FEDERAL RESERVE BANK OF ATLANTA THIRD QUARTER 2012

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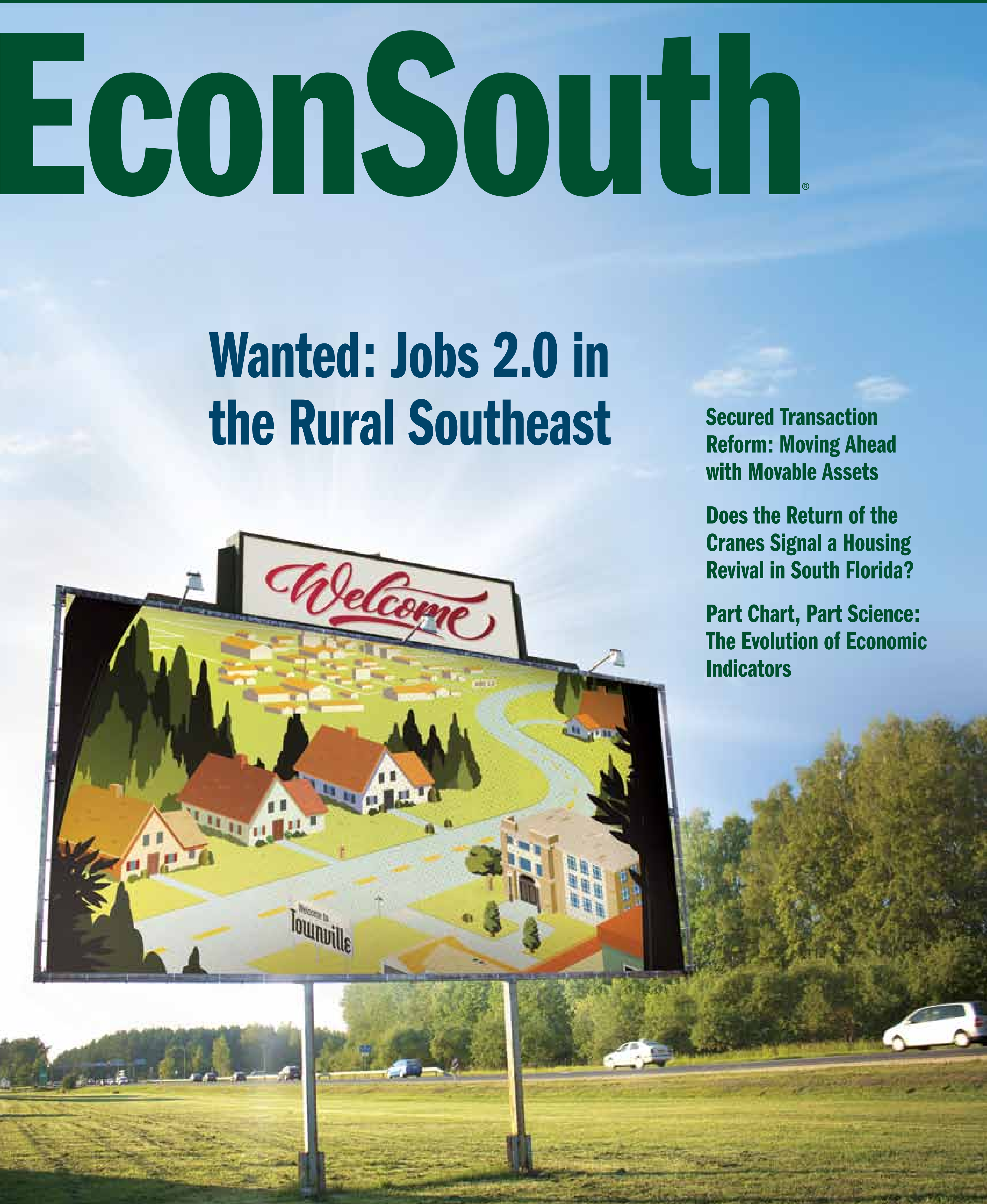
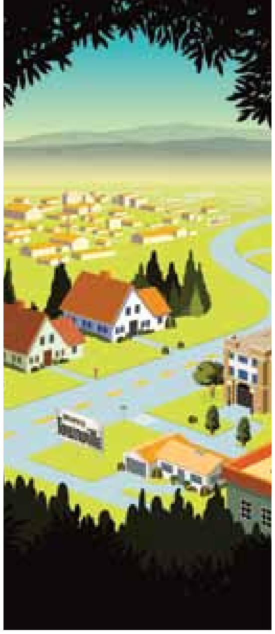


Wanted: Jobs 2.0 in the Rural Southeast

Secured Transaction Reform: Moving Ahead with Movable Assets

Does the Return of the Cranes Signal a Housing Revival in South Florida?

Part Chart, Part Science: The Evolution of Economic Indicators

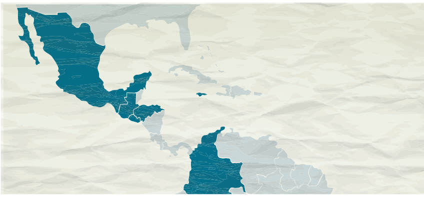


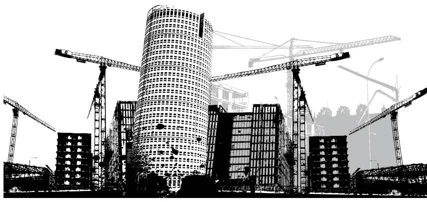
EconSouth

FEDERAL RESERVE BANK OF ATLANTA THIRD QUARTER 2012

inside

DEPARTMENTS





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Broadening the Base

The Southeast region is struggling especially hard to regain its economic footing during the recovery. One of the keys to recovery is attracting the kind of jobs that will diversify the economies of the region's many rural communities. In this issue, staff writer Charles Davidson looks at the challenges these communities face in fortifying their job bases.

"If there was a single fact that struck me, it was the estimate that almost a quarter of the workforce in the rural South is self-employed," he said. "And researchers say that a lot of those self-employed people are not making much money. Not surprisingly, most of the counties where unemployment is worst are rural. We had 35 counties, almost all rural, in our region with July unemployment of 14 percent or worse. A handful of southeastern counties have unemployment approaching or even above 20 percent, practically Depression-level."

Davidson added, "There are longer-term trends at work in rural areas, especially those farthest from metro areas. No easy answers exist as to how to substantially improve the situation."

Shoring up housing's foundation

Before the recession, one of the Southeast's strongest sectors was housing, and it's taken a big hit. Amid positive reports about the South Florida real estate market, Jessica Dill, a senior economic research analyst in the Atlanta Fed's Center for Real Estate Analytics, and Carl Hudson, director of the Center for Real Estate Analytics, take a look at the Sunshine State's rebounding multifamily housing market. In researching the article, Dill described a trip to Miami with Atlanta Fed staff to meet with local real estate business contacts.

"While the conversation was broader than the comeback of the condo market, condos were certainly a topic of conversation," Dill said. "We were surprised to hear how low the inventory of existing condos has become, and even more shocked to learn that new condominium towers were under construction."

Meanwhile, farther to the south…

We often hear of the challenges small businesses meet when they apply for credit, but these challenges pale compared with those facing some Latin American businesses. Stephen Kay, director of the Atlanta Fed's Americas Center, looks at the push for secured transaction reform (STR), which holds the potential to foster the growth of small business in Latin America.

"From my conversations with specialists in STR, I was encouraged to learn about how much of an impact it is already making," Kay said. "For example, Honduras has made great strides in unlocking credit via STR—the costs of borrowing are down and net lending is up. In a larger country like Mexico, STR can lead to billions of dollars in new lending."

The times (and indicators) are a-changing

EconSouth regularly discusses changes in the economy, and with those changes come new ways to gauge and understand economic activity. Staff writer Lela Somoza looks at how the measures of the economy have evolved over the decades.

"Despite the massive amounts of data we collect about the economy, there is no golden indicator," Somoza said. "We use indicators in complex and often surprising ways, and analysts and economists are able to add context to the data and create a narrative that helps explain what the economy is doing."

Finally, the images on our back cover are a nod to the resilience of the people of New Orleans, who endured the forces of Tropical Storm Isaac seven years to the day after Hurricane Katrina devastated the city. Though Isaac's destruction was not on the scale we saw in 2005, we are mindful of the work required to return to normalcy after a natural disaster. We hope *les bon temps* will *rouler* again soon. ■

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. 5 courtesy of Wind Creek Casino and Hotel; back cover photos courtesy of the Federal Emergency Management Administration

Fed @ Issue

The Housing Market Is Improving... Or Is It?

CARL HUDSON is director of the Federal Reserve Bank of Atlanta's Center for Real Estate Analytics.

Recent reports indicate home prices are appreciating, housing starts are up, mortgage rates are lower than ever, and housing affordability is good. These reports point to a clear upswing in the housing market—don't they? Well, that depends. The housing market does seem to be a bright—well, brighter—spot of late. Still, significant headwinds remain. Their strength and gustiness depend on the extent to which the Great Recession altered some short-term factors in our economy, including household formation rates and preferences for renting versus owning, the speed at which shadow inventory comes to market, and the accessibility of mortgage credit.

Why are economists so concerned with housing?

The state of the housing market has a significant influence on the overall economic outlook. Housing dynamics directly affect the growth of construction activity and the employment of construction and affiliated workers. In the second quarter of 2012, for example, residential investment as a percent of gross domestic product (GDP) was 2.4 percent, compared to a long-run average (from first-quarter 1947 to second-quarter 2012) of 4.65 percent. Figures from the U.S. Bureau of Labor Statistics show that since July 2006, total nonfarm employment is down 3.04 million, and construction employment accounts for 2.23 million of those lost jobs. (Residential construction accounts for 1.41 million jobs; nonresidential, 0.68 million; and heavy and civil, 0.15 million).

The housing market also affects home values, which influence economic decisions in other areas of the economy: consumer saving and spending, bank lending activity, and personal and new-business credit access. For example, a consumer who owes more on a mortgage than the house is worth is not likely to make a big purchasing decision like buying a new car. (Personal consumption expenditures represent around 70 percent of GDP.)

On the one hand: The case for optimism

In his July 17 congressional testimony, Fed Chairman Ben Bernanke cited an upturn in house prices, new and existing home sales, and new home construction as signs of modest improvement in housing. The data clearly support the chairman's conclusion:

- The May 2012 CoreLogic figures, released in early July, mark the third consecutive increase in home prices nationwide on both a year-over-year and month-over-month basis.
- According to numbers from the National Association of Realtors, June's existing home sales were 4.8 percent higher than in June 2011. New home sales in June 2012 were 15.1 percent higher than they were in June 2011.
- After bottoming out in May 2009, residential construction spending was flat for some time, but has been on an upward trend since July 2011, according to figures from the U.S. Census Bureau.

On the other hand: Looming short-term factors

Given that the numbers cited above are, in general, increasing from very low levels, we have good reason to expect that residential investment will continue to make a positive contribution to GDP growth. When combined with demographic trends, the long-term prospects for housing look quite favorable. But the gustiest headwinds that could keep the housing market from continued growth relate to the short run. As I see it, the answer to three questions will dictate the growth in residential investment.

1. To what extent will shadow inventory dampen recovery?

Seriously delinquent mortgages remain elevated, and thus an ongoing flow of foreclosed properties may continue to hold down home price appreciation. A rebound in home prices is important, given that many homeowners who would like to sell cannot because their current mortgage is underwater. The thought is that until home prices improve, negative equity will create a logjam, preventing those who may be move-up home buyers from entering the market.

In addition, negative equity plays a significant role in shadow inventory of homes. Negative equity does not automatically mean foreclosure, but it does mean that homeowners with negative equity are likelier to experience foreclosure if they experience a shock such as a job loss. Negative equity and its effect on shadow inventory warrant continued monitoring. Also, given the time it takes to process foreclosures in judicial states—states that require a court review for foreclosures—it is more likely that distressed properties will trickle to market rather than be a torrent. (Florida, the only judicial state among the states of the Atlanta Fed region, has a large backlog of homes that have yet to go through the courts, leaving this state with a large shadow inventory.)

Interestingly, we have some indication that a lack of houses for sale in a particular market—whether it's because homeowners can't or won't sell—actually helps drive prices up. Recent analysis by Zillow indicates that markets with the greatest percentage of homes with negative equity have experienced the greatest reduction in for-sale inventory. Anecdotes from contacts in the Atlanta Fed region are consistent with the idea that a lack of houses for sale is helping home price appreciation.

2. Housing may be affordable, but what about mortgage financing?

As of midsummer 2012, the average rates for 30-year and 15-year fixed-rate mortgages stood at 3.49 percent and 2.8 percent, respectively. These rates are the lowest recorded average rates since the survey began in April 1971. With mortgage rates at such low levels and house prices still depressed, measures of home affordability are high, according to data from the National Association of Realtors and Zillow.

However, there is the problem of mortgage accessibility. Results from the Federal Reserve's July 2012 Senior Loan Officer Survey point to elevated underwriting standards that make qualifying for home loans very difficult. Data from the real estate services and analytics firm Lender Processing Services (LPS) are consistent with these survey results. According to the LPS, the median FICO score at the origination of conventional mortgages has risen from 721 in October 2007 to 772 in May 2012. Thus, during a time when many consumers saw their credit score decline, the score required by lenders has increased.

3. How long will it take to meet demographic trends?

The argument that demographics will eventually increase housing activity is based largely on two facts:

- Echo boomers (those born from around 1982 to 1995) represent a group larger than the baby boomers (those born from 1946 to 1964).
- Household formation slowed during the Great Recession.

Anecdotal reports indicate that echo boomers are living under their parents' roofs longer than previous generations. The thought is that eventually, they will exert themselves and move into their own homes, bumping up the lagging household formation rates. In turn, there should be an increase in housing demand and construction activity. (See "Econ 101: Household Formation" in the second-quarter 2011 issue of *EconSouth* for an explanation of why household formation matters.)

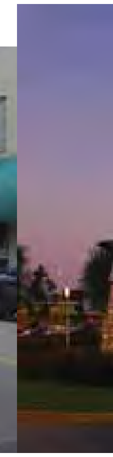
However, echo boomers bring with them record levels of student debt. Plus, tighter underwriting standards, a higher level of debt to income, and more stringent down payment requirements all point to more difficulty qualifying for a mortgage. Will young Americans choose or be forced to rent longer?

We also have to ask, where will the echo boomers want to live? As baby boomers retire or downsize and sell their houses, will the echo boomers be eager to buy their homes? Some observers say that the echo boomer preferences differ significantly from the suburban or exurban neighborhoods preferred by many baby boomers, the implication being that price appreciation in many of the locations where baby boomers now live may be very tepid. (Listen to "No Place Like Home? The Future of the Housing Market," a podcast in the Atlanta Fed's *Perspectives on Real Estate* podcast series on frbatlanta.org.)

Lingering questions

Long-term demographics favor housing and construction. As the housing market moves from its current low levels toward levels that demographic trends might indicate, residential investment should be expected to make a positive contribution to GDP growth. But given questions about housing supply, demand, and financing, we might conclude that movement along the short-term path, while positive, may be slow and arduous. ▮

A view of downtown Atmore, Alabama



Atmore, Alabama

Rural Atmore Places Chips on Casino

Sheryl Vickery watched Fourth of July fireworks illuminate the night sky. "Oh my gosh," she marveled to a friend. "We're in *Atmore*."

The pyrotechnics at the Wind Creek Casino and Hotel outside the south Alabama hamlet would have done Mobile or even Atlanta proud, said Vickery, executive director of the Atmore Area Chamber of Commerce. Courtesy of the Poarch Band of Creek Indians' gaming emporium near Interstate 65, the town of 10,000 had its very own big-city fireworks extravaganza.

Vickery could have just as easily marveled at the 800 jobs Wind Creek brought, as the casino became the county's largest employer when it opened in 2009. Rising incongruously out of flat pastureland alongside the interstate, the 17-story Wind Creek looks like it could have dropped from the sky. Filled with thousands of electronic gaming machines, the casino doubles Atmore's population daily. It attracts 7,000 to 10,000 visitors a day to a place previously best known as a spot along the way to the Gulf Coast beaches. Now Atmore is increasingly known as the little town near the casino.

