FEDERAL RESERVE BANK OF ATLANTA FIRST QUARTER 2012

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Who Is the Most Unemployed? Factors Affecting Joblessness

Down but Not Out: Alabama Recovering from Storms

Swap Lines Underscore the Dollar's Global Role

inside

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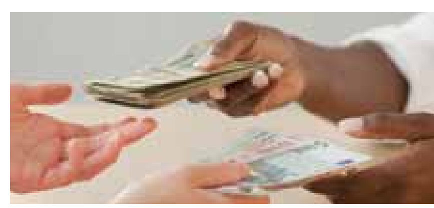
DEPARTMENTS



SAMPLE

EDITOR'S NOTE: This issue of *EconSouth* contains quick response, or QR, codes. Using an iPhone, Android phone, or other device and a downloaded reader application, you can scan the QR codes embedded throughout the issue. The codes will take you to locations on the Atlanta Fed's website that will provide enhanced information on the subject at hand.

on point

Employment by the Numbers

The recovery of the employment sector and the varied impact of the recession on different demographic groups are subjects of much discussion and observation. When staff writer Lela Somoza began delving into how discrete groups were affected by recessions over the decades, she found that certain patterns recur with each downturn.

"When I began researching my story, I expected to find that different demographic groups fared better or worse during recessions," Somoza said. "I was surprised to find that pretty much the same groups are always hit harder during downturns.

In the most recent recession, for example, we often heard how men were losing far more jobs than women," she added. "As a result, I assumed that the 'mancession' was an anomaly. After looking at the data, however, I learned that men have experienced higher unemployment rates than women during or following each of the recessions since at least 1980."

Farther from home…

The central role of U.S. currency is hardly news, as the dollar has been the world's de facto reserve currency. But recent strains on the global financial system have brought the importance of the dollar—and concerted actions of the Fed and other central banks—into sharp focus. Galina Alexeenko, a director of the Atlanta Fed's Regional Economic Information Network, said the dollar's role became very apparent in the course of her research on this issue's story about currency swaps.

"The various roles the U.S. dollar plays in the world economy are very familiar to us, as we've been researching this topic for some time," she said. "But with every topic that we delve more deeply into, such as swap lines, it is still astonishing to see how embedded our currency is in the global economy."

Witnessing Mother Nature's might

The Southeast has borne much of the brunt of the nation's economic downturn, but the region, like the midsection of the country, also periodically confronts storms of another kind: tornadoes. Mike Chriszt, an assistant vice president in the Atlanta Fed's research department, kept an eye on both forms of turbulence in the course of researching his story on the economic impact of the tornadoes that devastated Alabama in the spring of 2011.

"I wrote this story prior to February 29, 2012, when the region was once again hit by a tornado outbreak," he said. "That night—when the local weather reporter said there was a tornado on the ground five miles from our home and headed right for us—was one of the most unnerving experiences of my life. As it happened, the tornado dissipated before reaching us, but for a brief moment I felt, in a very small way, what people in Alabama must have experienced last April.

"That's the hardest part of writing about the economic impact of a natural disaster. It's impossible to leave out the emotional part of the story: the terror of the actual event, the sadness felt for those who were lost, and the pride in seeing communities come together to recover and rebuild. I used to be kind of a severe-weather nut and even dreamed of storm chasing one day. Now I dread those storms, and I hate writing about them. But it's an important part of understanding and explaining how our regional economy is performing, and is likely to, perform. So it needs to be done."

If we've done *our* jobs, after reading Mike's story you'll have a better idea of the toll these storms exact on residents and local economies. Our thoughts are with those affected by both last year's and this spring's storms. ▮

Lynne Anservitz
Editorial Director

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Editor's note: Throughout this issue, Southeast refers to the six states that, in whole or in part, make up the Sixth Federal Reserve District: Alabama, Florida, Georgia, Louisiana, Mississippi, and Tennessee.

Photo p. 4 courtesy of the city of Pensacola; p. 5 courtesy of the Pensacola Bay Area Convention & Visitors Bureau; pp. 26, 27, and 30 courtesy of the Federal Emergency Management Administration; back cover (top) by Brad Newton and (bottom) courtesy of the Library of Congress photographic archives

Fed @ Issue

Everything Must Change: Rethinking Workforce Development

TODD GREENE is vice president in the Atlanta Fed's community and economic development group.

In the 1600s, a farrier fit shoes to a horse in a stable. In the early 1900s, a welder molded a driveshaft part for an early-model car in a factory. Today, a computer programmer develops code for a gaming application at a coffee shop. While the definitions and locations of jobs have evolved over time, the importance of job skills has also increased because of technological and other innovations.

Employers have always needed appropriately trained workers to maintain and grow their businesses. The public and private sectors have responded to these evolving needs by developing various efforts to facilitate skill development. Employer-based incumbent worker training, vocational colleges, and state offices of workforce development are successful initiatives that were launched over the last century.

Furthermore, workforce boards—usually nonprofit organizations that bring together communities' public and private sectors to address workforce needs—have also been an important component to ensure a community's skilled labor aligns with the needs of local employers. Yet ensuring that human capital talent matches local needs remains complicated for workforce development professionals, both private and public. Local workforce development channels must adapt by becoming more innovative and nimble.

Skills mismatch hinders employment

To no one's surprise, the increased focus on workforce development is especially pronounced because of the current economic climate of high unemployment. Most of us know at least one person who wishes to work but has not found a job. That inability to find work may be partially attributable to a skill deficiency; factors related to the business cycle are the cause of the largest share of unemployment. In addition, even in areas where there are fewer open jobs than job seekers, available jobs often go unfilled because of insufficient local talent and skill development pipeline issues.

In some cases, and despite the significant efforts of workforce development initiatives, communities are comparatively underprepared to supply the types of workers local employers demand, resulting in a skills mismatch. In a 2011 International Monetary Fund (IMF) paper, economists Marcello Estevão and Evridiki Tsounta created an index of skill mismatches across the 50 states and the District of Columbia. Their research shows how shrinking industries—such as construction and financial services during the recent downturn and manufacturing on a more structural basis—could have contributed to the swelling of a particular skill set among the unemployed. That skill set may not necessarily be absorbed by expanding industries such as health and education or professional services.

While the IMF study suggests that skill mismatches increased in the country as a whole during the recession, the more striking feature is the statewide variation in the skill mismatch index. Among the southeastern states, Louisiana and Mississippi have the highest levels of skills mismatches. Alabama, Florida, and Tennessee follow with high skills mismatches. Only Georgia has average skills mismatches.

Another pressing issue for workforce developers is the soaring ratio of older workers relative to younger workers in the country. Simply stated, there will be fewer workers to fill jobs, and ensuring that workers' skill sets match local needs will be even more important. In a recent speech at the Atlanta Fed, Dowell Myers of the University of Southern California, a professor of urban planning and demography, suggested that immigrant workers and underemployed minority youth will be important to the workforce of the future. These populations often are not the targets of workforce development efforts but perhaps should be.

Policymakers and practitioners at all levels are increasingly looking at policies and programs to ensure that workers have the skills they need to maximize job opportunities. Unfortunately, the funding for workforce development has been in decline. Federal funding for key education and training programs under the U.S. Department of Labor declined by over 25 percent in inflation-adjusted terms between 2001 and 2009, according to a 2010 report by Armand Biroonak and Kermit Kaleba published by the Institute for America's Future and the National Skills Coalition. Consequently, local workforce development must learn to do more with less. Reduced funding has encouraged some communities to develop effective programs, including free or low-cost strategies. One example is intern programs that partner local businesses with high school students.

A new workforce development strategy: Focus on soft skills

While workforce development has traditionally focused on hard skills, numerous studies—including a 2007 Southern Growth Policy Board report—have identified soft skills as a significant barrier to employment. Reporting to work on time and drug-free, having the ability to work on a team, and showing respect for the boss are soft skills often ignored by workforce development programs. Yet employers appear increasingly likely to indicate the soft-skill deficit as a challenge to meeting their workforce needs. Clearly, workforce development channels must embrace approaches that address soft skills to meet this employer concern.

Working better, together

The Atlanta Fed and several other Federal Reserve Banks have conducted local focus groups to understand better the relationship between local workforce development and unemployment (see the sidebar). While a summary report will be released later in the year, preliminary results suggest the need for more robust, responsive, and efficient local workforce development structures.

Many promising workforce development practices are emerging at the regional, state, and local levels. For example, while many states have adopted models that define a standard for employers regarding the skill set of prospective employees (determined through testing, usually offered by the state), Georgia has taken this concept a step further. It developed a standard in which communities themselves receive a designation. Areas designated under the Georgia Certified Work Ready Communities have meaningfully committed to ensuring that their populations receive a minimal training opportunity for jobs. They have also taken steps to improve high school graduation rates.

In Mobile, the Southwest Alabama Workforce Development Council recognized that it needed to be more responsive to that region's critical workforce development needs. Rather than have traditional monthly meetings, the formalized work teams meet much more frequently—often weekly—to address both short- and long-term workforce development challenges.

The New Orleans area economic development entity GNO Inc. has identified the digital media industry as a target to diversify local economies. GNO recognized that local workforce development efforts need to be strengthened to support the growth in this specialized sector. It is considering a number of strategies, including embedding local digital media business employees within high schools and encouraging technical colleges to offer onetime intensive courses to meet the needs of this fast-changing industry.

There is also interest and commitment to support local workforce development initiatives from nontraditional and new sources. In the Mississippi Delta, the Annie E. Casey Foundation and Kellogg Foundations are partnering with local organizations to integrate workforce development as a part of other community improvement efforts.

In Carrollton, Georgia, the public school system has partnered with one of the region's largest employers to provide high school courses within a manufacturing plant. This program helps students develop relevant work skills while helping to meet the labor demands of a company faced with labor shortages. Moreover, because the workforce needs of companies are changing at a rapid pace, communities will need to be more agile in their workforce development approaches. Traditional committees and boards with representation from various community and industry stakeholders will require innovative approaches to meet the needs of local employers. ∎

Watching the Workforce

The Atlanta Fed's Human Capital Compendium is an online clearinghouse of information compiled from the entire Federal Reserve System related to workforce development, job creation, and other labor market issues. See frbatlanta.org/humancapitalcompendium. Please also visit the *Economic Development* podcast series at **frbatlanta.org/podcasts/economicdevelopment/** to listen to or read about what various national experts have to say about workforce development and job creation. ∎

Pensacola, Florida

Pensacola on the Hunt for Business

Tucked into the western end of Florida's Panhandle, Pensacola is geographically and economically removed from the epicenters of the Sunshine State's early 21st-century economic rise and fall.

Rather than the real estate sweepstakes that inflated and then punctured economies in cities like Miami and Fort Myers, Pensacola's livelihood depends on steadier business. Sprawling Naval Air Station Pensacola, health care, and tourism are economic staples. Certainly, Pensacola has grown, but its growth has been muted compared with the state overall. From 2000 to 2010, Pensacola's population increased half as fast as Florida's. As statewide median home prices tripled before 2007, metro Pensacola's merely doubled. The area has experienced a softer landing, however, as foreclosure rates are about half those of Florida overall.

Bruised but not battered

Nevertheless, Pensacola hardly escaped the recession. The metro area's total nonfarm employment at the end of 2011, down about 15,000 from its high, equaled that of 2003. December's unemployment rate of 9.6 percent was higher than the national level and not much below the statewide rate of 9.9 percent. Yet as 2012 dawned, local observers and business leaders expressed a renewed sense of optimism about Pensacola's prospects.

"It's fair to say there's an excitement we haven't seen here in several years," said Rick Harper, an economist and director of the University of West Florida's Haas Center for Business Research and Economic Development. "We're still down jobs from the peak, but there is a sense we're headed in the right direction."

Mayor in motion

One source of Harper's optimism is Mayor Ashton Hayward. A 42-year-old Pensacola native, Hayward took office in January 2011 as the first "strong mayor" under a new city charter that grants greater authority to the executive branch. Hayward returned to Pensacola in 2003 after living in New York City for a decade. His focus is economic development. He's spent considerable time with state officials in Tallahassee and traveled to California and New Jersey, pitching his hometown to prospective private-sector employers. Hayward figures that the best way to attract jobs is by stressing the quality of life offered by a centuries-old city with a walkable downtown on a picturesque bay.

After a decade spent in New York City, native son Ashton Hayward returned to Pensacola, became its mayor, and is on a mission to diversify the city's economy.

"Truthfully, we've never told that story, and that's my job," said Hayward, who worked in sales in New York and real estate development back in Pensacola. "We're not going to be able to survive if we just exchange money [among the locals] and we're a service stop off I-10."

