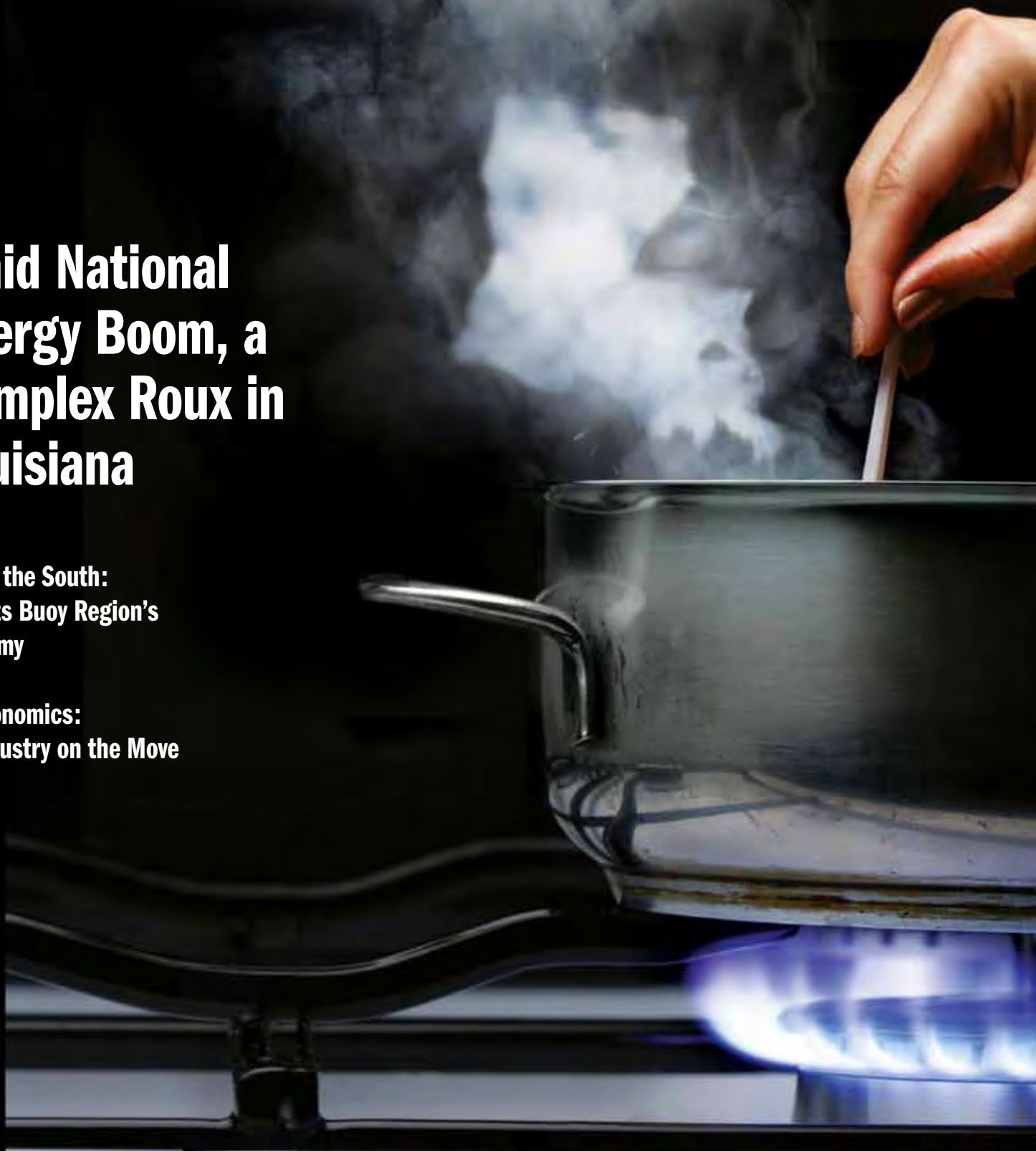


EconSouth[®]

Amid National Energy Boom, a Complex Roux in Louisiana

**Out of the South:
Exports Buoy Region's
Economy**

**Truckonomics:
An Industry on the Move**



EconSouth

FEDERAL RESERVE BANK OF ATLANTA SECOND QUARTER 2012

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Amid National Energy Boom, a Complex Roux in Louisiana

The worldwide thirst for energy has produced numerous effects on energy-producing areas such as Louisiana. As the energy sector is changing in response to new technologies and market forces, southeastern energy producers are figuring out how to supply energy while remaining profitable.