"The casino is the key to our economy," said Vickery, an Atmore native who lived in Mobile for many years before returning. "They've kept us treading water when people are drowning. I'm not going to say it's great here, but we're OK."

Official unemployment rates are not calculated for towns as small as Atmore. But the Escambia County jobless rate in July was 10.8 percent, compared with 14.7 percent and 14.5 percent for its neighbors to the north, Monroe and Conecuh counties, according to the U.S. Bureau of Labor Statistics. Alabama's unemployment rate in July was 8.3 percent, equal to the U.S. rate.

Biggest game in town

The Poarch Band of Creek Indians' business arm, Creek Indian Enterprises (CIE), employs 1,333 people locally, including the 800 at Wind Creek. The CIE employs more than twice as many people as any other employer in Escambia County, according to figures from the Coastal Gateway Economic Development Alliance, based in the county.

Wind Creek's payroll includes not just lower-paying service jobs, but also positions in human resources, security, finance, and marketing, said Robert McGhee, the Poarch Band of Creek Indians' treasurer. CIE originally planned to build two major casinos simultaneously. But as tribal leaders began marketing $500 million in bonds to finance proposed projects in Atmore and Wetumpka, near Montgomery, the financial markets collapsed, forcing the tribe to open just one casino initially.

"We decided to build it in our hometown, where most of our tribal members live," McGhee said.

Despite objections to gaming from some segments of the local and state population, Wind Creek has flourished,


Atmore's Wind Creek Casino and Hotel

Atmore, Ala.

Population	10,008
Escambia County population	37,996
Median household income	$36,623
Median owner-occupied home value	$94,400

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

by all appearances. The tribe does not publish financial information. But the casino is generating enough funds to finance 95 percent of the tribe's other business enterprises, McGhee noted. And the tribe has donated millions of dollars to local schools and nonprofits.

In addition to Wind Creek, CIE plans to develop a truck stop with retail and restaurants at an I-65 exit nearby. A retail center with a multiplex movie theater and bowling alley is under construction next to the casino. There's also the Muskogee Inn near Wind Creek; Muskogee Technology, a machine and fabrication shop focused on defense contracting; and smaller gaming operations in Montgomery and Wetumpka. The CIE also operates racetracks in Alabama and Florida, along with a hotel in Pensacola, Florida, farming and cattle operations, and a wildlife reserve.

What's more, in July CIE announced plans for a $246 million expansion in Wetumpka, including a new 20-story casino hotel and restaurants, which means its original dual-casino plan is coming to fruition.

A historical twist

That the tribe has become an economic linchpin in Escambia County is a historical twist. The Creeks were among the only tribes not forced out of the Southeast by the U.S. government in the 1830s. Nonetheless, for much of the 20th century, the few thousand Creeks in south Alabama faced widespread poverty and discrimination. During school segregation, for example, Creek children were prohibited from attending Atmore's white public schools. Now CIE donates money to those same schools.

Tribal members, McGhee said, understand the significance of their fortunate turn. "We want to see our tribe become a stable government and a stable economic engine for tribal members and our neighbors," he said. "We try to remind people to stay humble."

Casino not without critics

Despite the economic boost, Wind Creek is not without critics. Alabama's attorney general, Luther Strange, has urged the National Indian Gaming Commission, the federal agency that regulates gaming on tribal land, to prohibit certain types of electronic bingo machines in Alabama. Meanwhile, the Escambia County Commission asked the U.S. Secretary of the Interior to allow local, county, and state governments to collect taxes on the tribe's gaming properties. However, the Interior Department in June sent the county commission a letter essentially reaffirming the tribe's tax-exempt status.

Various news accounts have suggested that the state's attempt to prohibit the electronic bingo machines could effectively shut down Wind Creek and CIE's two other Alabama casinos. If that happened, Atmore "would be impacted catastrophically," longtime Mayor Howard Shell told the *Atmore Advance* newspaper.

Business park a victim of recession

Perhaps most directly, a setback for Wind Creek would likely further hobble the city-owned Rivercane business park directly across U.S. Highway 21 from the casino. In 2006 the city purchased 740 acres and launched Rivercane. However, amid the recession and slow recovery, the park has not developed as quickly as Atmore officials had hoped. But it is home to two fast-food restaurants, with a third planned, and two hotels.

"Nobody could foresee what happened to Lehman Brothers and the rest of the world," Shell said in an interview regarding the 2007–08 financial crisis. "When that went south, we had to take a strong grip and hold on."

The city of Atmore had borrowed $16 million to buy land and develop Rivercane. Ongoing debt payments absorb $1 million a year of the city's $8.4 million budget, noted the mayor. Rivercane and related developments have shown progress, though. This year, Shell said, the city will collect $700,000 in sales taxes—enough to cover 70 percent of the Rivercane debt service—from businesses at Rivercane and 7,000 adjacent acres the city annexed.

After adding the Rivercane property to the city limits, the city in 2008 annexed the neighboring property—land including

Grassroots continues on page 35


JOBS 2.0
Welcome to
Townville

Wanted: Jobs 2.0 in the Rural Southeast

Rural communities have long lagged their city cousins in jobs and income. Some small towns still rely on attracting a single industry or factory, but with manufacturing jobs disappearing, many face an uncertain future. How can rural communities position themselves for revitalization and job growth?

In the 1930s, President Franklin D. Roosevelt famously set out to modernize the economy of the South. Programs like the Tennessee Valley Authority wrought some progress. But the region's greatest economic development engines of the 20th century were federal defense spending and the national interstate highway system.

The federal National War Labor Board, which was set up to manage military production for World War II, declared its intention to "establish a rudimentary American standard of living in the South." The massive military buildup increased manufacturing employment in the largely agrarian South by 50 percent. Wages in the region soared 40 percent between 1939 and 1942, according to the book *From Cotton Belt to Sunbelt: Federal Policy, Economic Development, and the Transformation of the South, 1938–1980*, by Bruce J. Schulman, chairman of the history department at Boston University.

The region would continue to benefit from abundant military installations and the defense industry through the Cold War years. Meanwhile, construction of the interstate highway system began in the late 1950s and laid more roads in the South in three years than had been built by state and local governments from 1789 to 1930, according to Schulman. These highways accelerated industrialization and continue to play a role in economic development (see "Grassroots" in this issue).

Nevertheless, the South's economy by most important measures continued to lag that of the more industrialized North and West through much of the 20th century. The rural South in particular remained the nation's poorest region even as southern urban centers flourished. In a 1986 report, the Southern Growth Policies Board lamented: "The sunshine on the Sunbelt has proved to be a narrow beam of light…skipping over many small towns and rural areas."

Rural areas still lag the city

Much has changed. In general, however, the rural South remains economically behind the region's metro areas. Economic development efforts focused on rural areas continue to evolve. Economic developers and researchers are paying more attention to entrepreneurship and retaining local employers, for example. But with limited resources, many development programs retain their traditional focus on attracting manufacturers.

To be sure, the rural and small-town South is not monolithic. Rural counties most distant from larger population centers continue to struggle under century-old burdens of limited educational opportunities and substandard infrastructure, among other challenges.

On the other hand, the explosive growth of Southeast metropolises such as Atlanta and Orlando in the late 20th century transformed many once-rural counties into sprawling suburbs. The Atlanta metropolitan statistical area (MSA), as determined by the U.S. Census Bureau, expanded from 18 counties in 1990 to 28 in 2010. The influx of automotive assembly and supplier plants into locales outside of or on the fringes of metropolitan centers has also boosted some rural areas. Indeed, rural counties closer to metro regions, and those with natural amenities like lakes or mountains, tend to have held their own economically, said Lionel

"Bo" Beaulieu, director of the Southern Rural Development Center at Mississippi State University (see "Q&A" in this issue).

What "rural" means

To clarify, the term "rural" in this article refers to counties that are not part of a metropolitan statistical area. As defined by the U.S. Census Bureau, an MSA contains a core urban area of 50,000 or more people and adjacent counties that have a "high degree of social and economic integration (as measured by commuting to work) with the urban core." This article will focus on county-wide information, as sociologists and economists who study rural areas and small towns generally rely on county-level data because it is the most precise, reliable information available.

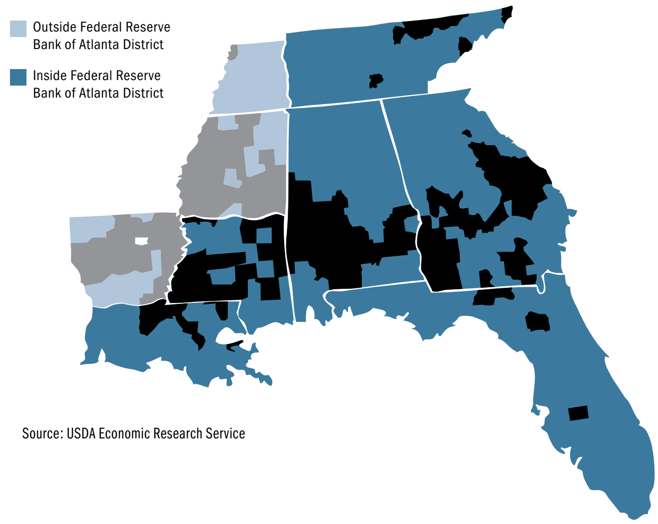
A sampling of indicators demonstrates that the rural South remains poorer than the urban South. Among the 164 southern counties plagued by "persistent poverty," 83 percent, or 136, are rural, according to the U.S. Department of Agriculture (USDA) Economic Research Service's Atlas of Rural and Small-Town America. None of those persistent poverty counties is part of the Southeast's largest metro areas of Atlanta, Miami, Tampa, Orlando, or Nashville. The USDA Economic Research Service classified a county as suffering persistent poverty when 20 percent or more of its residents fell below the federal poverty line as measured by four consecutive decennial censuses, from 1970 through 2000 (see figure 1).

Similarly, most of the counties with the South's highest unemployment rates are rural. As of July 2012, 79 percent of the region's counties with jobless rates above 10 percent were nonmetro, according to figures from the U.S. Bureau of Labor Statistics (BLS). These statistics show that rural counties are significantly overrepresented among areas with persistent poverty and high unemployment—making up more than three-quarters of both, as opposed to 59 percent of all counties in the South.

Finally, residents of rural areas, on average, continue to earn substantially less than people living in metro areas. In southeastern states, the ratio ranges from a low of 74 cents on the dollar in Georgia to a high of 84 cents in Alabama and Mississippi, according to per capita personal income data from the U.S. Bureau of Economic Analysis (see the chart).

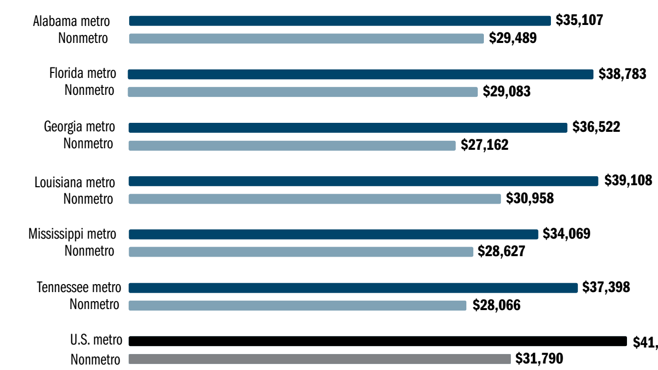
There are certainly exceptions to the rule that rural areas are poorer. Areas with natural amenities attract tourists, affluent retirees, and people building second homes. And rural counties closer to metro areas often fare better than those not near cities, as businesses provide services and products to the larger metro markets, and rural residents can drive into those areas to work. Sevier County, Tennessee, for example, is adjacent to the Great Smoky Mountains National Park. Home to the popular tourist destination of Gatlinburg, Sevier boasted the third-lowest unemployment rate among Tennessee's 57 rural counties as of July 2012.

Figure 1
Persistent Poverty in Southeastern Counties, 1970–2000



Source: USDA Economic Research Service

Per Capita Personal Income
Metro versus nonmetro areas



Note: Data are estimates for 2010.
Source: U.S. Bureau of Economic Analysis

Farther out, things are tougher. "The more remote counties are really challenging because there's not a lot of economic diversity," Beaulieu said. "And the jobs they did have—in manufacturing and some agricultural jobs—tend to have left."

The roots of rural economic problems are deep and familiar. Traditionally, the region's rural counties and towns have not invested heavily in public education. And those places depended on industries that offered jobs with low wages or little stability, including agriculture, textiles, apparel, and wood products, according to Schulman's book and many other studies.

Even today, rural areas often rely heavily on a single industry, or even a single employer. That reliance makes those

An office park in Atmore, Alabama

communities vulnerable to shifts in larger economic currents. Thirty-nine counties in the South depend on manufacturing for 26 percent or more of total employment, according to the USDA. Of those 39 counties, 34 are rural. Counties with 18 percent to 25 percent of employment in manufacturing are also overwhelmingly rural. While most of these counties have lost factory jobs in recent years, the ratio of manufacturing jobs remains high because total employment has also declined.

Many small-town factories are gone

"A lot of small towns used to have plants that made something, and a lot of them don't anymore," said Clint Brewer, assistant commissioner for communications at the Tennessee Economic and Community Development Department. As Jim Searcy, CEO of the Coastal Gateway Economic Development Alliance in southwest Alabama put it: "There's almost not a small town in the South that doesn't have an old cut-and-sew [textile] building that's empty."

Searcy would know. The five rural Alabama counties his agency represents—Conecuh, Clarke, Choctaw, Escambia, and Monroe—have had 10 major apparel-company layoffs since 2000, totaling more than 2,100 jobs, according to state records. That represents more than 5 percent of the combined nonfarm employment of the five counties today. Monroe County, in particular, is an unfortunate example of the consequences of dependence on a single industry. Since 2000, as the apparel maker Vanity Fair Corporation shut down various operations, the county's labor force shrank by more than a quarter and the population by 8 percent, according to data from the BLS and the U.S. Census Bureau.

How do struggling small communities invigorate their economies? "That's the $64,000 question," said Anil Rupasingha, an economist in the Atlanta Fed's community and economic development group. Answers vary. Researchers and policy analysts increasingly favor "economic gardening," or cultivating existing businesses and local start-ups, rather than traditional industry recruitment. Municipalities and states have tried various approaches, ranging from government-owned industrial parks to financial incentives for outside manufacturers to promoting historical and cultural assets.

Is it worth it?

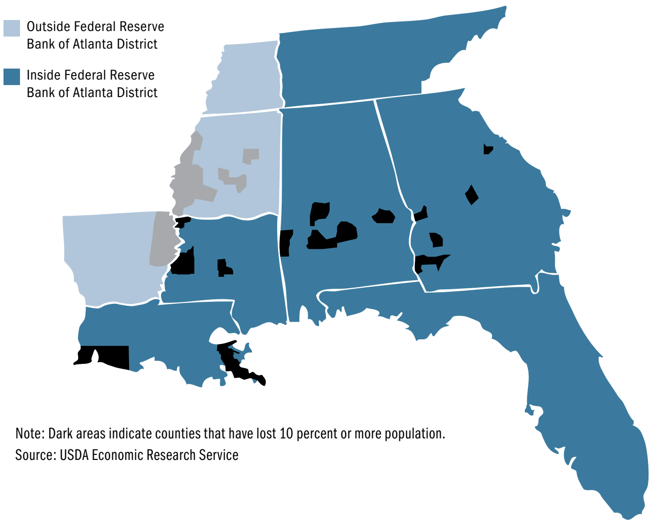
Of course, there is a question even more fundamental than how to go about rural economic development: is it worth doing at all? An impartial economist might question the entire notion of expending scarce resources, particularly public resources, to try to spur economic development in areas where it is difficult to do so. Why not simply give people incentives to move to places where jobs are more plentiful?

"As a sociologist," Beaulieu explained, "I have heard these economic arguments for a long time, and they completely overlook the importance of community attachment, social support systems—the so-called value of social capital ties—and the importance of culture in which many of these families and individuals are embedded. And, you know, some people simply prefer to live in less populated areas."