Pensacola, Fla.

Population	51,923
Escambia County population	297,619
Median household income	$43,574
Median owner-occupied home value	$168,400

Source: U.S. Census Bureau, 2006–10 American Community Survey

Among Hayward's initiatives is a plan to spruce up the city. He cites former New York City Mayor Rudy Giuliani's work in polishing the Big Apple as a model. Hayward is paying particular attention to Pensacola's waterfront, including the struggling city-owned Port of Pensacola. Much smaller than Gulf Coast ports in Mobile, New Orleans, and Tampa, Pensacola's harbor processes and stores unsightly bulk materials at a time when most cargo is shipped in containers.

Hayward would like to refocus the port to attract more technologically advanced vessels that service offshore oil and gas drilling rigs. He is also pushing the development of a 30-acre "maritime park" on the water that was approved by voters before he took office. The public-private venture will be home to green space, offices, an amphitheater, and a 5,000-seat ballpark for a minor-league baseball team that begins playing this April. Hayward is also recruiting a private-sector developer for a business park on city-owned property next to Pensacola's airport.

Improving prospects

In addition to a mayor aggressively pursuing economic development, Pensacola has a new $10 million fund to help lure business. The Florida legislature in 2011 allotted $10 million a year for three years to each of the eight counties most affected by the spring 2010 BP oil spill. Harper, whose center is administering the fund, said the money is meant to help industry recruiters close deals. For instance, if a company considering a move to metro Pensacola asks to have a building refurbished, the fund could pay for the renovations. Harper said the program started evaluating proposals in October 2011 and intends to announce its first investments this year.

Others are also seeing evidence of an uptick in Pensacola's economy.

Landrum Staffing Services Inc., a Pensacola staffing firm, booked the same volume of billings in the first three weeks of January 2012 as in the first four weeks of January 2011, said Denise McLeod, the firm's vice president and chief operating officer and a member of the Atlanta Fed's Center for Human Capital Studies.

"After the first week of January, which is normally slow, it was like the water spigot has been turned on," McLeod said. Landrum recently placed 200 workers at a maker of wind-energy turbines. Many of Landrum's clients in the health care, legal, and hospitality industries are seeking permanent employees, McLeod added.

The hospitality sector in particular thrived in the 2011 summer beach season. After the oil spill largely wiped out the tourism sector in 2010, summer 2011 was the first season in which room bookings and hotel-motel tax receipts topped the levels of 2007, the last typical year before the full effects of the recession and oil spill, Harper said. "If 2012 follows suit, we could be back on the long-term trend," he noted.

NAS is BIG in Pensacola

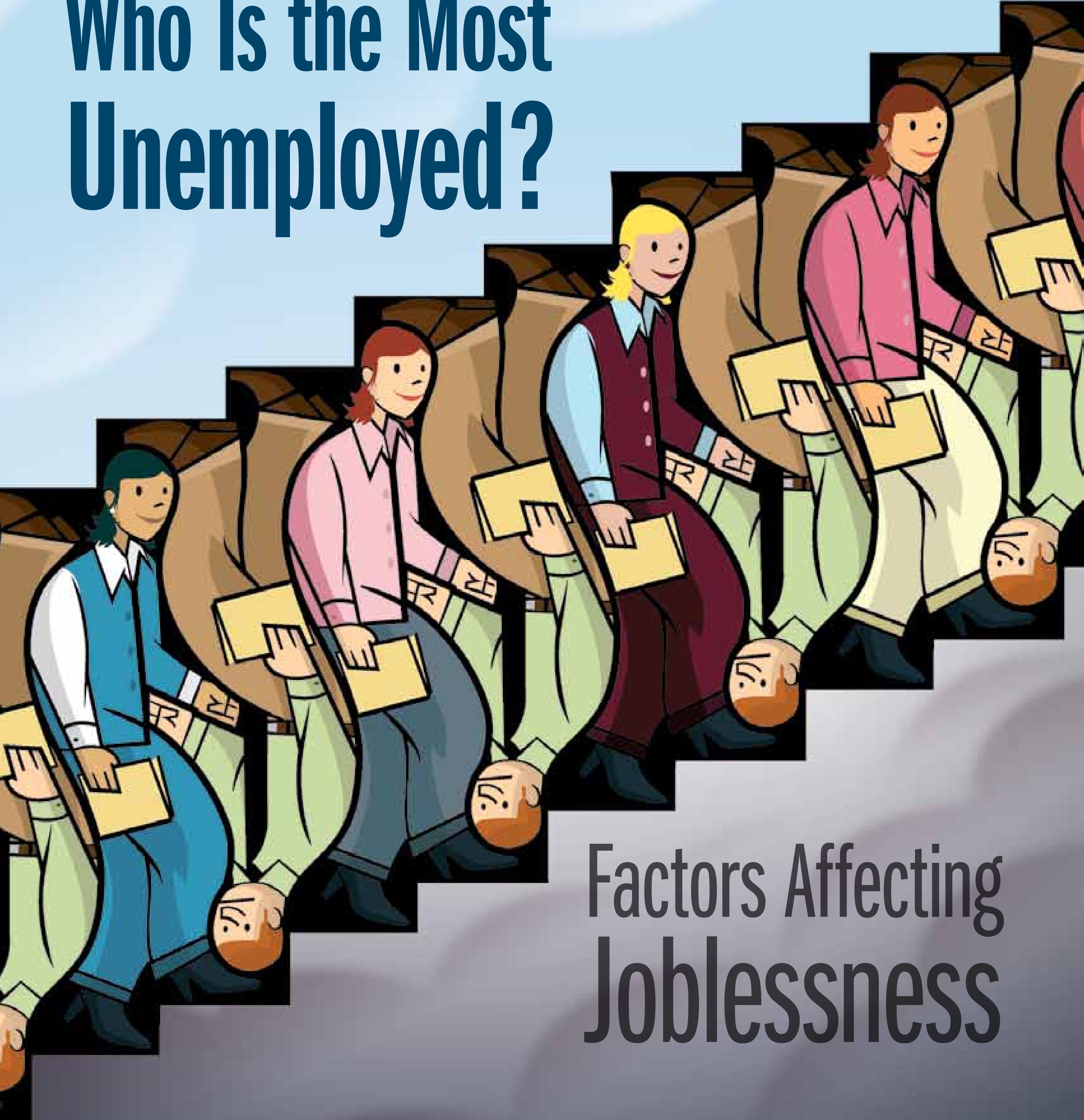
Some of those beachgoers might glimpse the Navy's Blue Angels practicing aerial acrobatics. The squadron has been based at Naval Air Station (NAS) Pensacola since 1954. Its air shows are a famous but small piece of the Navy's presence.

The military in 2009 accounted for 12 percent of the metro area gross domestic product, the most recent data available from the U.S. Bureau of Economic Analysis (BEA) show. By comparison, the military in the same year made up 1.4 percent of the U.S. gross domestic product.

Clearly, the Navy's large presence is a stabilizing economic force for Pensacola. NAS and nearby Whiting Field employ

Grassroots continues on page 31

Who Is the Most Unemployed?



Factors Affecting Joblessness

“You could say that it rained, and that everyone got a little wet.” That’s how Nicole Smith, a senior economist at Georgetown University’s Center on Education and the Workforce (CEW), described the employment effects of the 2007–09 recession. And as with most rains, effects were not evenly distributed. Some people got a little wet, and others got caught in a downpour—without their umbrellas.

How accurate is the “mancession”?

There has been a deluge of stories in the media about the plight of men in this past recession. Commentators even coined the term “mancession” to describe the relatively worse labor market outcomes men faced during and immediately following the downturn. According to data from the U.S. Bureau of Labor Statistics (BLS), by the end of the recession, men accounted for about three-quarters of job losses, or roughly 4.6 million jobs. This severe drop in male employment was disproportionate to their share of the labor force, which stood at roughly 54 percent at the end of 2007.

The unemployment rates for men and women also showed considerable variations, with the jobless rate for men peaking at 11.2 percent in 2009, compared to the 9 percent peak for women more than a year later. Though men’s unemployment was especially dramatic in the recent downturn, this is not the first time they have been caught in the storm. Indeed, men have experienced higher rates of unemployment during or immediately following recessions since the early 1980s (see chart 1).

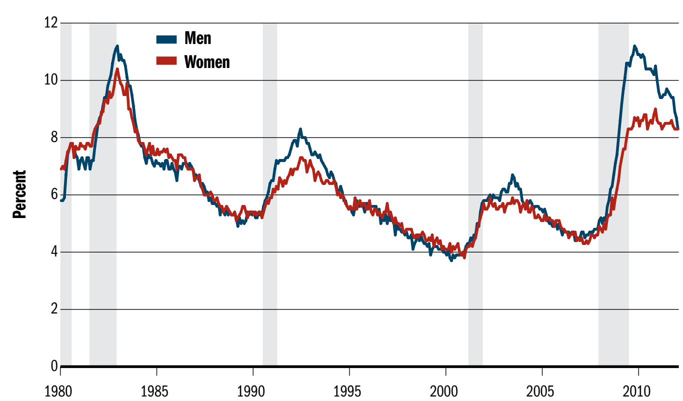
One of the most important factors behind the unemployment gender gap is that men are overwhelmingly represented in sectors that are typically hit hard. In construction and manufacturing, for example, from December 2007 to June 2009, employment fell 20 percent and 15 percent, respectively. Women, on the other hand, are heavily concentrated in sectors that are usually more resistant to ups and downs in the business cycle. A prime example is the education and health services sector, where employment actually grew 3.4 percent during this past recession. In addition, women are nearly 50 percent more likely than men to work in the public sector, which also added jobs in the downturn.

From “mancession” to “mancovery”

Women fared better during the recession, but they’ve been losing jobs in the recovery. A July 2011 study by the Pew Research Center highlighted this trend, noting that the current recovery is the first since the 1970s in which the unemployment rate for women has risen even as the rate for men has declined. Indeed, although both men and women had 8.3 percent unemployment in January 2012, they took different paths to get there. After peaking above 11 percent in October 2009, the male unemployment rate has declined slowly but steadily. Meanwhile, the jobless rate for women continued to rise until November 2010 and has declined less than a percentage point since then.

Men appear to be gaining more jobs in the recovery for one of the same reasons they were hit harder during the recession—the sectors in which they work. Male-dominated industries such as manufacturing and professional and business services are starting to recover, helping to bring down the male unemployment rate. From the end of the recession to January 2012, the manufacturing sector has added 135,000 jobs, and the professional and business services sector has gained roughly 1.2 million. The female-dominated public sector, on the other hand, is just starting to feel the brunt of declining tax revenues and budget cuts. From

Chart 1
Unemployment Rate by Gender

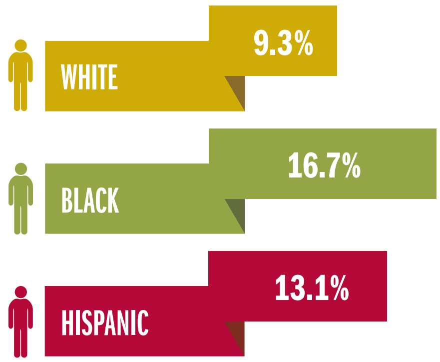


Note: Data are from January 1980 through January 2012. Gray bars indicate recession.
Source: U.S. Bureau of Labor Statistics

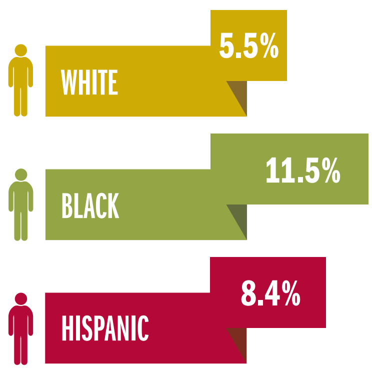
PEAK UNEMPLOYMENT RATES FOR WOMEN DURING RECESSIONS

Source for data on pp. 8-11: U.S. Bureau of Labor Statistics

RECESSION: DEC. 2007–JUNE 2009



RECESSION: MARCH 2001–NOV. 2001



Note: Figures indicate peaks.

June 2009 to January 2012, the government sector shed 578,000 jobs, many of which included local government cuts to teaching positions and other public education personnel. These losses have had a disproportionate impact on women because they make up roughly 57 percent of government workers.

The recovery has not been kind to women, but longer-term trends could favor females. For one, employment projections by the BLS forecast that occupations requiring a master's degree will grow 21.7 percent, faster than any other education category—and the share of master's degrees earned by women has risen from 58 to 60 percent in the decade to 2008, according to the U.S. Department of Education. For another, the same BLS projections place several female-dominated sectors among the fastest growing, including those in the health care and social assistance and educational services sectors.

