1.5 percentage points.

The significance of firms’ reluctance to hire often gets obscured in the headline numbers reporting job losses. As the number of job losses declines, the economy will depend on job gains, through hiring, to get people back to work. And keeping tabs on the JOLTS data will let us assess that progress—not only for the nation, but also for each region.

This article was written by Julie Hotchkiss, a research economist and policy adviser at the Atlanta Fed, and Menbere Shiferaw, an economic analyst at the Atlanta Fed.
The curvature of job loss

Despite the recent decline in layoffs and even scattered reports of job gains, the current position of the Beveridge curve, deep in the southeast corner, shows the severity of labor demand deficit and reinforces the dismal picture of the labor market’s condition.

The Beveridge curve for the United States overall exhibits a pattern similar to that of the South, although until just recently the mismatch between vacancies and the unemployed was greater in the South than in the rest of the nation (see chart 2). As vacancies decline and unemployment rises, the ratio falls, as was the case during the 2001 and 2007 recessions. The decline in the 2007 recession was, however, much deeper and longer.

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Economists have tracked the labor market closely since the government began compiling data on it. So when the U.S. Bureau of Labor Statistics (BLS) introduced the Job Opening and Labor Turnover Survey (JOLTS), economists had a new tool for viewing employment trends: They could see a snapshot of workers moving into and out of jobs as well as jobs that go unfilled. Julie Hotchkiss, a research economist and policy adviser at the Atlanta Fed, studies the employment sector and has observed its evolution in the Southeast as well as nationally, and she discussed the region’s changing employment landscape based on JOLTS and how those changes can be viewed.

EconSouth: How does JOLTS’s perspective on the job market differ from other data reports?
Julie Hotchkiss: The survey conducted by the BLS that most people are familiar with, or at least familiar with its report, is the employer survey, also called the establishment survey. The purpose of the establishment survey is primarily to find out how many jobs there are in the economy at any given point in time. This is a static picture of the labor market at a given point in time.

The JOLTS [Job Opening and Labor Turnover Survey] is a survey that was designed to get a closer look at the dynamics of the labor market. The number of jobs in the economy at any given point in time is the result of workers being hired by and separating from firms.

The survey asks firms about the number of people they hired and the number of people that separated from their payrolls during the survey month, as well as the number of unfilled job openings at the end of the month. Job openings, or vacancies, are a useful indicator of the tightness of the labor market—a tighter labor market is one typically characterized by plenty of vacancies and low unemployment.

ES: How did the need for this type of survey become apparent to those who study the economy? In other words, what need did it fill?
Hotchkiss: Information on the turnover of workers, or the flows of workers to and out of firms, have been useful to private industry in gauging their own performance in maintaining a stable workforce. A firm with excessive turnover is typically incurring a great deal of start-up costs with each new hire. A firm with low turnover is likely able to operate at a lower cost.

Economists at the Fed and other entities concerned with overall economic performance make use of the information to gauge the strength of the labor market and, in some cases, as an indicator of things to come. For example, if economists observe a significant decline in hiring rates, this might suggest that a rise in the unemploy-
ment rate is not far behind. Firms' hiring rates are sensitive to changes in consumer demand, and as that demand declines, firms will hire fewer workers—workers who might have been used to either expand production or just to replace workers who leave.

The *EconSouth* article discusses the Beveridge curve, and the vacancy data from the JOLTS can help construct the curve. This curve plots the number of unemployed against the number of job vacancies, and its movement tells us something about cyclical changes in the labor market as well as structural changes in the labor market. JOLTS data provide easy access to one of the pieces of information needed to construct the Beveridge curve.

**ES:** Can you describe how economists assessed the labor market prior to the debut of JOLTS in 2001?

**Hotchkiss:** The most recent survey of labor turnover conducted by the BLS before the JOLTS came along was discontinued in 1981. While this survey was the only source of consistent information on turnover, the survey was quite limited in its scope because it only covered turnover of workers in the manufacturing, mining, and telephone communications sectors. In spite of this limitation, it was referenced often as an indicator of labor market activity. I’ll have to tell you, there was as much excitement as you can hope to see among economists when the BLS started releasing JOLTS data in 2002, after a nearly 20-year hiatus in collecting turnover data!

Regarding measures of job vacancies, for roughly 50 years the Conference Board published the Help Wanted Advertising Index, which provided information on job openings found in 51 major newspapers across the country. This index was discontinued in 2008 as job searches went from newspapers to the Internet. The new digital age in job search was acknowledged in April 2004 with the introduction of the Monster Employment Index, which is designed to provide a snapshot of nationwide employer online recruitment activity that occurs on more than 1,500 Web sites.

The advantage of JOLTS, however, is that it captures all job openings, regardless of the recruitment mechanism being used by the employer.

**ES:** Can you describe how JOLTS is designed in terms of its scope, sample size, etc.?

**Hotchkiss:** The BLS conducts the survey each month, covering roughly 16,000 businesses nationally. The data collection center is actually located in Atlanta. The survey covers private nonagricultural and government sectors and excludes the forestry, fishing, and hunting sectors. The survey provides a useful breakdown of information by geographic region—the four Census regions—and by industry. Turnover data, however, are not available by occupation or establishment size, which now could be of particular interest to job seekers as well as economists and analysts.

**ES:** How is the South’s labor market different?

**Hotchkiss:** I started to answer this question by saying, “It really depends on how you define the ‘South.’” However, on second thought, it doesn’t really matter how you define it—the South is pretty representative of the rest of the United States. As defined by the Census, the South is the largest labor market in the country, and thus its characteristics often define those of the U.S. labor market. Its economic diversity also helps in this regard. From agriculture to manufacturing to tourism, the South pretty much has it all. As we saw in the vacancy and separation rates in the *EconSouth* article, we would be hard-pressed to say that the South exhibited any employment dynamics through this most recent recession that were unique to the region.

**ES:** You mention the Beveridge curve, a tool that is useful in viewing the balance between labor demand and supply. What does the curve tell us about the Southeastern labor market? Is the regional market considerably different from what you would see in other regions of the United States?

**Hotchkiss:** The Beveridge curve indicates that the South saw some increase in inefficiencies between 2003 and 2007, as the region was growing so fast that vacancies were increasing faster than unemployment was decreasing; jobs couldn’t find people. However, between 2007 and 2009, the economy contracted, and the number of unemployed people grew as vacancies declined. In other words, people couldn’t find jobs.