Beaulieu also questions whether an influx of poor rural residents into urban areas would actually benefit those people or society at large. It could further strain the social safety net of the federal, state, and local governments. Moreover, individuals might be no better off in a place where living costs are higher and competition for good jobs is more intense.

It is common in difficult economic times to see those with reasonably good credentials in rural areas move to places with more options, Beaulieu said. He noted that out-migration from rural areas was much lower in the 1990s—and, in fact, some rural areas gained population—when economic performance was stronger, than in the 2000s. On the other hand, regardless

Figure 2
Population Loss in Southeastern Counties, 2000–10



Note: Dark areas indicate counties that have lost 10 percent or more population.
Source: USDA Economic Research Service

of the economy, the rural poor tend to stay home, where they have an informal support system. "It's a very complicated set of issues," he added.

Self-employment, self-reliance

The number of self-employed rural people in the United States is rising. While farms in rural America have become fewer, rural "nonfarm proprietorships" (NFPs) have become more numerous. Between 1969 and 2006, the number of NFPs in U.S. nonmetro areas rose 93 percent, to 5.6 million, while farm proprietorships fell 38 percent, according to a 2010 research paper by Rupasingha and Stephen Goetz of the Northeast Regional Center for Rural Development at Pennsylvania State University.

Why? One reason is that the recession forced some rural residents—and residents of metro areas, of course—to seek additional income. And, Searcy pointed out, rural residents typically exhibit a strong "sense of self-reliance." Beaulieu estimated that close to a quarter of the rural southern workforce is self-employed.

That self-reliance can be a good thing. More local entrepreneurship appears to benefit economic and employment growth. It also helps reduce family poverty rates in nonmetro counties, according to Rupasingha and Goetz. But rural entrepreneurship is no cure-all, Rupasingha said. On average, self-employed rural entrepreneurs earn less than do people in wage-and-salary jobs. That could be in part because many of these tiny businesses are doing small engine repair, landscaping, and other services that do not typically generate large incomes.

But from a research standpoint, it is unclear why rural NFPs make less than wage earners, Rupasingha and Goetz wrote. The researchers say it could involve self-employed people underreporting their true incomes. Or proprietors could be supplying goods and services to other companies that help the wage-and-salary workers become more productive, thereby widening the pay gap. As those workers become more productive, presumably they will earn more.

Regardless, the researchers believe rural entrepreneurs need more support. The results of the Rupasingha and Goetz paper "strongly suggest that policymakers and local economic development practitioners should seriously consider strategic investments in NFPs, and that this growing sector of the economy warrants at least as much attention as industrial recruitment efforts which seek economic salvation from outside the county or state."

Build it and they may or may not come

Economic development strategies, however, are still weighted toward wooing outside employers, mainly manufacturers, Rupasingha said. Even small cities and counties in the region commonly invest in projects such as industrial parks aimed at luring manufacturers and jobs. For instance, the subject of the "Grassroots" profile in this issue—Atmore, Alabama—operates two city-owned industrial parks. It's difficult to find data on how many municipal governments and government authorities in the Southeast have developed industrial parks. But they are prevalent, and there has been a rash of such investment in Tennessee lately, Brewer said.

Making that investment pay off is not easy. Even for industrial parks aimed at luring technology companies, there is far more to success than simply grading land and installing utilities. Connie Lester, a historian at the University of Central Florida, is studying the development of the information technology industry in Florida. She's also written about the history of economic development in Mississippi. "There has to be a sustainable effort to make this work," she said of high-tech industrial parks. "It doesn't happen just because you give the industry a place to light."

The critical piece often missing is "intellectual infrastructure," she said. Maintaining a commitment to quality education has traditionally been difficult for rural areas in the region mainly because of funding issues. Many southern states have historically maintained lower taxes to fund schools than states and municipalities in other regions. Moreover, areas that lose population, as some rural southeastern counties did from 2000 to 2010 (see figure 2), lose tax revenue.

Meanwhile, as more rural residents turn to self-employment, either by choice or by necessity, formal networks of support are often lacking, Rupasingha said. Those tiny enterprises are largely overlooked by economic development agencies, Beaulieu of the Southern Rural Development Center added. "That's an opportunity that we have to help them be better and stronger over time," he said.

Broadband a Necessity for Rural Development

As an economic development initiative, the federal government and many states have devoted considerable resources to extending broadband access into underserved rural areas. The American Recovery and Reinvestment Act of 2009 appropriated $7.2 billion to expand broadband access.

The most recent study by the U.S. Department of Commerce, published in November 2011, show that 70 percent of urban households have broadband at home, compared to 57 percent of rural households.

Southern states' rural broadband adoption rates are even lower. Among 43 states listed in the rural area broadband adoption table in the Commerce Department study, nine come in below 50 percent: Alabama, Arkansas, Georgia, Kentucky, Mississippi, Missouri, New Mexico, Tennessee, and Virginia. Louisiana and six other states are not included because of data limitations for rural areas, according to the study "Exploring the Digital Nation: Computer and Internet Use at Home."

"If we want to be competitive in the global economy, we've got to look holistically at this digital world," said Jessica Dent, executive director of Connecting Alabama, a state program aimed at increasing broadband availability and adoption in rural areas.

In today's economy, broadband access has become a necessary utility, much like electricity or running water, experts say. "While broadband will not bring immediate economic transformation to rural America, regions that lack broadband will be crippled," Sharon Strover, a professor of communication at the University of Texas, wrote in an April 2011 summary of a scholars' roundtable held by the Kentucky-based Center for Rural Strategies.

Broadband availability is but one of many ingredients in a rural area's economy, noted Shane Greenstein, a professor at the Kellogg School of Management at Northwestern University who studies the economics of telecommunications and Internet infrastructure. Other major determinants of an area's economy include natural resources, labor force quality, the specialization of its existing businesses, and proximity to a major highway.

"The presence or absence of broadband cannot change those factors, and cannot massively change long-term economic trends established over decades," Greenstein said during the scholars' roundtable. Examples of such long-term trends include the prevalence of entrepreneurship and the degree to which young people stay or move away.

The Southern Rural Development Center in 2011 partnered with the National e-Commerce Advisory Committee to award three e-commerce grants. One went to establish a program to help small businesses in Alabama's impoverished Black Belt region sell products online. ∎

To be sure, there are resources to help rural start-ups. Small business development centers, land-grant universities, community colleges, and nonprofit organizations across the region offer various forms of assistance. The U.S. Department of Labor offers a self-employment assistance program for the unemployed, but it is not widely known, Rupasingha said. Part of the problem is that rural entrepreneurs often are unaware of help that might be available, Beaulieu said, as the resources have not been pulled together in a coordinated fashion.

Some states also offer financing help for rural entrepreneurs. But these programs appear generally to serve slightly larger, more established firms as opposed to one-person proprietorships that often lack a financial track record or much collateral.

Georgia's Department of Community Affairs, for instance, offers a small business development loan guarantee program that is officially aimed at rural entrepreneurs. The program partners with Georgia financial institutions to extend loans ranging from $35,000 to $250,000. A listing of successful projects funded by the program includes a travel plaza in Dooly County, a loan to the Development Authority of LaGrange for infrastructure and tax abatements for a supplier to the Kia auto assembly plant, and a water treatment plant upgrade for an industrial park developed by Appling, Bacon, and Jeff Davis counties. The list also includes a fair-trade organic coffee roaster in Americus, but mostly it includes undertakings that are larger than one- or two-person enterprises.

Rural entrepreneurs certainly merit more programmatic help, especially in identifying and accessing funding sources, Searcy said. The fundamental challenge for rural economic development organizations: scarce resources. "In order to really be effective," Searcy said, "that type of microlending would be very labor intensive."

Most jobs come from within

Rural development strategies across the Southeast vary along with conditions in different locales. But most programs do

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"Communities in Isolation Are Going to Have a Hard Time Surviving"

An Interview with Lionel Beaulieu of the Southern Rural Development Center

LIONEL BEAULIEU

Title: Director

Organization: Southern Rural Development Center

Website: srdc.msstate.edu/

Other: Beaulieu has been the center's director since 1997. During his tenure, the Southern Rural Development Center (SRDC) has launched policy briefs that help bring focus to the challenges facing rural areas of the South and established partnerships between land-grant universities and rural community colleges to address educational and economic development needs. Before joining the SRDC, Beaulieu served on the University of Florida faculty for 20 years. He received his master's degree and PhD in sociology from Purdue University.

Lionel "Bo" Beaulieu is director of the Southern Rural Development Center at Mississippi State University and a professor in the university's department of agricultural economics. The center aims to strengthen the capacity of the region's land-grant institutions to address critical development issues affecting the well-being of people and communities in the rural South. Beaulieu spoke with *EconSouth* about the evolving role of economic development in the Southeast.

EconSouth: *To what extent did the rural South participate in the famous Sunbelt boom that really started in the 1960s and lasted through the '90s?*
Lionel Beaulieu: I'd say that the manufacturing boom really helped rural areas quite a bit. A lot of the manufacturing sectors—particularly the textile mills, and a lot of the lower-skilled jobs that came to the South—ended up in rural areas. So the rural South benefited that way in terms of jobs. During the '90s, when much of the country was enjoying pretty active growth, the rural South benefited from that as well. We saw some genuine increases in income and declines in poverty. At the same time, many of those areas that have been persistently poor—the high-poverty counties—remained quite impoverished. There may have been some improvements on the margins, but not enough to overcome historical challenges.

ES: *What are some of those historical challenges?*
Beaulieu: Low education levels. Some of the counties were agricultural, some were reliant on manufacturing. Increases in the efficiency of agriculture and the decline of low-wage manufacturing cost jobs that have by and large never come back [are challenges]. It is also an issue of distance. They're remote. Their infrastructure is limited. They don't have broadband. The health care sector may be compromised. They don't have the full breadth of resources needed to attract businesses.

ES: *What is the hope for areas like that?*
Beaulieu: My sense is—and I think this is increasingly gaining some traction—that those communities in isolation are going to have a hard time surviving. What we're talking about is, how can communities or counties like that begin to think more regionally? You have to begin to identify what your competitive advantages are, not in terms of the geography of a community or a county, but in the geography of a region. We know that we have to have some relationship to larger cities because there's interdependence there. How can we create value-added activities in these

more remote areas to help build and strengthen economic activities that may be primarily taking place in a larger city?

Take, for example, the auto industry. There's been a tremendous influx of advanced manufacturing through the auto industry. So can we think about, what are the products and services needed to support that industry that might be produced in these more remote areas? We're working with a lot of multicounty groups, mostly rural, and looking at what are their economic clusters and what are their economic leakages, and where can some of those economic leakages be plugged by creating businesses that support that cluster.

Many of those areas that have been persistently poor—the high-poverty counties—remained quite impoverished. There may have been some improvements on the margins, but not enough to overcome historical challenges.

ES: *Do they typically have a cluster?*
Beaulieu: If you can identify a sufficient number of counties to work collaboratively, it's very unusual not to find something that they share in terms of an economic cluster. If it's ag, then it's a matter of what are some value-added products and services that the ag sector needs? It could be inputs, it could be processing. It could be a lot of different things. That's what we're trying to do now, is strategize how to help these counties work together, and that's hard because they haven't always cooperated.

ES: *Rural areas that have done reasonably well tend to be closer to metropolitan areas, right?*
Beaulieu: Yes. Either that, or they tend to be located near some nice natural resource amenities.

ES: *How do rural counties benefit from proximity to a more populated area?*
Beaulieu: If you look at the U.S. Census, we have two things that go on. One is that you have a daily migration into the metro area from these contiguous counties outside metropolitan areas. Much of the workforce may actually be employed in that metro area. So part of the well-being of these communities rests in the fact that they have a fairly sizable population every day going to the [metro area] and bringing back money, and they need services. Also, if you're contiguous to a metropolitan area, you can provide services to a metropolitan area. It could be computers, it could be health care. You name it.

ES: *This probably varies from location to location, but in general, have rural areas in the South lost population to urban areas?*
Beaulieu: It's been a mix. The more remote areas have. We tend to approach things from a county basis. We have metro counties, then "micropolitan" counties, which have a city of 10,000 to 50,000, and the noncore, nonmetro counties, those that have no city of 10,000 or more. Unless they have some unique amenities, they're the ones that are losing population. And the people are moving either to micropolitan areas—a city of 10,000 or more—or to metro counties. ▮

This interview was conducted by Charles Davidson, a staff writer for EconSouth.

Regional Update: Cautious Optimism Grows Even More Cautious

In the previous issue of *EconSouth*, we wrote in the early spring months, "Feedback from Atlanta Fed contacts in the Southeast remained generally positive regarding economic performance over the last few months. While worries about the sustainability of the recovery remain, they have abated somewhat. However, few business contacts anticipate growth to accelerate in the near term."

What a difference a quarter makes

By early August, the mood had shifted. Regional economic data revealed slowing economic activity, and information gathered from our business contacts confirmed that current economic activity had slowed and the outlook had deteriorated for the second half of the year. The cautious optimism we detected in the early summer has given way to a degree of resignation that economic activity may not improve much in the months ahead. The resulting low level of expected growth is resulting in more modest hiring and capital expenditure plans, according to our contacts. In short, cautious optimism has become even more cautious.

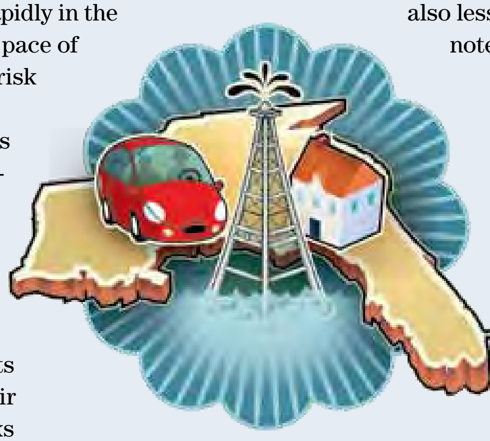
That said, business contacts did not indicate plans to make significant cuts to their workforce. Most contacts said they are planning to continue operating on the assumption that demand for their goods and services will not grow rapidly in the near term. In some respects, a pickup in the pace of growth may indicate some potential upside risk that businesses are ready to expand should they experience a sustained increase in sales above their modest expectations. The downside risk, of course, is that should demand deteriorate, companies would likely adjust to a lower level of activity, which could well result in some negative impact on their workforce.

Interestingly, when Atlanta Fed contacts were asked about the balance of risks to their outlook, most respondents said they felt risks were more balanced than they were in June, when a majority felt risks were weighted to the downside. That shift in attitude may represent an acceptance of the downside risk they were expressing at that time into their actual outlook rather than any real improvement in expectations.

Looking farther down the road, the longer-term outlooks of the majority of our contacts have not changed much. Most contacts anticipate improvement in 2013 from current levels of activity. However, even these longer-term outlooks appear to be a bit softer than they were earlier in the year.

The scale of this anticipated improvement is difficult to assess, as are the catalysts for a shift from the current slow-growth environment. From our conversations with businesses over the last several weeks, it's clear they are having great difficulty forecasting in the current environment. This limited visibility is resulting in a reduction or postponement in capital investment and hiring plans for several very large businesses that represent most sectors of the economy. Reasons for the decline in visibility are well known—financial uncertainty emanating from Europe, fiscal policy uncertainty (mainly surrounding future tax rates and the "fiscal cliff"), and a lack of clarity from regulatory agencies.

Simply put, the Southeast appears to be in a sluggish period in an already slow-growth environment. While this sluggishness makes the economy more susceptible to event risk, very few of our contacts are actually anticipating an outright decline in economic activity.



Mixed results by sector

A deeper look into some important sectors shows that most retailers are reporting generally slower sales, except for those tied to the tourism industry, which remains rather robust. Discount retail operations are performing a bit better than their more traditional department store counterparts. Luxury goods sales, which had been uniformly strong earlier in the year, turned a little more mixed in July but are still healthy. Restaurant operators were also less positive in recent weeks. On a more positive note, auto sales continued to grow at a solid pace.