The young and the jobless

Young adults were also caught in the downpour and have continued to struggle in the recovery. Today, 16- to 24-year-olds make up approximately 14 percent of the labor force but account for more than 25 percent of the unemployed. Further, this group experienced some of the highest jobless rates during the recession, reaching a post–World War II high of 19.6 percent in the spring of 2010. Since then the rate has declined slowly, falling to 16 percent in January 2012.

There were also markedly different outcomes within the young adults group. For instance, teens fared significantly worse than their slightly older counterparts, averaging 24.4 percent unemployment in 2011 compared to 14.6 percent for 20- to 24-year-olds. And when this group is further broken down by race or ethnicity, black teens were the hardest hit, with a peak unemployment rate of 48.7 percent.

Young workers typically have higher unemployment rates than other groups, even under more favorable economic conditions. This is in part because younger people usually aren't as settled in their careers and tend to switch jobs more frequently. In addition, they are often the first to be let go because they lack the experience of older workers. However, certain aspects of the recent recession made young workers even more vulnerable to job losses, according to *The Kids Aren't Alright—A Labor Market Analysis of Young Workers*, a 2010 report by Kathryn Anne Edwards and Alexander Hertel-Fernandez of the Economic Policy Institute. The authors point to the housing crash and financial crisis as a factor—these conditions caused a tremendous decline in household wealth, prompting many older workers to delay retirement and reenter the labor force, so "not only are there fewer jobs in the economy, but also fewer workers retiring and opening up positions."

Researchers and policymakers alike express concern about the long-term implications of high joblessness among young workers. This group typically has fewer financial commitments to uphold, but they are facing ever-rising levels of student debt. According to the most recent report from the Project on Student Debt, an initiative of the nonprofit group the Institute for College Access & Success, the average student loan balance for graduating college seniors in 2010 was $25,250, up 5 percent from the previous year. A February 2012 survey by the Pew Research Center highlighted some other ways in which the tough job market is affecting young people: more than 35 percent report going back to school because of the economy, 24 percent say they've taken an unpaid job to gain work experience, and nearly 25 percent report moving back in with their parents.

Another consequence is that unemployed young adults are losing out on valuable work experience at a time when they typically learn critical life and work skills, researchers say. Further, a number of studies show that teens who don't work during high school are more likely to be disconnected from the labor market as adults. The federal government cited similar concerns recently when it announced the Summer Jobs+ program, a joint initiative between the federal government and private-sector employers that aims to create 250,000 summer jobs for low-income 16- to 24-year-olds.

Who spends more time out of work?

The situation is somewhat different at the opposite end of the age spectrum. Although unemployment rates for workers aged 55 and older reached historical highs during the downturn, they remained well below the rates of younger workers. At its peak in August 2010, the jobless rate for older workers was 7.3 percent, up more than 4 percentage points from the start of the recession. When it comes to long-term unemployment, however, older workers have been left in the rain. Despite having lower unemployment rates than other age groups, they are spending more time out of work. The median duration of unemployment for older workers was nearly 35 weeks in 2011 (not seasonally adjusted), significantly longer than the 21 weeks spent out of work for all age groups and the median length of 10 weeks for 16- to 19-year-olds.

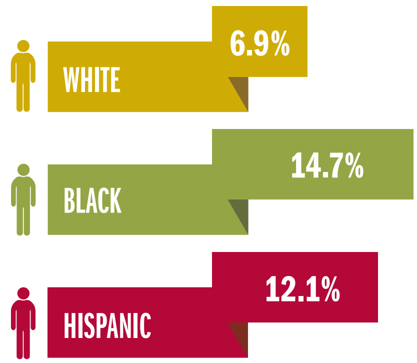
Further, unlike most other groups, the labor force participation rate for older workers has been rising during much of the recession. BLS economist Emily Suk explored this issue in a 2010 report, noting that the growing participation rates among older workers is likely part of a long-term trend that coincides with changes in retirement funding as more employers shifted from employer-funded pensions to defined-contribution plans such as 401(k)s. The recent declines in retirement balances and the drop in home values may have accelerated this trend.

Minorities may be the majority in joblessness

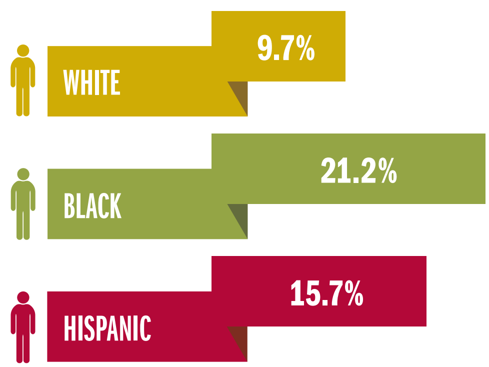
Some racial and ethnic groups have also been especially challenged in the recent recession and recovery. To illustrate, the unemployment rate peaked at 16.7 percent for blacks, 13.1 percent for Hispanics, and 9.3 percent for whites. These trends, with blacks and whites at opposite ends of the unemployment spectrum and Hispanics in between, are longstanding, according to the U.S. Department of Labor (DOL).

Although blacks and Hispanics experienced higher unemployment rates than whites during the recent downturn, they were actually hit harder in the back-to-back recessions of the early 1980s. Then, the unemployment rate peaked at 21.2 percent for blacks and 15.7 percent for Hispanics. This stands in contrast with other demographic groups, many of which experienced tougher conditions in this recession than previous ones.

RECESSION: JULY 1990–MARCH 1991



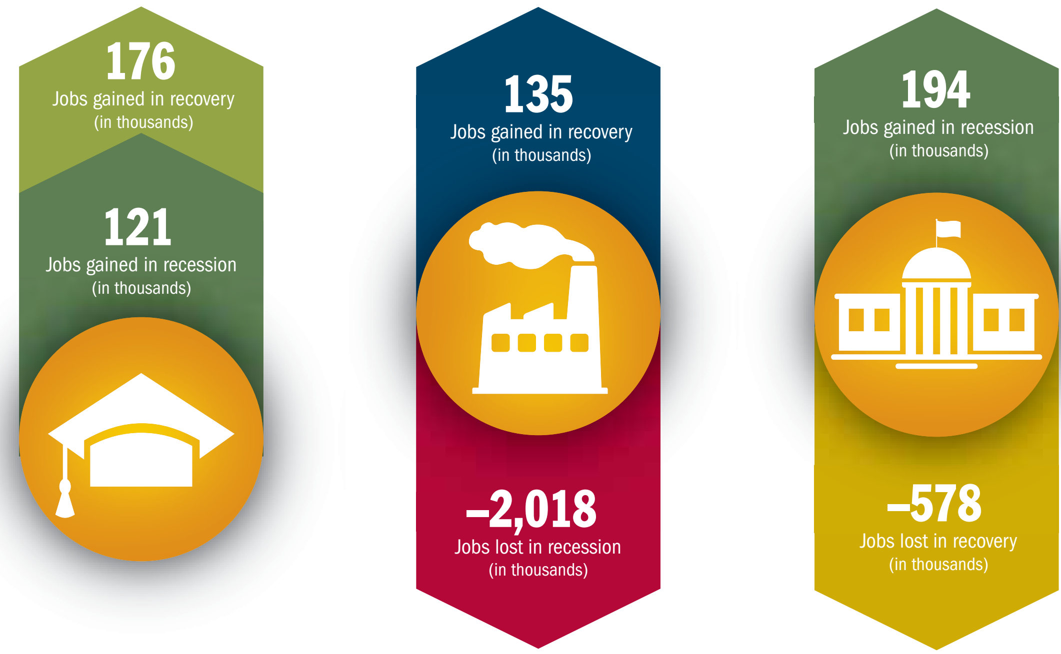
RECESSION: JAN. 1980–JULY 1980 AND JUNE 1981–NOV. 1982



Note: Figures indicate peaks.

PEAK UNEMPLOYMENT RATES FOR MEN DURING RECESSIONS

These figures depict how five major components of the employment sector—education, manufacturing, government, health care, and construction—fared during the recent recession (December 2007 through June 2009) and in the ensuing recovery (July 2009 through January 2012, the most recent data available from the U.S. Bureau of Labor Statistics).



Blacks faced gloomier job prospects in the downturn regardless of age, education, or gender, a trend that continued into the recovery. Today, blacks make up roughly 12 percent of the labor force yet account for 20 percent of the unemployed. In comparison, Hispanics also account for roughly 20 percent of the unemployed, but their share of the labor force is slightly higher, at around 16 percent.

Black labor force outcomes typically lag those of whites, even under more robust economic conditions. “There’s no crisp, clean explanation for this gap,” noted University of California-Berkeley Labor Center’s Steven Pitts. However, according to a 2011 DOL report, *The Black Labor Force in the Recovery*, one factor that may partly explain why blacks fared worse during the recent downturn is that, similar to the male demographic, they are heavily represented in such hard-hit sectors as manufacturing, wholesale and retail trade, and construction. Blacks also make up a disproportionate share of public-sector workers and, as such, have been negatively affected by job losses at all levels of government. Indeed, the public sector is one of the most important sources of jobs for blacks, notes Pitts in a recent briefing paper. More than 20 percent of black workers were public employees between 2008 and 2010, compared to roughly 16 percent of nonblack workers, he writes. Pitts also noted that in previous cycles, the peak and decline in unemployment for whites and blacks happened at the same time. “That didn’t happen in the recent recession, which could be attributed to the decline in public-sector employment,” he explained.

ECONSOUTH NOW PODCAST

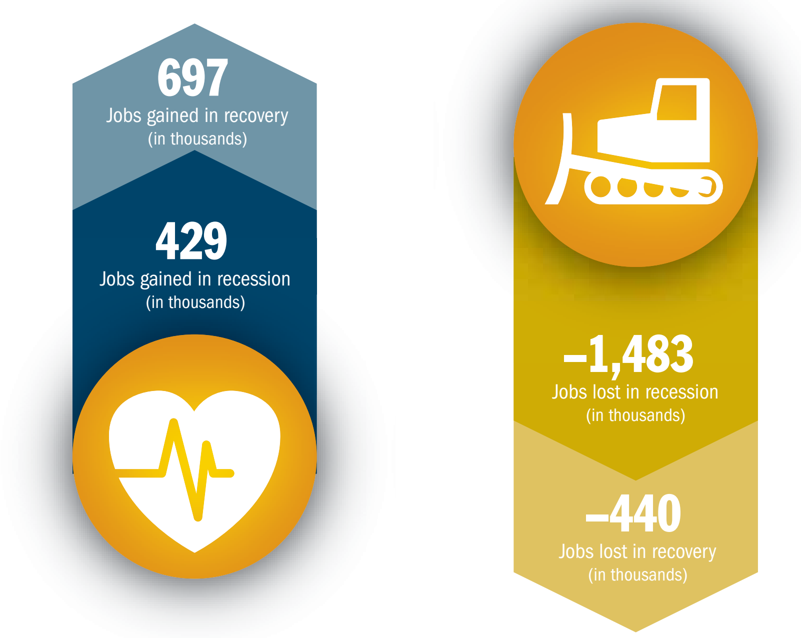
Nicole Smith of Georgetown University discusses the recession’s impact on the labor force and its relationship to educational attainment. On frbatlanta.org, select “Podcasts.”

Education also factors into the disparate labor market outcomes among minorities. On average, blacks and Hispanics have lower levels of educational attainment than whites. While the share of black college graduates has risen over the past decade, the 10 percentage point gap in the share of whites and blacks graduating from college has not narrowed. During the same time period, the gap between the share of Hispanic and white graduates actually widened.

Education has also helped narrow the gap in labor market outcomes, at least among college graduates. For instance, at 3.2 percentage points in 2011, the gap between white and black unemployment was at its narrowest among college graduates. In comparison, the gap for those with less than a high school diploma widened to nearly 12 percentage points. The connection between higher educational attainment and improved job prospects holds for all racial and ethnic groups, notes the DOL report. However, the report continues, “even when comparisons are made between those with similar educational backgrounds racial disparities remain.”