Out of the South: Exports Buoy Region's Economy

Exports make up a growing share of the Southeast's economy, with everything from food to cars reaching distant ports. Not only are southeastern products reaching increasing numbers of foreign consumers, but more people from foreign markets are visiting the region, increasing tourism exports.

Truckonomics: An Industry on the Move

Recent economic tribulations and fuel-price spikes hit the trucking industry hard, and the industry responded with consolidation and technological innovation. Now a leaner and smarter trucking industry keeps goods moving, fulfilling its central role in the U.S. economy.



SAMPLE



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

Some Things New

This quarter, we're introducing two new occasional features: a book review and "Short Takes," a concise examination of an Atlanta Fed resource. We hope these features will be interesting and useful to you.

Deep(water) thoughts...

As the Southeast's economy has diversified beyond agriculture and textiles, the methods of producing energy have also changed with the times and technology. Natural gas producers today are in some ways victims of their own success, as plentiful natural gas has brought prices—and profits—down. In his story, staff writer Charles Davidson looks at the impact of energy on the regional economy.

"I'm impressed by a few things in the energy industry: the sophistication of the technology, the vast sums of money involved in harvesting and then selling oil and natural gas, and, finally, the balance between the huge rewards and huge risks," Davidson said. "David Dismukes at the LSU Center for Energy Studies calls it 'space shuttle' technology, and that's about right. It's astounding that companies today drill through miles of water and miles of rock, either straight down or sideways, and then hit a target the size of a briefcase.

"Yet even with the machinery, accidents happen and the effects can be catastrophic, as we saw a couple of years ago," Davidson added. "We obviously need energy, and finding and acquiring it is vital to the economy of a state like Louisiana."

From the Southeast to the world

The Southeast is well positioned to supply other countries with goods and services. In Lela Somoza's article on the booming southeastern export business, she discusses how this advantage is benefiting a wide variety of industries.

"Foremost, I was surprised at just how important exports have been in the past couple of years in powering the economic

recovery," she said. "In the course of my research I learned that U.S. exports of goods and services accounted for nearly half of the country's GDP growth since the recession ended in 2009.

"In the Southeast, much of the growth in exports is coming from Latin America," she added. "Mexico, of course, is one of the largest export markets for the United States, but it was interesting to see how countries such as Brazil and our partners in the Dominican Republic-Central America Free Trade Agreement are becoming key destinations for our exports.

"I was also amazed that the United States is one of the world's biggest exporters, and yet 1 percent of U.S. companies sell their goods and services to foreign markets."

We've got a great big convoy

And how do much of the region's products move from producer to market? On trucks! As associate editor Nancy Condon's story makes clear, the trucking industry is widely regarded as a barometer of the nation's economic health, with 70 percent of U.S. goods transported via commercial trucks.

"When I learned that trucks moved about \$604 billion worth of freight in 2011, I could easily understand how important trucking is to our economy," Condon said. "I also learned that the trucking industry is made up mostly of small businesses—99 percent of the trucking companies have fewer than 100 trucks."

Trucking employment can be another way to assess the economy. Although Condon learned that trucking employment is still not up to prerecession levels, the industry managed to add 7,300 jobs in May when national job growth overall stalled.

Visit our website at frbatlanta.org/pubs/econsouth for more on these topics. ■

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.

Photos pp. 5 and 17 courtesy of Cleanpix; pp. 9 and 11 courtesy of Petroquest; pp. 30, 32, 33, and 37 (top right) by Brad Newton; back cover courtesy of the Federal Emergency Management Administration (left) and the Library of Congress photographic archives (right)



DENNIS LOCKHART is the president and chief executive officer of the Federal Reserve Bank of Atlanta.



To view the 2011 Annual Report, scan the QR code or go to frbatlanta.org/pubs/11ar.cfm.

Revisiting the Economic Forces at Work in 2011

Every year, I write a letter to introduce the Atlanta Fed's annual report on the year just past. When that assignment came to me recently, I had just completed five years at the helm of the bank. Those five years have been very challenging. The country has been through a deep recession, bank failures, frozen credit markets, economic turmoil followed by a halting recovery, and historically low interest rates. The recovery continues to be a drawn-out process that is proceeding at a modest pace.