Trucking and railroad contacts noted a deceleration in shipments and lowered expectations for the second half of the year. While contacts at regional ports said that volumes have recently surprised to the upside, few are expecting activity to increase in the coming months. Several contacts reported a falloff in shipments to Europe and Asia, but trade with Latin America remained robust.

Manufacturing has clearly slowed. The Southeast Purchasing Managers Index, produced by Kennesaw State University, fell from 51.3 in June to 48.5 in July A reading below 50 points represents a contracting in manufacturing activity. The current production component of the overall index decreased a monthly 8.4 points to 45.3. The important new orders component decreased 1.3 points in July to 47.2. Regarding future production, only 26 percent of survey respondents expected production to be higher.

Auto production, again, is a major exception to the broader slowdown in factory activity. Energy-related activity also continues to expand at a healthy pace, and significant investments in this sector are moving forward. More broadly, several large industrial projects currently in development pointed to stronger output and job growth in the near future, most notably in Alabama and Georgia.

On the issue of capital expenditure, Atlanta Fed contacts report that some major firms were postponing planned investment in information technology (IT). In June, an Atlanta Fed survey showed that several respondents said they planned to increase capital purchases of IT equipment in the near future. If that outlook has changed, and this spending is in fact being deferred, it could pose a downside risk to expectations for business fixed investment. That said, other contacts have noted that IT spending was likely to remain on track because businesses feel pressure to provide consumers with regular IT upgrades. Firms also continue to invest in technology for cost savings in the face of weak demand and limited ability to raise prices.

Real estate continued to show slow improvement, although progress is not uniform. Adjusted for weather, sales of electricity to residential customers rose and new utility hookups grew. Banking contacts reported that their mortgage business is up for both refinances and originations. Also, several Atlanta Fed contacts whose businesses are related to the homebuilding sector are sharing reports of increases in activity, all of which may result in some potential upside risk to the region's residential investment outlook.

Looking at more detail, the Southeast's residential brokers indicated that home sales were flat to slightly up compared with year-ago levels. Reports indicated strong sales at the middle price points, while several brokers noted that declining inventories of foreclosed homes were limiting investor-driven sales. Brokers also reported that the decline in inventories has helped stabilize home prices in many areas. Most brokers reported that home prices were flat to slightly up compared with a year earlier. However, contacts continued to note some downward pressure on home prices resulting from low purchase offers and appraisals that were coming in well below asking and offering prices. The sales outlook among brokers remained positive, with most brokers anticipating continued modest year-over-year home sales gains.

Regional homebuilders reported that new home sales and construction rose modestly compared with year-ago levels. The majority indicated that new-home inventories declined further on a monthly and an annual basis. Most builders reported that new home prices were flat to slightly up compared with a year earlier. Price gains were strongest among Florida builders. Contacts noted that multifamily construction remained robust. In the near term, homebuilders expect sales and construction to post modest gains compared with a year earlier.

Apartment sector gains drove improvements in the region's commercial real estate markets, as occupancy rates rose and rental rates increased. The region's office and industrial sectors saw small improvements as vacancy rates moderated somewhat. However, reports on southeastern retail real estate continued to be more mixed. The majority of commercial contractors said that construction activity was flat on a year-over-year basis. The majority of contacts anticipate a modest increase in private commercial construction activity through the remainder of the year, while public works projects are expected to decelerate.

Labor markets stalled

Very little movement on employment is evident, which may reflect firms' having limited visibility on what the future holds. As noted earlier, many Atlanta Fed contacts noted with frustration that their forecast horizons have become shorter and shorter.

Recent data on regional employment have been disappointing as well. The Southeast as a whole shed a net 11,100 jobs in June, following a small gain of 7,700 in May. July showed a net increase of 9,600 jobs in the region (see table 1).

Table 1

Payroll Employment Changes in the Southeast

Alabama	–4,900
Florida	9,000
Georgia	2,200
Louisiana	–1,500
Mississippi	–3,800
Tennessee	–12,100

Note: Data indicate net employment changes from May to June 2012.
Source: U.S. Bureau of Labor Statistics

The decline in Tennessee's total payroll employment was largely a result of a decline of 15,300 jobs in government employment. Large declines in June government employment have been recorded in previous years as well in Tennessee, so taking this trend into account, the overall reading for the region was not so negative. Nonetheless, job growth remains anemic in the Southeast.

The Southeast's unemployment rate, which is an aggregate of the six states in the Atlanta Fed's region, rose to 8.5 percent in June from 8.3 percent in May. With the exception of Florida, which held steady at 8.6 percent unemployment, all states in the region reported increases in the unemployment rate over the previous month (see table 2).

Table 2

Unemployment Rate Changes in the Southeast

Alabama	from 7.4% to 7.8%
Florida	unchanged at 8.6%
Georgia	from 8.9% to 9%
Louisiana	from 7.2% to 7.5%
Mississippi	from 8.7% to 8.8%
Tennessee	from 7.9% to 8.1%

Note: Data indicate percent employment changes from May to June 2012.
Source: U.S. Bureau of Labor Statistics

The idea that the mild winter and firms' "staffing up" to make up for deep cuts made during the recession contributed to unseasonal employment gains has been largely confirmed in conversations with business contacts over the past several months.

Contacts continued to note difficulty in finding qualified applicants for many highly technical positions, and some reported problems finding candidates for some lower-skilled positions. Many manufacturing and trucking contacts continued to note challenges in attracting applicants with the necessary skills. The skills mismatch problem has been especially hard on low-wage individuals, according to community and economic development contacts.

Prices appear stable

Prices have also seen little movement. Businesses reported some relief on input prices and little change in wage plans, although some employers noted that they were increasing starting pay for workers with high-demand skill sets. Reports from Atlanta Fed contacts did not indicate downward pressure building on prices or wages. Firms responding to our July business inflation expectations survey reported steady unit cost expectations: survey respondents indicated that, on average, they expect labor and material costs to rise 1.7 percent over the next 12 months. While it was the same as June's reading, that number is down from 1.8 percent in May and 2.1 percent in April.

Overall, a summer swoon

The Southeast experienced very modest growth in economic activity in late June and July, and business expectations deteriorated. Employment growth slipped and unemployment rates edged up. Prices were largely stable. The region is clearly not performing as well as it did earlier in the year, and little leads observers to believe an improvement is imminent. That said, the recent deceleration in regional economic activity will not necessarily lead to an outright decline. ∎

Data Corner: Home Price Indices

Fluctuations in home values affect household wealth. In turn, household wealth can significantly affect the economy through consumer spending and saving behavior, the availability of credit, and employment in the residential sector (see this issue's "Fed @ Issue," which discusses these connections). Given the strong ties between the housing market and the health of the economy, tracking the movement of prices over time by using a home price index can be very informative.

Constructing a home price index, however, is more involved than constructing price measures for other types of goods, because each home is unique and infrequently traded. Reconciling these two particular aspects is challenging because existing data sources have incomplete and uneven coverage of home prices. As a result, several approximate measures of home prices have been developed instead of one definitive measure.

While each home price index makes a trade-off in how it addresses the uniqueness and infrequent trading of homes, all indices generally employ one of three common approaches.

Median sales price

One approach to creating a home price index has been to track the median sales price over time, the approach the National Association of Realtors (NAR) took when it created its existing home median sales price index. The NAR draws on sales data reported by 160 Realtor networks across the country to construct its index. The NAR's large pool of sales data helps mitigate the fact that homes are infrequently traded, but the median-value approach fails to control for the uniqueness of homes. Because prices vary among property types and can be affected by the condition of the home, this failure to control for uniqueness is a major weakness of this approach.

Repeat sales

A second approach—the repeat sales method—considers only pairs of sales transactions on the same property over time. Unlike the median sales price approach, by creating a ratio of sales price on the same home over time, this index attempts to control for the uniqueness of homes. Drawbacks are that the requirement of pairs shrinks the number of overall observations to homes that have sold more than once and may effectively overweight submarkets with considerable turnover. It also assumes the quality of a home stays constant over time, ignoring renovations or depreciation. The Federal Housing Finance Agency (FHFA) House Price Index, S&P/Case-Shiller National Home Price Index, and CoreLogic National Home Price Index all use the repeat sales approach. However, these repeated sales measures differ in source data as well as their application of weighting techniques. Also, FHFA data do not capture as much market movement as Case-Shiller and CoreLogic data do.

The FHFA index weights its sales by share of single-family properties in each state, not by price, and its data come solely from conforming, conventional loan data provided by Fannie Mae and Freddie Mac. S&P/Case-Shiller and CoreLogic both apply weights to values so that trends for higher-priced homes have more influence. These firms also both mine public records data for purchase sales transactions. However, CoreLogic takes data mining one step further by supplementing the public records data with loan performance data.

A third approach, called the *hedonic* method, uses a model that controls for home renovations and conditions, but the drawback is that this approach requires detailed data that may not be readily available.

Many approaches, same story

Despite the differences in methodology and source data, the major national home price indices tell a fairly consistent story, especially over the longer term: home prices began to fall in late spring 2007 and began to rise in early spring 2012. Unfortunately, with a look at home price indices at a more granular level and over shorter time horizons, this correlation between indices begins to dissipate, revealing more disparity. Consulting more granular indices is informative given that home price recovery has been uneven across markets, but it requires caution given the important differences in the indices. ∎

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

Recent housing data have shown stabilization and even some improvement. What's your read on the housing recovery in your region? What are your contacts saying about the outlook for this important sector?

Tom Cunningham, regional executive at the Atlanta Fed: In general, housing is showing signs of improvement. This improvement is most evident in multifamily construction, particularly apartments, where activity is most apparent. Construction cranes are up in Atlanta, and apartment vacancies have generally decreased across the state to the point where rents are going up. Single-family construction is also picking up, but this activity is much more selective. Indices that attempt to capture local housing prices have generally been, at best, flat, and more typically declining over anything other than the very short term, suggesting that problems of excess inventory are being worked off. Some urban infill construction is beginning to take place in particular neighborhoods in cities across the state, but there is still a large inventory of undeveloped lots. Some bulk land deals are being done, but these deals have been characterized as a play on depressed prices and not really a signal that construction is imminent. Overall, it's fair to say that activity is beginning to show some real signs of picking up, but that is always said with the understanding that any pickup is coming off a very, very low level.

Lesley McClure, regional executive at the Birmingham Branch of the Atlanta Fed: My contacts report a definite sense of improvement in housing. Granted, the improvement is over very weak levels, and it is very location-specific, but homebuilders are starting to have some hope. In the Birmingham area, our real estate contacts tell us June home sales are up 13.2 percent over the same month last year, and housing inventory is coming down. There are approximately 7.5 months of housing supply, which is getting closer to the six-month inventory level that is generally considered equilibrium. On the Gulf Coast, we're hearing reports that real estate prices are rising and new construction projects are getting under way. I even heard predictions that the numbers of developed lots in some locations—which had been in great oversupply—may be inadequate to support future housing demand. And a supplier of products for building contractors noted sales improvement tied to multifamily construction. Taken together, these reports seem to indicate that we are headed in the right direction. On the other hand, I continue to hear about the lack of affordable housing units for our state's lower-income populations, so we'll continue monitoring to see if production of those units eventually meets the need.

Chris Oakley, regional executive at the Jacksonville Branch: Sentiment from our real estate contacts has improved noticeably over the past six months. In some markets, prices have stabilized and are starting to tick up. We have even heard reports of increased numbers of homes selling at or above list price. Inventory levels are reduced and, in some cases, nonexistent. Pending sales are up, and along the Gulf Coast, sales of new homes are rising as a result of a diminishing supply of available existing homes. Distressed and lender-mediated closings continue to decline. Cash investors are fueling the market as they seek better returns in a low interest rate environment. However, these same cash investors appear to be shutting out first-time qualified borrowers in the entry-level home market. Some brokers expressed concerns about interest rate risk: if rates rise, investors will pull out of the market, and the result will be a significant drop in home prices.

Overall, activity has been described as better, and most of our contacts are cautiously optimistic for the future. Still, some think the housing market in Florida remains fragile, with a long way to go in terms of its residential real estate recovery.

Juan del Busto, regional executive at the Miami Branch: The housing market has been steadily recovering in South Florida over the past several months. It appears that prices have hit bottom and are actually increasing, particularly in Miami-Dade and Broward counties. Additionally, the inventory has dropped to its lowest level in the past few years, also fueling the pricing stabilization. Over the last year, the inventory of residential listings in Miami-Dade County has dropped 33 percent. Currently, information from real estate contacts tells us there are 4.2 months of supply in Miami-Dade, well below the national level. The anchor that continues to hold prices down and inhibit an even stronger recovery is the distressed properties that are slowly working through the system.

A significant factor in the improvement has been the international buyers who for months have been scooping up bargains in both single-family residential homes and condominiums. Additionally, the vast majority of the foreign purchasers buy with cash, circumventing the more difficult challenges of trying to acquire financing. Another sector that is moving very well is the high-end homes, $1 million or more, that are moving at a rate of at least one sale daily in South Florida.

The condo glut near downtown Miami, when more than 20,000 condos were built during the prerecession boom, has virtually all been sold, versus the previous 90 percent vacancies of just a few years ago.

Lee Jones, regional executive at the Nashville Branch: In July, the Atlanta Fed held a real estate forum in Nashville to understand the housing market conditions in Middle Tennessee. The participants, mainly real estate brokers, developers, and lenders, conveyed a sense of cautious optimism, supporting the impression that the residential real estate market in the region appears to be recovering. Home sales have begun to rise in Middle Tennessee and are expected to continue increasing, in part boosted by the relocation of large firms to the region. Inventory levels are down.

Condo inventories are particularly low in Nashville, and there's even a sense that a shortage of condos is likely within the next 12 months. The inventory of distressed homes is also falling. There are now no distressed sales in many subdivisions where there were foreclosures and short sales just a year ago. Low inventories combined with rising sales are putting upward pressure on home prices. Local builders are starting to increase sales prices of new single-family homes. In fact, none of our forum participants expected a decline in home prices for the remainder of the year, although price appreciation should be very modest.

Robert Musso, regional executive at the New Orleans Branch: Housing prices have stabilized throughout southern Louisiana and southern Mississippi. For example, Orleans Parish is showing pockets of price increases in existing homes tied to strong demand. Inventories are falling in most locations. Jackson and Mobile are noting rising demand in new and existing homes in the $250,000-and-less range. One contact cited strong sales since the beginning of the year in high-rise condos in several Gulf Coast areas. ∎

Econ 101: GDP

GDP stands for gross domestic product, and is a measure of the value of goods and services a country produces over a certain period of time (usually quarterly). Breaking that definition down further reveals three important measurements: GDP measures newly produced goods and thus excludes used goods; GDP only tallies transactions according to market prices, and so excludes nonmarket production (such as unpaid housework and child care); and, finally, GDP is a measure of a specific country's domestic production, as defined by physical location—so a foreign company, based in the United States, counts toward U.S. GDP, but the production of a U.S. company working abroad is not included in U.S. GDP.

Economists often examine GDP's component parts by area of *expenditure*: consumption, investment, net exports, inventory accumulation, and government spending. Consumption is spending by households on durable goods (such as cars), nondurable goods (such as food), and services (such as haircuts or health care). It is the largest share of GDP, at about 70 percent. Investment spending comes in two general forms, residential investment (such as the building of homes) and business fixed investment. The latter kind of investment occurs when businesses spend money on new structures (like a factory) or on new equipment and software. Net exports are the total value of exports minus imports; inventory accumulation is firm production it hopes to sell in the future; and government spending is just that—spending by federal, state, and local governments.

Lastly, GDP is often discussed in two variations—nominal GDP and real GDP. Nominal GDP is reported in current prices of goods and services at the time of calculation. Because inflation and deflation change the prices of goods and services over time, real GDP reports inflation-adjusted prices. Thus, when comparing nominal GDP from 1980 with nominal GDP in 2010, it is hard to determine if the more recent statistic is higher because prices are higher in 2010 or because actual (that is, "real") production of goods and services increased. For most purposes, it's more useful to use real GDP. ∎

Jobs 2.0 continued from page 11

appear to include efforts to keep existing employers at home and healthy. After all, states find that most job growth comes from within. In Tennessee, for example, 86 percent of new jobs come from existing employers, according to the state's Department of Economic and Community Development. In Georgia, 65 percent to 70 percent of job growth comes from within, said Gretchen Corbin, deputy commissioner for global commerce at the state's Department of Economic Development.