The Beveridge curve for the United States exhibits a pattern similar to that of the South, although until just recently the mismatch between vacancies and the unemployed was greater in the South than the rest of the nation. A mismatch in the South, or in any other region for that matter, is no longer the matter of concern it once was—it’s merely creating vacancies for people to get hired into.

**This interview was conducted by Tom Heintjes, managing editor of EconSouth.**
Regional Update

The Region Slowly Emerges From Recession

The Atlanta Fed’s surveys, business contact reports, director reports, and several regional data sources indicate that economic conditions have ceased deteriorating, but a rebound has not gathered steam.

Southeastern economic performance with regard to employment indicators deteriorated in December after a surprise improvement in November. The region lost 39,400 jobs in December compared with a gain of 6,500 jobs in November and a decline of 8,300 in October. Importantly—and what allows the conclusion that the employment picture is improving—total job losses for the three months ending in December were 41,200 compared with a net decline of 159,700 from June through August.

The region’s unemployment rate increased to 10.8 percent in December from 10.4 percent in November. All Southeastern states except Louisiana have unemployment rates above the national rate of 10 percent. The region has shed 1.3 million jobs since the recession began.

Initial claims for unemployment insurance have decelerated to 60,000 from the peak of 90,000 in April 2009. Claims averaged just under 40,000 from 2004 to 2008.

Reports from Southeastern housing contacts indicated that activity softened somewhat during January and early February from late last year. About half of reporting Realtors said that home sales remained above year-earlier levels, but most indicated that increases were modest.

Builders reported that new home sales had improved somewhat from the end of 2009 but were similar to weak levels a year earlier, while construction continued to soften. Builders continued to note the large amount of foreclosed property available at deep discounts. Contacts reported improvements in buyer traffic, but the outlook was not as upbeat among Realtors as it had been at year-end. The majority of contacts continue to anticipate year-over-year sales gains through the spring.

Commercial construction activity remained at low levels during January and early February. Most regional contractors reported that activity was on par with the level of the fourth quarter of 2009, with a few reporting continued weakening. A little more than half reported that backlogs were similar to fourth-quarter levels, but a little more than half also said that backlogs were below the year-earlier level. Most reported that demand for new construction remained very weak. Looking ahead, the majority of contacts anticipate construction activity for the remainder of the year will be similar to year-ago levels.

The Atlanta Fed’s informal survey of retailers revealed that traffic and sales decreased from December to January. In addition, merchants indicated that they continued to keep inventory levels low. The outlook among retailers was mixed, with almost half expecting an increase in sales in the coming months and a quarter expecting a decrease in sales in the first few months of 2010.

The Southeast Purchasing Managers Index (PMI) increased from a reading of 45.2 in December to 45.8 in January, but it remained below the national PMI reading. New orders increased substantially while production had modest gains, but they were accompanied by sharp losses in finished inventory and a more modest decline in the employment component, according to Kennesaw State University, which produces the regional PMI report.
Data Corner: Capital Expenditure Survey

In December, the Atlanta Fed conducted a survey of businesses regarding planned capital expenditures and received 326 responses.

Regarding planned capital spending during the next six to 12 months, 116 firms (36 percent) noted that they plan to increase spending on capital equipment relative to what they spent during the last six to 12 months, while 74 firms (23 percent) indicated they plan to decrease the amount of capital expenditure.

Of the firms with plans to increase spending, the reasons cited most were the expected growth of sales and the need to replace information technology equipment. Some firms also commented that competitive pricing on new equipment and office space are extra incentives to increase spending now. Improvement in the cost or availability of external financing was the least-cited factor. Of the firms that expect to increase capital investment spending, roughly two-thirds said that a considerable portion of that outlay represents spending postponed because of the recession.

For the firms that said they do not plan to increase spending in the near term, low expected growth of sales was the most commonly cited reason. Increased economic and financial uncertainty was the second most frequently cited factor.

University Studies

Last year held many challenges, but the worst may be over, according to some forecasts from members of the Atlanta Fed’s Local Economic Analysis and Research Network (LEARN).

Alabama foresees modest expansion
Results from the Alabama Business Confidence Index (ABCI), a quarterly survey of business sentiment conducted by the University of Alabama, showed the economic outlook component of the ABCI was 52.5 for the first quarter of 2010, passing the expansion threshold of 50 for the second consecutive quarter. The index value implies that businesses expect Alabama’s economy to expand modestly at the beginning of the year compared with the fourth quarter of 2009. The report also forecasts that Alabama’s gross state product will increase 1.9 percent, Alabama’s employment will shrink 0.1 percent, and the state’s total tax collections will increase by 0.3 percent in 2010.

Recovery outlook remains subdued in Florida
In its annual forecast for the state, the Institute of Economic Competitiveness (IEC) at the University of Florida indicated that in 2010 Florida will see a slowly expanding economy, tepid job growth, and increasing unemployment. The report expects year-over-year payroll job growth to remain negative until the fourth quarter of 2010. Unemployment rates will continue to climb, peaking at 11.9 percent in 2010. Unemployment will stay above 10 percent through the first quarter of 2012 and will slowly decline thereafter. The sectors forecast to see strong employment growth are professional and business services, trade, transportation, utilities, and education and health services. The IEC sees real gross state product expanding in 2010 after two years of contracting and personal income growth accelerating to 1.6 percent. Finally, the institute calls for retail sales to accelerate during the second half of 2010, to an average pace of 5.6 percent.

Real estate woes dog Georgia
In December 2009, the University of Georgia’s Selig Center for Economic Growth hosted its annual economic

Do you expect your firm’s spending on new plant and equipment during the next six months to increase, decrease, or be about unchanged relative to your actual spending during the past six to 12 months?

Continued on page 27
**The D6 Factor**

The D6 Factor remained in negative territory for all of 2009, ending the year at –2.7, an increase of 2.3 index points from a year earlier. Though the index has been in negative territory since December 2006, the year-end level represents an improvement in overall Southeast economic activity because the index has been steadily increasing since the record low set in April 2009. (A negative value indicates that economic conditions are weak.)

**About the D6 Factor**

The D6 Factor is an estimate of the trend common to 25 distinct monthly series of economic data for the six states of the Sixth Federal Reserve District. It provides a broad measure of Southeastern economic conditions that is available more frequently than estimates of gross domestic product (GDP) for the six states. Also, unlike an average of state-level GDPs or other factors, the D6 Factor can filter out idiosyncratic shocks that disproportionately affect individual states. For detailed information on the D6 Factor’s construction, see “When More Is Better: Assessing the Southeastern Economy with Lots of Data,” by Pedro Silos and Diego Vilán (Economic Review, Third Quarter 2007).

