# Regional Update

## Regional Economy Improves, but Job Gains Prove Elusive

Economists see growing evidence that a sustainable recovery is under way. In the first quarter of 2010, retailers saw an increase in traffic and sales, and their outlook improved. Auto sales increased on a year-over-year basis, while revenues in the Southeastern tourism sector stabilized (notwithstanding the impact of the oil spill). Although commercial contractors continued to cite weakness in nonresidential construction activity, residential real estate contacts indicated that both new and existing home sales improved and were above weak levels from a year earlier. Regional manufacturers noted further improvement in new orders and production. Nevertheless, despite some signs that labor markets are healing, the increased economic activity has not resulted in an increase in employment in the first quarter.

The region's retailers were more upbeat than in previous months. Traffic as well as sales increased. Merchants continued to keep inventory levels low, and all contacts reported they were satisfied with their inventory levels. Backing these positive reports was the fact that all states in the Southeast experienced an increase in sales tax revenue from February to March.

Auto sales also improved. According to contacts and industry data, small-vehicle segments continued to drive the growth of the region's vehicle sales from the weak levels of a year earlier. Sales of vehicles assembled in the Southeast were up 24.5 percent year over year.

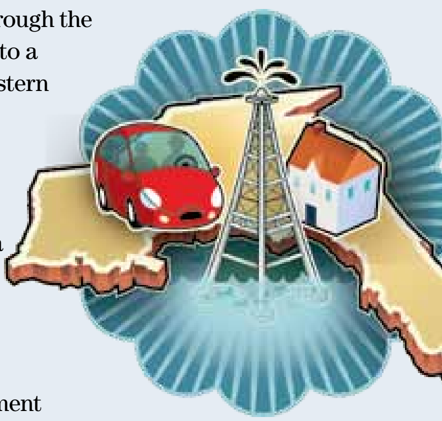
Tourism-related spending was described as stable in most parts of the region. Contacts in Atlanta, Miami, Nashville, New Orleans, Orlando, and Tampa reported hotel occupancy rates abovethe national average from February to March. Cruise lines noted increased demand and have rolled back some earlier price discounting. The near-term outlook among hospitality contacts remained generally upbeat. However, corporate bookings remained at very low levels at some high-end resorts.

Real estate activity was somewhat mixed. Reports on home sales were more upbeat in March, and construction data continued to improve from very low levels. In particular, reports on existing home sales were stronger as time to take advantage of the housing incentive for first-time buyers began to run short. However, it did not appear that the second round of the house-buying stimulus was as strong as the results experienced last fall. The outlook among both Realtors and homebuilders was cautious, however. Expectations are that home sales and construction activity would at best hold steady as the latest stimulus expired at the end of April. In addition, commercial development remained weak across the Southeast.

Industrial activity showed signs of improvement. Kennesaw State University's Southeast purchasing managers index increased from 56.8 in February to 59.9 in March. (A reading above 50 indicates expanding manufacturing activity; below 50, contracting activity.) The 3.1 point increase was attributed to continued gains in production, employment, and new orders. The new orders component gained 2 index points to reach 67.1, while the production component experienced another sharp monthly increase of 9.5 index points to reach 70.

Through mid-April, vehicle production in the region was up sharply from 2009's low readings, but production was still far below levels reported in 2008. Automakers are continuing to set production plans ahead of demand levels.

Increased economic activity has not translated into a rise in employment through the first quarter, but some signs point to a healing of labor markets. Southeastern states shed a further 20,300 jobs in the first quarter of 2010. This loss nevertheless represents an improvement over the 73,000 lost in the last quarter of 2009. Florida and Louisiana experienced net increases in total employment, while Alabama, Georgia, Mississippi, and Tennessee saw a net decline. The combined unemployment



## Gulf Oil Seeps Into Regional Economy

In late April, a blowout on an offshore oil drilling platform resulted in a large oil spill in the Gulf of Mexico. The spill directly affected Southeastern states with Gulf coastlines (Louisiana, Mississippi, Alabama, and Florida), though contacts emphasized that the full economic and environmental consequences of the spill will be difficult to determine for some time given the uncertainty about the weather, spill rate, and leak-stop timeline.