In rural areas, in particular, working to retain business has become an imperative, not a choice. "Especially in rural areas of the country, you're almost doing triage, trying to stop the bleeding as far as losing companies, and companies downsizing or closing altogether," Searcy said.

Since Searcy arrived in late 2010 from Birmingham to head the Brewton, Alabama–based group, Coastal Gateway has worked to establish what he calls "a systematic, data-driven existing business program." Coastal Gateway has identified its biggest employers, most of them manufacturers of wood products or metals. Searcy and his staff gauge these companies' health and outlook, and learn about their concerns. The idea is to assemble sufficient information to identify trends and tackle problems before they become crippling.

Those problems tend to involve the skills of the workforce, Searcy said. Consequently, Coastal Gateway is encouraging employers to communicate their needs to schools and community colleges in the five counties.

Many regional states have highly regarded training programs that generally prepare workers for individual employers that build a plant or undertake a major expansion. There are also some formal retraining programs centered in rural areas. In Perry County, Tennessee, a local nonprofit called Vision Perry has helped train 150 people for jobs in the information technology, health information, and customer services fields. Largely because of these training efforts, the county of 8,000 people has attracted a handful of call centers. Still, Perry County's unemployment rate in July was 13.7 percent, well above the statewide rate of 8.4 percent and among the half-dozen worst rates among Tennessee counties. As bleak as that sounds, Perry County's jobless rate during the recession spiked at nearly 30 percent in early 2009.

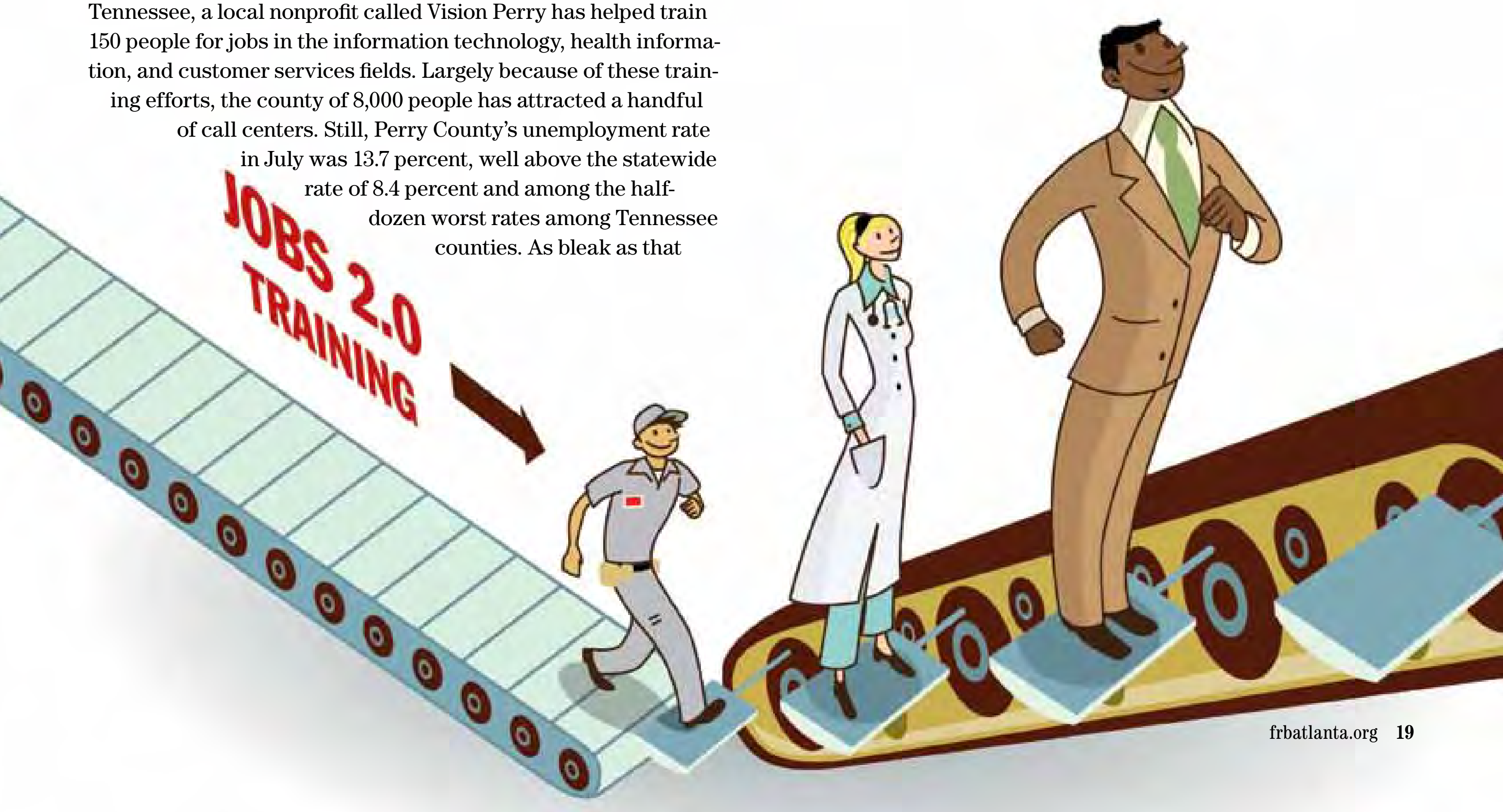
More boots on the ground

In pursuing economic development across the Southeast, nonmetro municipalities and counties are finding it necessary to cooperate rather than go it alone, Beaulieu said. In Mississippi, Beaulieu and colleagues from three other universities are crafting a new strategic plan for economic development. Some of that plan is to discover local assets that some communities might have ignored or taken for granted. For example, some towns in the Mississippi Delta area have begun promoting their rich history in blues music as a way to attract tourists.

Alabama is focusing on improving rural health care and expanding broadband Internet access (see the sidebar). Tennessee reorganized its economic development department in 2011. That reorganization included a staff reduction, but the state also moved more people out into rural areas across the state into so-called jobs base camps. Ultimately, Tennessee aims to build a systematic program to call on existing businesses to make them aware of financial incentives offered by governments and of opportunities to partner with potential suppliers in their areas. "We are touching communities that hadn't seen an ECD [economic and community development] person in a long time," Brewer said.

For rural areas, efforts to generate jobs and economic growth are never ending. Low taxes, inexpensive land, and right-to-work laws often are not enough. Clear-cut solutions are scarce. The challenges are not. ∎

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



Secured Transaction Reform: Moving Ahead with Movable Assets

In developing countries, a system that would enable a farmer to pledge cows for a tractor loan from a bank would be a major milestone to economic development because it would increase levels of credit and at the same time decrease the cost. Secured transaction reform (STR) would provide the infrastructure by which movable assets such as cows and inventory could become collateral for bank loans.

In 1971, three teachers who had pooled $1,350 to start a coffee store in Seattle needed additional capital to keep their business running. They ended up borrowing $5,000 from a bank. The start-up that they originally named Starbucks Coffee, Tea, and Spice (now just Starbucks) was able to get the financing it needed to grow and expand, eventually becoming the Fortune 500 company it is today.

Credit is the lifeblood of business. All firms, large and small, need it to grow and thrive. However, access to credit can be constrained, especially in developing countries. According to the World Bank, more than half of private firms in emerging markets have no access to credit. That figure reaches 80 percent in the Middle East and sub-Saharan Africa. Leaders of small and midsized businesses in developing countries may not bother to apply for bank loans because they lack the real estate and land collateral that banks in these countries typically require for a loan. Unfortunately, these banks generally do not view movable assets—which include capital stock, inventory, and receivables—as adequate sources of collateral. In developed economies, the opposite is true. Asset-based lending based on movable property accounts for about 70 percent of small-business financing in these countries, according to a 2010 study by the World Bank's International Finance Corporation.

Consequently, secured transaction reform (STR) that would provide the legal and institutional infrastructure through which movable assets can be used for lending to small businesses would represent a major milestone in developing countries. In other words, a system that would enable a farmer to pledge his cows for a tractor loan or a merchant to pledge her inventory to expand her business would contribute to economic development by increasing levels of credit and decreasing its cost.

In July 2012, leading experts and practitioners from the Americas met at the Atlanta Fed to discuss experiences with STR, best practices, and ways to promote STR throughout the western hemisphere. (To view the conference presentations go to iamericas.org/STR/.) In his opening remarks at the conference, Ambassador Charles Shapiro, president of the Institute of the Americas, noted that for STR to occur, nations need both a legal framework, with laws on secured transactions that allow borrows and lenders to recognize movable assets as collateral, and an effective collateral registry that would contain information about these assets.

Laying down the law

With respect to the legal framework, Professor Boris Kozolchyk of the National Law Center for Inter-American Free Trade said that a few essential changes to statutory law are necessary. First, he noted, countries need secured transaction law (STL) to replace the mostly 19th- and early 20th-century code provisions or individual statutes on trade. These countries also need to adopt an e-commerce law to make sure that what formerly could only be stated in a binding fashion by means of a paper-based document can be said by means of an electronic document, message, or record. They need a bankruptcy law that does not undermine the banks' ability to collect. Finally, Kozolchyk said, the STL must include legislation (or there should be independent statutes) recognizing negotiable electronic warehouse receipts and bills of lading (including truck, air, and sea waybills) as well as manuals of best practices for lending (including "blue books" to establish the value of various types of collateral).

The creation of electronic registries is another essential step, according to Kozolchyk. Movable assets, whether tangible or intangible, are a large part of a firm's capital stock. Once a legal framework is in place, a publicly accessible registry that can provide notice of interests in movable assets and that can establish priority in these assets is essential.

Buying in

Kozolchyk warns that the work is not done even when these reforms are in place. Behavioral changes must also occur—lenders and borrowers must be willing to learn a new form of lending. Bankers, for example, will need to realize that the inventory and accounts receivable that their steady and reliable account debtors owe is usually more liquid collateral than real estate and therefore more valuable. They must be willing to give consideration to small and micro-businesses that show an ability and willingness to repay. In areas where tax evasion is common, borrowers will need to disclose their income to their creditors, according to Kozolchyk.

Pioneers Show Progress on Secured Transaction Reform

A number of developing economies around the world have implemented secured transaction reform. Their success can be quantified using a variety of measures.

China

In 2007, China instituted major STR reforms, which included new laws on property and a new registry that the International Finance Corporate (IFC) notes has key modern features, including online access, user accounts, centralized information, reasonable fees, and a notice-based registry with information on the creditor, debtor, loan amount, and asset description. According to the IFC, several advances resulted.

More loans with movable assets: Commercial loans involving movable assets rose 21 percent per year in the three years following the reform. Four of China's largest banks reported an average of 25 percent compound annual growth rate increase in movables lending.

Expanding registry: From the beginning of 2008 to June 2011, the registry recorded 385,000 registrations worth $3.5 trillion.

Spillover: Important spillover effects include the growth of leasing transactions and factoring, which increased from 2.6 billion euros in 2003 to 67.3 billion euros in 2009.

Romania

A study by the Center for the Economic Analysis of Law and the World Bank in September 2004 notes that Romania's reform of the operation of its pledge registry in 2000 resulted in several effects benefiting small and medium enterprises (SME).

Growing filings: Romania archived 65,000 filings in 2001, a number that rose to 171,000 in 2002 and then to 190,000 in 2003.

More credit: The total volume of private bank credit rose $4.8 billion between 2000 and 2003, increasing as a share of GDP from 11.3 percent in 2000 to 15.8 percent by 2003.

Better access to credit: By the end of 2003, borrowers had filed 426,000 security interests. At the same time, the number of borrowers at the Romanian central bank had grown from 18,672 in 2000 to 73,357 in 2003.

Growing loan size: If the 426,000 security interests were responsible for the entire increase in private credit of $4.6 billion that would imply an average loan size of about $10,800. This is considerably lower than the average loan size of $73,301.

Ghana

After passage of the Borrowers and Lenders Act of 2008, Ghana set up a collateral registry at the Bank of Ghana. According to the IFC, the change had several beneficial results.

Increased volume of financing for SMEs: More than 20,000 loans have been registered by banks and nonbanking financial institutions in the collateral registry since its creation in March 2010, accounting for more than $800 million in financing secured with movable property.

Wider use of movable assets as collat-

When borrowers do this—understanding that it is to their financial benefit to do so even if it means they will pay taxes—a positive change in the business and legal culture can also take place.

The type of registry adopted under STR can help support some of this change. Results of a recent World Bank survey suggest that countries with registries that are free or relatively cheap and easy to use tend to have more registrations (and more loans). The survey, which found 21 jurisdictions reformed their secured transaction laws between June 2010 and June 2011, looked at how these countries' registries measured up to international standards. It found that many that started with paper-based registries are now making online searches possible. It also found that in 60 percent of the countries, online searches are free or cost less than $5. With respect to registration, some countries require that actual documents be registered while others require only a notice registry that provides information about the documents. A notice registry is considered more efficient for registering a security over movable assets, according to best practices outlined in the survey report. Some countries use a sort of hybrid system, with both paper and electronic registration; online is considered a best practice.

ECONSOUTH NOW PODCAST

Charles Shapiro of the Institute of the Americas and Boris Kozolchyk of the National Law Center discuss secured transaction reform. On frbatlanta.org, select "Podcasts."

Honduras: A shining star

Honduras is considered to be one of the great successes of STR, and the efficiency of its registry is one of the reasons, says Marek Dubovec of the University of Arizona's James E. Rogers College of Law. According to Dubovec:

> The Honduran registry was the first in Latin America to take into account the specific needs for ease of access, transparency, quickness and accuracy of filing by a) enabling a two-fold method of filing, i.e. paper-based documents and electronic messages or records, b) eliminating

eral by businesses: Whereas real estate was once the chief source of collateral, it now accounts for only 10 percent of collateral for SMEs. Other collateral sources include inventory and accounts receivable (for 32 percent of the loans); investment instruments such as shares, cash, bonds, and deposit accounts (19 percent); household assets (13 percent); motor vehicles (10 percent); real estate property (10 percent); and machinery, equipment, all enterprise assets, and other (16 percent).

Mexico

The creation of the new centralized web-based collateral registry provides a system that allows for all types of online transactions (registrations, searches, amendments, cancellations, and payments). It has also reduced registration time from 17 days to mere seconds and eliminated the registration fee, which was an average of 2 percent of the value of the loan. The IFC notes many other benefits.

Increased financing for SMEs: The country's new registry has resulted in the number of loans to businesses increasing by a factor of 5, to around 32,000 in October of 2011. These loans have generated more than $110 billion in financing to businesses, with SMEs accounting for more than 90 percent of the firms receiving those loans.

Reduced cost of credit: The reform has also led to a cumulative estimated saving for borrowers of $2.1 billion in registration fees associated with the registration of the security interest in the previous system.

Wider use of movable assets as collateral: The types of collateral used by SMEs include agricultural products (in 49 percent of the loans); machinery and equipment (24 percent); motor vehicles (13 percent); livestock (4 percent); accounts receivable (2 percent); investment instruments such as shares, cash, bonds, and deposit accounts (1 percent); consumer products (1 percent); inventory (1 percent); and others (5 percent). ▮

the traditional evaluation of submitted documents by automating the process of recording, and c) limiting the recording requirements to summary financing statements.

The Honduran registry has made it easy for individuals and businesses to create security interests, and secured creditors can identify borrowers in filings through borrowers' national ID numbers. This system of user accounts provides a secure method of access. The Honduran registry is also connected to the registries for car titles and to business associations, which reduces the risk of input errors and provides protections to not only secured creditors but also bona fide purchasers of goods.