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**Econ 101: Current Account**

The current account is the broadest measure of a country’s transactions with the rest of the world. There are two ways to study the current account—one is by analyzing international trade flows and related payments, and one is by examining investment-savings behavior of a country’s households, businesses, and government. Most economists tend to emphasize the latter.

By definition, current account is simply the difference between how much a country saves and how much it invests. When a country invests more than it saves, it runs a current account deficit and has to borrow from abroad to fund that deficit. A current account deficit is not necessarily bad, especially if it’s linked to an increase in business investment. The United States has been running a current account deficit every year since 1991. Moreover, up until only a few years ago, the U.S. current account deficit had been consistently widening, reaching a record $804 billion in 2006. This amount meant that the United States had to borrow on net more than $2 billion a day from abroad.

What explains the United States’ persistent current account deficit and demand for financing by nonresidents? From the mid-1990s until the end of that decade, the U.S. current account deficit was mostly a reflection of very high levels of business investment, especially in new technologies. At the turn of the century, however, business investment fell considerably. So instead of borrowing from abroad to finance business investment, the United States began to use foreign money to feed consumption. Personal savings rates fell to record low levels as consumers were spending more and more of their income. This consumption boom resulted in higher U.S. demand for imported goods, which, along with rising oil prices, significantly worsened the U.S. trade deficit. (The trade deficit is also the largest part of the current account deficit.) As the United States slipped into a recession in 2007, the deficit began to narrow quickly—it shrank from 6 percent in 2006 to 3 percent of gross domestic product as of the third quarter of 2009. The decrease in the current account deficit over the past two years has been largely the result of a sharp rise in household savings and abrupt declines in business and housing investment. By saving more than they invested, U.S. businesses and households now have a surplus of funds that they can lend out. That amount, however, is not large enough to cover the rapidly increasing borrowing needs of the U.S. government. Therefore, the United States continues to rely on foreign financing while it runs a current account deficit, albeit on a smaller scale.

—By Galina Alexeenko, a senior economic analyst at the Atlanta Fed
How big a shadow does Katrina cast in the discussions you have? It doesn’t hold as much prominence as it once did. It’s mentioned in almost every meeting where we talk about economics, because it’s still having an effect on the economics of the region. But now, it’s a positive effect. You take a number like unemployment, and you see that Louisiana actually has the lowest unemployment in the nation. The state saw job growth up until the summer of last year. The job growth was a direct result of the construction jobs that had been generated by Katrina. There’s still a lot of government funding available to the city that hasn’t been used and will be used through the next two to five years.

How different are the conversations you’re having with your business contacts this year compared with the conversations you were having this time last year? They’re not so vastly different. Probably our presentation has changed more than the conversations have. Our presentation is more optimistic, and we state that we think we’re on the road to recovery. The numbers and statistics are improving. And when we talk to folks, we see the slightest bit of relief. Take the automobile industry, for example: it’s seeing a little more credit availability now than the industry has recently seen, and sales are a little better. So the conversations we’re having are more optimistic than they were a year ago.

What are some of the primary ways you gather economic data in your part of the region? The most critical new component that we’ve added has been the roundtable discussions we have throughout the area with business and industry leaders. We sit down and talk about the economy and ask them what’s going on in their particular industry and, more specifically, in their corporation. We’ll ask them such things as, what are you doing with employees? Are you hiring? Are you laying off? What do you see with your inventories or backlogs? What are you going to be doing with salary increases? What are commodity prices doing? Through these discussions, we get a real sense of what’s going on. We also ask them if any of their business habits have changed, or if they anticipate any of these habits changing permanently.

There are other sources of information we use, such as our board of directors and our advisory councils—energy, for instance. We also work with colleges for LEARN (Local Economic Analysis and Research Network, a forum for academics and researchers with detailed knowledge of economic developments in local economies in the Southeast) activities. We also conduct surveys every month, which is something the Atlanta Fed’s research department has started. We primarily survey housing and manufacturing markets.

New Orleans is a very significant energy center. What methods do you use to gather data about the energy industry? We have a 12-member energy advisory council with representatives from south Louisiana as well as from throughout the Southeast. In addition to that, we have a gentleman on our board, Anthony Topazi, who is with Mississippi Power, which is part of the Southern Company, so we get that information as well. And we will occasionally gather, for a discussion, a roundtable of other energy experts who aren’t on our council.

What sort of executives make up the roundtables you convene? We generally like to go for the top person in any organization. This person is the most knowledgeable and knows the most about what’s going on in the community as well as the industry.

The ports in the New Orleans area are so significant to imports and exports as well as to energy markets. What do your REIN contacts tell you about the level of activity at the region’s ports? We actually have seven ports between the mouth of the Mississippi River and Baton Rouge. The ports have been improving, especially since Hurricane Katrina. All of them have seen improvement. They’re doing quite a bit of exporting, and they’re importing. While the numbers are not where they’d like them to be—and they’re not at the levels they were before Katrina—they have seen some pretty dramatic improvement.
The Role of the Dice
Governments in the Southeast have seen a welcome revenue stream from gambling. But as the industry matures and government budgets become increasingly strained, can gambling remain a safe bet?

For the last two decades, one of the surest wagers in the Southeast was that lotteries, jai alai arenas, racetracks, and casinos were going to make more money in the coming year than the year before. And nobody was more eager to make that bet than state legislators who had promises to keep and payments to make.

The economic downturn that began in late 2007 cast that wager in a whole new light, leaving the gambling industry feeling squeezed and states fighting over every available gambler.

According to Stateline.org, a Web site that covers state-oriented political matters, only three states had legalized gambling in 1980. Now every state except Utah and Hawaii rely on some form of gambling for revenue as one of the means to avoid tax hikes. Certainly, state legislatures both nationwide and in the Southeast are battling with budget deficits. According to the National Conference of State Legislatures’ figures for fiscal year 2009, Florida faced a $3.2 billion deficit, followed by Georgia ($2.9 billion), Tennessee ($1.1 billion), Mississippi ($406 million), Louisiana ($341 million), and Alabama ($269 million). Increasingly, those budget gaps pose a bigger void than gambling revenue can fill (see the sidebar).

Where can states turn?
Where do these developments leave the states who have bet some of their future funding on gambling proceeds? Where are the untapped gambling dollars?

“The short answer is that some regions of the country probably have reached what’s truly called a saturation level,” said Earl Grinols, a distinguished professor of economics at Baylor University who has testified before the U.S. Congress and in numerous state capitols on the economics of gambling and authored the book *Gambling in America: Costs and Benefits*. “Most of the country has not yet reached a saturation level.”