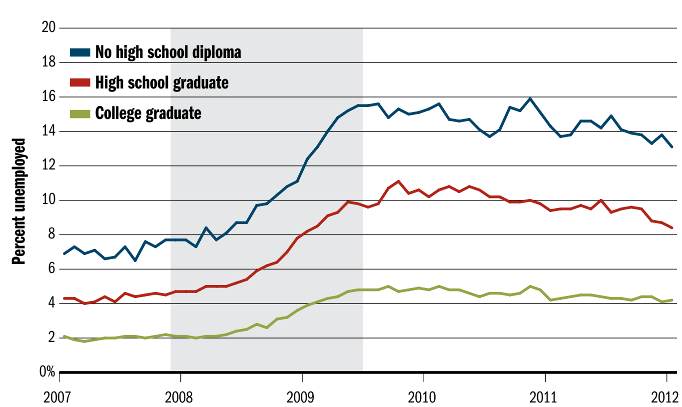
What larger role does education play?

Education has also influenced labor market outcomes on a broader level than race. Although workers at all education levels have faced a much more difficult job market in recent years,



college graduates have experienced far lower levels of unemployment than their less-educated counterparts. As Smith, the CEW economist, explained, the unemployment rate for college graduates at the height of the recession hovered around 5 percent, roughly a third of the rate for those with a high school degree, which peaked at 15.9 percent in November 2010 (see chart 2). This gap has continued throughout the recovery. In January 2012, the unemployment rate for 25-year-olds and older with less than a high school diploma was 13.1 percent, significantly higher than the 8.4 percent rate for high school graduates and the 4.2 percent rate for college graduates.

Chart 2
The Influence of Education on Joblessness



Note: Data are from January 2007 through January 2012. The gray bar indicates recession.
Source: U.S. Bureau of Labor Statistics

College-degree holders were faring better than less-educated workers even before the recession, in part due to the changing relationship between education and labor market outcomes. This shift has played out over the past several decades, both in terms of earnings and employment. Several factors help explain the evolving relationship between education and the labor market, explained Adam Looney, a senior fellow at the Brookings Institution. They include technological changes, trade and globalization, and changes in many unions. These shifts have placed skilled, educated workers in high demand, while many of the jobs lost during the recession—the ones filled by less-skilled workers—are not expected to return.

The recent labor market experiences of young workers illustrate the important role of postsecondary training and education. Looney and colleague Michael Greenstone recently examined data from a sample of 23- to 24-year-olds—the "Class of the Great Recession"—and found that 88 percent of college graduates were employed in 2010, compared to 79 percent of those with some college and 64 percent of those with only a high school diploma.

Although experts assert that education is not the sole determinant of labor market success, there is still an important relationship between the two. In some ways, education has served as an umbrella during this and previous recessions, helping to shield workers from a raging economic storm. A 2010 report by Georgetown University's Center for Education and the Workforce elaborates, arguing that "postsecondary education carries with it one important advantage in today's economy: protection. Workers with college degrees had the lowest unemployment rates over the past three years, thus receiving the best possible shelter from the Great Recession of 2007. They also have the greatest prospects for getting hired in the recovery." As the CEW's Smith explained, "In this recession, the ability to bounce back from job loss was substantially improved if you had some type of postsecondary training and education."

As the recent recession and recovery have demonstrated, the storms and lulls in the labor market are rarely felt evenly among its participants. A variety of factors, including education and industry concentration, mean that some groups will remain vulnerable to job losses. However, as the economic recovery gains speed, the employment prospects for all workers should continue to improve. ▮

This article was written by Lela Somoza, a staff writer for EconSouth.

Regional Update: Economic Activity's Pace Quickening

Southeastern business contacts described economic activity as expanding at a somewhat stronger pace in January and early February compared with late last year. They also describe a notable improvement in expectations across most sectors. In particular, nearly four out of five of the Atlanta Fed's directors reported in January that they expect economic activity to improve over the next six months compared with the previous six months. These directors, from the Atlanta Fed and the five regional branches, present viewpoints from a wide geographic footprint. Other business contacts also expressed similar optimism.

Optimism gains a foothold

This amount of positive feedback bears careful attention as we may be seeing the beginnings of tangible momentum building in the economy. Though the economy still faces some serious headwinds and many uncertainties, optimism emanating from the Southeast—where the recession struck an especially hard blow to economic activity and where recovery has been slow—is notable.

Although firms' expectations were generally more positive, they nevertheless continued to express caution. In particular, concerns about negative effects from developments in Europe weighed on many people's minds, as did the potential for further increases in energy prices.

Is employment turning the corner?

The employment outlook has also improved. Firms indicated that hiring expectations going into 2012 are better than they had been going into 2011. However, many contacts noted that plans to increase profits still revolved around further efficiency gains from improvements in internal operations. Several businesses reported plans to increase payrolls because they expect an improvement in sales going forward.

Some firms still indicated a preference for contract workers for short-term projects, but several expressed increased willingness to consider them for permanent positions. Aside from optimism about future sales, some contacts also reasoned that their current employees do not always possess the necessary skills, leaving firms with no choice but to hire new workers.

Businesses' outlook brightens

The Atlanta Fed's business contacts expect overall investment levels to remain firm. Additionally, more businesses have noted increased confidence among their customer base, and that confidence is driving increased expectations for future improvement in sales growth. This optimism appears to translate into plans for expansion in more firms than previously detected.

Concerns over increased input costs eased further, although several manufacturing firms did note an increase in commodity prices. Few contacts reported having significant pricing power.

Looking at particular sectors, regional retail contacts noted that sales and traffic in January and early February were up from a year ago. Final holiday sales reports were generally positive, as slightly more than half of our retail contacts indicated that sales were better than they were last year. Retailers also expect overall sales to improve modestly over the course of 2012. Auto dealers noted that January's warm weather likely boosted sales for the month, and they anticipate new vehicle sales to continue to improve. Hospitality contacts, with the exception of cruise lines, reported strong bookings for this year.

The majority of southeastern residential brokers reported that home sales accelerated in January and early February and stand above levels from the same period last year. The outlook among brokers for sales growth continued to improve with most anticipating modest year-over-year gains over the next several months. Most regional homebuilders indicated that new home sales and construction activity growth, measured year over year, increased slightly during January and early February. However, several contacts noted that unseasonably warm weather in the region likely pulled some activity forward. Contacts also noted that multifamily construction remained robust. Over the next several months, homebuilders anticipate new home sales and construction to be flat to slightly up compared with a year earlier. Most commercial real estate contacts indicated that conditions continued to improve slowly in the region.

Manufacturing, energy make gains

Manufacturers noted more positive results in January and early February compared with late 2011. In particular, firms reported increased levels of new orders along with improved expectations for future orders. Most contacts also signaled that inventory levels have risen in line with these improved order expectations. Transportation contacts reported that inventory-building trends appeared to be similar to the end of last year. Port officials noted that both imports and exports have leveled off since the beginning of the fourth quarter of 2011, although trade with Latin America continued to experience modest growth.

In the energy sector, contacts in the exploration field noted that recent lease auctions have helped stimulate more industry optimism, contributing to an improvement in investment conditions. Regional gasoline inventories remained above their seasonal norms for this time of year as national and global gasoline consumption remains relatively soft, although contacts reported ongoing concern about the impact of geopolitical uncertainty in some OPEC countries on energy prices going forward.

On the farm, significant rains have eased drought conditions for agricultural parts of Alabama, Mississippi, and Louisiana, but parts of Georgia and Florida have seen drought conditions worsen. Mild temperatures throughout the region are a matter of concern to peach and other fruit-crop growers hoping for adequate conditions for the current growing season. Contacts reported that some farmers in Alabama and Georgia were reviewing their planting plans in light of their concerns regarding labor shortages. ∎

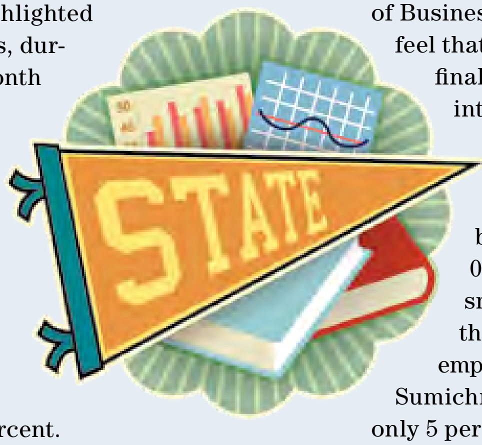
The Atlanta Fed's Regional Economic Information Network (REIN) recently introduced *Southeastern Insights*, a report that presents economic intelligence gathered via REIN's network of business contacts and other regional sources during the latest Federal Open Market Committee cycle. The report is available at frbatlanta.org/rein/rein-pubs/SE-insights/120319.cfm.

University Studies

In 2011, the U.S. economy faced several obstacles that hampered growth. From the downgrade of the government's credit rating to a weak job market to tepid consumer spending, 2011 marked a year of slow growth. Real gross domestic product (GDP) for the United States grew 1.7 percent for the year, according to the U.S. Bureau of Economic Analysis. The Blue Chip Economic Indicators forecast expects real GDP to grow 2.2 percent in 2012. Given the higher pace projected for the nation, what rate of growth might southeastern states see this year? Annual forecasts produced by members of the Atlanta Fed's Local Economic Analysis and Research Network (LEARN) provide some insight into the direction of some of the region's state economies for 2012.

Alabama's pace expected to rise modestly

Alabama's gross domestic product rose 2.2 percent in 2011. According to the University of Alabama's economic outlook released in January 2012, Alabama's economy should expand at a slightly better rate of 2.4 percent this year. The report—coauthored by Sam Addy, director of the University of Alabama's Center for Business and Economic Research—calls for nonfarm employment to rise 1.1 percent and 20,000 jobs to be added for the 12-month period ending in October 2012. (For comparison, statewide employment increased only 0.2 percent from October 2010 to October 2011.)



The report highlighted that manufacturers, during the same 12-month period, added 1,900 jobs, or 0.8 percent, to their labor force. In 2012, Alabama's manufacturers are expected to be major economic drivers and will increase their employment by 0.6 percent. The report's authors are optimistic that an improvement in the labor market will encourage more Alabamans to enter or reenter the workforce.

The Peach State looks at sluggish growth

Slow growth will continue for Georgia in 2012, according to a forecast prepared by the University of Georgia's Simon S. Selig Jr. Center and released in November 2011. The state's economy will expand by only 1.5 percent, the report said, indicating that the reason for persistently slow growth is that Georgia experienced a deeper recession than the nation overall and has also substantially lagged the nation during the recovery. The report also says that while the United States has experienced job growth since 2009, Georgia's labor market generally continued to lose jobs.

Robert Sumichrast, dean of the University of Georgia's Terry College of Business, and his colleagues feel that Georgia should finally turn the corner into job growth in 2012, projecting that net employment for the state will increase by 18,000 jobs or 0.5 percent. "That small uptick will be the first annual gain in employment since 2007," Sumichrast said. "But that is only 5 percent of the total jobs Georgia lost due to the recession. That won't help Georgia's unemployment rate improve much. It will average just over 10 percent in 2012."

Sunnier days ahead for the Sunshine State?

According to the University of Central Florida's Institute of Economic Competitiveness December 2011 forecast, real gross state product expanded at a tepid 0.7 percent for 2011 but should expand by 1.7 percent this year. Researchers at the institute also reported that Florida's payroll job growth finally took root in 2011, with job gains of nearly 0.8 percent. In 2012, job growth is expected to average 1.8 percent. The report stated that the unemployment rate will decline slowly through 2014. ∎

Econ 101: Inflation Expectations

Inflation expectations are a critical component of the inflation outlook and, ultimately, they play a role in achieving price stability. But our understanding of inflation expectations is limited, in part as a consequence of imperfect measurement.

Simply said, inflation expectations are the rate at which individuals, businesses, and investors think the general prices of goods and services will rise. Businesses' and individuals' expectations of inflation affect every decision they make about spending and investing. The price a firm sets for its goods or services, an individual's decision to purchase a new car or home and the wage they demand from employers, how much businesses and individuals put into savings—inflation expectations affect all of them.

Central banks study inflation expectations because expectations signal where inflation may be going in the future. Though central banks have little impact on short-term variations in prices—like those resulting from an increase in the demand for beef, for example, or a decline in oil production—monetary policy can determine inflation over the long run. However, longer-term inflation expectations can be difficult to measure, and current knowledge of inflation expectations is somewhat limited.

A few years ago, Fed Chairman Ben Bernanke challenged researchers by asking, "Do we need new measures of expectations or new surveys? Information on the price expectations of businesses—who are, after all, the price setters in the first instance—as well as information on nominal wage expectations is particularly scarce." Indeed, our measures of firms' inflation expectations are generally anecdotal. The Atlanta Fed is helping to fill that void with the Business Inflation Expectations (BIE) survey.