The affordable cost of credit

Alejandro Alvarez de la Campa of the World Bank's International Finance Corporation noted that countries that have created a modern electronic registry and implemented secured transaction reform see the cost of credit for some borrowers decrease in two different ways. First, business owners who were borrowing from informal microlenders at high interest rates—which vary from country to country but are usually more than 40 percent—gained access to secured loans from commercial banks at much lower interest

Continued on page 35

Does the Return of the Cranes Signal a Housing Revival in South Florida?

The presence and health of birds often signal the health of an environment. An abundance of waterfowl, for example, can signal that the surrounding wetlands are healthy. An unhealthy canary in a coal mine indicates the presence of toxic gases. One "bird" that indicates the health of the real estate development industry is the construction crane, and it appears to be making a comeback.

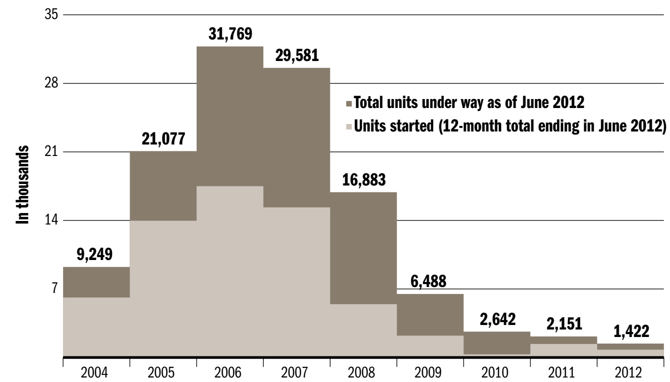
After what many considered an overpopulation of cranes and high-rise condominiums during the housing boom, the construction crane nearly vanished from the South Florida skyline during the Great Recession. During the peak of the South Florida construction boom, 147 cranes filled the Miami skyline. Now there are four.

But it appears that the South Florida crane may be making a comeback. According to Ron Shuffield of Esslinger-Wooten-Maxwell Realtors International, "Thirty buildings have been announced. At one point [last cycle], there were approvals for 60,000 condo units, but only 23,000 units were actually built. Many of the deferred projects are now getting built." In addition, a Miami city commissioner recently gave a press conference during which he projected that 17 cranes will be assembled in the downtown area by the end of 2013, most of them to be used in building condominiums. (See the sidebar for a look at the state of rental properties in the nation and South Florida.)

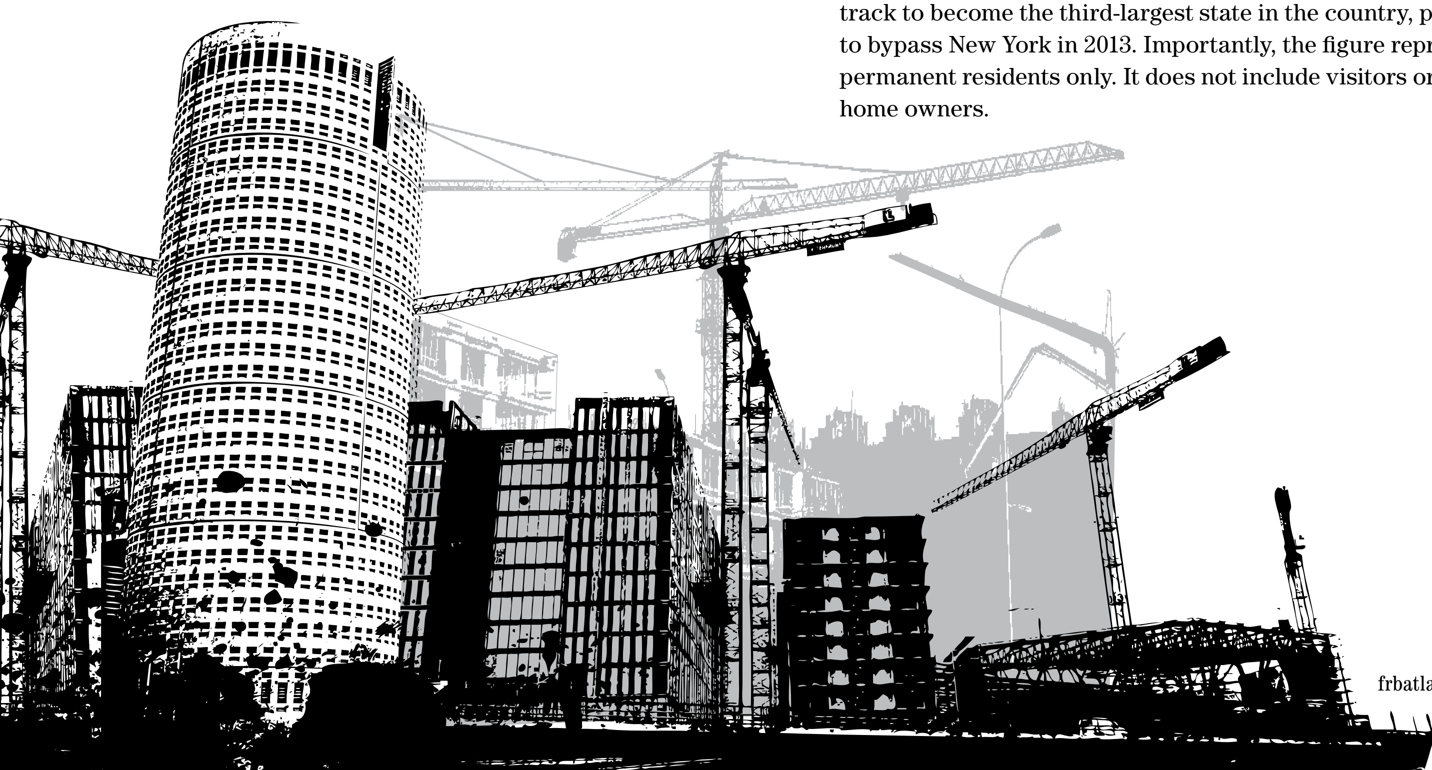
In Miami-Dade and West Palm Beach counties, condo completions peaked in 2007 at 16,220 units, then fell to 1,140 units completed in 2011, according to CBRE Econometric Advisors/Dodge Pipeline (Pipeline). Currently, 1,422 units are under construction compared to 29,581 under way in 2007 (see the chart). Altogether, as of June 2012, the number of units in South Florida in some stage of planning stands at 8,263—an increase of 26 percent over June 2011, though still a far cry from the 73,150 units on the drawing board in June 2005, according to Pipeline's numbers. While not all of the units in the planning stages will ever break ground, it seems that the mood has changed as more projects are being considered. (See the sidebar for a picture of how sales of new and existing properties are faring.)

Fueling at least some of the recent and projected condominium construction in Miami is renewed in-migration to Florida. After experiencing a dramatically slowed period of population growth postrecession—down to about 140 people a day—Florida is seeing significant growth again, of about 700 net new residents a day, according to Shuffield. (See the second-quarter 2011 issue of *EconSouth* for a discussion of Florida's population slowdown.) With a population nearing 20 million, Florida is now on track to become the third-largest state in the country, projected to bypass New York in 2013. Importantly, the figure represents permanent residents only. It does not include visitors or second-home owners.

Condo Starts and Total Under Way: Miami and West Palm Beach



Source: Dodge Pipeline (via C.B. Richard Ellis Econometric Advisors)



Trading Down and Out: A Quick Look at Recent Rental Market Trends

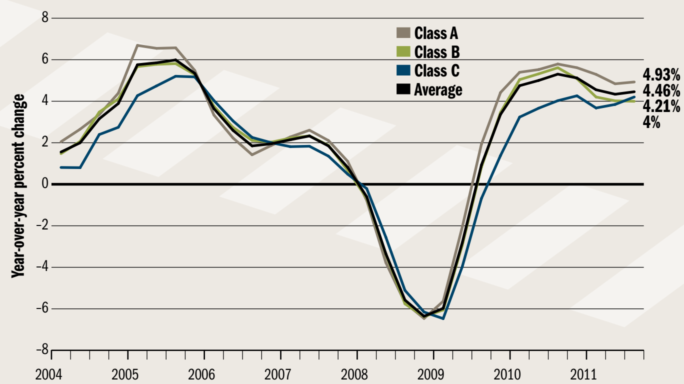
Over the past few years, the occupancy rate for multifamily properties has by industry standards remained high, hovering at around 94 percent. Strong demand for multifamily rental units has been driven by both demographic trends and the recent housing crisis. To be more specific, household formations by the cohort that is between 24 and 34 years of age and dampened buyer sentiment coupled with tight underwriting standards have combined to create a strong demand for multifamily rental units. (Listen to a podcast with housing expert Ron Johnsey from Axiometrics, available at frbatlanta.org/podcasts/.)

As a result of these strong occupancy trends, multifamily rents have been increasing steadily. However, annual rent growth has been moderating for Class A properties at a national level since the summer of 2011. Rents for all asset classes are now growing between 4 percent and 4.9 percent (see chart 1). While there has been a pickup in the amount of new apartment units in the planning and construction pipeline, not that many new units have been delivered to market.

If renter demand is strong and the supply of multifamily units has not changed much, why then is effective rent growth slowing? The prevailing thought is that one of two factors has contributed to this trend. Renters are either "trading down" from Class A properties to Class B and C properties, or they are "trading out" of multifamily altogether. By trading down, renters choose to forgo the newer, more expensive properties with more amenities and nicer finishes in better locations and instead opt for the older properties that often have fewer amenities, standard finishes, and less desirable locations, and they therefore offer less expensive rent. By trading out, renters essentially decide that it makes more sense, in terms of costs incurred, to either rent a single-family home or become a homeowner.

Chart 1

Effective Rent Growth by Multifamily Asset Class for the United States



Note: Data are through second-quarter 2012.
Source: Axiometrics Inc.

South Florida is no exception

The glut of distressed high-end condominium units in South Florida led many developers to rent their unsold units. The impact of this effectively added to the supply of Class A rental units, which is reflected in Miami's rent performance. Rent revenues for Miami Class A properties fell from 2006 to mid-2009 in the face of competition from condo rentals. Class B and C rentals, which are not close substitutes for high-end condo rent-

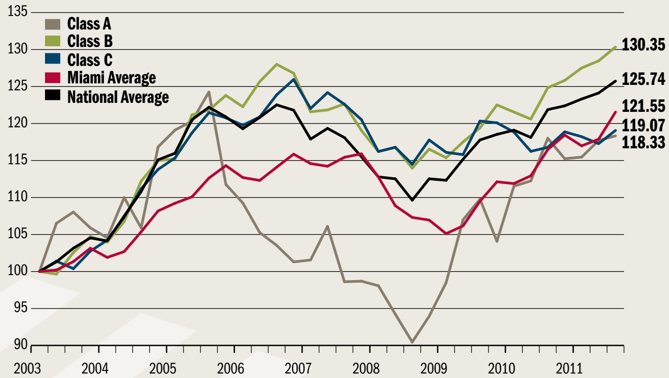
So, the news, at least for South Florida, appears good. Population growth is picking up, and the cranes are returning. But has the environment changed enough that South Florida will avoid another overpopulation of cranes? Could money searching for yield in our current low-interest-rate environment fuel another boom-and-bust? The big question is whether the changes in construction financing as a result of the crash are sufficient to prevent a repeat of the crash that nearly wiped out the crane population. Indeed, financing conditions as well as international demand and population growth are the major factors influencing South Florida condo recovery.

Financing then and now

During the last cycle, a typical condo buyer might have been asked to put down a 20 percent deposit, the developer would bring 10 percent equity to the table, and the remaining 70 percent came from debt financing generally in the form of a bank loan. When the construction financing was acquired, building would commence. Early in the cycle, it was not uncommon for a condo unit to sell several times before it was completed—and with each flip, the price typically increased. If there were problems, they were unlikely to arise until the project was completed and it was time to close. But when the market turned and condo prices were no longer increasing, buyers had little incentive to close, given the relatively small deposit that they had put down. Many buyers walked away.

Buyers now seem ready again to enter the market. Peter Zalewski of South Florida's Condo Vultures Realty says, "There has been no change in mentality between this cycle and the last. People are still buying and retrading as soon as it makes sense for them to do so. The only change is the lack of financing avail-

Chart 2
Miami Market Effective Rental Index by Multifamily Asset Class



Note: 2003=100. Data are through second-quarter 2012.
Source: Axiometrics Inc.

als, fared much better during the recession (see chart 2). More recently, as condo inventory fell, rents have rebounded, increasing 14.4 percent from July 2010 to July 2012.

The past several years' distressed housing market—including the limited access to financing—may have forced many residents (and visitors) into renting. The now-flourishing rental market may be helping to bolster condo development, as the sharp growth in rents may be causing some consumers to reconsider alternatives such as trading down to rent a cheaper multifamily unit or trading out to rent a single-family home or to pursue homeownership. ▮

After experiencing a dramatically slowed period of population growth postrecession—down to about 140 people a day—Florida is seeing significant growth again, of about 700 net new residents a day.

able and the increased amount of skin in the game." So how is this change manifesting?

Construction lending of all forms, including condo construction, at all commercial banks peaked in 2007 at $560.3 billion. As of December 2011, construction lending stood at $221.6 billion, a 60.5 percent decrease. Net construction loan charge-offs since 2007 total a whopping $69.8 billion, compared to $1.6 billion in the period 2000 through 2006—a period that also includes a recession. For Florida community banks in existence since 2007, construction lending fell from $10 billion to $3.8 billion by December 2011—a 60.2 percent decrease. These numbers are consistent with banks being much less willing now than they were before the housing bust to participate in financing construction projects.

Given banks' lack of enthusiasm, most projects that hope to get under way must find a different financing formula. One alternative is for the builders and buyers to commit funds up front. For example, a buyer may bring anywhere from 30 percent to 80 percent to the table and then pay in increments as the building moves through the development process. The developer brings 20 percent to the table.

Of course, exceptions to the lack of financing are out there, but they only serve to demonstrate the special conditions under which financial firms support condo projects. Anecdotes from Atlanta Fed contacts in South Florida reveal some creative approaches to financing some of these projects. One such story describes a builder who obtained financing by putting up his art collection to secure a bank loan.

Other than a few special cases, though, players in most projects have to "play with their own money." Such pay-as-you-go financing serves to limit speculative excess in that as

A Time to Plan?

The 26 percent year-over-year increase in South Florida condo units in various stages of planning seems justified given recent construction and sales activity. Though an increase in condo prices may induce additional existing condos to be put on the market, short-run conditions are consistent with the idea that the inventory of readily available condos is low relative to demand. Given the ongoing international demand for South Florida real estate, indications that cranes are migrating back to South Florida are a welcome sight.

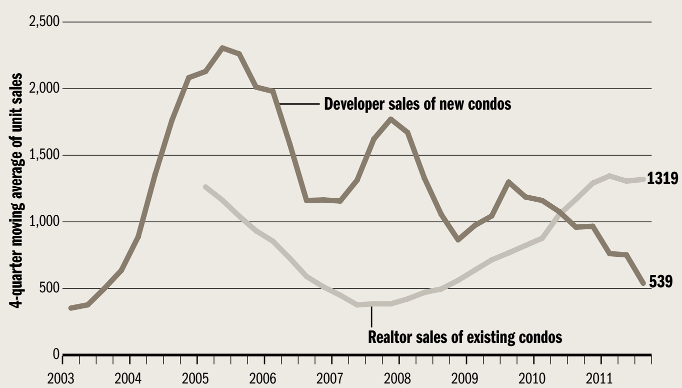
The disappearance of cranes during the Great Recession meant that little new construction was underway. In the 12 months ending in June 2007, just before the financial crisis, 15,334 condo units were started in Miami and West Palm Beach, and an overall total of 29,581 units were under way. During the subsequent 12 months, only 5,447 units were started, and the total number of units under way had fallen to 16,883. As of June 2012, only 800 units were started during the past 12 months, for a total of 1,422 units under way.

In line with the lack of new condo construction, developer sales of new condos have continued to fall while sales of existing condos have been on an upward trend. Since January 2009, active listings of condos and townhouses have been on a steady decline and pending sales have trended upwards (see charts 1 and 2).

