# Tough Times: The Southeastern Economy in 2008

In 2008 the U.S. economy faced many economic challenges: tight financial markets, rising foreclosure rates, and job losses. By almost any yardstick, the problems affecting the nation's financial system took a toll on an already weak general economy. Rapidly escalating rates of home foreclosures, declines in home prices, and, ultimately, the lack of credit availability in the economy translated into sharply lower levels of economic activity.

**Employment takes huge hits**

For many years the southeastern economy generated hundreds of thousands of jobs, but it showed signs of fatigue in 2007 and outright decline in 2008. Its twin locomotives—Florida and Georgia—stalled and began rolling backward. Florida, the leader of the region's economic surge in recent years, suffered from overbuilt residential real estate markets and related financial turmoil. Georgia, another major growth engine in recent years, joined Florida, California, and Michigan as the states that lost the most jobs in 2008.

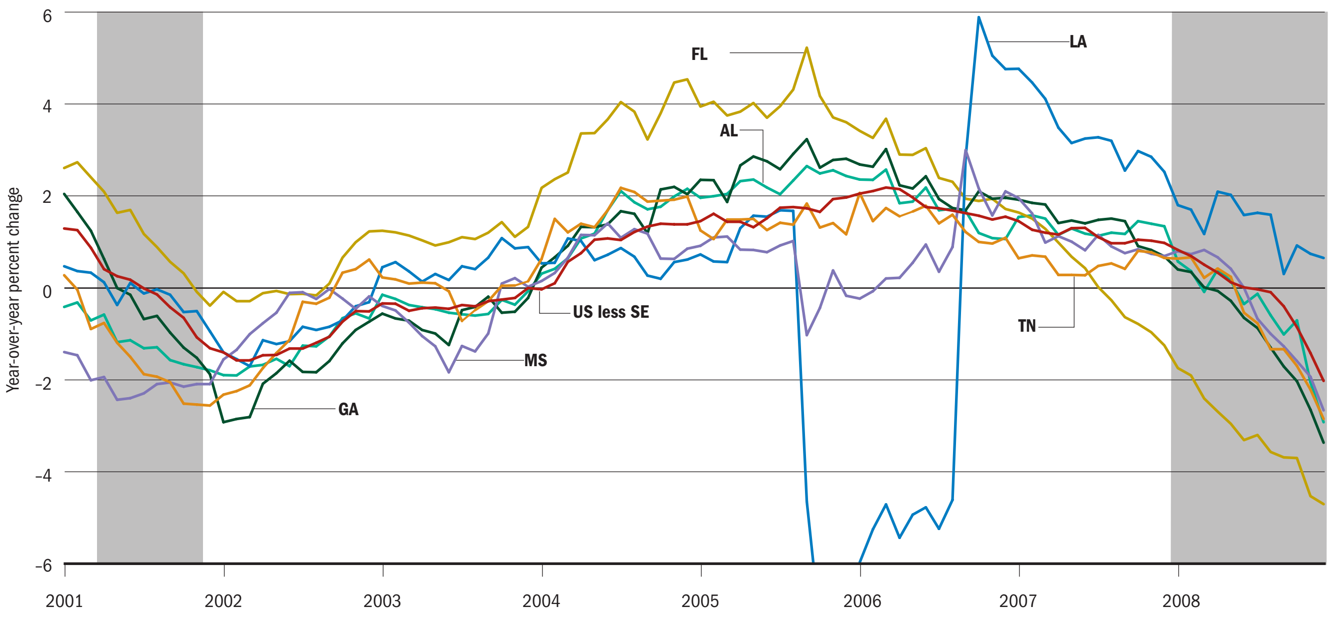
All told, the six states of the Southeast shed 674,000 jobs in 2008 (chart 1). The decline started early, and job losses accelerated in the final quarter of 2008. A quarter million net jobs were lost in the fourth quarter alone.

As the year ended, there were few positive signs. A shrinking employed workforce and rising ongoing unemployment insurance claims indicated that jobless people were having difficulty finding new work.

While payroll employment shrank in most southeastern states, Florida experienced the worst losses. Notably, employment in the Sunshine State's once robust construction industry in 2008 dipped to its lowest level since 1991. In the fourth quar-

Chart 1

**Southeastern Employment Growth**




Note: The gray bars indicate recessions.

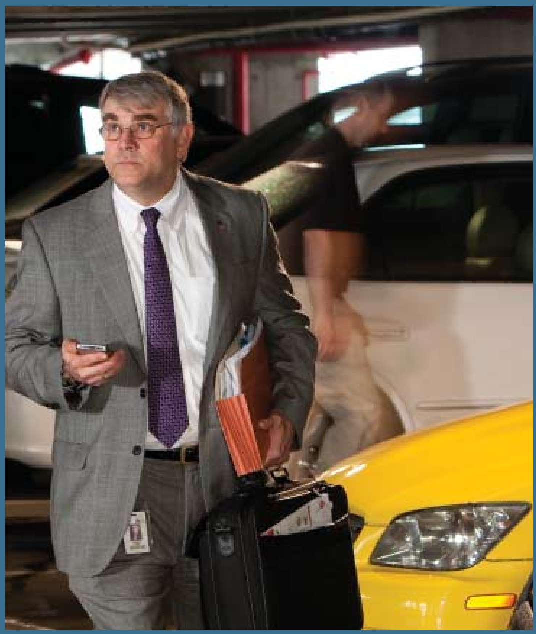
Source: U.S. Bureau of Labor Statistics and Federal Reserve Bank of Atlanta

**The Financial and Economic Crisis: A Timeline of Events and Policy Actions**

**2007**

**July 11:** Standard and Poor's places 612 securities backed by subprime residential mortgages on a credit watch.

Source: Abridged from "The Financial Crisis: A Timeline of Events and Policy Actions," Federal Reserve Bank of St. Louis (stlouisfed.org)



# Joseph Hale

## Community bank safety and soundness examiner covering institutions in Georgia and north Florida

Eight years of service

For most of the eight years he's been with the Atlanta Fed, Joseph Hale was able to leave his work behind at the end of the day.

"But that's not the case any more," Hale says. "We all want to see banks do well, and we want to be part of the solution to turning around the economy. So sometimes we take those worries home with us in the evenings."

There was plenty to worry over in 2008. Among the sixty-one community banks (those with under $10 billion in assets) that the Atlanta Fed regulates, there was a roughly fourfold increase in the number of troubled institutions, according to FDIC data.

For examiners like Hale, who are on the front lines in the Fed's efforts to safeguard the safety and soundness of the nation's financial system, troubled banks mean an intensified work schedule. In normal times, examiners thoroughly check a bank every twelve to eighteen months. When a bank's condition deteriorates, the Fed initiates some type of on-site examination activity at least every six months.

That means longer, more stressful hours for Hale and his fellow examiners. There are sometimes difficult dealings with bank executives and directors and more frequent meetings with bank boards of directors. At those meetings, examiners reveal overall soundness metrics that gauge capital adequacy, asset quality, and earnings, among other measurements.