Quoting the 1999 National Gambling Impact Study, Grinols notes the average American adult could spend between $400 and $600 annually if located reasonably close to a Class III gambling facility. (According to the Internal Revenue Service, Class III refers to facilities where gamblers bet against the house, such as casinos or parimutuels.) Using the study’s formula and adjusting for inflation, Grinols estimates the nation’s potential gambling market to be between $120 billion and $150 billion annually. According to a 2009 report by the Rockefeller Institute for Government, the total revenue from gambling in the United States was $24 billion. “From that perspective, the market is not saturated. But there are portions of the market that are,” he said. “What you’re observing is that in those portions of the market where saturation has been achieved, when total income goes down, gambling is one of the places people turn to reduce their spending.”

How to harvest more
A couple of Southeastern states have begun devising ways to chase some of those unharvested gambling dollars. The Mississippi House Gaming Committee has been reviewing a bill to bring a lottery to that state, according to the *Memphis Commercial Appeal*. And in February, the Alabama Senate Tourism and Marketing Committee approved legislation to let voters decide whether they want to allow electronic bingo machines at 10 locations around the state. Georgia, on the other hand, has resisted expansion of its gambling operations. The state has opposed efforts by the Atlanta City Council to convert the city’s Underground shopping area into a $450 million casino complex with a new 29-story luxury hotel.
Southeastern States See Diminishing Payoffs

Although each Southeastern state derives tax revenue from state-sanctioned gambling, the states vary in what games they allow. (The 16 Native American–run casinos in the Southeast are exempt from providing revenue to states.) In the past year, the news rarely has been good regarding what states want and what the gambling enterprises have been able to provide.

**Alabama:** Tax revenue from the state’s three dog tracks has been falling steadily since early in the 2000s. In 2002, the state—which, of all Southeastern states, relies least on gambling revenues—received $3.4 million in revenue from the tracks, but that sum had fallen to $2.4 million by 2009. During that seven-year slide, 2006 was the only year in which revenues increased. Also, one of the facilities, VictoryLand in Shorter, faces an uncertain future. According to the Montgomery Advertiser, VictoryLand closed part of its operation in February 2010 as the Governor’s Task Force on Illegal Gambling investigated the use of illegal electronic bingo machines.

**Florida:** Revenue from the state’s racetracks, frontons (where jai alai is played and bet on), card rooms, slot machines, and lottery dipped from $1.68 billion to $1.42 billion between 2008 and 2009, according to Florida’s Bureau of Business and Professional Regulation. The biggest losers were the parimutuels (race tracks and frontons), which dropped 17.5 percent, from $1.34 billion to $1.1 billion, and slot machines, which dropped 13.8 percent, from $241 million to $207 million. As a result, state revenue from gambling dropped 14.3 percent, from $168 million to $144 million.

**Georgia:** Georgia’s sole gambling enterprise, the lottery, did not decline, but it is not keeping pace with the rising demand of the state’s college-scholarship program that it funds. Between 2007 and 2008, revenue rose from $3.18 billion to $3.27 billion, with the state’s take increasing $14 million (1.7 percent), from $853 million to $867 million. According to the Atlanta Journal-Constitution, scholarship officials and lawmakers forecast that most students would see HOPE book fee awards drop from $300 to $150 starting in fall 2012 before losing book subsidies altogether in 2013. In 2014, students also would lose money for mandatory fees, which cost from $117 to $655 a semester, depending on the college.

One approach suggested for increasing gambling tax revenue in Georgia in 2009 was to reduce the percentage of revenue for payouts to winners and increase the cut to the state, as reported in the Atlanta Journal-Constitution. However, Margaret DeFrancisco, head of the Georgia Lottery Corporation, said the short-term benefit of giving a higher percentage of revenue to government has the long-term negative impact of chasing away players. “Every place that has tried that [reducing payouts] has had negative results,” DeFrancisco said. “Georgia reduced its payouts in 1997. It had an immediate negative impact, and it was quickly readjusted. That was the only time we’ve had negative sales and profits. If you look at California, we beat them in sales even though they have four times the people. They are trying to change that. They have a $3 billion operation, and it could easily be a $10-to-$12 billion lottery. North Carolina’s lottery got off to a slow start [in 2007] until they raised the percentage that they paid out to winners. Players want a winning experience.”

A 2007 report from the Milliken Institute seems to confirm the correlation between payout percentage and revenue. In 2006, the two state lotteries with the highest payout percentages also had the highest per capita sales. Massachusetts was first in percentage (72 percent) and in per capita sales ($707) while Georgia was second in both categories (61.4 percent and $342). Conversely, the states with the two lowest percentages also had the lowest per capita sales: Arizona (55.3 percent, $75) and California (53.9 percent, $94). The report also noted that when Texas

**Key Dates in Southeastern Gaming**

- **1868:** Louisiana introduces the lottery, halts it in 1895, reintroduces it in 1991.
- **1921:** Florida allows gambling on horse racing, in Hialeah.
- **1973:** Alabamans wager on a dog race, in Mobile.
- **1990:** Mississippi legalizes casino gambling.
- **1992:** Georgia’s lottery begins.
- **2004:** Tennessee allows a lottery.

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**Louisiana introduces the lottery, halts it in 1895, reintroduces it in 1991.**

**Florida allows gambling on horse racing, in Hialeah.**

**Alabamans wager on a dog race, in Mobile.**

**Mississippi legalizes casino gambling.**

**Georgia’s lottery begins.**

**Tennessee allows a lottery.**
Louisiana: Overall, the state’s revenue from gambling dipped only 2 percent, from $747 million in 2008 to $733 million in 2009, thanks to a strong showing from its lottery and slot machines at race tracks. Lottery revenue rose 12.5 percent, from $44 million in 2008 to $3.6 million in 2009, while the tracks grew 6.5 percent, from $56 million in 2008 to $62 million in 2009. Louisiana’s other gambling sources—land-based casinos, riverboat casinos, video gaming, and parimutuel betting on horse racing—all had smaller numbers from 2008 to 2009.

Mississippi: Revenue for the state’s casinos—both those along the Gulf Coast and farther up the Mississippi River—dropped 9 percent between 2008 and 2009, from $2.72 billion to $2.47 billion. The state’s share of gaming revenue fell slightly more: 9.4 percent, from $344 million to $312 million.