This is the first time the Federal Reserve Bank of Atlanta has published a solely electronic version of its annual report. We have developed an interactive, multimedia report complete with dynamic graphics. We created these features to help paint a rich picture of the 2011 economic year and the forces that shaped it. Also included in the report is a summary of major milestones and highlights of the Bank's achievements during the year. I hope you will take the time to review the annual report at frbatlanta.org/pubs/11ar.cfm after it's available on July 16.

The theme of this year's report is a look at four forces that shaped the economic year 2011. We describe a year marked by uneven growth and slowly improving employment. This unevenness also characterized inflation over the year, but by year's end, broad price pressures had subsided.

The report looks at the four forces individually and examines how each influenced the economy in 2011. For an overview, here is a summary of the forces we identified as key influences in 2011.

Four of a kind

The first force felt through the year was the continuing process of economic adjust-

ment, including "deleveraging." Banks worked on their portfolios to reduce exposure to real estate, households reduced their debt levels, and governments—particularly state and municipal entities—adjusted their finances.

Unemployment remained high in 2011, and payrolls were still well below prerecession levels. The second force the annual report looks at involved a combination of dynamics in the labor market that contributed to the slow progress in bringing down the rate of unemployment.

The third force was a pervasive atmosphere of uncertainty. The year saw a number of developments that worked to slow economic growth nationally and globally. On the national front, these included regulation, fiscal policy, and health care costs. Internationally, there were concerns about the ongoing sovereign debt crisis in Europe. Economic shocks from natural disasters and severe weather exacerbated the unease. In the face of heightened uncertainty, businesses became more reluctant to borrow and invest, and consumers were cautious with their spending. All these factors created a drag on the economy.

The last force was monetary policy. The Federal Open Market Committee (FOMC) held to the accommodative low interest rate stance of the previous year, 2010. In 2011, the FOMC undertook additional actions including efforts to enhance communication around policy.

All these influences were at work in a year of slow progress toward full economic recovery. While not exhaustive, the commentary in this annual report—including supporting data, videos, and sidebars—attempts to provide valuable insight into the economic narrative of 2011. ■

For a really good annual report experience, go online: frbatlanta.org/pubs/11ar.cfm

The Federal Reserve Bank of Atlanta's new 2011 Annual Report is a user-friendly, online-only, interactive experience.

- On the splash page entry to the annual report site, you can mouse over a quick summary of each of the primary theme sections—four forces that affected the economy in 2011.
- From the splash page, you can also dive into Atlanta Fed President Dennis Lockhart's letter to get a sense of what happened in the economy last year, and you can see and hear President Lockhart in a series of short videos.
- The color-coded navigation bar lets you choose to read more about any of the four forces or to select a section featuring our boards of directors, officers, and advisory councils.
- Select "Milestones" and, in a unique graphic presentation, read about our year, organized by area of the Bank.
- And if you see an underlined word, click on it for a pop-up definition of the term.
- In almost every section, you'll find interactive charts and graphs that you can customize to view the information you want to see.

To experience the Atlanta Fed's 2011 Annual Report online, you can scan the QR code on the opposite page. It will take you directly to the gateway page. Or you can type the URL above into your browser.



**Watch for our iPad
application coming soon.**

Biloxi, Mississippi

Biloxi-Gulfport Economy Keeps Coming Back

Life on the Mississippi Gulf Coast in the 21st century compels one to take the long view.

For instance, “growth was stymied” along the Mississippi coast during 2011, says a report from the Gulfport-based Gulf Coast Business Council, a think tank and economic development group. Sales tax collections on the coast fell, and the Biloxi-Gulfport metropolitan area lost 500 jobs.

Activity dipped mainly for two reasons, according to Scott King, director of research and policy for the Business Council. First, several thousand contract workers decamped after cleaning up the 2010 oil spill in the Gulf of Mexico. Second, deep wounds remain from 2005’s Hurricane Katrina and the more recent recession.

So Biloxi-Gulfport had a rough year? Not really a problem.

“We don’t see it as an indicator, or the beginning of another downswing,” King said. “We’ve been through a lot worse.”

That attitude is more than just bravado. For one thing, the most recent setbacks are trivial compared with the previous few years. For another, the longer-run trends for Biloxi-Gulfport are generally headed upward. In April, unemployment was lower than the statewide rate. Investment in the all-important gaming industry was showing life after a dry spell amid the financial crisis. And, put simply, people on the Mississippi coast don’t scare easily these days.