The BIE was created to measure the year-ahead inflationary sentiments of businesses in the Southeast. It also helps inform the Atlanta Fed's view of the sources of cost changes and provides insight into the factors driving businesses' pricing decisions. To see the latest BIE results and to learn more about the survey, go to frbatlanta.org/research/inflationproject/bie/.

The Atlanta Fed's Inflation Dashboard acts as a platform for visualizing recent inflation measures in the context of longer-term trends. The dashboard's 30 data series capture inflation movements from various perspectives. To provide a snapshot of the current inflation picture, each of the 30 series has been grouped into six broader categories: retail prices, inflation expectations, labor costs, producer prices, material and commodity prices, and money and credit. For more information, go to frbatlanta.org/research/inflationproject/dashboard/.

On the Ground: An Interview with the Atlanta Fed's Regional Executives

Regarding the outlook for growth in economic activity, what are some of the main themes you are detecting in your conversations with business leaders throughout the region?

Tom Cunningham, regional executive at the Atlanta Fed: My impression is that there is a growing sense of confidence in the strengthening of the economy. Cautious optimism has been a recurrent theme for a while, and early last year the economy suffered a series of shocks—earthquake, tsunami, flood, debt-ceiling problems—that may or may not have been responsible for softness in the economy later that year, but they certainly caused a lot of angst.

The beginning of this year seems substantively different. Instead of watching and planning for action when things seem to be doing better, there is some action. This change is particularly evident in wage increases. Executives are frequently telling me that they are giving wage increases where they weren't during the recession, and there is a serious intent to bring up the pay of their better employees because of fear of poaching by rival firms.

None of this suggests that things are booming, but it seems as though actions are being taken that are consistent with firms anticipating higher rates of growth in the near future.

Lesley McClure, regional executive at the Birmingham Branch of the Atlanta Fed: Among my contacts in the last six weeks there has been a noticeable uptick in optimism about continued improvement in their businesses, but no one expects dramatic improvement—overall, there is a belief that incremental improvement will continue. Several contacts continue to express concern about downside risks stemming from the situation in the euro zone or another shock to oil prices.

Generally, I hear only modest plans for hiring, but one of my contacts has observed an increase in companies converting temporary staff to permanent staff.

Although residential real estate is still struggling, there were reports of some improvement. For example, high-end homes are starting to see some sales close, and as we've noted for a while now, multifamily housing sales are strong.

Also, the port in Mobile is very busy with both export and import goods.

Chris Oakley, regional executive at the Jacksonville Branch: Interviews and feedback at the end of the fourth quarter of 2011 and in the early part of January were notably more positive as contacts were looking forward into 2012. Among many, expectations for sales are up, and these expectations are generally translating into plans for some level of increased hiring.

In addition, investment plans continue, with many indicating additional expenditures on technology and automation, often being funded by cash reserves, even in an ultra-low interest rate environment. Even so, contacts' optimism was tentative, primarily stemming from concerns about Europe and a possible [fiscal] contagion. Others noted domestic concerns, especially worries about continued high unemployment and difficulties for small businesses in obtaining credit along with the uncertainties about the upcoming presidential election and what the outcome will mean for the economy.

Some manufacturers are resuming work on plans for new facilities that had been shelved over the last few years, and we have heard hints of increased commercial real estate activity, though interest is primarily in prime locations. Large businesses indicated no issues with funding. Weakness remains in the housing sector, with most contacts not predicting a full recovery until 2015 or beyond. With regard to consumer spending, sentiment was by and large positive.

Reports on employment were mixed, though the trend toward more new hires has definitely improved. Some are increasing sales staff, while others indicated plans to increase IT, analytic, and compliance staff. Sentiment on finding qualified workers was mixed, with some concerns about recruiting quality people with needed technical skills or who can pass preemployment screening. Others had no trouble filling positions and had vast numbers of applicants.

In general, contacts did not express concerns with rising input prices, though a few noted that while there has been some stabilization with certain inputs, prices have stabilized at levels higher than they are comfortable with. There continues to be little pricing pressure—the lack of wage pressure has also contributed to stable prices, though most contacts have reinstated merit increases, and some contacts noted challenges with benefits costs.

On the Ground continues on page 31

Data Corner: Real versus Potential GDP

Someone once said, "Whoever controls the yardstick controls the agenda." That's a useful adage to keep in mind when thinking about how the measures of gross domestic product (GDP) are produced. The total value of goods and services can be added up in many ways. For example, we might look at how much income households and firms are earning, a measure that the U.S. Department of Commerce makes readily available. But the headline estimate of GDP is produced by tallying up all the expenditures people make.

Why measure output by adding up spending? That's the usual agenda behind the GDP numbers. When the notion of estimating GDP was conceived, the prevailing economic theories held that fluctuations in economic activity primarily reflect fluctuations in economic demand—and those theories prevail today. Further, if one presumes that fluctuations in demand account for much of the ups and downs in economic activity, it seems natural that economists would want to know as much as possible about what people are buying or—more to the point—what they are not.

In the United States and elsewhere, much of what constitutes a policy of economic stabilization largely focuses on the stabilization of spending, which economists sometimes call "aggregate demand." So stabilizing aggregate demand is the agenda, one could say, and defining GDP as the sum of all spending is the yardstick.

This approach to measuring GDP leads to another way of thinking about national output. Although GDP may represent what we are producing today, how much could the economy produce if all of its resources were fully employed and at peak efficiency? Economists refer to this measure as *potential GDP*, as distinguished from *real* or *actual GDP*.

While potential GDP might not be headline news for the average person, for economic policymakers—those who are expected to formulate policies that help maximize economic performance, potential GDP is a crucial metric. If our actual GDP is less than our potential, the policymaker's job is to understand the reason for the underperformance and to set policies to help improve performance. ∎

Question & Answer

"The Labor Market Will Use the Fruits of the Education System"

An Interview with Nicole Smith of Georgetown University

NICOLE SMITH

Title	Senior Economist
Organization	Georgetown University's Center on Education and the Workforce
Website	cew.georgetown.edu
Other	Smith received her PhD in economics from American University. Prior to joining Georgetown, Smith was a faculty member in economics at Gettysburg College and the University of the West Indies. She taught classical and modern econometrics, mathematics for economists, Latin American economic development, and introductory and advanced courses in microeconomics, macroeconomics, and statistics.

The effects of recession on the overall workforce—and on a more granular level, on the many demographic groups that make up the workforce—has long been an area of interest to Nicole Smith, a senior economist at Georgetown University's Center on Education and the Workforce. Smith has developed a framework for restructuring long-term occupational and educational projections. She is part of a team of economists working on a project to map, forecast, and monitor human capital development and career pathways. She spoke with *EconSouth* about how the recession has had varying effects on different populations within the workforce.

EconSouth: *Much of your work focuses on the linkages between education and labor market outcomes. Can you tell us a little bit about this relationship?*

Nicole Smith: Well, traditionally education and the labor market have existed in two distinct silos. Educators often concern themselves with the goal of creating well-rounded citizens with the ability to learn and to absorb learning and to teach themselves. So, it's all about creating this person for the greater good—a social benefit. And when you think of the labor market, the labor market then concerns itself with production, productivity, output growth, creating goods and services for the nation.

So, these are the traditional roles, and we understand that the labor market will use the fruits of the education system, but there is often little effort made on the part of educators to fulfill the demand by employers. Any attempt to do so is often judged negatively by educators. If you tell them, "Well, how are you preparing students for the workforce?" you hear terms such as "the commodification of education." It's frequently frowned upon, as if surely education has more noble goals than creating foot soldiers of capitalism.

So what has happened is that we have education existing solely, independently for the creation of this citizen, this good citizen, a well-rounded individual. We have the labor market existing to produce goods and services using the pipeline from education, but they are in two distinct silos. Employers have often, on the other hand, lamented the inadequacies of the employees handed down to them. You hear lots of stories about knowledge, skills, and abilities that for all intents and purposes should have been learned in the education system [but] remain wanting. You even hear stories about soft skills, such as communication skills and networking and general people skills, that have grown in importance in this 21st-century requirement, but they still remain insufficient.

ES: *This economic downturn was marked by a surge in the ranks of the* *long-term unemployed. I want to ask you, to what extent does the level of educational attainment factor into the size of the long-term unemployed cohort, and further, how was educational attainment related to long-term unemployment in the most recent recession versus earlier ones?*

Smith: Well, first let's gather some statistics. Right now, 5.6 million people in the U.S. have been unemployed for six months or more. That's 43 percent of all unemployed and just about 4 percent of the entire labor force. When you look at the composition of the long-term unemployed, the labor market has shown that they are disproportionately African-American, they are disproportionately a minority, and slightly more likely to be male, and—as you pointed out—significantly more likely to have a high school diploma as their highest level of education attained.

So the long-term unemployed, as a whole, face far greater obstacles than anyone else, and these obstacles are real as well as psychological. Surely, we are talking about temporary lack of demand for goods all around. We know that there have been 8.2 million jobs lost since the recession began. We know that the industries hardest hit have been industries that are traditionally minority based, such as construction and manufacturing. So employers begin to be concerned regarding whether the long-term unemployed are indeed employable and [whether] you have a reinforced outcome as a result. So if you put down on your résumé the length of time since your last employment, that in and of itself becomes a disadvantage to you.

ES: *We know that women today are more likely than men to get a college degree. Did these differences in educational attainment between men and women factor into the unemployment gap we saw during the recession, during which men suffered significantly higher job losses than women?*

Smith: Well, part of that is true. It's true that women disproportionately were less unemployed than men were, but the reasons are far more complicated than simply "women have more education." Women are very peculiar. And if you think of the types of jobs that are traditionally dominated by women, you can think of things such as nursing, teachers, health care workers—all of which have this sort of underlying caregiver component to them. So now when you look at the industrial composition of jobs—where the job losses are and where the job growth was—you find that the biggest losses were in manufacturing, the biggest losses were in construction, and those are very, very male-dominated industries. And those are the ones that hemorrhaged the most jobs. During the recession, the only two sectors that continued to add jobs were health care and education. You know, when you have so many more women in health care, it makes them better off.

ES: *Was this actually a "mancession" relative to other recessions, or is that term a little misleading?*
Smith: The preoccupation with the males, I think, can be a little bit misleading because it gives you the impression that men were specifically targeted, but in reality, it's the choices—the occupations that men were in and the industries that men were in—those were the ones that felt the brunt of the recession. Therefore, because men were in those industries, then men were disproportionately affected. Construction, for example, is male dominated. Of the 8.2 million jobs [lost], 2 million of those were lost in construction, 2.1 million in manufacturing. So when we talk about where jobs were lost, it is true that men are the ones that suffered the most, because they were found in industries that lost a lot of workers. And women were concentrated in health care and education—or even government, for example, which also fared OK and weathered the storm during the recession.

> "We have the labor market existing to produce goods and services using the pipeline from education, but they are in two distinct silos."

ES: *As you noted, some of the hardest-hit groups during the recession were men, younger workers, the less educated, and some minority groups, especially blacks and Hispanics. How have these groups historically fared during economic recoveries, and is this recovery following similar patterns?*
Smith: Well, historically, black unemployment levels have always been twice as high as that of whites, in and out of recession. Just to give you some examples in the recent past, if the black or African-American unemployment rate was about 16 percent, you have a comparable 8 percent for whites. If I think of a ratio of three to one, that's the ratio of unemployment between those with a high school or a college degree. Three to one, young versus old workers. If one in five young white workers is unemployed, then two in five—or closer to three in five—young black workers are unemployed. So once you look at unemployment by race and unemployment by gender, African-Americans and Latinos are far more likely—especially if they are young, which we define as under 24—to be unemployed.

Your question is how is that different from the past. It's very, very similar to recessions we've seen in the past. There's a phenomenon we like to call "first fired, last hired" when we are describing what happens with African-Americans in recessions. And we found that by looking at recessions, you can often use the unemployment rate of African-Americans as an indicator of what will happen a few months down the road to the rest of the population. So we have an issue here that the unemployment data over the past recessions tell an interesting trend.

ES: *You mentioned earlier that young people were one of the hardest-hit groups during the downturn. How does missing out on work skills affect outcomes for them over the longer term?*
Smith: Well, whether you're young or old, you don't want to sit on your skills and not develop new ones. We have to consider ourselves now as living in a society where everyone is constantly learning. You're constantly ensuring that you are at the cutting edge of new technology, that you are useful, and that you can make a contribution. And part of that is through educating yourself. When we think about educating yourself, it's not necessarily going back to school as a 40-year-old or a 50-year-old to get a bachelor's degree, but you can consider stackable certificates, you could consider postsecondary vocational certificates and other industry-based licenses and certificates, something that better connects you to the marketplace, better demonstrates your abilities to do the skill, or better demonstrates your ability at the job.