Tennessee: The lottery, the state’s only gambling vehicle, has been relatively stable the past few years with revenues near $1 billion annually and the state’s take in the $280 million–$290 million range. However, like Georgia, this performance has fallen short of need. According to Lottery Post.com, the state pulled $11 million from its reserve fund in June 2009 to meet commitments to the state’s education programs and is on track to exhaust the $385 million reserve fund by 2013 or 2014.

The recent performance of gambling in the region is not unique. Nationwide, casino gambling dropped 4.7 percent between 2007 and 2008, and then another 5.8 percent between 2008 and 2009, according to the American Gaming Association (AGA).

“Clearly, it’s a function of the economy,” said Holly Thomsen, communications director for the AGA. “We are a consumer-discretionary business. As the job market and other economic factors such as the housing crisis have affected the country, consumers are tightening their belts. The gaming industry is suffering right along with other industries such as entertainment and restaurants. Although there are indications that the nation may be starting a recovery, Main Street is still feeling the recession. As long as it persists, the industry will suffer. We’re on the road back. It will probably be at least a year before it begins to resemble how it was before—that is, if things ever resemble the way they were before.”

Click your mouse at what cost?
States may need to fend off threats from more than their next door neighbors, however. Illegal Internet gambling is lurking in the shadows. The American Gaming Association estimates the size of illegal online gambling at $12 billion, and a move is afoot in Congress, in the House Financial Services Committee, to explicitly legalize and regulate Internet gambling: HR 2267 (the Internet Gambling Regulation, Consumer Protection, and Enforcement Act) was introduced in May 2009.

Currently, the Interstate Wire Act of 1961 (or Federal Wire Act) and the Unlawful Internet Gambling Enforcement Act of 2006 prohibit Internet gambling in the United States. (The Interstate Wire Act prohibited betting over wires such as those used by telephones but has been broadened to include language prohibiting Internet gambling.) The online gambling industry is waging a campaign in Congress to legalize Internet betting, arguing that it is here to stay and therefore should be regulated and taxed. As it stands, in a period when potential players are less likely to travel to gambling destinations, Internet gambling from home might be an effective way to reach more gambling customers.

John Kindt, a professor of business administration at the University of Illinois who has testified before Congress on gambling issues, fears legalized Internet gambling may be too convenient. Kindt sees problems with legal Internet gambling on two levels. For problem gamblers, he says it will be, “Click the mouse, lose the house.”

But most gamblers don’t put their homes up for collateral when they gamble; they buy a lottery ticket or roll the dice, simply hoping to get lucky and win some money, just as states see gambling as a way to help make ends meet. No one can predict whether this revenue stream can fill all of the gaps, or whether it will grow in size. It’s a conundrum that even has the oddsmakers scratching their heads.

This article was written by Ed English, a staff writer for EconSouth.
In the Western hemisphere, the United States felt the full force of the recent global financial crisis and has begun a slow and painful recovery, while some Latin American countries, particularly Brazil and Peru, are experiencing strong growth. What have these emerging countries done to position themselves so favorably?
Unlike economic downturns in past decades, the recent financial crisis was exceptionally far-reaching and severe, touching nearly every economy across the globe. As the crisis slowly loosens its grip, it’s clear that the recovery is not typical, either. While emerging and developed economies alike suffered during the downturn, the impact was less severe and recovery is stronger in some emerging economies. Following a contraction of output in the first half of 2009, Brazil and Peru, for example, are establishing themselves as regional powerhouses. Both countries have seen solid growth since March 2009, significantly outperforming developed markets. Brazil has maintained its position as a growing global economy to be reckoned with, along with Russia, India, and China—often collectively referred to as “the BRIC countries”—while Peru technically did not even go into recession at all.

Latin America stands strong
At the height of the crisis, real gross domestic product (GDP) growth in advanced economies like the United States fell from 2.7 percent in 2007 to –3.4 percent in 2009, while Brazil and Peru stayed flat or grew, at rates of 0 percent and 1.1 percent, respectively. The Economist Intelligence Unit (EIU) forecasts that GDP in the United States will grow at a rate of 2.8 percent in 2010, with unemployment likely to remain high throughout the year. In contrast, the Latin American region—with some exceptions, notably Ecuador and Venezuela—will continue to experience significantly stronger growth.

One reason that Brazil and Peru were not hit as hard as the United States in this recent economic downturn is that the crisis began in the secondary financial markets of the developed countries. Brazil and Peru have no such “shadow banking system”—all financial institutions are monitored by the countries’ central banks. In addition, structural reforms along with the increase in commodity prices and the inflows of capital and remittances in the years leading up to the crisis put these countries in a position to better withstand external shocks. Overall, these countries have demonstrated sound macroeconomic policies that have enabled them to perform relatively well compared to the more developed economies (see the chart).

The macroeconomic resilience of these countries during an international crisis has resulted in investment grade sovereign bond ratings for both Brazil and Peru. Citing robust external accounts and commitment to stable macroeconomic policies, Standard & Poor’s and Fitch upgraded Brazil’s credit ratings to BBB– in April and May 2008, respectively. Moody’s upgraded Brazil’s rating to Baa3 from Ba1 in September 2009. As a result of Peru’s increased resilience to external shocks and high external liquidity, Fitch and Standard & Poor’s upgraded the country’s credit rating to BBB– in April and July 2008, respectively. Moody’s was the last to upgrade Peru’s credit rating to an investment grade status of Baa3 in December 2009.

Brazil, Peru, and OECD GDP Growth

![Brazil, Peru, and OECD GDP Growth](source: Economist Intelligence Unit/Haver Analytics)
China’s Growing Trade Ties With Latin America

China’s economic growth and increasing global demand have contributed to growth in Latin America during the last decade, mainly through the region’s commodity exports. Chinese bilateral trade with Latin America reached just over $120 billion in 2008, growing more than 600 percent in five years. Strengthening trade ties with China has been especially important for commodity-exporting countries like Brazil and Peru (see the chart). China imports include iron ore, soybeans, and petroleum from Brazil and mineral products and fishmeal from Peru. China has surpassed the United States as Brazil’s principal trading partner, as total trade between Brazil and China has increased nearly twelve-fold since 2001. (In 2009, Brazil sent 13.2 percent of its exports to China, up from 8.3 percent in 2008.) Peru also deepened trade ties with China by signing a free trade agreement, which is expected to contribute to a 17.4 percent rise in exports in 2010, according to the EIU.