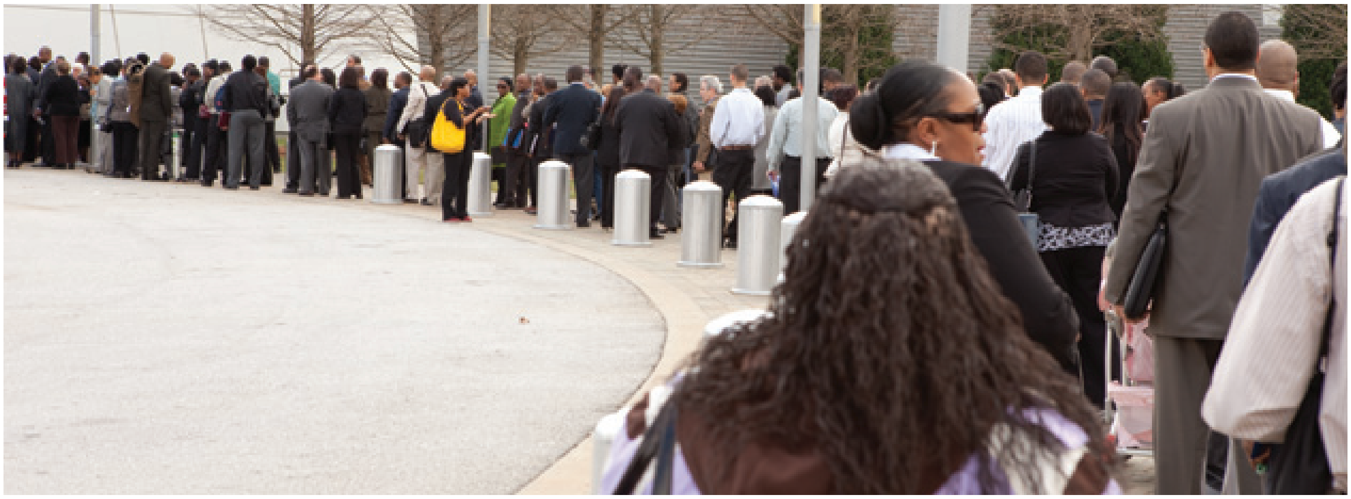
During the financial difficulties of 2008, those meetings centered on asset quality, in particular on loans ninety days or more past due, which are known as classified assets. Ideally, the examiners' findings concerning classified assets are no surprise to a bank's board.

That was usually the case in 2008. In contrast, meetings in late 2007 had often been tense as widespread problems related to real estate development lending began to surface. "There was some resistance to our recommendations then," Hale says. "Now, everybody pretty much has been affected, especially in the Sixth District."

To help affected institutions cope with deteriorating loan quality, Fed examiners will recommend various measures. To strengthen underwriting standards, for instance, Hale might recommend that a bank track its real estate loans in greater detail.

Rather than simply lumping loans together under a general "commercial real estate" category, he would advise a bank to stratify loans based on risk: loans made to a developer to buy land or to a builder to construct houses, loans to build hotels or convenience stores, or loans to develop owner-occupied commercial properties. Then, the bank might be asked to place internal limits on its lending volume in each of those more precisely defined classes of loans.

In retrospect, for community banks the lessons from one of the most severe crunches since World War II may boil down to fundamentals. "Usually," says Hale, "the problems we've seen involved excessive risk taking and trying to show better numbers than the bank down the street."



**With unemployment rising in the Southeast, an estimated 3,000 job seekers stood in line at just one fair, the South Fulton Bilingual and Diversity Job Fair held in College Park, Georgia, just outside Atlanta.**

ter of 2008, Florida also reported the highest number of layoffs of fifty or more jobs on record in the state. For all of 2008, Florida lost more than 375,000 jobs. The state had added 275,000 jobs as recently as 2005, before employment growth started to decline.

Florida's neighbor to the north fared little better. In Georgia, job losses in 2008 were spread among most economic sectors but were heaviest in manufacturing, construction, and business services. In December the state's unemployment rate reached 7.5 percent on a seasonally adjusted basis, the worst reading since 1983. This downturn came after Georgia had added more jobs between 2003 and 2006 than all but six other states, including Florida.

The news was better in Alabama, which maintained modest job growth for most of 2008, but even there employment started falling after the third quarter. In Louisiana, employment remained positive, but growth was much slower than during the post–Hurricane Katrina recovery. Meanwhile, Tennessee and Mississippi began losing jobs in the spring in most sectors.

Regionwide, the unemployment rate had begun climbing in the spring of 2007. By the end of 2008, the jobless rate in the Southeast as a whole, as well as in Alabama, Florida, Georgia, and Tennessee individually, was the highest since the early 1990s. Unemployment in the region was above the national average for most of the year.

**Out of service**

One factor that provided a cushion during past downturns was no comfort in 2008. Service-sector employment growth no longer offset losses in goods-producing industries. In fact, in most southeastern states annual growth in services employment in 2008 was no better and in some cases worse than during the 2001 recession.

The region's public sector eliminated jobs too. Governments across the Southeast, as elsewhere in the nation, pared payrolls because tax revenues declined along with consumer spending. In Georgia, for instance, by December governments were hiring at their slowest pace since the early 1980s. In November the city of Atlanta, like many municipalities across the country, announced a plan to adopt four-day work weeks, even furloughing police officers, in the face of declining tax collections.

**Real estate takes a tumble**

Like the region's workers, the Southeast's housing markets were hit hard, most notably in Florida and Georgia. In several areas of the region, existing home sales and inventories of homes for sale began to stabilize later in 2008. Yet even that good news was tempered by the reality that lender-owned foreclosed houses crowded the market and depressed prices (chart 2).

**August 17:** The Federal Reserve Board votes to reduce the primary credit rate 50 basis points to 5.75 percent, bringing the rate to only 50 basis points above the Federal Open Market Committee's (FOMC) federal funds rate target.

**September 18:** After holding the rate steady at 5.25 percent for fifteen months, the FOMC reduces its target for the fed funds rate by 50 basis points to 4.75 percent.

**October 31:** The FOMC reduces its fed funds target rate to 4.50 percent.

During the fourth quarter, for example, existing home sales in Florida climbed 12.5 percent above a weak year-earlier period. But the average price tumbled 24 percent. Industry contacts told the Atlanta Fed that houses foreclosed by financial institutions accounted for up to half those sales.

Falling prices and scarce sales also plagued Georgia, particularly the once-booming metro Atlanta market. Over the past decade, no metro area in the country issued more single-family building permits than Atlanta. But since peaking in 2005, the number of permits issued slid 91 percent through the fourth quarter of 2008.

In Georgia, the value of new residential construction contracts plunged to $6.6 billion in 2008 from $11.8 billion in 2007 and $16.3 billion in 2006, according to McGraw-Hill Construction, a compiler of industry news and data. In Florida, new contracts fell to $13 billion from $22.3 billion in 2007. The combined value of residential and nonresidential construction projects in the Sunshine State in 2008 was roughly $34 billion, or less than half the 2005 level of $71.7 billion, according to McGraw-Hill Construction estimates.

As demand dried up, many home builders closed or were forced into bankruptcy. In September 2008, the Greater Atlanta Homebuilders Association reported its membership had shrunk 22 percent in two years.

The effects of foreclosures and bank-owned houses flooding the market were not contained to Florida and Georgia. In markets across the Southeast, home prices fell, and access to financing was limited.