Regional oil output felt little immediate impact from the spill, though industry members expressed concern about the effect on future production. Following the spill, supply vessels were able to reach existing rigs without interruption. Meanwhile, district refinery operations saw little immediate impact from the spill, and Gulf Coast crude oil and gasoline stocks remain near the top of their seasonal average for this time of year.

The regional fishing industry reported a significant impact resulting from the spill, with fears of water contamination and safety concerns prompting a federally mandated ban on both commercial and recreational fishing in zones affected by the spill.

rate for Southeastern states rose to 11 percent at the end of the first quarter of 2010 from 10.7 percent in the fourth quarter of 2009. All Southeastern states except Tennessee logged an increase in their unemployment rates; Tennessee's remained unchanged.

On the positive side, initial claims for unemployment insurance have decelerated to under 60,000 from a peak of 90,000 in April 2009. In Florida, temporary employment decreased just under 5 percent year over year in the first quarter of 2010, compared with a drop of 10.8 percent in the fourth quarter of 2009. In Georgia, temporary employment rose nearly 2 percent year over year in the first quarter of 2010, compared with an 11.9 percent decline in the last quarter of 2009. In addition, average weekly hours for all workers in the private sector rose in all Southeastern states in March. These indicators point to improved labor markets for the remainder of 2010.

The flow of bank credit to businesses remained subdued. Bankers in the Southeast continued to indicate that ample credit was available to qualified borrowers, yet many noted that the volume of loan applications was low for households and small businesses. In contrast, several firms noted that tighter credit standards were making it difficult for them to obtain loans. Some contacts suggested that trade credit terms also tightened, with some suppliers having modified terms or reduced credit without regard to payment history.

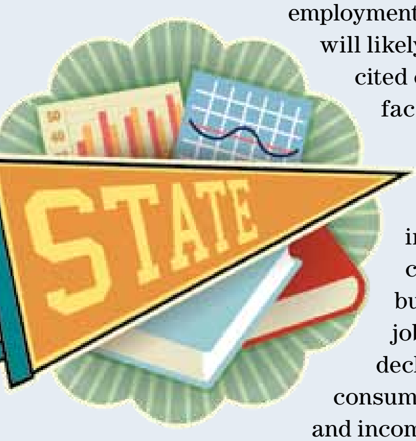
Overall, the Southeastern economy continues to stabilize, with increasing signs of a sustainable recovery. However, regional unemployment rates remain high and job gains have been elusive through the first quarter of 2010. Overall, the regional outlook is similar to that of the nation. Recovery largely depends on repairing credit access, reaching a definite bottom in the housing market, and sustaining the rebound in consumer spending. These trends should be supported by modest increases in employment going forward. ∎

## University Studies

The last week in March marked the second conference of the Atlanta Fed's Local Economic Analysis and Research Network (LEARN). The conference included economic outlooks for Southeastern states.

**Fitful recovery foreseen in Alabama**

Sam Addy, director of the University of Alabama's Center for Business and Economic Research, reported that Alabama's economy is recovering. Economic growth is expected to be 1.9 percent in 2010, but employment growth will likely be flat. He cited challenges facing the Alabama economy in 2010, including continuing but slowing job losses, declining consumer spending and income, declining revenue to fund public education, decreasing federal government spending, and continuing problems in commercial and residential real estate.




**Road to recovery long in Tennessee**

Matthew Murray, from the University of Tennessee's Center for Business and Economic Research, told conference participants that the state should begin seeing some improvements in economic conditions as 2010 unfolds. However, few expect a strong and vigorous rebound, he said. Even if rapid growth occurs, he said it would be at least two years before Tennessee's economy returns to prerecession levels. Murray also expects the state's labor market to recover slowly, adding that the state's unemployment rate will likely average 10.4 percent this year and remain above 10 percent through 2011.

**Mississippi looks ahead cautiously**

Mississippi felt the brunt of the recession later than most states in the region, but its recovery will closely track that of the nation as a whole, according to Philip Pepper, state economist and assistant commissioner of institutional research for the Mississippi State Institutions of Higher Learning. Pepper pointed out that average growth during economic expansions has decelerated over time, and he anticipates that growth in the United States and Mississippi will be below the long-term average for the foreseeable future. In particular, job growth will be anemic in Mississippi, Pepper said, and state revenue growth will be slow coming out of the recession as consumers remain cautious.