One blow after another

Biloxi-Gulfport and Mississippi’s entire 70-mile coastline have endured a traumatic seven years. First, Hurricane Katrina wreaked havoc, temporarily costing Biloxi-Gulfport 25,000 jobs. Three years later came the recession and financial crisis. In addition to the general economic slowdown, the financial crisis constrained investment needed to build the spectacular gaming resorts envisioned here after Katrina laid waste to the existing casinos. Finally, the BP oil spill fouled the 2010 summer tourist season, delivering the coastal economy a third body blow. Higher gas prices haven’t helped either, as most of Biloxi-Gulfport’s visitors drive in.

“It’s tough right now, but it’ll pass,” said Dave Dennis, president of Specialty Contractors & Associates Inc. in Gulfport and former chairman of the Atlanta Fed’s New Orleans Branch board of directors.

Dennis’s optimism centers on the area’s tourism prospects. The main draw remains what it’s been for the past 20 years: the slots, dice, cards, and stage shows of coastal Mississippi’s casinos.

Since their inception in the early 1990s, the gaming houses, along with





The Beau Rivage casino in Biloxi is the largest and tallest building in Mississippi as well as Biloxi's largest employer, with more than 3,800 workers.



Biloxi-Gulfport, Miss.

Biloxi population	44,054
Gulfport population	67,793
Harrison County population	187,105
Median household income (Biloxi)	\$46,550
Median household income (Gulfport)	\$36,104
Median owner-occupied home value (Biloxi)	\$160,400
Median owner-occupied home value (Gulfport)	\$132,100

Source: U.S. Census Bureau, 2008–10 American Community Survey

a couple of military installations, have powered the Biloxi-Gulfport economy. Biloxi-Gulfport is the nation's third-largest casino market, behind Las Vegas and Atlantic City. The casinos boosted tourism from about a million visitors a year to more than 8 million before Katrina, and accounted for 35 percent of the city of Biloxi's \$55 million in tax revenue in its most recent fiscal year, according to the city. All 12 of Biloxi-Gulfport's casinos rank among the metro area's 20 largest private-sector employers. Combined, the gaming houses employ more than 11,000 people.

Until Katrina, the 1990 Mississippi law allowing gambling confined casinos to floating barges. After the hurricane forced the dozen coastal casinos to close for several months, legislators amended the law to allow casinos on land. This change sparked the widespread belief that casinos would rebuild bigger than ever. Four-term Biloxi Mayor A.J. Holloway and other officials were quoted in numerous media outlets, including in a 2006 *Wall Street Journal* article, predicting that there would be as many as 20 casinos by 2011. Today, 12 casinos are generating steady revenue, but the expected explosion fizzled.

"The mega-casinos that people believed would happen and really drive the tourism business to a different place from the '90s haven't happened," said James Pat

Smith, a history professor at the University of Southern Mississippi's Gulf Coast campus and author of the book *Hurricane Katrina: The Mississippi Story*.

Among the projects that have not happened: Trump Entertainment Resorts Inc. backed off plans it announced in 2006 to build a casino resort. The Mashantucket Pequot Indian tribe, which operates the country's largest casino in Connecticut, also abandoned plans to develop a \$400 million property in Biloxi. Harrah's in 2008 halted construction of what was announced as the \$704 million first phase of a potential \$1 billion project. The pilings of that aborted building remain in the ground, "a ghost from the collapse of the financial markets in 2008," Smith said.

Katrina's lasting economic damage

That unfinished structure is not the only evidence of the boom that wasn't. In the wake of Katrina and the Great Recession, Biloxi-Gulfport has 25 percent, or about 7,000, fewer travel and tourism jobs and 22 percent, or 4,000, fewer hotel rooms, than it had before the hurricane, according to data from the Business Council and the U.S. Bureau of Labor Statistics (BLS).