If you have to consider the alternative, I think people should be thinking of how best to place themselves so that they can hit the ground running when the new opportunities arise. When we talk about retraining and postsecondary education and training, it's not necessarily a bachelor's degree. But we can talk about middle skills, postsecondary vocational certificates, industry-based licenses—anything that shows that you now have the capacity to work on these new machines, you now have the capacity to attach yourself to the new type of technology that's out there. ■

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

Editor's note: To read a longer version of this interview, go to frbatlanta.org and select "Podcasts."

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Swap Lines Underscore the Dollar's Global Role

When global financial markets become stressed, central banks coordinate currency swaps to ease the strain. Given the central role the U.S. dollar plays in international commerce, these swaps have played an important role in fostering the functioning of financial markets.

Economic recovery for the U.S. economy is not without potential potholes. One of the biggest risks to continued expansion is the ongoing sovereign debt crisis in Europe, which has been roiling global financial markets for two years and has already slowed global economic growth and impeded parts of the U.S. economy, such as the export sector.

In reality, two related issues are at work in Europe: a sovereign debt crisis caused by high government debt burdens and pressure on European financial institutions related to large holdings of that debt by financial institutions there.

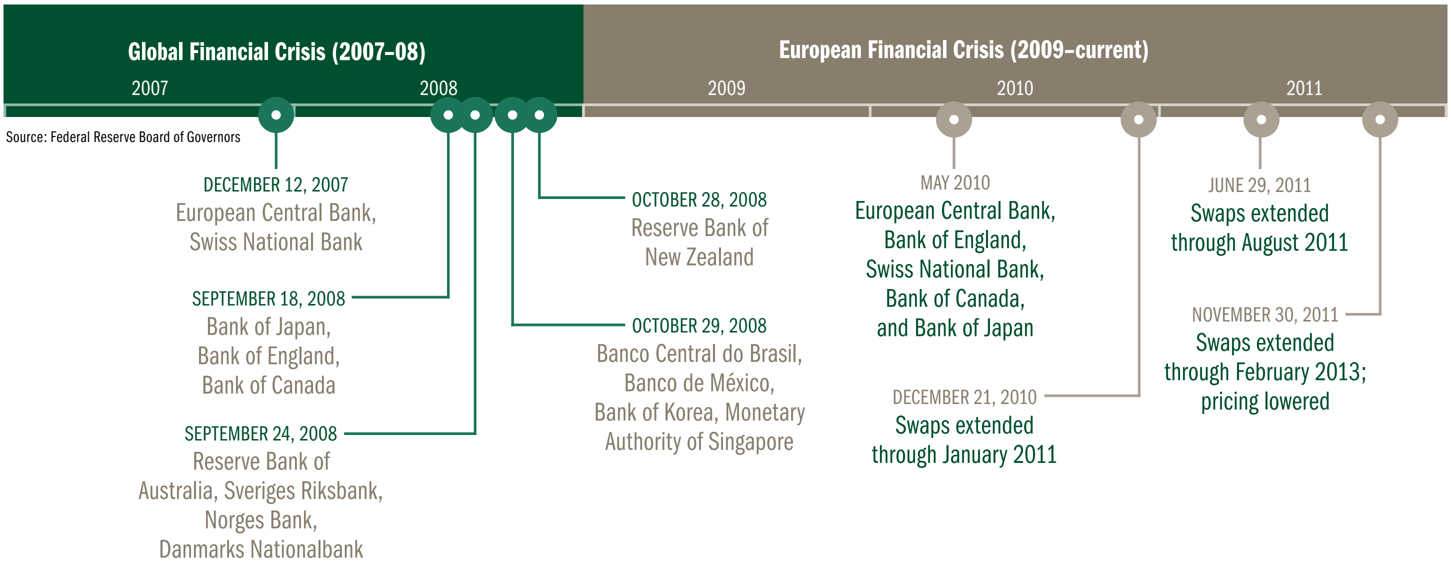
Regarding the latter, banks in Europe, like their counterparts elsewhere, often borrow to fund their activities. But when the health of European banks deteriorated because of their exposure to the fiscally weak countries in the euro area, borrowing money, including U.S. dollars, became increasingly difficult. Europe's troubled banks faced a dollar shortage as other financial institutions, such as U.S. money market funds, became reluctant to lend them greenbacks.

This situation is significant because one of the major business lines of European banks is providing financing in dollars on a global scale—for trade, purchasing dollar-denominated assets, or syndicating loans to corporations. Banks the world over, in fact, have a great need for dollars because much of the world's trade, investment, and lending is conducted in U.S. currency.

Swaps ease the strain

Given the dollar's importance throughout the world, it is vital to ensure that its global use as a medium of exchange is unimpeded. To prevent Europe's dollar funding troubles from spreading to

A TIMELINE OF RECENT FEDERAL RESERVE SWAP LINES



other parts of the world and harming the U.S. financial system, in May 2010 the Federal Reserve opened temporary central bank liquidity swap lines (also referred to as reciprocal currency arrangements) with a number of foreign central banks. The swap lines were used extensively during the last financial crisis a few years earlier. The swap lines are consistent with the Federal Reserve's mandated responsibility to provide liquidity to the financial system in times of stress in order to shield the U.S. economy from the effects of financial instability, regardless of its source.

The swaps involve two steps. The first is literally a swap—U.S. dollars for foreign currency—between the Federal Reserve and a foreign central bank. The exchange is based on the market exchange rate at the time of the transaction. The Fed holds the foreign currency in an account at the foreign central bank, while the other central bank deposits the dollars the Fed provides in an account at the Federal Reserve Bank of New York. The two central banks agree to swap back the money at the same exchange rate, thus creating no exchange rate risk for the Federal Reserve. The currencies can be swapped back as early as the next day or as far ahead as three months.

The second step involves the foreign central bank lending dollars to commercial banks in its jurisdiction. The foreign central bank determines which institutions can borrow dollars and whether to accept their collateral. The foreign central bank assumes the credit risk of lending to the commercial banks, and the foreign central bank remains obligated to return the dollars to the Fed. At the conclusion of the swap, the foreign central bank pays the Fed an amount of interest on the dollars borrowed that is equal to the amount the central bank earned on its dollar loans to the commercial banks. The interest rate on the swap lines is determined by the agreement between the Fed and foreign central banks.

Paula Tkac, a vice president and senior economist in the Atlanta Fed's research department, described swap lines in terms of access. "Think of currencies as differently colored tickets—you wouldn't want a crisis to occur because some institutions need green tickets, represented by dollars, but they only have access to blue tickets, represented by euros," she said. "Most of the time, markets allow institutions to swap green for blue and vice versa, but in periods of market stress and concerns about counterparty risk, swap lines can help to ensure that tickets of all colors are accessible."

A program with precedent

The dollar swap program begun in May 2010 to prevent the fallout from European financial turmoil was most recently extended in November 2011. The program is not unprecedented. Swap lines were opened in 2001 following the terrorist attacks of September 11 to address any dollar shortages that might have affected financial markets as a result of heightened concern about the U.S. economy. Swap lines were also used extensively during the 2008 financial crisis, when a massive dollar shortage developed offshore. At the height of the crisis, the dollar became very hard to borrow, especially in the fall of 2008. This scarcity pushed up interest rates for all dollar borrowers and raised the foreign exchange value of the dollar.

The scarcity was directly linked to the massive expansion of offshore banks' balance sheets since 2000, especially those of European banks. For example, Swiss banks' foreign assets increased from about five times Swiss gross domestic product (GDP) in 2000 to more than seven times GDP in mid-2007. Foreign banks were on a spree, buying up U.S. dollar-denominated assets such as retail and corporate loans, loans to hedge funds, and U.S. asset-backed securities, including securities backed by mortgages. The amount of assets that those banks acquired far surpassed their dollar deposits, so banks chose to borrow in the interbank and other wholesale markets. By mid-2007, European banks needed massive short-term dollar funding—from $1 trillion to as high as $2.2 trillion, according to estimates from the Bank for International Settlements (BIS).

Offshore banks can obtain dollars from many sources. Obviously, they can take short-term loans from other banks. Foreign banks can also secure dollar financing via foreign exchange (FX) swaps, which are usually even shorter term—most mature in less than a week. Offshore banks might access dollars from nonbank financial firms and other sources, including eurodollar deposits by businesses and individuals, deposits from central banks, and dollar money market funds. (A eurodollar has no connection to the euro. It is a term for a deposit denominated in U.S. dollars at a bank outside the United States.) Before the global financial crisis, for example, major European banks borrowed some $400 billion in the interbank market and nearly $400 billion from central banks, and used about $300 billion in FX swaps to convert their domestic currency temporarily into dollars, a report from the BIS shows.

Dollars on demand

By August 2007, short-term dollar funding markets began showing signs of stress. Financial turbulence intensified further after the failure of Lehman Brothers in September 2008. The offshore dollar interbank market effectively froze and many financial institutions found that obtaining dollars had become prohibitively expensive. Furthermore, the banks found it more difficult to borrow from nonbank financial intermediaries, such as the dollar money market funds. As if all these factors didn't present sufficient challenges, foreign central banks that held their dollar reserves with commercial banks started to withdraw them—either to deposit at "safer" places such as the Bank for International Settlements or to sell in foreign exchange markets to support their depreciating currencies.

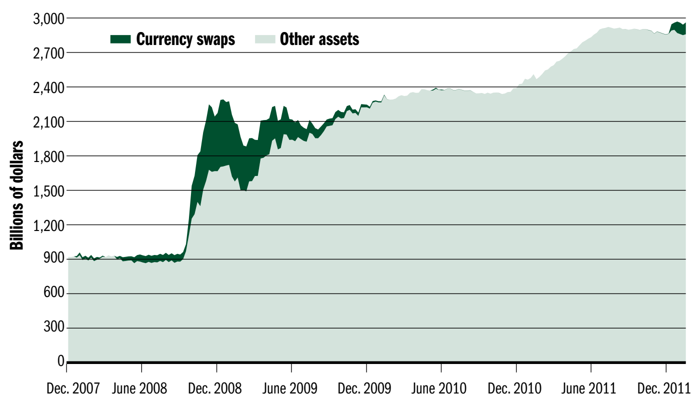
Responding to the crunch

The severe dollar shortage in foreign banking systems needed an international policy response, hence the Federal Reserve's establishment of a network of swap lines with other central banks to increase the availability of U.S. dollars offshore. In addition to soothing stresses abroad, the Fed introduced the swap lines to lower the cost of dollar funding in the United States during the financial crisis. High demand for U.S. dollars by foreign commercial banks at the time was not only putting strain on global financial markets but on U.S. markets as well, pushing up interbank interest rates and further reducing credit availability in the United States. The swap lines also helped curtail the distressed selling of various types of U.S. financial assets. A few years later, when stresses in the global financial markets resurfaced because of the European sovereign debt crisis, Atlanta Fed President Dennis Lockhart explained in a January 9, 2012, speech the implications of such distressed selling: "A forced sale of dollar assets in Europe could drive up interest rates for U.S. businesses and consumers and crimp the flow of credit that is sustaining the recovery and job growth."

Banks the world over have a great need for dollars because much of the world's trade, investment, and lending is conducted in U.S. currency.

In this case, the Federal Reserve effectively became the international dollar lender of last

Federal Reserve Assets (Uses of Funds)



Notes: Data are through January 18, 2012. "Other assets" includes Treasuries, agency debt, and lending to nonbank credit markets.
Source: Federal Reserve Board

resort. It extended dollar loans to foreign central banks, collateralized by those central banks' currencies. Foreign central banks then were able to provide dollars to their domestic financial institutions. The swap mechanism made U.S. dollars accessible to commercial banks all over the world, including those that did not have a subsidiary in the United States or eligible collateral that would allow them to borrow directly from the Federal Reserve.

The Fed set up that round of swap lines in December 2007. It announced it would supply up to $20 billion to the European Central Bank (ECB) and $4 billion to the Swiss National Bank (SNB) for up to six months. The Fed extended the swap lines, to additional central banks and for larger amounts, in March 2008, May 2008, and September–October 2008 (see the table). The last extension involved the largest quantity of dollars, as the Fed also removed limits from the swap lines with the ECB and SNB as well as the central banks of the United Kingdom and Japan.