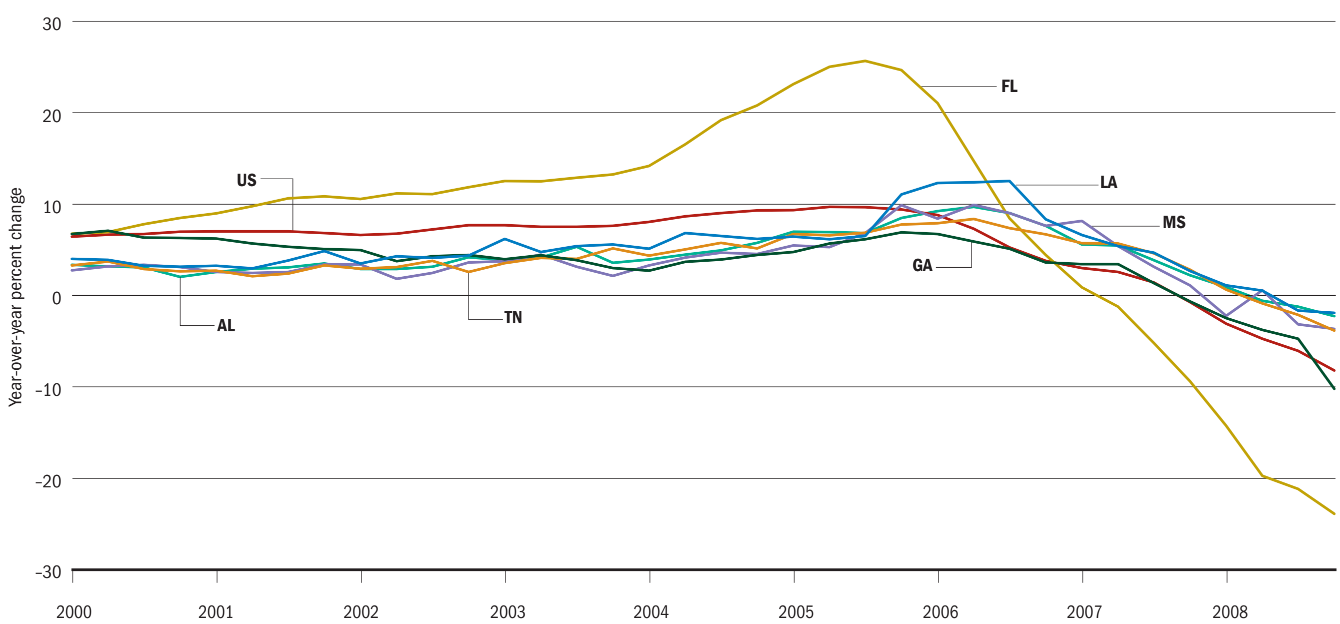
**Commercial real estate saw shrinking demand**

The commercial real estate industry, another pillar of the southeastern economy, was bedeviled in 2008 by the same forces that crippled the housing market and the broader economy—job losses, thriftier consumers, and frozen capital markets.

Commercial contractors reported fewer projects in their backlogs, especially in Florida. Not surprisingly, more bidders, including some idle residential builders, chased less work, forcing prices down. By the middle of the year, more construction projects were being postponed or canceled. Worried consumers spent

Chart 2

**Existing Home Prices**




Source: Federal Housing Finance Agency

**December 12:** The Fed Board announces the creation of a Term Auction Facility (TAF), providing longer-term credit to banks. The FOMC authorizes temporary reciprocal currency arrangements (swap lines) with the European Central Bank and the Swiss National Bank.

**2008**

**January 11:** Bank of America announces it will purchase Countrywide Financial in an all-stock transaction worth $4 billion.

# Janet Hamer

## Senior community development specialist, Jacksonville

Seven years of service

Janet Hamer has a meeting in a couple of days that she knows could be unpleasant.

A community development financial institution with an excellent track record is nonetheless having trouble maintaining its funding. The institution's mission is to pool capital from numerous sources and make loans for affordable housing and other community development projects. For more than a decade, it has performed well—earning returns, improving communities, and helping banks comply with the Community Reinvestment Act.

In 2008, however, some deals soured. Thus, banks are reluctant to continue funding the community lender. Community development lending is never straightforward, and so it may be one of the programs financial institutions look to scale back in a difficult economy. "And that's what they're doing," Hamer says.

As a community development specialist, Hamer convenes various players—commercial bankers, government officials, officials of nonprofits—to form partnerships, and she promotes financial literacy focusing on the importance of being "banked" throughout north and central Florida.

In prior years the groups with which Hamer works prospered. "It really was easier," she says. "And it was very gratifying that a lot of nonprofits I work with were buying land and doing their deals."

Then came a foreclosure crisis, financial turmoil, and recession.

So rather than introducing potential partners in community development investments, during a typical late 2008 day, Hamer trades ideas with colleagues about helping people whose homes are in foreclosure. She meets with a Jacksonville group that helps lower-income people join the economic mainstream.

During and after that meeting, the talk is of a weak job market and, on a happier note, of new grant funding. Community groups in larger cities, Hamer explains, are far better funded than those in smaller cities and rural areas, particularly in a sagging economy.

The poor economy and foreclosure crisis have not only reoriented Hamer's work toward what she calls asset preservation and away from the traditional mission of asset building, but these developments have also stalled new initiatives.

Take, for example, the Atlanta Fed's plans to encourage lenders to finance energy-efficient building. The "green lending" concept is so new it lacks some essential elements. Yet for builders, financial institutions, and the Fed, work on green lending has been delayed by more urgent financial concerns.

Still, for all the havoc the recession and foreclosure crisis have wrought, positives could emerge. Hamer believes that many subprime borrowers could have qualified for more favorable traditional mortgages had they been more informed and therefore not enticed by often misleading advertising.

"If anything ever said we need financial education in this country," she says, "this says it."


**Home sales were hard to come by in parts of the Southeast, particularly in once-booming metro Atlanta and throughout Florida.**

less, undercutting the need for new shopping centers, while demand for office space and access to financing also shrank.

Construction industry woes were bad news for workers. Construction employment in the Southeast in 2008 dipped more than 14 percent from the year before.

**Banking buffeted by financial storm**

Shock waves emanating from Wall Street and residential real estate markets rattled the financial sector in the Southeast and the nation in 2008.

Many of 2008's problems surfaced in 2007—falling home prices, rising mortgage defaults, and foreclosures that led to losses at banks and other financial institutions. During 2008, U.S. financial firms absorbed write-downs and credit losses totaling more than $650 billion, according to Bloomberg News.

Financial and economic currents in 2008 fed a vicious cycle that played out in the region and throughout the nation: Poor economic conditions and weak employment contributed to further deterioration in residential mortgage loans and reduced the quality of many other types of loans. Riskier borrowers led cautious lenders to tighten underwriting standards and demand higher interest rates, further restraining economic growth.

Financial institutions in the Southeast were not spared. At large banking companies, deteriorating real estate loan portfolios led to higher loan losses and lower earnings. Many banking firms reduced their dividends to shareholders. The situation was equally difficult for community banks, defined as those with under $10 billion in assets. Among sixty-one community banks the Atlanta Fed supervises, the number of troubled institutions, as classified by the Federal Deposit Insurance Corporation (FDIC), more than doubled during 2008.

Other financing mechanisms, such as commercial paper, also were sharply curtailed. The Federal Reserve in 2008 took numerous steps to try to address this lack of liquidity in the economy (see the sidebar on page 8).