Those numbers stab at the heart of the local economy. Leisure and hospitality jobs account for a whopping 21 percent of the metro area's total nonfarm employ-

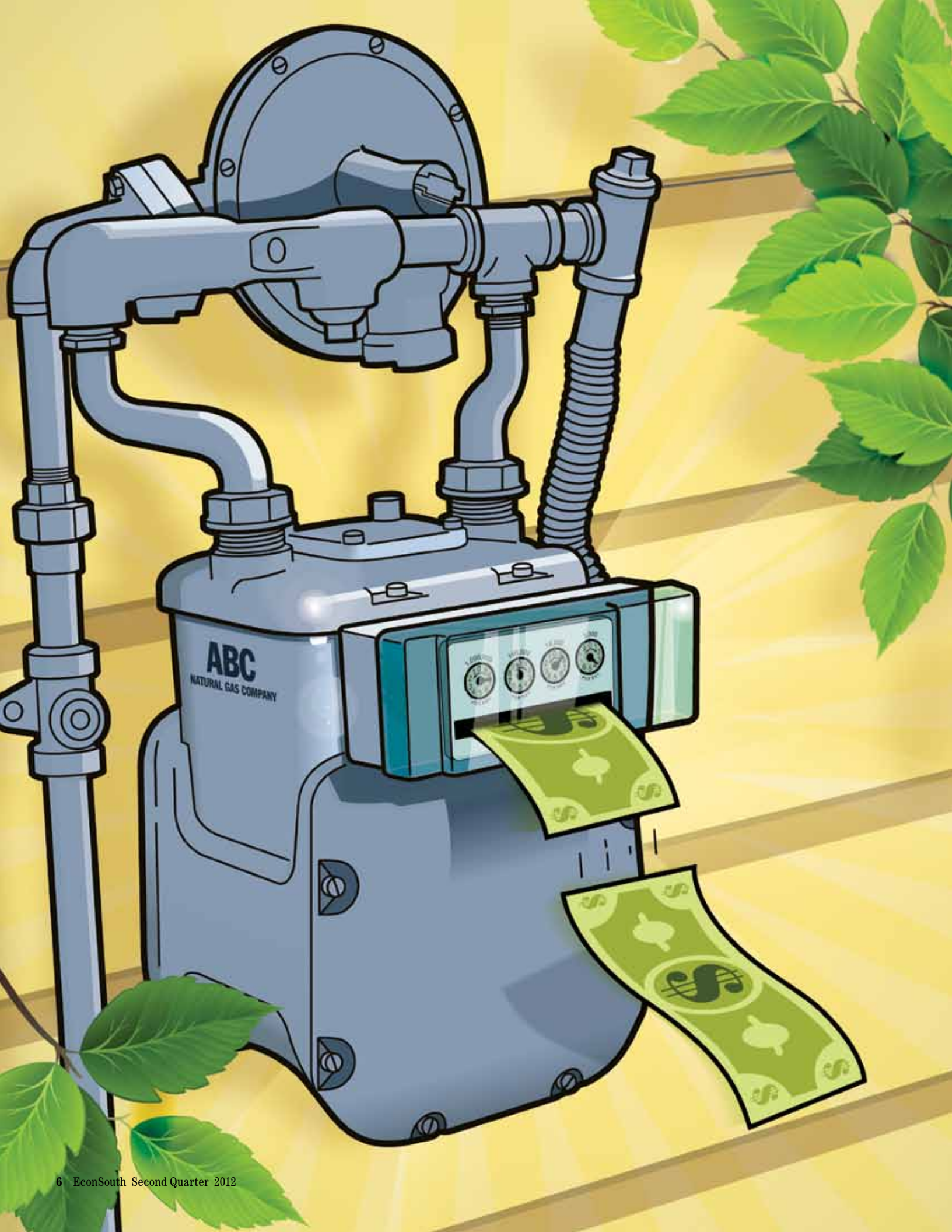
ment, roughly double the share statewide and more than twice the share nationally, according to figures from the BLS. In Biloxi-Gulfport, leisure and hospitality provide nearly one of every three private-sector jobs, compared to one in eight across the country. And that's after Katrina.

Some of the jobs lost were in the casinos, of course. Most of them have rebuilt on land, but generally with fewer hotel rooms and less convention space than they housed before. Many smaller, independent hotels and tourist attractions have not reopened. A combination of skyrocketing property insurance rates and stringent building codes, especially elevation requirements instituted after Katrina's flooding inundated ground floors, has made rebuilding costs prohibitive for many smaller businesses, King and others said. Along with scaled-down casino hotels, the absence of smaller hotels and attractions accounts for much of the decline in hotel rooms and tourism jobs, local observers said.