More broadly, housing prices in South Florida are rebounding. June year-over-year price growth by ZIP codes for the Miami, Fort Lauderdale–Pompano Beach metropolitan statistical area indicates that most regions are experiencing positive growth (see chart 3).

Chart 1

Sales of New and Existing Condos in South Florida

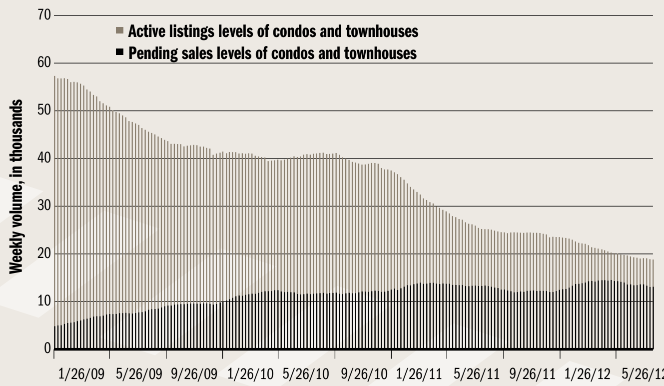


Note: Data are through second-quarter 2012.

Sources: Miami Association of Realtors and CondoVultures LCC/MLS Multiple Listing Service

Chart 2

Active Listings and Pending Sales in South Florida

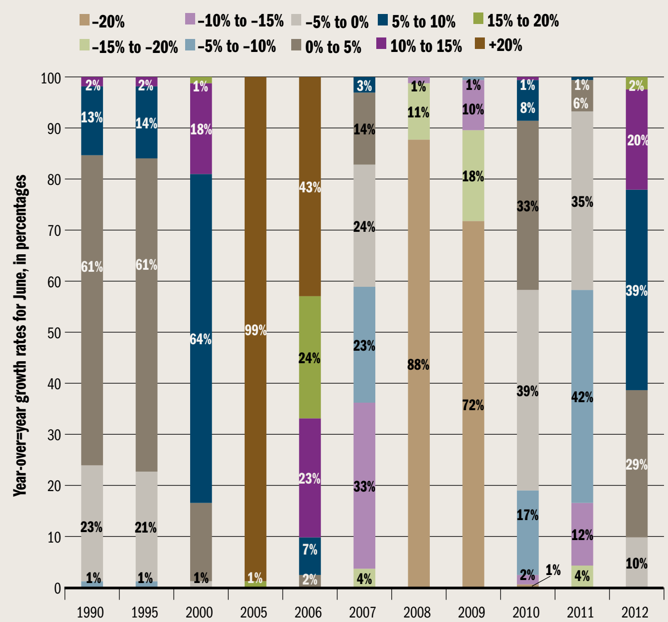


Note: Data are through August 13, 2012.

Source: CondoVultures LLC / MLS Multiple Listing Service

Chart 3

Miami–Fort Lauderdale–Pompano Beach Metropolitan Statistical Area



Note: Data reflect the percent of ZIP codes per range of house price index change, N=163, and are through June 2012.

Source: Federal Reserve Bank of Atlanta calculations based on data provided by CoreLogic

Overall, conditions appear to be favorable to new development especially in light of sustained demand for condos combined with the dearth of new condos, the downward trend in active listings, and upward movement in pending sales of condos and townhomes in the area. ∎

a project is completed, the buyer has more equity and would be less willing to walk away should the market turn during construction. In addition, the pool of potential buyers is much smaller, thus fewer projects will be started in the first place, making overbuilding much less likely.

Greater equity requirements also mean that transactions involve less leverage, which is a significant change from a world where "no money down" was often touted. Given Americans' love of leverage, who are these potential buyers willing to "pay as you go"?

International demand helps stabilize area

The current rebound in the condo market owes a lot to the South Americans, according to Brad Hunter of the housing research firm Metrostudy. However, he adds, "This time is going to be different, because of the new financing model that has been put into place. South American buyers are accustomed to putting down large down payments. This model poses little risk to developers, since the down payments are large enough to finance the construction costs."

Foreign investors have helped boost the South Florida economy for a long time. They began in the early 1970s by purchasing condos in the Miami neighborhood of Brickell, then wandered over to the beaches. According to Zalewski, "The good news is that foreign investors think the U.S. is out of the woods, which offers some hope." Spending by Brazilians in Florida has made such an impression on their hosts that in 2011, *Florida Trend* magazine named Brazil as "Floridian of the Year," acknowledging the 1.5 million Brazilians who visited Florida that year.

Referring to the uncertainty still lingering in many economies across the globe, Zalewski says, "Keep in mind that as one country disappears from the buying mix (or loses their share), another country always steps up into its place."

Not all foreign investors are from South America. Canadians make up a large share of international buyers. The relative strength of the Canadian dollar and the high cost of real estate in Canada make South Florida an attractive alternative for Canadian investors. In addition, ongoing financial concerns have led many Europeans to consider buying South Florida real estate. To round things out, Southeast Asians' demand for condo products is also picking up.

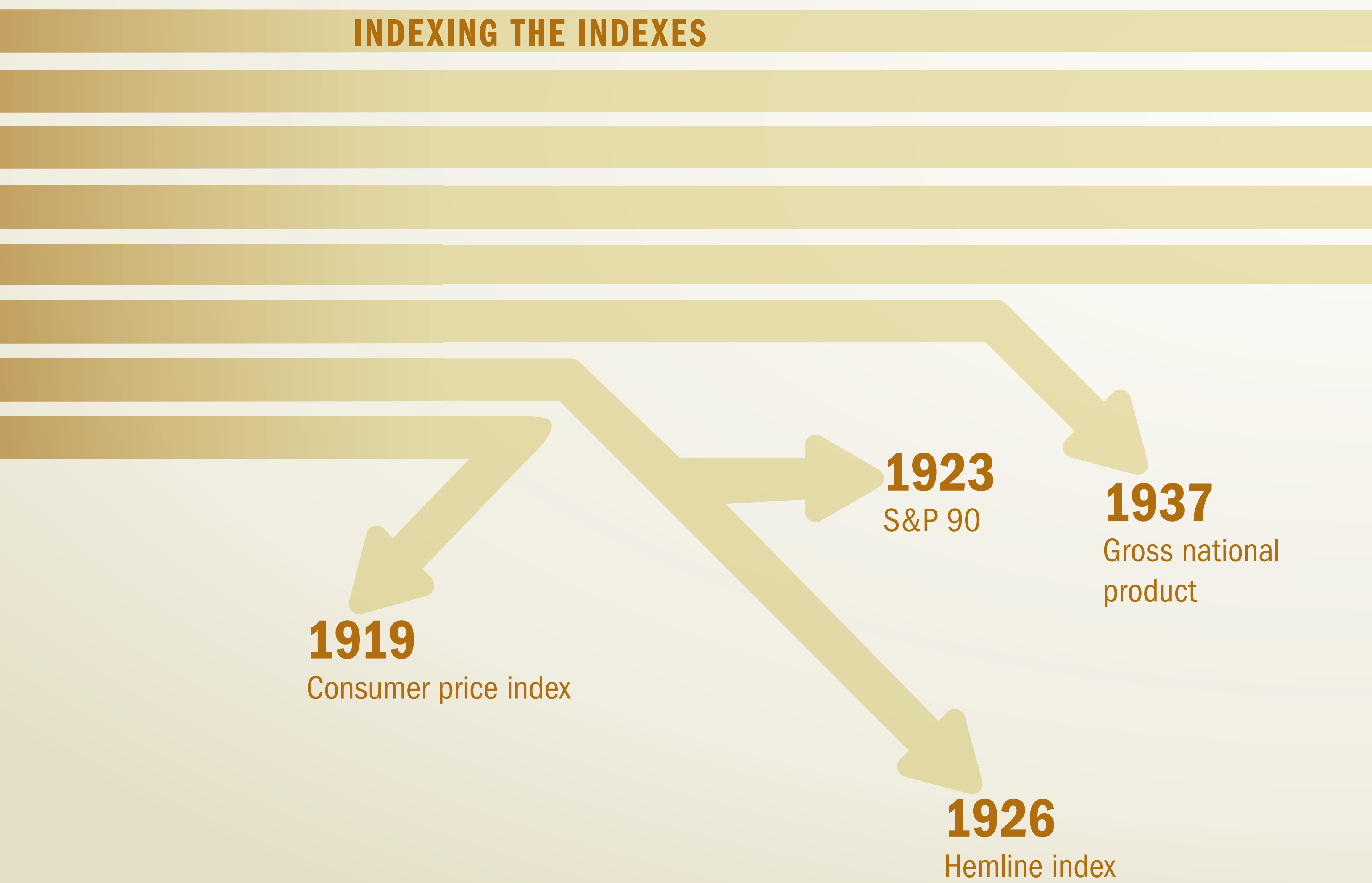
Says Zalewski, "Miami will always be a safe harbor, for both those that urgently need a safe place to house their money and those with great prosperity. Europeans and Latin Americans will continue to come to Miami after stabilization because of the cultural affinity. They can always find what they are looking for."

Whether the anticipated return of cranes to Miami signals a healthy economy or the first step in another real estate cycle remains to be seen. International demand and larger equity requirements point to activity driven by fundamentals. The challenge will come if the cranes multiply and pressure mounts to loosen financing terms, in which case overbuilding may become an issue—again. While it would be nice if the anticipation being felt in Miami could be translated to a rosier picture for the broader economy, factors such as international demand make the South Florida condo market not necessarily representative of the rest of the country. ∎

This article was written by Jessica Dill, a senior economic research analyst, and Carl Hudson, director of the Center for Real Estate Analytics, both of the Atlanta Fed.

Part Chart, Part Science:

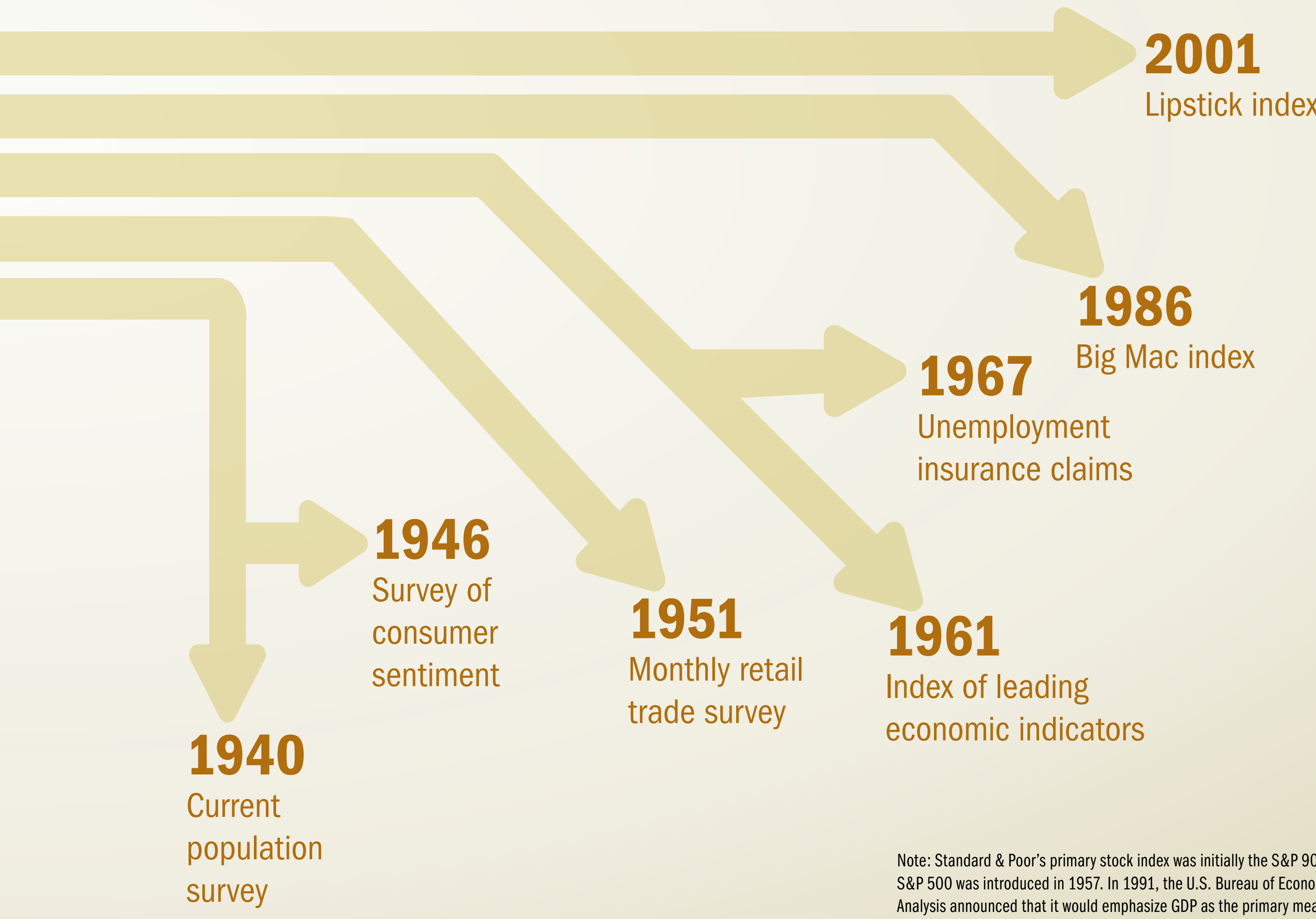
The Evolution of Economic Indicators



Economists today have access to amounts of data that their forebears could only dream of. As the economy changes over time, the metrics that economists use change as well. The effort to understand the large, complex U.S. economy has led to the development and introduction of a wide array of useful indicators.

Imagine a doctor preparing for surgery with nothing but a scalpel and a stethoscope—no high-tech, beeping monitors displaying the patient's heartbeat, blood pressure, and other vital signs. A dramatic scenario, yes, but it's not unlike the situation economic policymakers faced during the Great Depression. The economy was in intensive care, but the government lacked adequate tools to gauge its progress. Armed only with stock price indices, freight car loadings, and incomplete industrial production figures, policymakers struggled to monitor the economy's pulse during the worst economic contraction in modern history.

Today, the situation is dramatically different. Each week brings a stream of data that gives economists, policymakers,



Note: Standard & Poor's primary stock index was initially the S&P 90; the S&P 500 was introduced in 1957. In 1991, the U.S. Bureau of Economic Analysis announced that it would emphasize GDP as the primary measure of U.S. output.

Off the Charts

Almost anything—from sales of lipstick to Big Macs—can be an economic indicator. While most economists rely on the official (that is, government) numbers, such as GDP and monthly payroll figures, some lesser-known (and sometimes quirky) indicators can give them a more nuanced perspective on consumer and business behavior. Indeed, even former Federal Reserve Chairman Alan Greenspan was known for following such time-honored indicators as electrical power hookups and boxcar loadings, noted Atlanta Fed Vice President Mike Bryan. (Greenspan—or rather, his briefcase—was also a closely watched indicator during his tenure as Fed chairman. According to the so-called briefcase index, if the chairman arrived to a meeting of the Federal Open Market Committee with a thick briefcase—stuffed full of data to prove his case—then some Fed observers thought a rate change was imminent. A thin briefcase, alternatively, meant rates would stay the same.) As an added benefit, many "unofficial" indicators are timelier than the official, headline-grabbing figures. The following is just a sampling of the offbeat indicators that lend a unique perspective on the economy.

- The **hemline index** is attributed to economist George Taylor, who in the 1920s noticed that women's hemlines seemed to rise and fall with the economy (or the stock market, according to some reports). He theorized that when the economy was booming, women wore shorter skirts to show off their silk stockings. The opposite was true during economic slumps, when women would wear longer skirts to hide their bare legs. Since stockings are no longer as ubiquitous as they once were, today's movements in the index are more psychological, indicating a riskier or more conservative outlook. While a look back at fashion history seems to validate Taylor's theory—think flapper skirts in the roaring 1920s and peasant skirts in the recession-plagued 1970s—the hemline index has been hotly debated since its conception. So, is it a reliable indicator or an urban myth? According to a 2010 paper by economists Marjolein van Baardwijk and Philip Hans Franses, the theory holds, but with a lag time of roughly three years.
- The **lipstick index** was introduced by Leonard Lauder, chairman emeritus of the cosmetics company Estee Lauder. According to

and others insight into the economy's performance. Indeed, given the sheer volume of economic data available, it's hard to believe that most of the metrics are a relatively recent invention.