Financial institutions in the Southeast particularly suffered in 2008. During the fourth quarter, for instance, the share of unprofitable banks in the region rose 27 percent from a year earlier, to just under 50 percent. A key measure of bank profitability, return on average assets (ROAA), tells the tale. Since its cyclical peak in the middle of 2006, the median ROAA for banks in the region had dropped by 87 basis points by the fourth quarter of 2008, a much steeper decline than for banks outside the Southeast.

An ROAA of at least 1 percent is generally considered a mark of strong profitability. By the October–December period of 2008, nearly 80 percent of southeastern banks, compared to just over half a year earlier, reported an ROAA below 1 percent.

The major reason for this decline was a deterioration in asset quality as the year progressed. By the fourth quarter,

**January 22 and 30:** The FOMC lowers the fed funds target rate to 3.5 percent and eight days later reduces it another 50 basis points to 3 percent.

**February 13:** President Bush signs the Economic Stimulus Act of 2008 into law.

**March 11:** The Fed announces the creation of the Term Securities Lending Facility (TSLF).

## The Fed devises unprecedented responses

The Federal Reserve in 2008 took several innovative steps to address strains in the financial system. While the Fed actions in many cases went beyond traditional monetary tools, they are grounded in a coherent strategy of targeted credit policy.

A series of cuts in the federal funds rate, totaling more than 500 basis points, that began in September 2007 brought the rate to a range of 0 to 0.25 percent as of December 2008.

The Federal Reserve also enacted a variety of policies to help systemically important credit markets resume normal functioning. Starting in August 2007, these measures have been designed to address problems in three critical areas of the financial system—financial institutions, borrowers and investors in key credit markets, and longer-term securities.

Programs to support financial institutions included changes in the Federal Reserve discount window: lowering the discount rate relative to other interest rates; an auction program allowing financial institutions to access funds without some of the stigma associated with discount window lending; longer-term loans and availability of credit to a wider range of institutions; and the acceptance of less liquid collateral. In addition, the Federal Reserve initiated a series of reciprocal currency swaps with sixteen foreign central banks to improve dollar liquidity in global financial markets.

Meanwhile, the Fed targeted two key credit markets. Some of the strain in the market for short-term debt could be traced to money market funds, which are significant buyers of commercial paper—short-term promissory notes that corporations and financial institutions use to finance day-to-day operations. Significantly, money market funds link investors seeking a return with businesses looking to sell their short-term debt.

To help stabilize the commercial paper market and money market funds, the Federal Reserve created three facilities. The Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility provides funding to U.S. depository institutions and bank holding companies to finance their purchases of high-quality asset-backed commercial paper from money market mutual funds. The Commercial Paper Funding Facility provides liquidity to U.S. issuers of commercial paper. And the Money Market Investor Funding Facility supports a private-sector initiative to provide liquidity to investors in U.S. money markets.

Finally, to support longer-term securities, the Fed announced programs to purchase asset-backed instruments, including mortgage-backed securities backed by Fannie Mae, Freddie Mac, and Ginnie Mae, and student loans, small business loans, and credit card receivables. The ability to package and sell such credits in the form of securities is essential to ensure that consumers and businesses have broad access to credit. ■

3.83 percent of all loans were noncurrent—more than ninety days past due and not accruing interest. That number was more than double the percentage a year earlier and well above the peak during the 2001 recession.

As the financial crisis deepened, some banks closed and reopened under different banners. Seven banks in the Southeast failed and were shut down by regulators in 2008, equal to the number in the previous eight years combined.

Meanwhile, companies had trouble securing financing from sources other than banks. Firms turning to the corporate bond market found it costlier to issue debt to investors, who were skittish about the economic outlook. Consequently, many companies apparently deferred issuing new bonds. In August 2008, for instance, investment grade bond issuance totaled just $26.5 billion nationally compared to average monthly issuance of about $83 billion in 2007, according to the Securities Industry and Financial Markets Association.

**Consumer spending slumps**

In some previous recessions, consumer spending remained strong and helped the economy turn toward recovery. But in 2008, consumer spending suffered along with the rest of the economy, in part because more people were out of work and because shoppers cut back as prices climbed for commodities like food and energy. Nationally, retail sales fell 8 percent year over year in the fourth quarter of 2008. In Florida and Tennes-

**March 14:** The Fed approves the financing arrangement announced by JPMorgan Chase and Bear Stearns.

**March 16:** The Fed establishes the Primary Dealer Credit Facility (PDCF).

**March 18:** The FOMC lowers the fed funds target rate to 2.25 percent.

**April 30:** The FOMC lowers the fed funds target rate to 2 percent.

# Galina Alexeenko

## Senior economic policy analyst

Four years of service

As a senior economic analyst at the Atlanta Fed, Galina Alexeenko found her normal work routine scrambled in 2008.

Before financial crisis and recession gripped the globe, Alexeenko was a specialist. She tracked global economics—mainly trade—and its impact on the United States and the Southeast. Her duties were reasonably clear-cut and constant: She dissected and decoded streams of data and anecdotal information in search of long-term trends.

Every week or so, she joined a team of analysts and economists to brief the Atlanta Fed president as part of the preparations for his participation in Federal Open Market Committee meetings. In those briefings, Alexeenko reported on trade flows, currency fluctuations, and other vital signs from the international economy.

All that changed in 2008. When financial markets went haywire in October, the once-a-week briefings became daily affairs. Atlanta Fed President Dennis Lockhart was hungry for insight and information as conditions shifted, literally minute by minute. For Alexeenko, work grew in volume and breadth. No longer did she concentrate solely on global economics. Events hurtled forward so fast that the demands of the moment superseded long-term projects.

For example, Alexeenko and her colleagues were called upon to prepare reports on specific topics that became urgent. It might be commodity prices one week, global trade finance the next. At the behest of Lockhart, she and other analysts and economists explored whether and how the financial crisis and recession might affect the saving habits of Americans in coming years.

A former analyst of the U.S. economy, Alexeenko also became reacquainted with domestic economic indicators such as new home sales and durable goods orders. Always important, financial markets took center stage at all times. After concerns about European banks' exposure to Eastern European economies buffeted financial markets, Alexeenko and a team of analysts were charged with studying the impact on the American economy of problems in emerging markets.

"What this crisis clearly illustrates is how interdependent everything is," said Alexeenko, a native of Ukraine.

In addition to markets and economies, the Fed watches its peers. As the gears of the global economy balked, Alexeenko and her colleagues paid close attention to the policy actions of other central banks. Recession and financial turmoil have, for Alexeenko, underscored her view that the actions of the Federal Reserve are hugely influential in the course of the U.S. economy and thus in the lives of Americans at all socioeconomic levels.

"There has always been pressure to perform, but the stakes have been raised," Alexeenko said of the economic condition. "You want to make sure Dennis is well informed and his decisions are based on the best analysis possible."

**Southeastern states account for one-third of U.S. oil production, so when energy prices drop globally, the region feels the pinch. Pictured is the Mars platform (a joint venture of Shell Oil and BP), currently the largest producing oil platform in the Gulf of Mexico.**

see, state sales tax revenue, a useful proxy for spending, was down in each quarter of 2008 compared to 2007 (chart 3). In Georgia, sales tax revenue rose slightly in the fourth quarter after declining during the previous three quarters. Mississippi and Louisiana collected more sales taxes during 2008 than in 2007, yet even in those states growth was down from 2006.