Better days appear on the horizon

Through it all, Biloxi-Gulfport soldiers on. Its preliminary unemployment rate in April was 7.8 percent, lower than Mississippi's

Grassroots continues on page 17



Amid National Energy Boom, a Complex Roux in Louisiana

While the need for energy remains a constant, the energy sector has undergone profound changes over the years. Continuing to innovate how to supply energy while remaining profitable is the challenge for southeastern energy producers.

Energy and its price are near and dear to Earl Shipp and Charles Goodson.

Both men make a living in industries whose fortunes largely turn on fuel and its cost. Yet in the spring, Shipp was optimistic about his business prospects. Goodson was not.

Their divergent views of the state of the energy sector are instructive. By most measures, the U.S. energy sector is booming. Oil prices have been high for many months and, while easing recently, are likely to stay that way. Domestic oil and gas production nationwide is up, thanks in part to an explosion in the extraction of natural gas and oil from subterranean shale deposits. The United States is importing less oil, and exporting more. For the energy-dependent Louisiana economy, one might think these ingredients would make a recipe as tasty as crawfish étouffée.

Yes and no.

On the whole, conditions in Louisiana's energy industry are more bittersweet than tasty, primarily because the industry is not homogeneous. Certain fundamental forces—say, low natural gas prices—affect different industry players differently. As head of Dow Chemical's operations in Louisiana and Texas and a former member of the Atlanta Fed's New Orleans Branch board of directors, Shipp welcomes cheap natural gas because it is the base raw material in the thousands of products Dow makes in the Bayou State, ranging from LCD screens for iPads to ingredients in shampoo and lotion. Goodson, on the other hand, is president and chief executive of PetroQuest, an oil and gas producer based in Lafayette, Louisiana. Historically low natural gas prices

mean his company has a difficult time turning a profit on one of its primary products.

"We're in a dysfunctional way," Goodson said.

On balance, Louisiana's energy industry is sufficiently robust that it's bolstering a comparatively strong economic recovery. Employment in oil and gas extraction has rebounded vigorously from the recession and the April 2010 Gulf oil spill. Certain pockets of the industry, such as petrochemicals, steel fabricators, and shipyards, are thriving. At the same time, oil and gas production has actually slipped in the state in recent months (see chart 1 on p. 8). Gas producers like PetroQuest are battling a glut of supply, and some hurt lingers from the post-spill offshore drilling moratorium. These diverse circumstances underscore a reality about Louisiana's energy sector that the public does not generally understand.

"It drives home the fact that this is actually a pretty heterogeneous industry here in Louisiana," said David Dismukes, associate director of the Louisiana State University Center for Energy Studies in Baton Rouge. "That's something most people don't appreciate."

There are more nuances in the Louisiana energy sector than simply different interests among big producers and big consumers. Oil producers, for instance, profit from high oil prices. Yet even the oil producers in Louisiana are not without concerns. For one, the costly but potentially lucrative drilling in the deepwater Gulf of Mexico is still not up to speed after the BP oil spill. Production from the Gulf is about 20 percent below where

it would have been without the six-month moratorium, according to a study by IHS CERA, an energy consulting and information firm. (See the sidebar on offshore production on page 10.)

Throughout Louisiana, 165 oil and gas drilling rigs on average operated during 2011, down from 192 in 2010, and fewer than in all but one other year since 2003, according to Baker Hughes, an oil field services firm whose data are widely followed. Louisiana crude oil and condensate (light oil) production, including in the federal waters of the Gulf’s outer continental shelf, fell 14.7 percent in 2011 from 2010, when production was off 1.6 percent from 2009, state Department of Natural Resources (DNR) figures show.

As for natural gas, Louisiana’s 2011 production increased 12 percent from 2010, when production had climbed 16 percent from 2009 (see chart 2). Onshore production had been generally stable for several years before rising sharply, by 41 percent, in 2010. Onshore gas output then shot up another 36 percent last year.

Increases of that magnitude are not expected to continue, however. The DNR noted that low natural gas prices have already slowed drilling in the Haynesville Shale area of northwest Louisiana. In March, 50 rigs were active in the Haynesville Shale, a 59 percent decline from 12 months earlier, the Louisiana DNR reported.