The use of swap lines also reflects the extent of dollar shortages in foreign banking systems. According to some estimates, the euro area, the United Kingdom, Canada, and Brazil experienced the largest U.S. dollar shortages. Among the 15 nations whose economies experienced significant dollar shortages, all received swap lines from the Fed except six: Russia, Turkey, India, Chile, Hungary, and Iceland. Those countries employed other means to address their dollar shortages. For example, Russia had substantial foreign exchange reserves, India received a dollar swap line from Japan's central bank, and Hungary and Iceland received infusions from the International Monetary Fund.

As stresses ease, swap lines ebb

The volume of dollars the Fed swap lines channeled overseas surged in October 2008 and peaked at $583 billion in December 2008. The volume of the dollar swaps gradually subsided to $50 billion in October 2009, and all the swap lines expired in February 2010. The use of the swap lines that were reopened a few months later remained very light for more than a year, but as the European financial situation intensified and euro area banks found it increasingly difficult to borrow dollars in the market, a significant number of European financial institutions turned to their central banks for dollars. The use of swap lines rose sharply in December 2011 after the Fed lowered the interest rate that foreign central banks pay to the Fed when they draw on the swap facility, although their levels remained well below those seen at the end of 2008 (see the chart).

The dollar swap program reflects both the role of the U.S. dollar as the world's main international currency and the interconnectedness of the global financial system. Non-U.S. banks' demand for U.S. currency is based on its use in financing trade and investment worldwide. At the same time, financial institutions headquartered outside the United States provide hundreds of billions in overall financing *within* the United States. Dollar shortages abroad restrain international trade and credit supply to businesses, governments, and consumers outside the United States, thus slowing global economic growth. Those shortages also mean that non-U.S. banks become less willing to lend to their customers in the United States, which could lead to higher borrowing costs for U.S. businesses and households and slower economic growth in this country. The swap lines support both the international role of the dollar and safeguard the U.S. economy from financial turbulence abroad. ∎

This article was written by Galina Alexeenko, a director in the Atlanta Fed's Regional Economic Information Network; Sandra Kollen, an analyst in the Atlanta Fed's research department; and Charles Davidson, a staff writer for EconSouth.


SMOOTHER SAILING
IN CHALLENGING TIMES
In today's economy, knowing which way the wind is blowing can make for a bumpy ride, at times uncertain and risky. You can depend on the Atlanta Fed, however, as a credible and trusted source of timely, relevant financial and economic information that can provide the basis for making sound financial decisions. We can help you navigate the rough waters.
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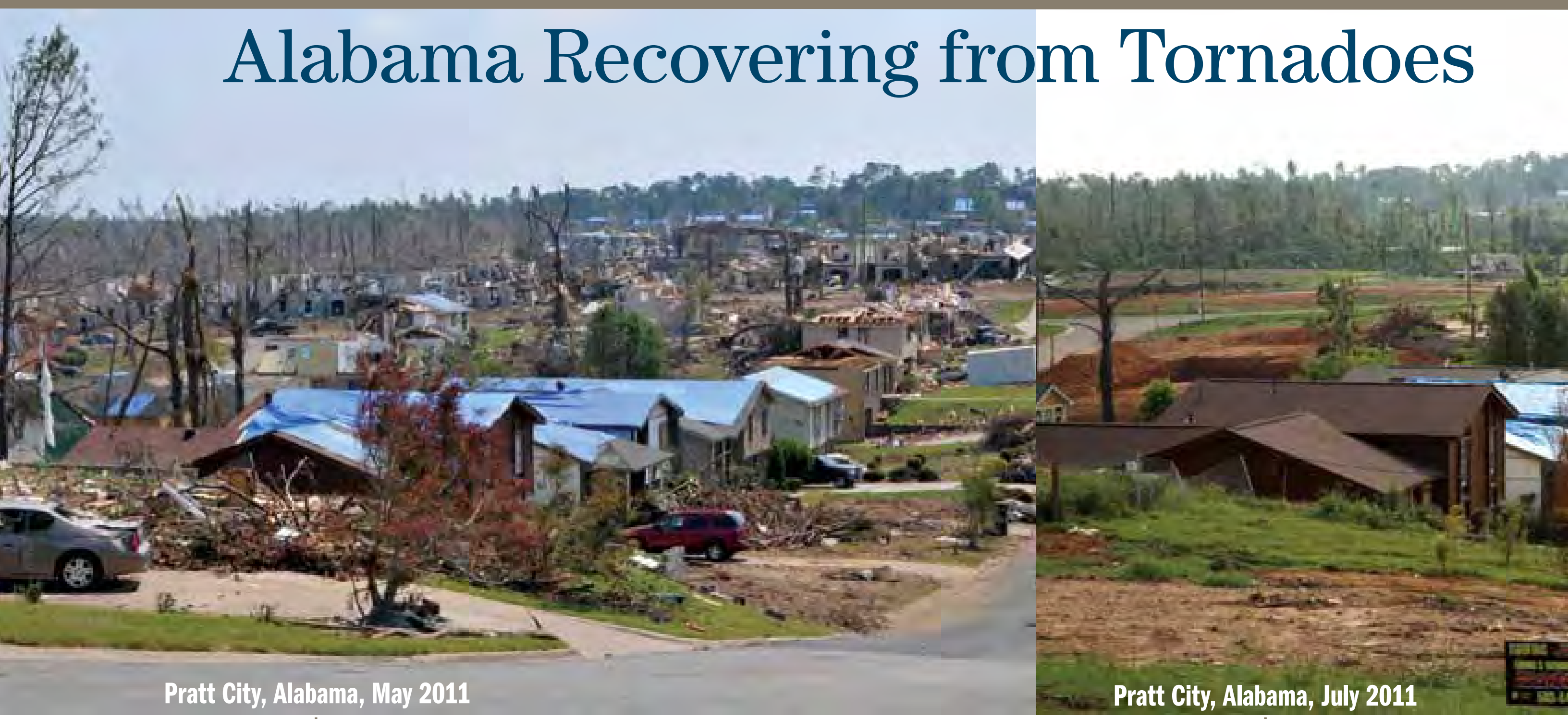
FEDERAL RESERVE BANK of ATLANTA

Down but Not Out:

Alabama Recovering from Tornadoes



Pratt City, Alabama, May 2011

Pratt City, Alabama, July 2011

Last April, a wave of tornadoes swept through the Southeast, devastating parts of Alabama. The loss of life and the toll on the economy were enormous. In the storms' aftermath, the state is rebuilding—and beginning to heal.

The Birmingham neighborhood of Pratt City was devastated by the tornadoes last April. With input from local residents, architects drafted plans to revitalize the city. Homes are being rebuilt for greater energy efficiency, and plans call for neighborhoods to have more green space and bikes paths than before the storms.

Pratt City, Alabama, January 2012

The most recent national championship college football game pitted Louisiana State University against the University of Alabama. With both schools located in the Southeast, it's difficult to pick a favorite. But the sentimental favorite was the Crimson Tide for much the same reason people pulled for the New Orleans Saints to win the Super Bowl a few years ago in the wake of Hurricane Katrina. Alabama, and Tuscaloosa, in particular, had been through the kind of disaster in 2011 that made people want to give them something to celebrate. In a way, the Tide's victory in the championship game was symbolic of how the state's people and its economy have risen to the challenge of rebuilding after they suffered the devastating impact of the April 2011 tornadoes. In short, there's much more to Alabama than football.

A tragic day in the South

The series of destructive tornadoes that struck the southeastern United States on April 27, 2011, was one of the deadliest in the country since systematic tornado record keeping began in 1950. It easily ranked with the 1974 super tornado outbreak and 1965 Palm Sunday outbreak. In Alabama alone, nearly 250 people died, and there were more than 2,400 injuries.

The Southeast is no stranger to natural disasters—witness Hurricane Katrina's destruction. Yet last April 27 was different in the randomness of the storms and their scope: 62 tornadoes were confirmed, tracking over 1,200 total miles and leading to 43 of Alabama's counties being declared federal disaster areas. Other states were also affected, but none more so than Alabama. As if we needed further reminder of how

Table 1
Property damage estimates

Structures destroyed	7,300
Structures damaged	15,700
Major	5,800
Minor	5,200
Affected	4,700
Schools destroyed	4
Schools damaged	10
Critical facilities destroyed/unusable	5
Forest land damaged	
Acres	177,857
Value	$228,360,576

Sources: Alabama Emergency Management Agency, Federal Emergency Management Agency, American Red Cross, Alabama Forestry Commission

random these storms strike and how devastating the impact, the region witnessed further tornado events in January and late February 2012.

Assessing the costs

The economic impact of April 27 on Alabama's economy was dramatic. In several communities, businesses were destroyed and the transportation, communications, and energy infrastructure was shattered. The National Weather Service reported that damages from this outbreak totaled over $4.2 billion across five states—Mississippi, Tennessee, Georgia, Virginia, and Alabama. In Alabama, property damage was estimated at $1.1 billion, according to the Alabama Emergency Management Agency. Other estimates were much higher.

In some ways, the fact that the tornadoes were spread out over several localities meant that no single area bore the brunt of the damage. Only one large metro area was hit—Tuscaloosa. Smaller communities like Rainesville and Hackleburg took direct hits as well, but unlike when a major hurricane strikes, concentrated damage was not something Alabama experienced, for the most part.

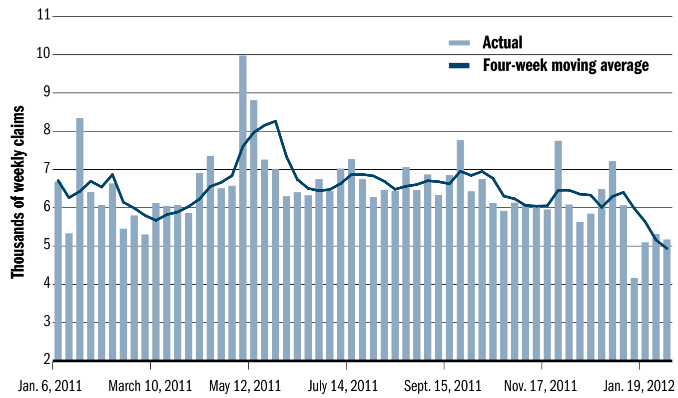
But the damage was significant when aggregated to the state level. The University of Alabama's Center for Business and Economic Research (CBER) estimated that the statewide impact of the April 27 tornado outbreak was reductions in employment of 0.2 percent to 0.5 percent, or 5,600 to 13,200 jobs. There was also a drop in Alabama's gross state product of 0.5 percent to 0.7 percent, or $835 million. The CBER also reported that insured losses ranged from $2.6 billion to $4.2 billion, making it the costliest natural disaster in the state's history. A CBER study titled "April 27, 2011: A Day that Changed Alabama," by Samuel Addy, CBER director and research economist, and Ahmad Ijaz, director of economic forecasting, highlights damage from the storm to structures and timberland (see table 1). A total of 23,000 structures were damaged or destroyed, and nearly 178,000 acres of forest land were damaged—that's roughly 278 square miles, or about twice the size of the city of Atlanta.

Table 2
Alabama Counties' 2011 Employment

	Number employed			Labor force			
	Jan. 2011	Dec. 2011	Pct. change	Jan. 2011	Dec. 2011	Pct. change	Jan. 2011
State of Alabama	1,898,700	1,972,300	3.9	2,106,300	2,132,000	1.2	207,600
Selected counties							
Tuscaloosa	80,513	82,247	2.2	88,031	88,076	0.1	7,518
DeKalb	25,154	25,527	1.5	28,731	28,035	–2.4	3,577
Franklin	11,617	12,300	5.9	13,239	13,335	0.7	1,622
Marion	9,577	10,224	6.8	11,258	11,323	0.6	1,681
Jefferson	269,256	279,860	3.9	297,174	301,531	1.5	27,918
St. Claire	32,196	33,464	3.9	35,628	36,059	1.2	3,432
Lawrence	13,550	14,040	3.6	15,553	15,330	–1.4	2,003
Madison	154,562	159,746	3.4	168,161	170,735	1.5	13,599

Note: Data are not seasonally adjusted.
Source: U.S. Bureau of Labor Statistics

Initial Unemployment Claims: Alabama



Note: Data are through February 2, 2012. Weekly claims are seasonally adjusted.
Source: U.S. Department of Labor

The number of jobs affected by the tornadoes can be estimated by looking at various economic indicators. Initial claims for unemployment insurance provide the most accessible tracking measure. As the chart shows, unemployment claims spiked in the storms' aftermath.

It is difficult to separate the impact of the tornadoes on the state's labor market performance from other factors. Recall that at about the same time the tornadoes struck, the national economy began to slow. In Alabama, the storms magnified the larger deceleration in economic activity over the summer, as damaged and destroyed businesses struggled to restart operations.