As in virtually every other measure of economic activity, Florida suffered the region's biggest hits in consumer spending. Florida's sales tax revenues, which have declined steadily since a peak in 2005, slipped 4.1 percent for 2008 compared to 2007.

Auto sales were especially weak. From January through December, the number of new vehicles registered in the Southeast plummeted 21.5 percent from a year earlier compared to an 18.3 percent drop nationally.

**Energy all over the map**

The year 2008 was likely one of the most volatile ever in global energy markets. After scarce supply and ravenous demand especially in emerging market economies sent prices to record heights early in the year, by late in 2008 tight credit and the slowing economy sapped demand and prices.

Energy is, of course, important to the Southeast not just to fuel vehicles and heat, cool, and light homes and businesses. Three states in the region—Louisiana, Mississippi, and Alabama—combined with federal waters in the Gulf of Mexico, account for more than a third of the nation's oil production and almost half of U.S. refining capacity, according to the Energy Information Administration of the U.S. Department of Energy. The Henry Hub in Louisiana is the nation's largest natural gas trading center, while the Louisiana Offshore Oil Port is the only U.S. port that can accommodate the world's largest oil tankers.

Therefore, when global energy markets move, the Southeast feels it. And move they did in 2008. Energy costs crested in the summer as the price of light sweet crude oil topped $145 a barrel. That price sent the average U.S. price of regular gasoline to $4.11 a gallon in July, a record even in inflation-adjusted terms, and almost 40 percent higher than the summer 2007 average.

Even amid the gyrations in the energy markets, among the signature events of 2008 were two hurricanes that temporarily shut down much of the region's energy infrastructure. By some estimates, Hurricanes Gustav and Ike damaged oil production and refining as much as Katrina and Rita did in 2005 (chart 4).

The 2008 storms closed many of the region's refineries for a couple of weeks, and even without damage, closed refineries can take several weeks to restart. In the wake of Ike and Gustav, the nation's refinery utilization rate dropped to its lowest level on record, 66.7 percent, meaning domestic refineries processed record-low amounts of crude oil. Hurricane-related

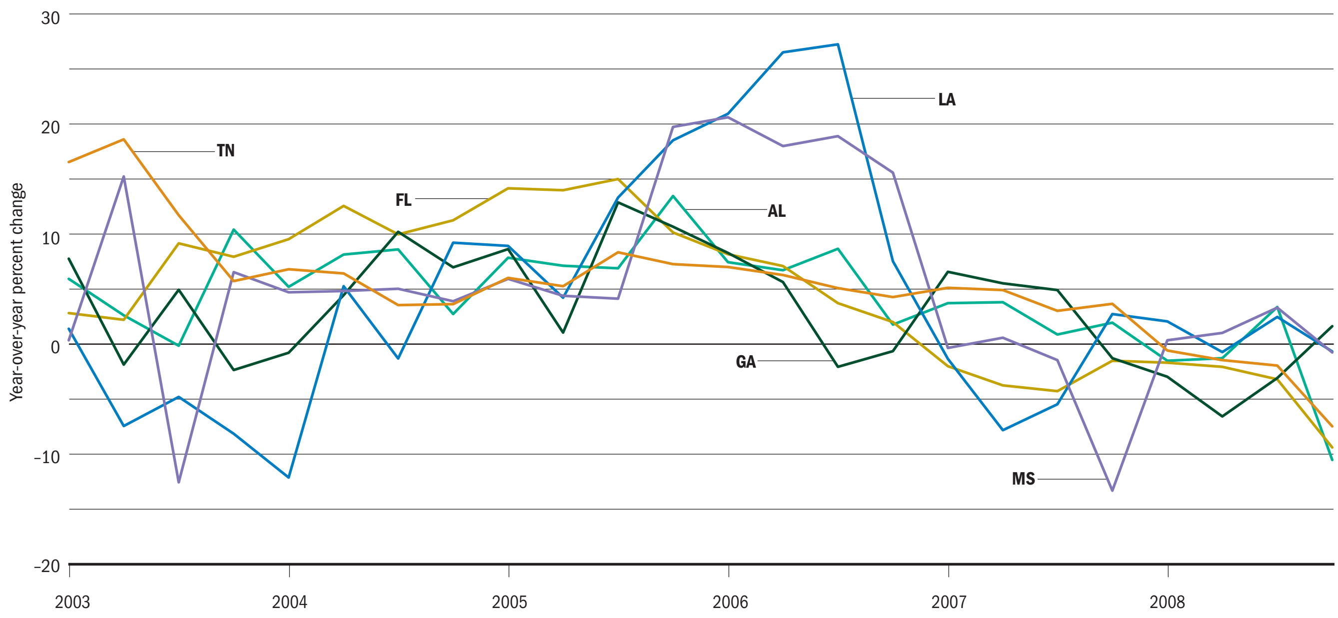
**July 11:** The Office of Thrift Supervision closes IndyMac Bank, F.S.B.

**July 30:** President Bush signs the Housing and Economic Recovery Act of 2008 into law, which, among other provisions, authorizes the Treasury to purchase GSE obligations (such as Fannie Mae and Freddie Mac obligations) and reforms the regulatory supervision of the GSEs under a new Federal Housing Finance Agency.

**August 17:** After its meeting, the FOMC releases a statement noting that the "downside risks to growth have increased appreciably."

Chart 3

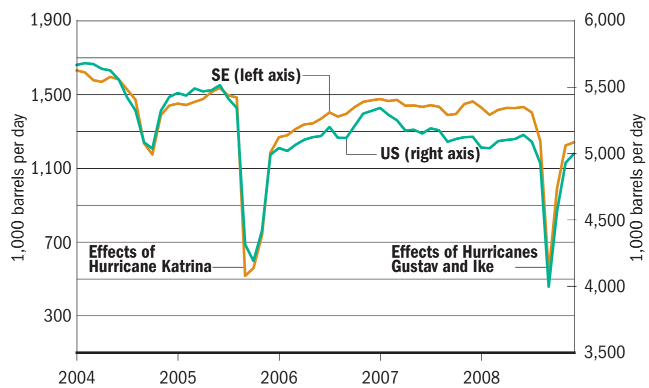
**Retail Sales Tax Revenues**




Source: State Departments of Revenue (for Alabama, Florida, Georgia, Louisiana, and Tennessee) and Mississippi State Tax Commission

Chart 4

**Total U.S. Estimated Crude Oil Production**




Note: Data represent a four-week moving average.

Source: *Oil and Gas Journal*

outages wiped out some 14.5 million barrels of crude production in 2008, equal to about three days of total U.S. output, the EIA estimated.

**Tourism held up regionally . . . mostly**

Tourism was one of the few bright spots in the southeastern economy through much of 2008 before slipping late in the year. International travelers flocked to the region, while Americans traveled less because of high fuel prices, rising airfares, and recession.

A weaker dollar attracted vacationers from other countries in greater numbers through most of the year. International flights added seats in advance of the peak travel season in December, while domestic carriers pared capacity at some southeastern airports.