China’s rapidly growing demand for Latin American exports has meant that the region has been able to diversify exports beyond traditional markets in Europe and North America. However, as the OECD’s Javier Santiso counsels, the export boom “should above all be taken as a wake-up call for more reform” as future growth will depend upon continued reform, particularly with respect to the region’s lagging infrastructure. Furthermore, the region continues to depend heavily on commodity exports, and a key challenge for the region’s economies will be economic diversification and fostering industrialization given the inherent risks that economies relying on nonrenewable resources face. As Santiso put it, “The region will have to embrace reform, as strongly as it seems to be ready to embrace China.”

Rise before the fall

Strong foreign demand, readily available external financing, favorable terms of trade, increasing foreign investor risk appetite, and inflows of remittances in the early part of the decade created a framework that encouraged economic growth in Latin America and allowed many Latin American countries, including Brazil and Peru, to achieve important economic reforms. Some of these reforms opened up the region to international trade and capital. Continued growth in other parts of the world coupled with high commodity prices benefited Latin American countries rich in resources through increased exports of mineral and agricultural products. This growth led to wider trade and current account surpluses in the Latin American region—which, importantly, allowed many Latin American countries, including Brazil and Peru, to accumulate international reserves and retire external debt.

For commodity exporters like Brazil and Peru, higher demand from China for these primary products has been a key factor in recovery (see the sidebar). Brazil and Peru’s current account balances peaked at 1.3 and 3 percent of GDP in 2006, respectively, as exports rose. This accumulation of reserves, along with other institutional factors, constructed a favorable
of assets accepted as collateral was increased to improve access to short-term funding. The Brazilian central bank also opened temporary reciprocal currency arrangements, or swap lines, with the Federal Reserve to help ease difficulties in obtaining U.S. dollar funding. The Brazilian government encouraged Caixa Econômica Federal, the state-owned bank, and Banco Nacional de Desenvolvimento Economico e Social, the state development bank, to increase lending operations even when private banks tightened credit. In fact, credit to the private sector grew to 45 percent in November 2009 from 22 percent of GDP in 2002.

Crisis? What crisis?
The initial effects of the most recent crisis on emerging Latin American markets appeared limited. When asked about the crisis in September 2008, Brazilian president Luiz Inácio Lula da Silva responded by saying, “What crisis?” But by October, the impact on the region became apparent. Global deleveraging in the international banking system, a slowing demand for exports, constrained credit for international trade (see “Credit Storm Sinking Global Trade” in EconSouth first quarter 2009), and capital flight from emerging economies resulted in a depreciation of emerging market currencies and slow economic growth into 2009. After seven consecutive years of growth, Latin American exports fell from $903 billion in 2008 to $703 billion in 2009. Net direct investment flows to the region declined to $64 billion in 2009 from $95 billion in 2008. By the fourth quarter of 2008, real output growth in Latin America had fallen to –8.4 percent, significantly lower than the 6.7 percent fourth-quarter growth seen a year earlier.

Reforms pay off
The fiscal reforms that Brazil and Peru enacted in the early 2000s demonstrate the value of strengthening fundamentals when external conditions are positive. Thanks to their prior reforms and their buildup of reserves, Brazil and Peru’s governments were able to respond to the crisis with active policies that boosted output and employment and contained declines in real income. Brazil built credible policy structures, increased financial system regulation, privatized and modernized its banking systems, improved bank supervision, and increased the independence of the central bank, resulting in a stronger financial system and leaving the government better prepared to free up financial resources and more easily allocate credit after the onset of the crisis. In Peru, tax reform, trade liberalization, and legal and financial sector reform led to stronger markets and improved living standards.

The two countries also established inflation-targeting policies and used flexible exchange rates during periods of economic adjustment. Their buildup in foreign reserves helped alleviate the decline in demand from the advanced economies of the Organisation for Economic Co-operation and Development (OECD) countries during the global downturn. Backed by these large reserves and thanks to flexible exchange rate regimes and greater credibility, the countries’ central banks were able to provide liquidity by easing reserve requirements and providing credit to companies needing to refinance. In addition, the range of foreign direct investment (FDI) and for domestic demand to grow. Gross capital inflows and outflows reached record highs, with FDI the main source of external financing. In 2008, FDI in Brazil reached $45 billion, second among emerging markets after China.

The Brazilian central bank established swap lines with the U.S. Federal Reserve to support the provision of U.S. dollar liquidity.
to create stimulus programs that further contributed to their resiliency during the crisis. Brazil’s stimulus, which is forecast at 0.5 percent of GDP, has focused on tax cuts. Personal income taxes were lowered for those who earn up to $875 per month (in U.S. dollars), sales taxes were cut for 70 capital goods, and capital goods producers received tax breaks.

In Peru, fiscal stimulus is based on a $1.4 billion increase (in U.S. dollars) in public investment in 2009, which amounts to 1.1 percent of GDP. This investment is mostly for roads, housing, and hospitals but also includes additional incentives for nontraditional exports and an increase in social programs. Both Brazil and Peru’s stimulus packages include temporary support to small and medium-size enterprises and farms.

A decade-old initiative is also contributing to the continued growth of the region’s economies, including those of Brazil and Peru. In 2000, the 12 South American countries (Argentina, Bolivia, Brazil, Chile, Columbia, Ecuador, Guyana, Paraguay, Peru, Suriname, Uruguay, and Venezuela) signed the Initiative for Infrastructure Integration of South America (IIRSA). IIRSA targets the development of infrastructure to physically integrate these South American countries with highways, waterways, and hydroelectric dams, as well as telecommunication links. Major infrastructure programs have increased the country’s productive capacity, which are in turn contributing to the economic recovery. Brazil and Peru agreed to link their two countries through the construction of three highways and several waterways. Since then, Brazilian firms have invested billions of dollars to construct new ports and railroads in Peru that will link their exports to Asian markets.

**From crisis to recovery**

Both countries began to recover in 2009. Brazil’s GDP for the year was flat, but the economy began to grow in the second quarter. The output expansion in 2009 was driven by domestic demand, which is expected to increase 6.7 percent in 2010. Consumer spending in the third quarter of 2009 was up 2 percent from the previous quarter and 3.9 percent year over year. Peru’s GDP growth slowed to an expected 0.8 percent in 2009 from a 9.9 percent expansion in 2008. Inflation slowed from 6.6 percent at the end of 2008 to 0.24 percent at the end of 2009 and is expected to be around 2 percent in 2010. From January to November 2009, Peru’s trade surplus increased by $4.7 billion in U.S. dollars, up 56 percent from a year earlier.

