

The Southeast Economy: A Historical Context

The Southeast's economy in 2007 was buffeted by the same forces as the national economy. That similarity represents progress, in a sense, because it signals the region's long ascension from economic laggard into the nation's economic mainstream.

Only in recent decades has the Southeast moved to the center of the national economy in terms of industry composition, productivity, and population. Boosted by an influx of people of varying backgrounds and an infusion of diversified industries, the economy of the Southeast, more than any other region, is now a microcosm of the nation.

The population of the six states served by the Sixth Federal Reserve District has more than doubled since 1960, to about 46 million, far outpacing growth in the country as a whole. Florida's population in that period nearly quadrupled, to 18.25 million, and Georgia's more than doubled. During the same period, the nation's population grew by 68 percent.

Migration spurs growth

Much of the Southeast's population growth has come via migration from other parts of the country, notably the Northeast and Midwest. From 2000 to 2007, three of the six southeastern states—Florida (first), Georgia (fifth), and Tennessee (eighth)—ranked among the top ten for in-migration from within the United States as the region experienced net domestic in-migration of 1.68 million people (or 2.05 million excluding the post-Hurricane Katrina outflow from Louisiana and Mississippi), according to the U.S. Census Bureau.

A steady flow of newcomers has streamed into the Southeast for much of the past fifty years. In each decade starting with the 1960s, the six-state region's population grew at a rate greater than the nation's. In the 1970s the Southeast's growth doubled the nation's, and in the 1980s it was 50 percent higher.

In recent years, the region's immigrant population has grown particularly fast, helping to make the region more like the rest of the country demographically as well as economically. From 2000 to 2006, Georgia, Tennessee, and Alabama

**An Economic Timeline of
the Southeast: Entering
the 21st Century**

2000: The combined population of the Southeast reaches 41.6 million.

2001: Honda opens an auto plant in Lincoln, Alabama.

2003: One thousand people a day move to Florida.

Table 1

Per capita personal income (PCPI) (in 2007 dollars)

	2006 (revised)	Percent of U.S. PCPI	2007 (preliminary)	Percent of U.S. PCPI	1977	Percent of U.S. PCPI
United States	\$36,714		\$38,611		\$26,092	
Alabama	30,894	84	32,404	84	20,412	78
Florida	36,720	100	38,444	100	24,602	94
Georgia	32,095	87	33,457	87	21,850	84
Louisiana	31,821	87	34,756	90	21,550	83
Mississippi	27,028	74	28,845	75	18,435	71
Tennessee	32,172	88	33,280	86	21,448	82

Note: According to the U.S. Bureau of Economic Analysis, Louisiana and Mississippi experienced large jumps in personal income from 2006 to 2007 primarily because of the Road Home subsidies (Louisiana) and housing subsidies (Mississippi) granted to Hurricane Katrina victims.

Source: U.S. Bureau of Economic Analysis

ranked fourth, fifth, and sixth, respectively, among states in the percentage growth in foreign-born residents, according to the U.S. Census Bureau. The foreign-born segment of each of the three states' population grew by more than 40 percent in that period. In the entire region, the foreign-born population increased by 32 percent, triple the region's overall population growth and far surpassing the nationwide growth in the foreign-born population.

In 2006, 11 percent of the Southeast's population was foreign-born, a figure that is likely below the actual percentage because of difficulties in counting undocumented immigrants.

Moving toward prosperity

This influx of people has both spurred job growth and helped to satisfy demand for workers. In turn, per capita personal income has come much closer to that in the United States as a whole in the six Southeast states: \$33,531 on average in preliminary 2007 data versus \$21,382 on average (in today's dollars) in 1977, according to the U. S. Bureau of Economic Analysis (see table 1 and charts 1 and 2).



A sign of the times in Chamblee, Georgia: The foreign-born population in the Southeast grew by nearly one-third from 2000 to 2006.

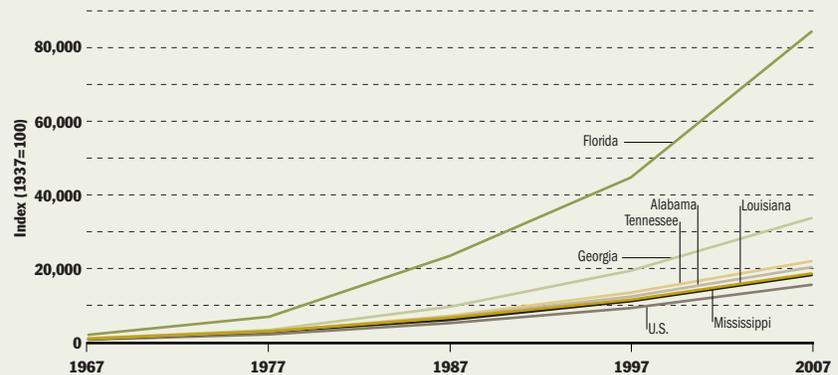
“The population of the states served by the Sixth Federal Reserve District more than doubled from 1960 to 2000, to about 46 million.”