Number unemployed		Unemployment rate		
Dec. 2011	Pct. change	Jan. 2011	Dec. 2011	Pct. change
159,700	-23.1	9.9	7.5	-2.4
5,829	-22.5	8.5	6.6	-1.9
2,508	-29.9	12.4	8.9	-3.5
1,035	-36.2	12.3	7.8	-4.5
1,099	-34.6	14.9	9.7	-5.2
21,671	-22.4	9.4	7.2	-2.2
2,595	-24.4	9.6	7.2	-2.4
1,290	-35.6	12.9	8.4	-4.5
10,989	-19.2	8.1	6.4	-1.7

Small businesses bear the brunt

The Tornado Recovery Action Council of Alabama—a diverse group of 19 governor-appointed community, corporate, and nonprofit leaders from across the state—issued a report on the storms and their aftermath in January 2012. The council found that small businesses bore the brunt of Alabama's tornado destruction, many of them firms that employed fewer than 10 workers.

According to the council's report:

> The city of Cullman offers a snapshot. The Department of Industrial Relations' unofficial tally of the impact on employers listed 180 businesses in Cullman with some degree of damage, including 69 that were destroyed or had major damage. Typical of those 69 were these: a tire shop with 10 workers, a shoe repair shop with four, a cafe with eight, a florist with five, a barbershop with two, a gun shop with five, a plumber with five and a locksmith with five. In short, the backbone of an enterprising community was left in desperate need.

Historically, the economic pattern of disasters starts with initial losses as affected areas experience a slowdown in activity. The duration of the slowdown is associated with the extent of damage in economically important areas and the duration of loss of services such as power and water. Recovery is driven largely by two factors—physical rebuilding of damaged and destroyed infrastructure and replacement of capital and household goods. As insurance checks are distributed and government aid delivered, the economic recovery begins to take hold. Rebuilding infrastructure and replacing capital and goods can stretch out over several years, depending on the extent of the damage. Alabama's experience in 2011 was no exception, and rebuilding is expected to continue to add to overall economic activity in 2012.

Over the expected recovery period, the CBER forecasts that the "recovery activities are expected to generate enough revenue to cover damage-induced losses to state finances as well as the state spending for cleanup if assumptions on losses and spending hold."

"While the tornadoes' damages are largely localized, the economic impacts of the ensuing recovery activities will be more widespread," the CBER concludes.

Rebuilding and other economic development projects are expected to assist the recovery in Alabama in 2012. The CBER's Addy and Ijaz expressed increased optimism about the state's economy at the center's 24th annual Economic Outlook Conference held on January 12.

Alabama's employment outlook is improving

Despite the tornadoes and the impact of the larger economic slowdown in the second and third quarters, Alabama's total

Resilience amid Recovery

On April 27, I drove from Atlanta to Birmingham to start my new role as Birmingham regional executive. Making the drive that morning, I had no idea what the day would bring, but the moment I arrived I realized it wouldn't be a typical transition. We were operating on generator power as a result of the morning storm in nearby Cahaba Heights. By the time the sun set, several of our staff had serious damage to their homes, many of our business contacts had lost everything, and most tragically a former employee and his wife perished in the storm.

In spite of the grief that employees were experiencing, the next day the staff began working to gather information about the impact of the storms to share with Atlanta Fed President Lockhart and the Fed's Board of Governors. We got out into the community to help—not only by providing emergency services to the financial community, but to the community in general. Staff in Birmingham and throughout the district donated time and money to help in the cleanup and recovery. The way everyone came together was amazing. I saw firsth and what kind of people we have in this great state, and I was very proud to be one of its newest citizens.

In the weeks and months since the tragedy, I have met with many business and community leaders who were directly affected by the tornadoes. I was and remain impressed by the resilience of my fellow Alabamans and with how the state has bounced back economically. We still have a lot of work to do, but in all but the most devastated areas I can see economic activity firmly back on track. ∎

This article was written by Lesley McClure, regional executive of the Birmingham Branch of the Atlanta Fed.

A house demolished by a tornado in Pratt City, Alabama, on April 27, 2011, gets rebuilt using construction methods that can withstand 120 mph winds.

employment rose by nearly 7,000 in 2011. In particular, the state's durable goods manufacturers rebounded, posting a net increase of 4,300 jobs during the year. Alabama's unemployment rate is back below the U.S. rate, at a seasonally adjusted 8.1 percent. On a nonseasonally adjusted basis, the state's unemployment rate was 7.5 percent in December 2011.

Looking at some of the most affected counties' employment data reveals little evidence of broad economic impacts from the tornadoes. Table 2 (on pages 28 and 29) compares January 2011-to-December 2011 nonseasonally adjusted data from the U.S. Bureau of Labor Statistics Household Employment Survey. By nearly all measures, labor indicators show improvement for the year.

Another indication that Alabama's economy is on the mend is that business sentiment among executives statewide rebounded into positive territory on the CBER's Alabama Business Confidence Index survey for the first quarter of 2012, rising 5.3 points from the previous quarter to 50.8.

That is not to say that communities damaged by the tornadoes have fully recovered in other ways. The emotional toll for those who lost homes, property, and most devastatingly, loved ones cannot be measured.

Community efforts to heal

The Tornado Recovery Action Council of Alabama held several public forums in the most affected areas throughout the state. Participants from each forum identified opportunities to strengthen their communities through rebuilding and recovery efforts. Topics included sustaining the spirit of volunteerism, implementing improved building codes, creating new community organizations, and using urban planning tools effectively. Those communities affected by the tornadoes are seeking ways to emerge renewed and bettered for the future. Many communities are focused on how to incorporate economic development into their recovery plans.

Friends of Alabama in Florida, the Mississippi Gulf Coast, and New Orleans will attest to how inclusive, transparent, and forward-looking reconstruction and redevelopment planning can help communities rebuild and reenergize in the wake of natural disasters. Combined with a sustainable recovery for the economy in general, most affected areas in Alabama appear poised to experience positive growth and increased employment in 2012. ∎

This article was written by Michael Chriszt, an assistant vice president in the Atlanta Fed's research department.

Grassroots continued from page 5

nearly 25,000 in military and civilian jobs, a number that has held steady in recent years. While important sectors such as construction and retail and wholesale trade declined during the recession, BEA data show that the military's economic activity in Pensacola has increased in each year since 2005.

Given the Navy's vital place in the local economy, Pensacola leaders are concerned about possible Pentagon budget cuts. "We're all holding our breath here" regarding military spending decisions in Washington, Harper said.

As important as it is, NAS Pensacola used to be even more dominant in the local economy. For one thing, the rest of the economy has grown up around NAS, while its staffing level has remained constant in recent years. Second, since the mid-1990s, NAS has performed less aircraft repair and maintenance than it once did, meaning the contracts the base awards locally are less lucrative than before because they do not involve as much engineering and technical work, according to Harper.

Meanwhile, Mayor Hayward is looking to clean up the city and alert businesses near and far that Pensacola will welcome them. He said the city has some 100 waterfront acres that can be improved. "I didn't want to watch the demise of Pensacola," he said of his reasons for running for mayor. "It was time to lead."

Now he's getting his chance. ▮

This article was written by Charles Davidson, a staff writer for EconSouth.

REIN

Regional Economic Information Network

On the Ground continued from page 15

Juan del Busto, regional executive at the Miami Branch: High unemployment rates and the slow real estate recovery continue to be major headwinds against the pace of economic activity going forward.

Our contacts in travel and tourism tell us that the industry is doing well and that the outlook is bright for 2012. The recent cruise ship disaster and tragedy [off Italy's coast] will have some impact on that sector's business this year. Our automobile contacts are very optimistic and positive about their sector's business and outlook.

In summary, our contacts are cautiously optimistic about the economy but are also concerned about the ongoing economic policy uncertainty and global issues such as what is occurring in Europe.

Lee Jones, regional executive at the Nashville Branch: My Nashville directors and Tennessee contacts seemed to be a bit more cautious than most in their outlook for 2012. From the perspective of a generally improved fourth quarter of 2011, the Nashville Branch members of the Regional Economic Information Network heard similar sentiments—business executives were concerned about another year of weakened yet positive performance for 2012, just as they saw in 2010 and 2011, when the years started strong but ended with disappointing results. In a recent meeting, the CEO of a national retailing firm headquartered in Nashville summed up 2011 by saying that it was on the whole their best year ever in terms of total sales. Yet this executive's outlook for 2012 is only moderately to cautiously optimistic.

Most contacts shared that they are slowly experiencing a slight pickup in demand, but the "new normal" of tightly managing inventory, the continued need to seek greater efficiencies, and very weak margins continues an environment that feels far from a strong recovery. As a result, many are in a wait-and-see posture with regard to increasing production and employment. Most indicated that the fourth quarter and the holidays provided some bright spots in consumer spending. However, many continue to be very cautious regarding factors such as regulatory compliance, continued volatility in equity markets and consumer confidence, and the election. For our contacts, these combined factors present an environment of uncertainty and potential challenges in 2012.

Robert Musso, regional executive at the New Orleans Branch: Growth is occurring, most notably in the energy sector. We've heard of staffing increases in this sector and in some others as well—it's all very promising. The news is as good as we've heard in three years. Some of it is hiring for new projects—such as boat construction—but part of it is tied to infrastructure projects because limited infrastructure work has been done in the past few years.

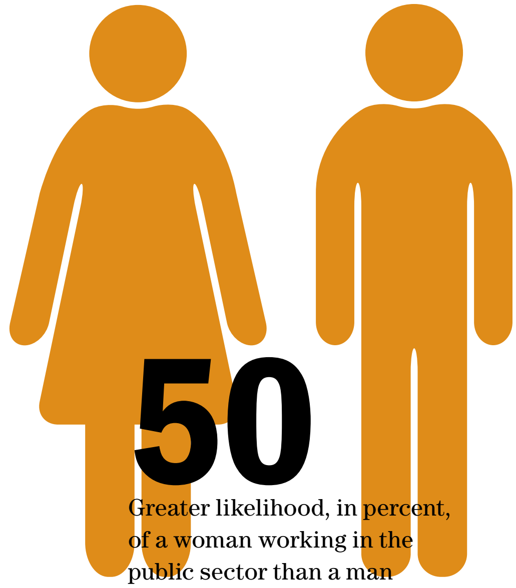
We've also heard discussions of salary merit increases of 2 percent to 3 percent. For the last two or three years, everyone's salary has been frozen, so it's time to catch up. ▮

closing numbers

30,000

Number of people employed in the U.S. aluminum industry in 2011

Source: U.S. Bureau of Labor Statistics



50

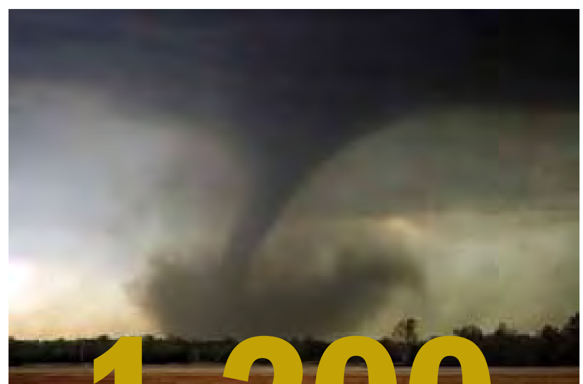
Greater likelihood, in percent, of a woman working in the public sector than a man

Source: U.S. Department of Labor, as cited in *EconSouth*'s article, "Who Is the Most Unemployed?"

$583

Peak amount, in billions, of U.S. dollars that currency swap lines channeled overseas on December 2008

Source: Federal Reserve Board, as cited in *EconSouth*'s article, "Swap Lines Underscore the Dollar's Global Role"



1,200

Distance, in miles, that tornadoes collectively touched down in Alabama on April 27, 2011

Source: Tornado Recovery Action Council of Alabama, as cited in *EconSouth*'s article, "Down but Not Out: Alabama Recovering from Storms"

52,933

Number of acres in Louisiana involved in oil and gas production

Source: U.S. Bureau of Land Management

153.4

Size, in millions, of the U.S. labor force, the world's fourth largest

Source: Central Intelligence Agency's World Factbook

15

Size of Pitcairn Island's labor force, the smallest of any nation

Source: Central Intelligence Agency's World Factbook

68

Share, in percent, of U.S. agricultural production by the nation's largest 8 percent of farms

Source: U.S. Department of Agriculture

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The quest for employment has been a fact of life for many years, even if it takes on different forms. Just as job seekers queue up at today's job fairs (above), the Association of Unemployed Single Women staged a march for jobs in December 1933.

now and then