The outlook for Brazil and Peru continues to improve as their economic recoveries continue to strengthen. In Brazil, with growing domestic demand buttressed by low interest rates, falling unemployment, and rising consumer confidence, the forecast from LatinFocus, an economic analysis firm, projects 5.5 percent annual real GDP growth in 2010, which would bring growth up to precrisis levels. With inflationary pressures starting to reemerge, the monetary authorities are likely to raise interest rates this year as they pursue their inflation target of 4.5 percent. Projections are for Peru’s economy also to undergo rapid expansion, with the the LatinFocus’s forecast projecting real GDP growth of 4.9 percent, as exports are expected to recover strongly, boosted by a new free trade agreement with China, and the economy set to benefit from high rates of investment and economic stimulus.

While the near-term outlook is positive and the region as a whole has gained from China’s rapid growth and resulting demand for commodity exports (see the sidebar), economic diversification is critical to reducing the vulnerability of these commodity-exporting economies to potential price declines.

This article was written by Amy Ellingson, an economic analyst in the Atlanta Fed’s research department.
forecast luncheon in Atlanta. Dean of the University's Terry College of Business, Robert T. Sumichrast said, "This upturn will be different. Our recovery will be slow and bumpy. You can expect Georgia's economy to underperform the national economy." Sumichrast went on to explain that one of the main reasons that Georgia will lag the United States in recovery is the state's heavy reliance on real estate. He also stated that he expects Georgia's nonresidential real estate market to get much worse in 2010. “Lots of empty space, weak demand for new space, plummeting prices, and extremely tight credit are huge problems,” Sumichrast said, adding that Georgia's construction industry might not begin to contribute to the state's economic growth until 2011.

The Selig Center released its forecast for key indicators of economic growth at the event. Georgia's gross state product would begin expanding again in 2010, at a growth rate of 17 percent. This growth would represent the first year-over-year expansion of the state's economy since 2007. The center anticipates that by spring a small recovery in jobs will accompany the recovery in output. It also forecast that Georgia's unemployment rate will continue to rise, reaching more than 11 percent by mid-2010 as the number of new entrants to the Georgia labor market increases. Finally, the center's forecast calls for consumer spending in Georgia to be sluggish and increase only 1 percent in 2010.
Southeastern Fishing Faces Strong Currents

With its moderate climate and plentiful coastlines, the Southeast has developed a robust fishing industry. But challenges on numerous fronts—natural and manmade—threaten the traditional business model.
Dating back centuries, fishing is among the nation's oldest industries. But for the fishing communities that dot the Atlantic and Gulf Coast areas of the Southeast, fishing is a way of life, encompassing traditions and skills—and economic opportunities—that have been handed down from one generation to another. Now, that way of life has come under increasing pressure from a number of sources including rising costs, low-priced imports, diminishing fish stocks, and the cost of compliance with government regulations. On top of that, the industry is still recovering from the devastation wrought by hurricanes Katrina and Rita in 2005.

Money under the waves
The region's diverse and vibrant fishing industry is an important source of economic activity in the Southeast. Commercial fishing in the region supported 178,200 jobs and had a total sales impact of $8.6 billion, according to *Fisheries Economics of the U.S. 2006*, a report by the National Marine Fisheries Service (NMFS), the federal agency charged with overseeing the industry. Recreational fishing is also an important source of jobs and revenues, with Southeastern states accounting for roughly 43 percent of the more than 87 million fishing trips taken in the United States in 2006, according to the NMFS report. In fact, the NMFS estimates that recreational fishermen in the region generated roughly $17.2 billion in total sales and supported more than 169,000 jobs. These figures reflect the direct and indirect economic impact of fishing. The Gulf region's fishing industry also contributes substantially to the national economy, accounting for 20 percent of all commercial landings (the amount of fish brought to shore) and about 30 percent of saltwater recreational trips, according to the National Oceanic and Atmospheric Administration (NOAA), an agency within the U.S. Department of Commerce. However, these activities ground to a halt when hurricanes Katrina and Rita lashed the Gulf Coast in 2005.

Hurricanes blow the industry off course
The storms' destruction crippled the region's fishing industry. Much of the Southeastern industry's capital and critical infrastructure were damaged or completely destroyed, including vessels, fishing gear, marinas, and processing facilities. The storms also extensively damaged vital natural resources such as wetlands and fishing grounds. Louisiana's multibillion-dollar fishing industry suffered the highest dollar-value losses, with estimated damages of $582 million, according to data presented at the 2007 meeting of the American Agricultural Economics Association. Meanwhile, the coastal areas of Mississippi and Alabama also suffered losses estimated at roughly $293 million and $112 million, respectively. The scale of the devastation prompted U.S. Commerce Secretary Carlos Gutierrez to declare

The number of shrimpers in Louisiana has dropped by almost 50 percent in the past decade, to about 4,700 in 2008.
the northern and eastern Gulf of Mexico a fishery failure, which unlocked federal relief funds for the area and gave fishing businesses access to Small Business Administration loans.

More than four years later, recovery efforts remain underway thanks to a host of programs aimed at rebuilding essential infrastructure, restoring habitats, and providing aid to affected commercial fishermen. One example is the Emergency Disaster Relief Program (EDRP) administered by the Gulf States Marine Fisheries Commission. The program initially received $128 million in funding from Congress to assist in the recovery of storm-damaged Gulf fisheries. Congress awarded the EDRP an additional $85 million in funding in 2007 for a second phase, which provides assistance to affected fishermen and fishery-related industries. Since its inception, EDRP has helped restore more than 71,000 acres of oyster grounds and funded the removal of storm debris, and it will continue to play a key role in the recovery efforts over the next several years.

A comparison of pre-Katrina commercial landings with those made more recently illustrates the progress. In 2004, landings at the Louisiana port of Empire-Venice (one of the top ports, in terms of quantity and value, damaged by Katrina) amounted to more than 400 million pounds, compared with 170 million the following year. Landings have since risen closer to pre-Katrina levels, surpassing 353 million pounds in 2008. The industry’s success in rebuilding following the storms indicates its deep roots and resiliency. Even so, the region’s fishing communities face other challenges that pose a risk to the industry’s long-term success.