2004: Florida ranks first nationally in the impact of international travel on state economies (\$14.45 billion).

2004: Hyundai opens an auto plant in Montgomery, Alabama.

Chart 1

Nominal personal income growth in the United States and the six southeastern states



Source: U.S. Bureau of Economic Analysis

This virtuous circle has been evident in, among other sectors, construction and services—from schools to hospitals to restaurants to golf courses to elder care homes—demanded by the millions of new residents.

The building industry, in particular, has boomed in the Southeast. From 1992 to 2002, construction employment in the region’s three biggest states—Florida, Georgia, and Tennessee—increased by 58 percent, to 770,132 jobs, and construction payrolls more than doubled, to about \$24 billion, according to the Economic Census from the U.S. Census Bureau.

Service industries have also been expanding. In 2007 the service sector employed more than eight of ten workers in the Southeast, up from two-thirds in 1970.

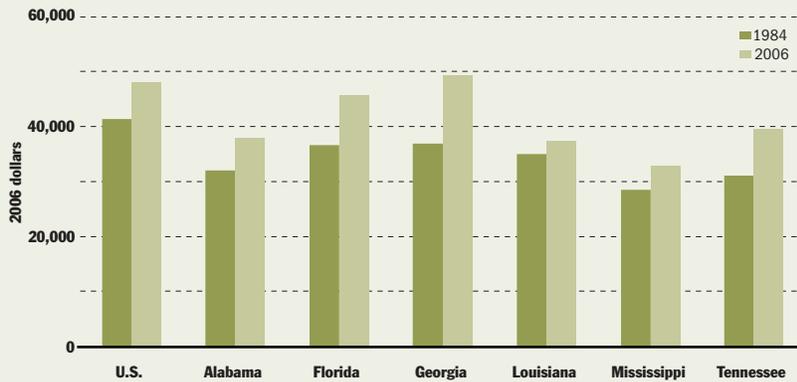
Today, the six southeastern states’ annual economic output is roughly \$1.7 trillion. By comparison, the gross domestic product of the nation is about \$13 trillion. If the Southeast were a country, its economy would rank as the world’s eighth-largest, between Italy and Canada.

FACT:

In 2007, for the first time in decades, more people left Florida than moved in.

Chart 2

Median household income in the United States and the six southeastern states



Source: U.S. Census Bureau

The large, multifaceted regional economy is the product of a gradual but profound change. Around the middle of the twentieth century, the Southeast lagged the nation in almost every measure of economic health. The region was so far behind the nation that in 1938 President Franklin D. Roosevelt famously declared it America's "economic problem No. 1."

In the years before World War II, the region's economy suffered from an "adherence to an agricultural economy built on a few staples—cotton, corn and tobacco," Atlanta Fed economist C.H. Donovan wrote in 1946.

Agrarian society receded after World War II

That agrarian Southeast, romanticized by some, bemoaned by others, gradually receded in the years following World War II as a result of mechanization and agricultural industry consolidation. Vestiges of the old farm-dominated economy have disappeared rapidly in recent decades.

That is not to say agriculture is no longer important. In fact, the dollar value of the region's farm output has risen substantially even as agricultural employment



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FACT:

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dropped by 36 percent from 1970 to 2006 from more than 600,000 jobs to 387,000, according to the U.S. Bureau of Economic Analysis.

Contraction of farm employment has been even more pronounced in the Southeast than in the United States as a whole. The percentage of the region's workers who make their living on farms fell from 5.6 percent in 1970 to just 1.5 percent in 2006. Today, agricultural jobs account for a smaller portion of the region's total employment than they do for the nation as a whole, a stark reversal from most of the twentieth century.

As the number of farm jobs dwindled in the latter half of the century, manufacturing of nondurable goods such as textiles and apparel helped to fill the employment void. In 1970, one of four employees in the Southeast held a factory job. Like agriculture before it, however, manufacturing's share of total regional employment has steadily shrunk, mainly because of global competition from lower-cost manufacturers abroad. By 2007, only about one in ten southeastern workers was employed in manufacturing. Data from the U.S. Census Bureau for the United States as a whole show a similar pattern.