**Georgia holds dampened expectations**

Real estate continues to cast a long shadow in Georgia, according to Jeffrey Humphreys, director of the Simon S. Selig Jr. Center for Economic Growth at the University of Georgia. He noted that the state will continue to suffer from its heavy exposure to the real estate downturn. The economy has been geared toward new residential and nonresidential development, and going into this recession, Georgia had an outsized construction industry, a huge supply of residential and nonresidential properties, and a high concentration of manufacturing industries closely allied to construction. The overdependence on development meant the financial crisis did much more damage to Georgia's banks than to the nation's. Humphreys concluded that Georgia's economy will underperform the national economy until real estate and construction stabilize, sometime in 2011. ∎

# Data Corner: Retail Sales

Because it makes up about 70 percent of U.S. gross domestic product, consumer spending is an intensely scrutinized economic barometer. For this reason, retail sales is a closely watched measure of economic activity.

The national retail sales data come from the U.S. Census Bureau and are available on a monthly basis. Month-to-month and year-over-year comparisons allow short- and long-term readings of trends.

Every month, the Census Bureau collects information from thousands of retailers about what consumers are buying and how much they are spending. This information goes into developing the two most widely examined series: total retail sales and core retail sales.

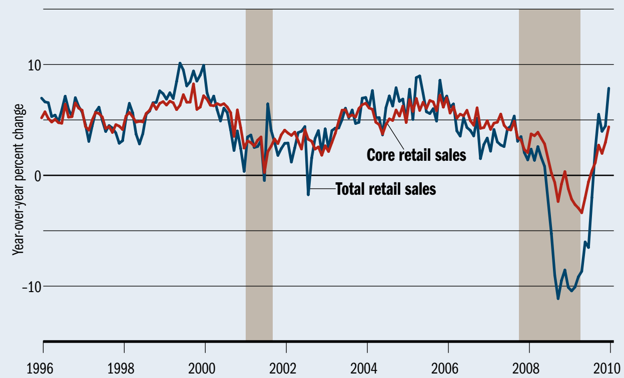
Total retail sales include broad categories of consumer goods such as motor vehicles and parts, furniture, electronics, building materials, food, gasoline, clothing, and general merchandise.

Core retail sales exclude autos, building supplies, and gasoline. These categories tend to be volatile and can skew the overall consumer spending numbers. For example, if the price of gas increases but consumers still buy the same amount, the total retail sales number will go up even though consumers bought no more gas than they did before the price increase. Autos and building supplies—usually big-ticket items—can also alter the interpretation of the data.

Although retail sales are a very important indicator of economic activity, they only provide a measure of the goods that consumers are spending money on, but not what they're spending on services. Services, such as haircuts, dry cleaning, and banking, account for a larger portion of consumer spending than do goods. However, retail sales data have the advantage to economists of being released well before the overall tally of consumer spending that includes services.

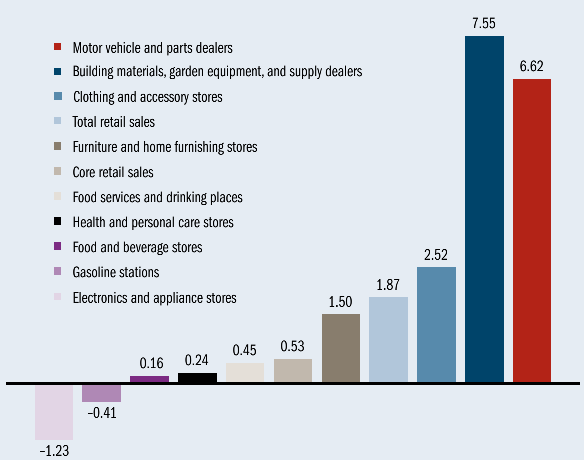
Recent retail sales data show an increase in consumer spending, coming on the heels of the historical lows in retail sales seen during the recession. Core retail sales were up 4.4 percent in March on a year-over-year basis, a vast improvement from the low of –3.4 percent in July of last year. Total retail sales showed a similar pattern, albeit an even more drastic one, given the large swings in gas prices and car sales. Given the importance of consumer spending to economic growth, retail sales will continue to attract scrutiny as an indicator of economic recovery. ▮