**Other crosswinds brewing**

Even before the 2005 storms, commercial fishing was battling a number of manmade forces, including compliance with government regulations and fierce competition from imported seafood. The United States is a net seafood importer. In fact, the country’s current $9 billion annual seafood trade deficit is second only to oil, according to the U.S. Commerce Department’s National Oceanic and Atmospheric Administration (NOAA). More than 80 percent of the nation’s seafood is imported compared with 63 percent a decade ago, according to NOAA, and about half of the imported seafood comes from fish farming, an industry that has grown dramatically over the past several decades. (A 2006 report by the United Nations Food and Agricultural Organization says aquaculture has grown 8.8 percent annually since 1970 and is now a $1 billion industry in the United States and a $70 billion one worldwide.) Imported farm-raised seafood ends up in the U.S. market “at a cost far below that for the wild-caught product,” explains Charles Adams, a marine economist at the University of Florida. Meanwhile, the low cost of imports suppresses the wholesale price domestic fishermen receive for their catch. According to the NMFS, ex-vessel revenue (the amount fishermen receive dockside) for the Gulf region fell 13 percent between 1997 and 2006 while the South Atlantic region saw an even greater decline, of 37 percent.

The shrimping industry may be the most visible example of this price pressure. Imports make up an increasing portion of the four pounds of shrimp that the National Fisheries Institute says the average American consumes annually. According to data from NOAA’s fisheries service, shrimp imports grew by roughly 39 percent, topping 1.2 billion pounds, between 2000 and 2008. In the
same period, shrimp prices fell by as much as $3 per pound.

While lower prices and greater variety benefit consumers, they are running the nation’s shrimpers aground. Wild harvesting involves substantial expenses such as fuel (the average shrimp trawler burns 20–25 gallons of diesel fuel per hour) and boat insurance. In contrast, fish farming involves lower overhead and yields a year-round, consistent product.

In 2003, an industry coalition sought relief by alleging the “dumping” of shrimp on the U.S. market. “It is hard enough to compete against a cheaper product, but one that is also unfairly traded just adds insult to injury,” says John Williams, executive director of the Southern Shrimp Alliance. Following a year-long investigation, duties were imposed on shrimp from six countries: Brazil, China, Ecuador, India, Thailand, and Vietnam. While the anti-dumping orders initially slowed imports from those countries, the relief was short-lived. One reason, according to a study by economists Walter Keithly Jr. and Pawan Poudel of Louisiana State University, is that imports from the countries not included in the complaint eventually stepped in to fill the void.

As a result, determining exactly how many U.S. shrimpers have cast aside their nets is difficult, especially given the seasonal nature of the industry, but one gauge is the number of licenses issued for resident shrimpers. According to statistics from the Louisiana Department of Wildlife and Fisheries, the number of shrimpers in the state has dropped by nearly 50 percent during the past decade, falling to roughly 4,700 in 2008, a decline hastened by Katrina’s effects.

Conservation a key consideration
Fishermen aren’t just facing pressure from foreign competition and Mother Nature; they also operate under pressure from government regulations that determine what they are allowed to catch, where and when they fish, and what equipment they can have. The Magnuson-Stevens Fishery Conservation and Management Act, signed into law in 1976, is the primary statute governing marine fisheries management in the United States. Eight regional councils are charged with managing and conserving fish stocks through a combination of controls, including limits on the number of licenses issued and the amount of time each boat can spend at sea. Fishery managers also set year-round or seasonal area closures and put limits on the quantity of fish that can be harvested.

A 2006 amendment to the Magnuson-Stevens Act mandated that fishery managers take action to protect species identified as overfished. One recent example is a four-month ban on the recreational and commercial harvesting of shallow-water grouper that went into effect on Jan. 1, 2010. The purpose behind the ban is to protect the species during its primary spawning season because, according to fishery managers, several species of grouper are overfished. Though the full impact of the ban has yet to be determined, many in the industry anticipate dire results, especially in areas such as the Florida Keys, where recreational and commercial grouper fishing brings in tourists and revenues and keeps the popular fish on the menus of local restaurants. To the chagrin of area restaurateurs, the ban went into effect during peak tourist season.

Recent experience shows how the sustainability efforts of fishery managers don’t always align with the economic realities that fishermen confront. However, as fishery managers and conservationists point out, the rules are ultimately in place to prevent overfishing and the depletion of fish stocks. By and large, fishermen accept the need for sustainable fishing practices, but some of them question the accuracy of the managers’ data and consider the regulations inflexible. In the end, both sides hope that the long-term benefits of managing and maintaining the nation’s marine resources will outweigh the short-term costs.

Hooked on a pastime
Even in an industry facing many challenges, at least one bright spot stands out. The recent recession has led more Americans to forgo expenses such as luxury vacations in favor of older—and less costly—forms of leisure. Not surprisingly, this shift has led to a renewed interest in recreational fishing. As reported by Reuters, anecdotal evidence from bait shops and other data suggest an increase in the number of Americans who are going fishing. In addition to being an inexpensive hobby, fishing is an activity that families can enjoy together and one whose cost is not a significant barrier to entry. But it isn’t the first time Americans have rediscovered the joys of fishing during trying economic times. NSGA data show that during the previous recession in 2001, spending on fishing rods and reels increased by 12 percent to $343 million.

Though commercial fishermen are experiencing tough times, experts are quick to assert that rumors of the industry’s demise are premature. Fishing may no longer be the driving force of some local economies where it has traditionally thrived, but the University of Florida’s Adams says the industry will likely reach some type of equilibrium that will give “all stakeholders, including commercial fishermen, a viable role in the future use of our fishery resources. I think we are already seeing that happen.”

This article was written by Lela Pratte, a staff writer and Web content specialist in the Atlanta Fed’s Public Affairs Department.
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$12
Amount, in billions, of the estimated size of illegal online gambling in the United States
Source: American Gaming Association, as cited in EconSouth's article, "The Role of the Dice"

300
Number, in millions, of Facebook users as of the third quarter of 2009, as the social networking site looks toward positive cash flow in 2010
Source: Computerweekly.com

3.3
Americans' personal savings rate, in percent terms, in the first quarter of 2010, down from a high of 6.4 percent in May 2009
Source: U.S. Bureau of Economic Analysis

$31
Amount, in billions, raised for Haiti earthquake relief through the American Red Cross's text messaging program
Source: America.gov

8.4
Percent unemployment rate in Savannah at the end of 2009, compared with 10 percent for the United States
Source: U.S. Bureau of Labor Statistics, as cited in EconSouth's article, "Georgia's First City Combines Looks With Commerce"

50
Increase in layoffs, in percent terms, in the South in 2009 compared with the previous year
Source: U.S. Bureau of Labor Statistics, as cited in EconSouth's article, "Employment Survey Delivers JOLTS"
While people have consumed seafood for millennia, the method of harvesting it has evolved dramatically. Oyster luggers dock their boats at a levee in New Orleans as they ply their trade in 1901 (top), while modern technology helps get oysters to market today.