Victims of their success

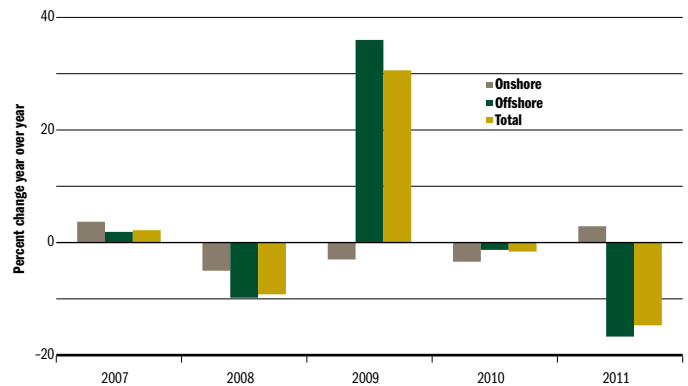
To a degree, gas producers are victims of their own success. Supplies of gas, particularly dry or gaseous natural gas, have overwhelmed demand. In December 2011, for instance, the supply exceeded consumption by 1.8 billion cubic feet per day, about 3 percent of the daily production, according to the Energy Information Administration (EIA). That differential might sound insignificant, but Goodson noted that it means selling some gas at a loss. It is enough of a problem, he said, to force many smaller gas producers out of business or into less than favorable mergers.

One cause of the surplus was a drop in industrial demand for natural gas during the recession. Just as significant, production nationwide has soared by 22 percent in the past five years as sophisticated drilling and rock-fracturing techniques have pried open previously impenetrable shale across the country. Shale is brittle and impermeable, so it must be broken to allow gas and oil to flow through it. Advanced exploration and drilling practices have “taken geologic risk out of the equation,” said Matt Quantz, manager of investor communications for PetroQuest. “You’ll never drill a dry hole in shale.”

That technique represents a quantum leap. As recently as the 1990s, only about 30 percent of all exploratory wells struck oil or gas, according to the U.S. Department of Energy.

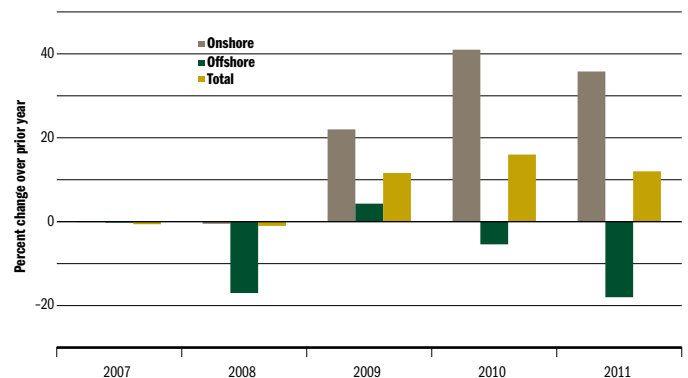
Gas production from the Haynesville Shale formation in east Texas and northwest Louisiana began in 2008. The innovation that made it economical to harvest the long-buried shale gas is hydraulic fracturing. Known as “fracking,” this process

Chart 1
Louisiana Oil Production



Note: Data include federal waters.
Source: Louisiana Department of Natural Resources

Chart 2
Louisiana Natural Gas Production



Source: Louisiana Department of Natural Resources

involves blasting chemically treated fluids that break up the rock and free the trapped gas.

Fracking is typically used along with horizontal drilling. Drillers bore some 2,500 feet into the ground, and then turn the bit and tunnel horizontally a half mile to a mile, then frack the rock, Goodson said. Fracking has become controversial because of its possible impact on air and ground water quality, among other concerns.

But fracking and horizontal, or “directional,” drilling have been undeniably effective at unlocking vast quantities of natural gas, and fast. The newer wells in the shale deposits release an inordinate amount of their output in the first year of production. Then the flow falls dramatically.

Southeastern Energy Facts

- Cost of operating a drilling platform in 1,000 feet or more of water: \$1 million a day
- Cost of an offshore drilling rig: \$600 million or more
- Miles of oil/gas pipeline in the Gulf of Mexico: about 30,000
- Cost to install pipe in deep water: \$5 million to \$10 million per mile
- Total of winning bids in U.S. government offshore Gulf of Mexico lease sales 2000–11: \$14 billion
- For offshore energy production, the Gulf is divided into three zones: east, central and west. Most activity is in the central zone off Louisiana.
- First offshore Gulf drilling: 1938

Sources: Tulane University Energy Institute, Bureau of Ocean Energy Management, Louisiana Department of Natural Resources

By contrast, older “conventional plays” tapped via traditional vertical drilling produce a steadier flow over time, Goodson said. He explained that a quarter of total production from a well in “unconventional shale plays” typically flows in the first year. After that, the flow rate slows because it takes time for the gas farther from the original reservoir to seep through cracks and to ultimately be taken from the ground. Consequently, the next three-quarters of gas in a typical shale well flows out over some 30 years. This “hyperbolic production”—extremely fast, and then very slow—has exacerbated the supply-demand imbalance by immediately and substantially boosting supplies.