**Retail Sales**




Notes: The chart assumes the recession ended in June 2009. March 2010 total retail sales = 7.6 percent; March 2010 core retail sales = 4.4 percent.
Source: U.S. Census Bureau

**U.S. Retail Sales Components**




Note: Data are for March 2010 and indicate month-over-month percent change.
Source: U.S. Census Bureau

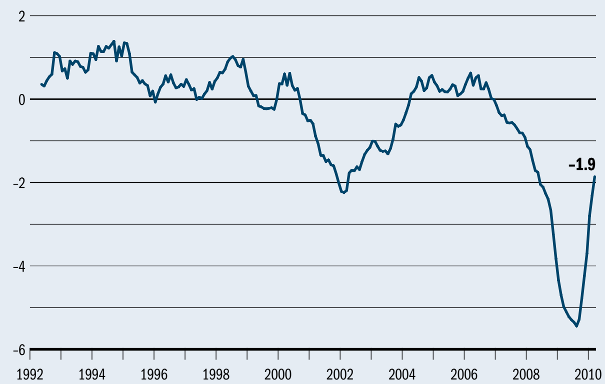
## The D6 Factor

The D6 Factor ended the first quarter of 2010 at –1.9, an increase of almost 2 index points from the previous quarter. Although a negative value indicates that economic conditions are weak, the index has steadily been trending upward from its record low of –5.4, set in August 2009. This positive trend signals improving conditions for some of the underlying series that are used to compute the index. ▮

**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).

**The D6 Factor**

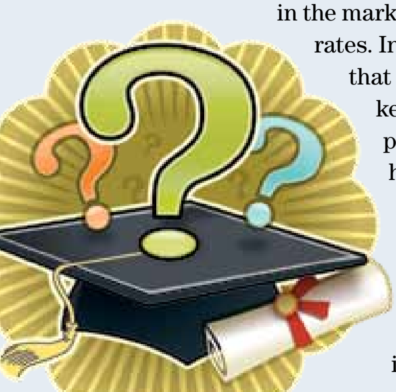



Note: The growth rate is normalized to zero. Data are through March 2010.
Source: Federal Reserve Bank of Atlanta

## Econ 101: The Discount Window

The discount window—a Federal Reserve lending facility—provides short-term loans to depository institutions that face temporary liquidity strains during times of stress. The discount window has three different programs: primary credit (the main program), secondary credit, and seasonal credit.

The interest rate charged on primary credit (often referred to as the discount rate) varies but is set above the Federal Open Market Committee's federal funds target rate to provide an incentive for financially sound banks to seek funding in the market at lower rates. In the event that private market rates are prohibitively high, banks can use the discount window as an alternative funding source.



(Secondary credit—extended to institutions that do not qualify for primary credit—has historically been set 50 basis points (bps) above the primary rate. The rate for seasonal credit, which is extended to institutions that experience large seasonal swings in deposits and loans, is set by averaging the fed funds rate and the interest rates on 90-day certificates of deposit.) Typically, the primary credit rate had been 100 bps above the federal funds target rate, although it is currently only 50 bps above the upper end of the target range of 0 percent to 0.25 percent. The discount window rate structure also helps to carry out monetary policy because the discount rate should act as an upper bound on short-term interbank rates.

To obtain primary credit, a depository institution must be deemed in sound financial condition by its regional Reserve Bank. All credit provided to institutions is fully secured to the satisfaction of the lending Reserve Bank by acceptable collateral (such as U.S. Treasuries, real estate loans, or consumer loans). During the recent financial crisis, many depository institutions faced a shortage of liquidity, and many received discount window loans. At the height of the crisis, primary credit borrowing reached more than $100 billion in October 2008 and was instrumental in helping solvent institutions continue their operations. More recently, as short-term private funding markets have improved, primary credit borrowing has declined markedly, to about $5.5 billion at the end of April 2010.