Manufacturing shifts gears, services gain ground

While manufacturing no longer provides the significant number of jobs it once did, it remains a vital part of the region's economy through the ascendance of higher-tech, higher-skilled industries. Like its farms, the Southeast's factories have over time produced more product with fewer workers. The region's manufacturing output grew tenfold between 1970 and 2005, to nearly \$200 billion. This gain in output also reflects relocation of higher value-added industries from other parts of the United States and elsewhere to the Southeast. The impressive growth of the transportation equipment industry, notably in Alabama, exemplifies this trend. In 2006, the Southeast boasted 119,000 auto manufacturing jobs, a 13 percent increase since 2001. By contrast, auto employment nationally declined over the same period.

As the number of manufacturing jobs declined, the services sector emerged as an employment growth engine in the Southeast. This sector encompasses a broad range of jobs, from white-collar positions in accounting, advertising,

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communications, computer software, and law to less skilled jobs such as retail sales, hospitality, pest control, security services, building maintenance, and telemarketing. Service sector jobs jumped from 67 percent of the Southeast’s total employment in 1970 to just short of 84 percent by 2007. Like the decline in manufacturing and agricultural jobs, the growth in services also reflects similar trends in the United States.

According to the U.S. Census Bureau, employment in the Southeast’s service sector in high-, medium-, and low-paying service occupations is similar to the profile in the country as a whole (see table 2). For the United States, 96 percent of the total number of people employed in high-paying jobs are in managerial, professional, and related occupations. That figure compares to 97 percent in the Southeast. All of the low-paying jobs for both the nation and the Southeast are in what the U.S. Census Bureau classifies as service occupations—for example, food preparation, health care support, and maintenance.

Education and training are keys to the future

Because both the population and industrial composition of the Southeast have shifted over time, so has the demand for differently and higher-skilled labor.

FACT:

In spring 2007 the GM Saturn plant in Spring Hill, Tennessee, laid off 2,400 workers for eighteen months as the plant phased out production of the Saturn brand.

Table 2

Service sector occupations in 2006 by pay category (percent)

Occupations*	United States	Southeastern states
High-paying	31.8	30.4
Medium-paying	49.3	51.1
Low-paying	18.9	18.5

* For this table, high-paying jobs are defined as those falling 0.5 standard deviation above median pay and low-paying jobs as those falling 0.5 standard deviation below median.

Source: FRB Atlanta analysis using data from the U.S. Census Bureau 2006 American Community Survey



Attracted by a skilled and educated workforce, Scripps Research Institute, a leading biomedical research organization, opened a lab in Florida in 2004.

That shift has increased demands on higher education in Florida, Georgia, and other southeastern states and boosted the need for postsecondary technical education and worker training.

When sophisticated manufacturing plants in industries including steel, automobiles, and aerospace locate in the region, the Southeast appears to be making strides toward meeting the challenge of preparing its citizens for these jobs. According to a June 2007 *Expansion Management* magazine poll of corporate site consultants, the top three, as well as four of the top ten, state-sponsored workforce training programs are in the Southeast: Georgia, Alabama, and Florida were the top three, and Tennessee ranked seventh.

Job training programs were part of the incentives packages that helped to attract global manufacturers to the region, including Kia Motors to Georgia and ThyssenKrupp and Airbus to Alabama. Florida's ability to provide

educated and skilled employees has helped to bring Scripps Florida, the Max Planck Society, and other biomedical research centers to the state in recent years.

Clearly, as lower-skilled jobs move overseas and higher-skilled work demands greater, more specialized training and knowledge, future economic prosperity will depend on educated, talented people. Hopeful signs can be found throughout the Southeast. In all six southeastern states, the proportion of eighteen- to twenty-four-year-olds enrolled in college or graduate school climbed steadily from 2000 to 2006. Still, none of the six matched the national percentage of 39.7 percent in 2006, up from 34 percent in 2000 (see table 3).

Table 3

Percent of 18- to 24-year-olds enrolled in college or graduate school

	2000	2006
United States	34.0	39.7
Alabama	33.3	37.3
Florida	31.7	35.2
Georgia	27.9	34.9
Louisiana	32.3	34.7
Mississippi	31.3	36.9
Tennessee	30.0	36.3

Source: U.S. Census Bureau

“Future economic prosperity in the Southeast will depend on educated, talented people.”