"Few people realize that in the 1920s, the government was collecting very little data."

Mike Bryan, Atlanta Fed vice president

The Depression spurs official measurements

"Few people realize that in the 1920s, the government was collecting very little data," explained Mike Bryan, a vice president in the Atlanta Fed's research department. To remedy the gaps exposed by the Great Depression, the U.S. Commerce Department recruited economist Simon Kuznets to create an estimate of the nation's income. Gross national product estimates followed a decade later. Together they formed the national income and product accounts (NIPAs), which for the first time gave policymakers a comprehensive look at the U.S. economy and served as a benchmark from which to judge whether it was growing or shrinking.

Perhaps the most important measure included in the NIPAs is gross domestic product (GDP), a tally of the total value of goods and services produced within U.S. borders. Countless economic decisions hinge on this one figure. But even the so-called granddaddy of economic indicators has in some ways failed to keep pace with the rapidly changing U.S. economy. Concerns about the national accounts date back to their creation. Kuznets was frank about their shortcomings—one being that the accounts did not capture activities that, while not traded in the marketplace, have value nonetheless. More recent concerns center on the NIPAs' inability to capture the economic realities facing individual households, as well as their failure to expose the imbalances that persisted prior to the financial crisis and recession, including those in the housing and financial markets.

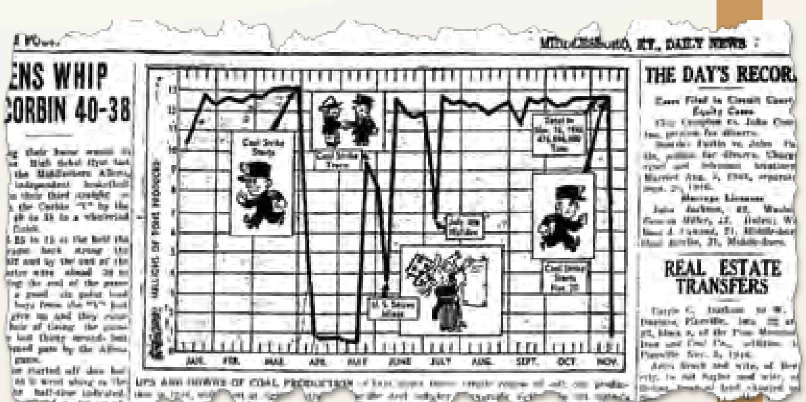
The economy and its measures keep changing

Keeping up with structural changes in the U.S. economy has also been a challenge. For instance, services now account for more than two-thirds of GDP, compared to about one-fifth for manufacturing. However, there are vastly more data on the latter. The U.S. Bureau of Economic Analysis (BEA), which publishes the NIPAs each quarter, has worked to change this imbalance—for example, by creating satellite accounts for several industries that are not fully reflected in the national accounts. They include transportation services, tourism and travel, and health care. The estimates parallel the standard accounts but include greater detail and analysis of certain aspects of the economy. For example, the research and development (R&D) satellite account measures the impact of R&D on the economy and estimates how the national accounts would be affected if R&D spending were counted as an investment (it's currently treated as an expense). The BEA plans to incorporate this methodology into its core accounts in 2013, with a potentially significant impact on GDP and other measures. Indeed, if R&D spending had been counted as an investment, GDP in 2007 (not adjusted for inflation) would have increased 2.8 percent, or $396.3 billion.

While structural changes in the economy have affected the compilation and reporting of data, these shifts have also caused some indicators to wax and wane in popularity. "The economy has changed over time, so why would we expect the indicators we use to stay the same?" asks the Atlanta Fed's Bryan. For instance, some indicators that were once vital and closely monitored in the early 20th century, such as pig iron or coal prices, are no longer as important, he explained.

Monetary aggregates, or measures of the nation's money supply, are a more recent example. The M2 aggregate, which includes many of the financial assets held by households, used to be correlated with economic growth and served as a leading indicator of turns in the business cycle. Monetary aggregates were also integral to the Federal Reserve's monetary policy—the central bank published the figures in weekly and monthly reports and was required by Congress to set targets for growth in the money supply.

However, starting in the 1980s, changes such as deregulation in the banking sector and financial innovation weakened the relationship between money supply growth and economic activity. This shift led former Federal Reserve Chairman Alan Greenspan to tell Congress



A November 1946 chart about coal production

his theory, women splurge on little luxuries—lipstick, for example—when the economy is weak. Like the hemline index, the validity of the lipstick index is hotly disputed, in part because reliable historical data on lipstick sales are hard to come by. According to a 2009 article in *The Economist*, there isn't a clear correlation between lipstick sales and the economy. However, some market-watchers have latched onto a broader category—cosmetics sales, which have a more reliable track record of booming during recessions.

- The **Big Mac** index, created by *The Economist* in 1986, signals whether a country's currency is under- or overvalued. The index relies on the theory of purchasing power parity, which says that currency exchange rates should adjust over the long term so that an identical product—say, a Big Mac—costs the same in each country. According to the magazine's July 26 index, a Big Mac costs $4.33 in the United States, $2.29 in Russia, and $4.68 in Australia, indicating that the Russian ruble is undervalued and the Australian dollar is slightly overvalued. According to *The Economist*, so-called burgernomics "has been surprisingly accurate in predicting long-run movements in exchange rates."
- Google.com is the go-to spot for **Internet searches**, allowing the company to collect massive amounts of data. As a result, some central banks, including the Federal Reserve and the Bank of England, are exploring how to use Internet search data as an economic indicator. The research so far indicates data can be helpful in "nowcasting"—keeping tabs on current economic activity. In a 2009 paper, Google Chief Economist Hal Varian and Hyunyoung Choi, senior economist at Google, wrote that "even predicting the present is useful, since it may help identify 'turning points' in economic time series." For example, "if people start doing significantly more searches for 'Real Estate Agents' in a certain location, it is tempting to think that house sales might increase in that area in the near future." However, although products such as Google Trends could provide a wealth of current data on consumer behavior, labor markets, and more, they have pitfalls, too. For one, the data only go back to 2004, and some key populations—namely low-income and elderly people—are underrepresented.

in 1993 that "at least for the time being, M2 has been downgraded as a reliable indicator of financial conditions in the economy."

A series of events over the next decade further highlights the aggregates' changing role as indicators. In 2000, the Fed stopped setting targets for money supply growth, followed by the decision in 2006 to halt the publication of the M3 monetary aggregate (the broadest measure of the money supply). Finally, earlier this year, the Conference Board, a private research group, announced its plans to remove the M2 measure from its Leading Economic Index (LEI), one of several changes aimed at making the LEI more reliable.

"Surveys help bridge the gap between data and anecdotal evidence."

Mike Chriszt, Atlanta Fed vice president

This deemphasis is not to say that monetary aggregates are irrelevant, however. The Federal Reserve continues to publish weekly and monthly data on the money supply, and as Fed Chairman Ben Bernanke noted in a 2006 speech, they "may still contain important information about future economic developments."

New indicators grab the spotlight

Just as some indicators have become less reliable, others have gained new importance. In addition to broad data on output, prices, and payrolls, economists are paying close attention to other indicators that might signal a turning point in the economic recovery. Mike Chriszt, a vice president and senior economist in the Atlanta Fed's research department, said he monitors first-time jobless claims, a statistic published by the U.S. Labor Department. The report is valued for its timeliness (it's produced weekly) and is viewed as a leading indicator. A sustained decline in the number of people filing for unemployment insurance benefits could signal that the labor market and economy are improving. Conversely, a persistent increase in the number of first-time filers could indicate weakening economic conditions. At press time, the four-week moving average for new jobless claims in the week ending September 8 had risen 3,250 to 375,000. The most recent figures—the highest since mid-July—could indicate a stalling of the labor market recovery, although it also reflects the increase in initial claims as a result of Tropical Storm Isaac, which buffeted parts of the Gulf Coast in late August.

The steep job losses during the recession and the slow recovery have John Robertson, Atlanta Fed vice president and senior economist, paying close attention to data on new business formation. Two separate reports, published by the U.S. Census Bureau and the U.S. Bureau of Labor Statistics, track this key engine of job creation—one that has broken down in recent years. This source of data is important because new firms collectively create three million jobs nationally, on average, in their first year, according to research by the Kauffman Foundation. However, the foundation also reported that the business start-up rate dropped below 8 percent in 2010—the most current data and the lowest level ever recorded. Tracking this rate may help Robertson and others anticipate improvements in the labor market.

Chriszt also noted the importance of surveys as economists try to make sense of the mountains of data released each week. "Surveys help bridge the gap between data and anecdotal evidence," he explained. The Atlanta Fed's business inflation expectations (BIE) survey is a fitting example. Introduced in January of this year, the survey fills a critical gap in inflation data—the price expectations of businesses. Prior to the survey, information on businesses' inflation expectations was largely anecdotal. Today, the monthly survey of southeastern businesses gives economists key insights into their business conditions, pricing pressures, and inflation expectations.

Although more and better data help paint an accurate picture of the economy, simply having the data does not mean economists have it all figured out. "The real challenge is digging into as many data points as possible to build a narrative that makes sense," said Chriszt. Robertson agreed. He monitors a wider range of economic and financial data than he did prior to the 2007 crisis, largely because the crisis highlighted just how interconnected the financial sector and the real economy can be. And while each economist has a favorite metric, they almost uniformly warn that "there is no perfect indicator." Data are essential for monitoring the economy's vital signs, but "no indicator on its own tells a complete story," said Robertson. Chairman Bernanke echoed those sentiments in an August speech, noting that "exclusive attention to aggregate numbers is likely to paint an incomplete economic picture." ∎

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

STR story continued from page 23

rates, using their movable assets as security. Second, the costs and fees associated with creating a security also drop.

Alvarez de la Campa pointed to Mexico's experience to illustrate these gains. Mexico eliminated taxes and notary fees, leaving only a small, flat registration fee. Mexico's Ministry of Economy noted that since the start of the secured transaction registry in October 2010, borrowers have pledged more than $190 billion in collateral. Because each borrower no longer had to pay the registration tax of up to 2 percent per loan amount, the ministry projects that total savings could be more than $3.8 billion dollars.

On the horizon

A number of nongovernmental organizations (NGO), government agencies, and international financial institutions—including the Institute of the Americas, the United States Agency for International Development, the United Nations Commission on International Trade Law, and the World Bank's International Finance Corporation—have made STR a priority. These organizations are seeking to convince lawmakers, financial institutions, and borrowers that STR can help expand access to credit and promote economic growth in the developing world.

The momentum is building, as more and more countries implement STR (see the sidebar). Those countries that have gone through the process are creating blueprints for those countries who have yet to do so. The Congress of the Republic of Colombia is expected to pass an STR bill before the end of 2012, according to Luis Guillermo Vélez, the Colombian Superintendent of Companies. Shapiro also identified other countries making significant progress. In El Salvador, the Ministry of the Presidency approved a draft bill that had been pending review. Guatemala has favorable law already in place, and is pursuing changes in registrations and associated fees to promote lending. Jamaica, Panama, Costa Rica, and Haiti are all making positive early steps in the STR process.

For these and many other countries, the question may be shifting from *whether* they will adopt secured transaction reform to *when*. ∎

This article was written by Stephen Kay, director of the Atlanta Fed's Americas Center, and Ed English, a staff writer for EconSouth.

Grassroots continued from page 5

two state prisons—at the request of its owner, the Alabama Department of Corrections. At a stroke, the annexation also added 3,000 people to the city's former population of 7,000.

Waiting for Airbus

Financing the business park has forced the city to trim services such as paving streets and purchasing new police cars. "It's hard for some people to understand that because they see potholes and things and say, 'You're taking our money and putting it in places it doesn't need to be.' But it's coming," Shell said of Rivercane's prospects. "I think another five years will make a tremendous difference."

By then, the European aircraft manufacturer Airbus is scheduled to be assembling jets in Mobile, 57 miles away. Atmore leaders hope Rivercane will attract suppliers to the massive Airbus plant. In the shorter term, Shell foresees a wellspring of tax revenue from businesses near the interstate and casino. As a model for roadside economic development, he looks 75 miles north to Greenville, Alabama, where restaurants and stores have crowded interstate exits. That commercial cluster, Shell said, accounts for the bulk of the city of Greenville's tax revenue.

Roots in the soil

Aside from the casino, Atmore's economic profile is typical of rural southern towns. Education and income levels are lower than state and national norms, while the poverty rate is higher, according to 2010 U.S. Census Bureau figures. Surrounded by pine forests and farmland, Atmore's economy historically was rooted in timber, agriculture, and some manufacturing. The city hall, in fact, is on the site of an old sawmill, next to railroad tracks that were responsible for the town's birth.

Also like many southern towns, Atmore a decade ago lost a cut-and-sew textile operation that had been the city's largest employer. VF Corporation (Vanity Fair) in 2001 closed a women's undergarments plant, costing Atmore 509 jobs, according to state records.

Even today, despite visitors flocking to Wind Creek, Atmore's quaint downtown struggles with vacancies. Shell noted that vehicle traffic at times is so heavy pedestrians have to cross Main Street only at red lights. This was not the case before Wind Creek.

Yet few casino patrons stop to spend time and money downtown. Indeed, a booming retail trade five miles north of downtown is a mixed blessing. "Everything's moving toward the interstates," Vickery said. "We have to rethink our downtown. Your heart is your downtown. If your downtown goes, your community goes." ∎

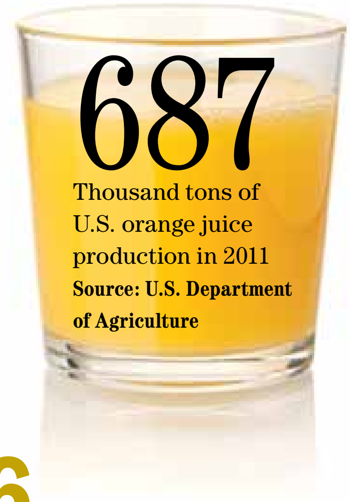
This article was written by Charles Davidson, a staff writer for EconSouth.

closing numbers

83

Percentage of southern counties experiencing persistent poverty that are classified as rural

Source: U.S. Department of Agriculture's Economic Research Service, as cited in *EconSouth*'s article "Wanted: Jobs 2.0 in the Rural Southeast"



687

Thousand tons of U.S. orange juice production in 2011

Source: U.S. Department of Agriculture

1986

Year the Big Mac index was introduced as a measure of currency valuation

Source: *The Economist*, as cited in *EconSouth*'s article "Part Chart, Part Science: The Evolution of Economic Indicators"

190

Amount, in billions of dollars, pledged to Mexico's Secured Transaction Registry since its inception in October 2010

Source: Mexico's Ministry of Economy, as cited in *EconSouth*'s article "Secured Transaction Reform: Moving Ahead with Movable Assets"

26

Increase, in percent, in condo projects under way in Miami-Dade and West Palm Beach counties in June 2012 compared with June 2011

Source: CBRE Econometric Advisors/Dodge Pipeline, as cited in *EconSouth*'s article "Does the Return of the Cranes Signal a Housing Revival in South Florida?"

357

Million acres devoted to croplands in the United States in 2007

Source: U.S. Department of Agriculture

420

Million acres devoted to croplands in the United States in 1982

Source: U.S. Department of Agriculture

751

Million acres of forest lands in the United States in 2007

Source: U.S. Department of Agriculture

754

Million acres of forest lands in the United States in 1910

Source: U.S. Department of Agriculture

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While the damage wrought this summer by Hurricane Isaac (top) was not on the scale of Hurricane Katrina's 2005 rampage (right), it was nevertheless a vivid reminder of the Gulf Coast's vulnerability to natural disasters.

now and then