The Federal Reserve Board of Governors provides a weekly report showing the total borrowing under each discount window lending program and the amount borrowed within each Federal Reserve district. ▮

*—By Mike Hammill, economic policy analysis specialist at the Atlanta Fed*

## On the Ground: An Interview With Juan Del Busto, Regional Executive at the Atlanta Fed's Miami Branch

**What are some of the primary ways you gather economic data about the South Florida region?** We have a number of ways of gathering data. For example, we go to Chamber of Commerce and Latin Builders Association meetings and make contacts. We also host business leader roundtable meetings not only to provide the Fed's outlook on the economy, but to receive their feedback regarding what they are experiencing and seeing from their industry and geographic sectors. Also, travel and tourism is a key area for our region. We have so many cruise lines here, and we gather information through them. We have some real estate industry representatives, both commercial and residential. We seek out those individuals to obtain their input on the state of the residential and commercial real estate markets.

Another economic area we're interested in learning about is agriculture, so we seek out individuals for their input in agriculture either in the Homestead area or further north in South Florida, like the Vero Beach area, where the farmers grow fruit, vegetables, and flowers. Agriculture is an important economic industry in the region. Fort Myers and Naples are also important areas in our zone, and there are a lot of construction businesses there. We network to attend meetings in these areas to find out about their business and real estate there. We look for people who can contribute timely economic information to help us formulate monetary policy. And we maintain relationships with those contacts, so if there's something that happens nationally, in the district, or in the state, we can go back to those individuals and gather key economic information. We try to maintain a two-way flow of information with these important contacts by providing the Fed's outlook through speeches to their groups and reports from their sectors, like the monthly research surveys in real estate, manufacturing, and retail.

**You mentioned the importance of travel and tourism to your region. How is that sector holding up in the economic recovery?** Travel and tourism are actually coming back. We have all three major cruise lines on our travel and tourism advisory council [a group of industry leaders brought together by the Miami Branch of the Atlanta Fed], and we've received information that pricing has improved. Not only has price per individual improved, but onboard spending has improved. Tourists are spending more money now in the casinos, on food and drink, onboard shopping, things like that. Our advisory council members in the convention and visitors bureau business and hotel operators have reported an uptick in occupancy and a fairly good increase in future convention bookings.

**Though the oil spill's effects are not yet fully known, has it had an effect on your region's economy?** Our tourism contacts are wary and keeping a close eye on things, as are their customers. To date our contacts have reported receiving numerous calls asking if their beaches are open, and there have been some cancellations on the west coast of Florida, particularly from international travelers, with some rebookings on the east coast of Florida from folks who have canceled. We are all hoping the leakage will be capped soon and the cleanup goes quickly and thoroughly. There is the potential for a significant hit on tourism if the current situation continues.

**What do your contacts tell you about the recovery of the South Florida housing market?** The housing market has improved. South Florida was one of the nation's first markets to experience stress. In addition, we have a lot of condos in South Florida, and that part of the market has also continued to improve. The improvement in the condo market has been due in large part to foreign buyers. And they don't get financing—they pay for condos with cash. The higher-end homes—greater than $1 million—have not yet hit bottom regarding prices.

**Has the tone of conversations you've been having with your contacts changed over the course of the past year?** They've definitely changed. Our contacts are feeling more positive. However, they're still very, very cautious on the employment side. Let's say a company laid off six or eight individuals. Even if they see growth in their company, they may not hire all those people back. They might hire two or three of them back, but they're definitely trying to do more with fewer people. Additionally, educational institutions like Miami-Dade College, for example, have seen growth. Miami-Dade College's enrollment has increased 7 percent, and they have 400 job openings. In the finance area, the college has 34 openings. College contacts say that if they fill 11 of those openings, they can work years with that staffing level. Some individuals have permanently lost their jobs. I think a lot of companies won't rehire the same number of people they previously had on board. They're just going to try to have people do two or two-and-a-half jobs going forward. Now, it's not likely that can be sustained over time, so we'll see what happens.

**How do you envision your role as regional executive over the course of the coming year?** I'm definitely going to continue expanding my contacts. I am very well connected in Dade and Broward counties, which is the Miami-Fort Lauderdale area. I need to make sure I am as connected in the outlying areas of our region. I need to go to Vero Beach, Fort Myers, Naples, Englewood, and the Keys and establish more relationships with high-level individuals. I want to be able to call on those individuals, and I want Dennis [Lockhart, Atlanta Fed president] to be able to call on them as needed to get real-time, anecdotal economic information. I have some good contacts in those areas, but I want to broaden my base. That's my goal for this year. ∎