Especially in Florida, tourism was fueled by foreign visitors. In Miami-Dade County, international tourists accounted for nearly 45 percent of the market in the first half of 2008. International passenger traffic at the Miami International Airport for the year increased 3.9 percent even though it tapered off starting in September because of hurricanes and the financial crisis. Domestic passenger volume, meanwhile, declined 1.6 percent.

**September 7:** The Federal Housing Finance Agency places Fannie Mae and Freddie Mac in government conservatorship.

**September 15:** Bank of America announces its intent to purchase Merrill Lynch & Co. for $50 billion.

**September 16:** The Federal Reserve Board, acting under emergency provisions of the Federal Reserve Act, authorizes the New York Fed to lend up to $85 billion to American International Group (AIG).

# Jay Repine

## Supervision and Regulation subject matter expert, Miami

Seventeen years of service

It's all about lights and patios.

Soaring stacks of patios have risen all over Miami in the past few years. The problem: Many of those balconies sit empty, like the gleaming new condominiums to which they are attached. Granted, it's highly unscientific, but checking for patio furniture—or for lights at night—makes it painfully clear that many of Miami's 22,000-plus condos built since 2003 sit vacant.

Huge numbers of condos are dark with bare balconies, and to make matters worse hundreds more will be completed during 2009. Thus, Miami has become the epicenter of the real estate glut in the Southeast and one of the nation's most overbuilt markets.

As a result, Repine saw his job and his colleagues' jobs transformed during 2008. "There were people here who before this year had rarely seen a problem loan," Repine said. They saw plenty during 2008.

For Repine, the economic tremors radiating from south Florida's condo boom upended the normal work day. Before the upheaval in the financial services industry, he had devoted more than half his time to anti-money-laundering work—a major focus, along with international banking analysis and monitoring, of the Miami team. While he still must carve out significant hours in the day for those critical functions, his workday is different now.

Repine's work changed in 2008 as he and other international and anti-money-laundering specialists found their regular duties had to share time with significant work examining local and regional financial institutions, gathering and analyzing information in an attempt to untangle the causes of a financial downturn that emerged quickly and worsened even faster.

To that end, during the late fall of 2008 Repine compared notes on market conditions several times a week with contacts at global financial institutions. In more normal times, he made those calls only in advance of the Federal Reserve's Federal Open Market Committee meetings, which are scheduled eight times a year.

During calls one day in early December, Repine's contacts delivered some very bad news: Loan demand had all but evaporated as corporate borrowers deferred taking on debt. Banks had little appetite to lend and expected additional businesses to face hard times after the first of the year. Investors large and small remained suspicious.

In another meeting with Atlanta Fed colleagues, the talk was of difficult discussions with financial institution managers and of condo towers with so few residents that owner association fees were skyrocketing.

A few encouraging signs emerged from Repine's discussions. As of year's end, large money market mutual funds, for instance, were gradually putting money to work again. Nevertheless, pessimism prevailed.

After one call with a gloomy banker, Repine said that before the financial turmoil began, his contact "couldn't think of a way to lose money." In 2008, it was hard to think of a way not to.

**A bright spot in 2008, New Orleans tourism was generally good at events like Mardi Gras.**

At the Orlando International Airport, international passenger volume for the year rose 17 percent even as domestic traffic fell 3.5 percent.

Strong early, travel took a hit late in the year. In November, the Orlando market's hotel occupancy rate plunged 15 percent from the same month in 2007, to 53 percent, the biggest one-month decline since November 2001. Although the rate rose slightly year over year in December, Orlando's hotel occupancy levels for 2008 were 3 percent lower than the year before. Room rates also fell nearly 9 percent in December from a year earlier, and revenue per room was off 3.8 percent.

In New Orleans, the all-important tourist business was generally good. Large crowds came for the city's signature events, including Mardi Gras and the Jazz and Heritage Festivals. The French Quarter Festival in April and the month-long Essence Music Festival in July set attendance records. Bugs, normally a nuisance, actually lured visitors to the Crescent City in 2008. The $25 million, 23,000-square-foot Audubon Insectarium opened in June, drawing more than 100,000 visitors in its first two months.

Traffic at New Orleans's Louis Armstrong International Airport for 2008 was up 5.5 percent from the year before. But as was the case in Florida's tourist centers of Orlando and Miami, New Orleans passenger traffic slowed in step with the economy in the fall but picked up slightly in December.

Just east of New Orleans, the Mississippi Gulf Coast's gaming industry suffered from post-hurricane closings in August and September, high gas prices, and the generally sluggish economy. Gross gaming revenues at the eleven coastal casinos declined 7.5 percent for the year, according to the Mississippi State Tax Commission.

**International trade held firm**

International trade has been a beacon in the economic clouds the past couple of years in the nation and the Southeast, helping to offset weaknesses elsewhere.

The value of international shipments through the region's ports increased in 2008 from 2007, and several southeastern ports are expanding. Exports grew by 10 percent or more at every port in the region in 2008, according to the U.S. Department of Commerce (chart 5). Southeast exports jumped more than 23 percent, thanks primarily to heavy demand from Canada, Mexico, Brazil, Europe, and China.

Southeastern ports also imported 15 percent more year over year in 2008 in terms of value of shipments, mainly because of higher commodities prices. While import values rose, volume actually declined at the region's ports.

Growing trade with Asia and investments here by foreign manufacturers led ports such as those in Savannah and Jacksonville to upgrade container facilities. Savannah is the

**September 19:** The Fed announces the creation of the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AMLF).

**September 21:** The Federal Reserve Board approves applications of investment banking companies Goldman Sachs and Morgan Stanley to become bank holding companies.

**September 25:** The Office of Thrift Supervision closes Washington Mutual Bank, and JPMorgan Chase acquires its banking operations in a transaction facilitated by the FDIC.

## REIN gets to the roots of the Southeast economy

The Atlanta Fed took a significant step in 2008 to strengthen the Bank's contribution to the nation's monetary and economic policymaking: the establishment of the Regional Economic Information Network, or REIN.

Created to enhance the Atlanta Fed's knowledge of the Southeast's economy, REIN has two components—an online repository of southeastern data and analysis, updated monthly, and the Local Economic Analysis and Research Network (LEARN).


Those elements make REIN a natural extension of the regional Federal Reserve Bank's historic mission to feed independent and diverse economic intelligence into the nation's monetary policymaking process. In many ways, the Sixth Federal Reserve District is particularly well suited to take advantage of regional information gathering: It is populous, with 46 million residents; it is geographically large; and it is economically diverse, from tourism in Florida and New Orleans to professional services in Atlanta to automotive manufacturing in Alabama. That diversity makes it reasonably representative of the national economy.

**What's happening now**

By extending its reach deeper into local economies throughout the Southeast, the Atlanta Fed gains a better sense of what might show up weeks or months later in official statistics. Timeliness is especially important during an economic downturn because statistical evidence of a turnaround often does not emerge until well after recovery has begun.

REIN filters information to the bank's Atlanta headquarters through a structure built geographically—with a presence at each of the Atlanta Fed's five branch offices—and around particular industries.

The Atlanta Fed's Regional Executive at each branch office convenes a regional advisory council. The councils, some convening in 2008 and some to begin work in 2009, are assembled around an important local industry, and participants provide insight from their business experience and contacts. The regional advisory councils and the offices running each are energy, New Orleans; trade and transportation, Jacksonville; tourism, Miami; agribusiness, Birmingham; small and midsize entrepreneurial business, Nashville; and health care, education, and labor, Atlanta.

nation's fastest-growing container port, according to the American Association of Port Authorities. And Jacksonville's container capacity could triple by 2011, as Japanese and Korean shippers add terminals at the port.

Ports on the Gulf of Mexico are growing too. The Port of Mobile in Alabama is expanding container capacity to accommodate shipments to and from the $4.2 billion ThyssenKrupp steel processing plant that is scheduled to open near Mobile in 2010.

**Manufacturing decline continues**

ThyssenKrupp can't arrive soon enough. The woeful housing market, tepid automobile sales, credit strains, and the effects of the recession spelled a difficult year for southeastern manufacturers. However, energy-related manufacturers and exporters generally fared better than others.

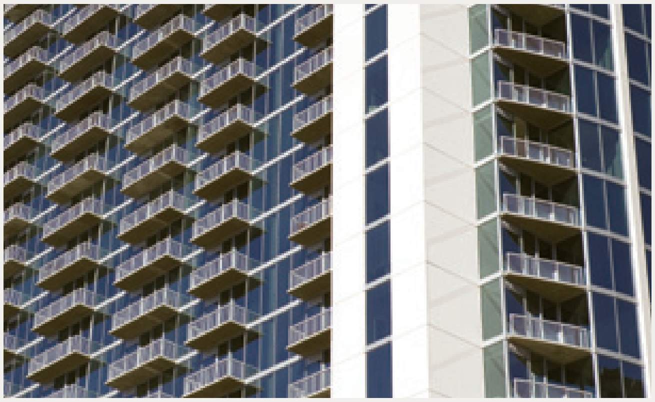
One measure of the decline is Kennesaw State University's monthly Southeast Purchasing Managers Index (PMI) (chart 6). A reading above 50 indicates growth in manufacturing; under

**October 3:** Congress passes and President Bush signs into law the Emergency Economic Stabilization Act of 2008 (EESA), which establishes the $700 billion Troubled Asset Relief Program (TARP).

**October 7:** The FDIC announces an increase in deposit insurance coverage to $250,000 per depositor as authorized by the EESA. The Fed announces the creation of the Commercial Paper Funding Facility (CPFF).

**October 8:** The FOMC lowers the target for the fed funds rate to 1.50 percent.

The Atlanta Fed's Regional Executives are key players in REIN. As the mission of the branches has evolved, the Regional Executive's duties have also transitioned from an operational role centered on running the branch to a position more concerned with gathering economic intelligence and representing the Federal Reserve Bank of Atlanta.



The five Regional Executives work closely with their branch board of directors, cultivate business contacts in their communities, deliver speeches, and generally serve as the face of the Atlanta Fed in their respective areas. In this way, the Regional Executives help the Reserve Bank serve its constituencies on a more personal level and at the same time gain insight into how businesses affect and are affected by the economy.

Under the auspices of REIN, the Regional Executives have become part of the Atlanta Fed's Research Department. To stay abreast of economic and business data and trends, the Regional Executives spend considerable time exchanging ideas and information with the Reserve Bank's analysts and economists.

REIN also brings greater structure to the Reserve Bank's monthly surveys of businesses. These include industry-focused questionnaires answered by home builders, real estate agents, retailers, and manufacturers. While the surveys are not new, REIN has helped to increase the number of participants and made it easier to assimilate the information the surveys produce on moods and expectations in the marketplace.

**LEARN keeps Fed's ear to the ground on campus**

Another component of the REIN initiative is LEARN, a forum for academics and researchers with detailed knowledge of local economies in the Southeast. The aim of LEARN is to create a nexus for discussing and exchanging ideas on research, methodologies, and current economic developments.

Through LEARN, the Atlanta Fed deepens its relationships with university economists and researchers and establishes a more systematic means of incorporating their research and expertise into monetary and economic policymaking.

Ultimately, REIN generates raw material for the vital work of formulating monetary policy. At the meetings of the Federal Open Market Committee, each Reserve Bank president makes a presentation about conditions in his or her region. With the advent of REIN, Atlanta Fed President Dennis Lockhart approaches those sessions armed with even more nuanced and textured grassroots intelligence. ■

50 signals contraction. At the end of December, the regional PMI sank to 25.8. That reading slid as the year progressed: The average for 2008 was 44.4 versus 53.1 in 2007. The national average for 2008 was 45.5, so the Southeast underperformed the nation by this measure.

The Atlanta Fed's surveys of regional manufacturers painted a similar picture. Respondents reported weak production, shipments, and new orders compared to a year earlier. Most also continued to lay off workers and reduce hours.

Factory employment in the Southeast, as in the country at large, has fallen dramatically in the past few decades. In 1970 one in four workers in the region held a manufacturing job. By 2007 that share dwindled to one in ten.

By 2008 manufacturing employment for the year in the six southeastern states was down 8.1 percent from 2007, according to the U.S. Bureau of Labor Statistics. Employment in durable goods manufacturing declined 9.2 percent and dropped 6.4 percent in nondurable goods manufacturing.

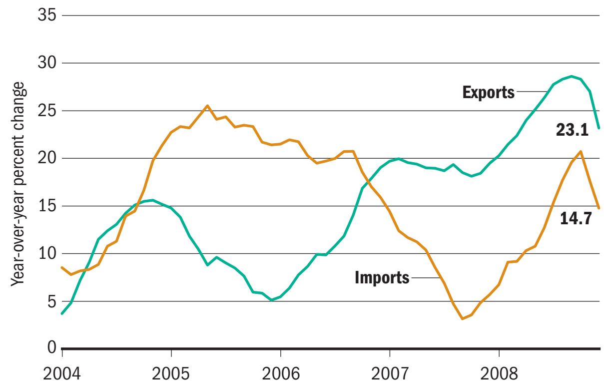
**October 12:** The Fed announces its approval of an application by Wells Fargo & Co. to acquire Wachovia Corporation.

**October 21:** The Fed announces creation of the Money Market Investor Funding Facility (MMIFF).

**October 28:** The U.S. Treasury purchases a total of $125 billion in preferred stock in nine U.S. banks under the Capital Purchase Program.

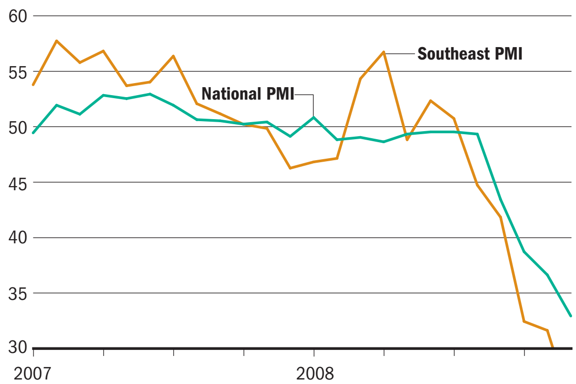
**October 29:** The FOMC lowers the fed funds target rate to 1 percent.

Chart 5
**Growth of Southeastern International Port Shipments**




Source: U.S. Department of Commerce

Chart 6
**National and Southeast Purchasing Managers Indexes**

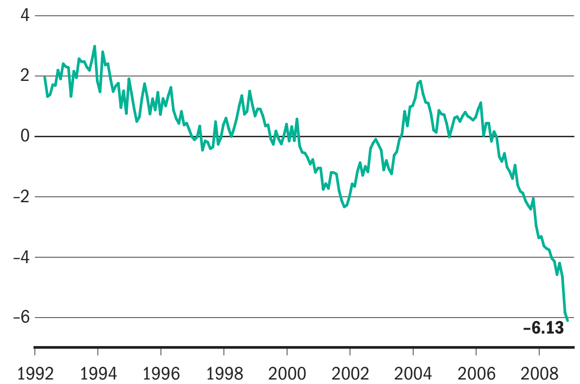



Note: An index reading above 50 indicates expanding manufacturing activity, below 50, contracting activity.
Source: Institute for Supply Management (national PMI); Kennesaw State University (Southeast PMI)

As expected, manufacturers that fed the boom in real estate and construction suffered in 2008. In December, employment at wood product manufacturers declined 17 percent in Alabama, one of the leading wood products centers in the region; 15.4 percent in Tennessee; and 9.5 percent in Mississippi.

Furniture factory payrolls in Alabama, Mississippi, and Tennessee were hit hard in 2008, with payrolls down at least 10 percent in each state.

Chart 7
**The D6 Factor**




Note: The D6 Factor is an index of southeastern economic trends. A negative value indicates that economic conditions are weak. The growth rate is normalized to zero.
Source: Federal Reserve Bank of Atlanta

Even the Southeast's recently ascendant automotive manufacturing industry did not escape the recession in 2008. For every auto factory job there are three in related suppliers, and these suppliers also lost jobs in 2008. In December, employment in the Southeast's transportation equipment industry was 8 percent lower than the year before; Tennessee was particularly affected.

On the flip side, employment in aerospace manufacturing continued to expand in Alabama and Florida in 2008.

**Agriculture battles drought and the economy**

Like most other industries, agriculture in the Southeast confronted an array of challenges in 2008. Drought, rising costs, a weak economy, and the battered housing market hindered growers of poultry, cotton, citrus, cattle and livestock, and greenhouse nursery operators.

With revenues exceeding $9 billion, poultry is the Southeast's biggest cash crop. But in 2008 domestic demand slackened as consumers spent less on groceries and on eating out, while costs rose for feed and other inputs. Exports were steady to China and Mexico, but demand from the top importer of U.S. poultry, Russia, softened for various reasons, including import restrictions.

Cotton production in the Southeast is also declining. For cotton, worldwide demand is critical because 75 percent of

**November 25:** The Fed announces plans to create the Term Asset-Backed Securities Lending Facility (TALF).

**December 11:** The Business Cycle Dating Committee of the National Bureau of Economic Research announces that a peak in U.S. economic activity occurred in December 2007 and that the U.S. economy has since been in a recession.

**December 16:** The FOMC votes to cut the effective fed funds rate to a target range of 0 to 0.25 percent.

# Mark Craig

## Director, Credit and Risk Management Department

Fourteen years of service

Since joining the Atlanta Fed in 1994, Mark Craig has never seen a year like 2008.

Craig's duties include cooperating with other financial regulatory agencies in resolving failed financial institutions in the Southeast. That duty has been rare: Only seven banks in the region failed from 2000 to 2007.

Then came 2008, when bank regulatory agencies shut down seven banks in the Southeast in a single year.

On the Friday before Thanksgiving, Craig worked long into the night after hearing from the Federal Deposit Insurance Corporation that a Georgia bank had failed. Craig's department lets the FDIC know what Fed services a failed institution received and what risk the Fed incurs, such as overdrafts on an institution's cash account with the Reserve Bank. Reserve Banks routinely allow banks to run overdrafts, usually only for a few hours, to keep the payment system functioning smoothly.

Banks also borrow from the Atlanta Fed's discount window, though that option is typically not available to severely troubled institutions.

The discount window is central to Craig's duties, never more so than in 2008. The Credit and Risk Department monitors the condition of some 2,000 southeastern depository institutions, including banks, savings and loans, and credit unions. Since these institutions are eligible to borrow through the discount window, Craig's unit tracks their creditworthiness.

Like helping to resolve the rare (until now) failed bank, managing the discount window has traditionally been an exercise in a comparatively low-volume facility. That's because banks historically viewed the discount window as a last resort to raise capital.

That view changed dramatically in late 2007 and through 2008. As financial institutions had an unusually difficult time obtaining funds through more common channels, the discount window was opened to more types of borrowers and offered more types of loans. Craig's team made discount window loans totaling $72 billion, far and away the most in a single year. By comparison, in 2007 they made loans worth $244.7 million. The Credit and Risk Department analyzed collateral for each of those loans and fielded phone calls from the borrowers.

Not only did loan volume soar, but terms also were extended from the traditional one-day loans to ninety days. "You have to do your homework because you don't want to have a loan out to a bank that appeared sound when the loan was made but then see its condition deteriorate within ninety days," Craig said.

Craig's team also administered an array of new Federal Reserve lending programs. For example, Credit and Risk staffers fielded calls from banks bidding on loans in the Term Auction Facility, through which the Federal Reserve lent about $150 billion every two weeks. Banks phoned in their bids, or the interest rate they were willing to pay. Atlanta Fed employees passed that information on to the New York Fed, which determined the winners and administered the loans.

**Americans' appetite for poultry declined as producers' costs rose.**

U.S. cotton production is exported. Cotton prices fell alongside global demand in 2008. Revenues for southeastern growers, along with the amount of land planted in cotton, have decreased. In 2008, cotton acreage in the region dipped to a twenty-five-year low of 9.4 million acres, 40 percent lower than in 2006. Most farmers have switched to more profitable crops such as corn and soybeans.

**Little in the way of good news**

In 2008 the southeastern economy struggled with many of the same problems that plagued the nation at large—financial market turmoil, housing market and credit crises, rising food and energy costs, and job losses. Indeed, when the United States officially entered recession in December 2007, according to the National Bureau of Economic Research, the Southeast's economy dipped below its worst performance during the past two recessions, as measured by the Atlanta Fed's D6 Factor (chart 7). Based on twenty-five monthly data series, the D6 Factor is a composite indicator of economic activity in the six southeastern states.

As the national and global economies worsened through 2008, so did the region's. After falling lower in December 2007 than the lows recorded during the 1991 and 2001 recessions, the D6 Factor index tumbled an additional 3.1 points through December 2008.

Economic factors that had buoyed the region's economy in previous years began to crumble. Southeastern employment in 2008 fell for the first time in five years, and by the third quarter the unemployment rate was at its highest level since the 1991 recession.

Some housing markets showed signs of stabilizing late in the year, but a fast recovery appeared unlikely. Tourism and exports, two relative bright spots in 2008, may fare less well if the strengthening of the dollar and the global economic slowdown that began late in 2008 continue. On the upside, plans for expansion in auto and aerospace manufacturing should help bolster the Southeast's economy in 2009.

Economics is often called the dismal science, and that epithet was especially deserved in 2008. In the Southeast as elsewhere, 2008 was as dismal economically as any year in recent memory. Neither the Atlanta Fed economists nor most others foresee a quick rebound from this recession. Yet the core resilience of the U.S. economy combined with the regenerative capacity of the financial system should ultimately carry us through these trying times.