From thousands of wells nationwide, there is simply more gas coming out in the early bursts than there is demand for it. Storage systems don’t absorb much of the surplus because those systems were not designed to accommodate the rapid early production from shale. Rather, the storage systems were set up to hold back gas to smooth out prices amid routine seasonal peaks and valleys in demand. Peak demand is in winter, for heating, and to a lesser degree in the summer, for cooling.

This glut of natural gas has forced prices to historic lows, especially for dry natural gas, which is almost pure methane. Dry gas is also known as consumer-grade natural gas. Prices in early 2012 were about 30 percent of what they were a decade earlier.

“In general, anybody in our sector that is oil-weighted is very happy. Anyone natural gas-weighted is seeing a price structure that is well, well below our costs,” Goodson said.



Now for the sweet

While natural gas producers grapple with an oversupply, it has not dragged down overall energy employment in Louisiana. Employment in Louisiana’s mining and logging sector—virtually all of it in oil and gas—has in fact climbed 15 percent since the bottom of the recession, data from the U.S. Bureau of Labor Statistics (BLS) show. That performance is the second best among Louisiana’s job categories, behind education and health services, according to the BLS and Atlanta Fed data.

An important element in the Louisiana jobs picture was something that did *not* happen. During the offshore drilling moratorium after the BP spill, the mass layoffs that were widely predicted never materialized.

Lafayette, the most energy-reliant of Louisiana’s eight metropolitan areas, has seen the state’s best job growth since the worst of the recession. Powered by oil and gas extraction jobs, Lafayette’s employment gains in percentage terms more than doubled those of any other Louisiana metro area. Lafayette in March had about 18,000 mining and logging jobs, nearly a third of the state total, and a 16 percent increase from a year earlier, according to the BLS.

Those jobs are significant not just because of quantity. They also pay well and are therefore known to have a large ripple

Post-Moratorium, Offshore Activity Still Lagging

The six-month drilling moratorium after the April 2010 BP oil spill has set back production in the Gulf by about 20 percent from where it would otherwise be, according to a study by IHS CERA, an energy consulting and information firm. In 2011, oil production from the deep-water Gulf of Mexico—not just off the coast of Louisiana—was down 17 percent from 2010, while gas production was off 19 percent, according to the Bureau of Ocean Energy Management (BOEM). Despite the moratorium, however, the mass layoffs widely predicted by energy companies and some officials in coastal states did not materialize.

Industry observers attribute the offshore slowdown mainly to regulatory issues. The overhaul of the federal agency that issues offshore drilling permits, formerly the Minerals Management Service,

has slowed the permitting process and created regulatory uncertainty, said Eric Smith of the Tulane University Energy Institute. Two agencies now oversee offshore exploration: the BOEM, which manages offshore leasing, and the Bureau of Safety and Environmental Enforcement, which is responsible for permitting and inspecting rigs.

Industry still enthused about the Gulf

“The economic effects are definitely being felt,” Smith said of the dip in offshore activity following the moratorium. “It’s not for want of interest in drilling holes in the Gulf of Mexico. Everybody is still enthused about drilling in the Gulf.”

In the first quarter of 2012, two dozen rigs were actively drilling in the deepwater Gulf, compared to seven a year earlier, but down from the 32 that were there when BP’s rig exploded and sank, according to Smith and data from IHS Petrodata, an energy research firm. Before the spill, industry participants had hoped the deepwater rig count would

reach 42. Now they hope it will reach 29 by the end of 2012, Smith said.

There are signs that offshore activity is reviving. The permitting process is improving, according to a March presentation to investors by executives of Hornbeck Offshore Services Inc., based in Covington, Louisiana. The total number of rigs operating in federal waters off Louisiana, including those in shallower water, surpassed 40 in late April for the first time since before the six-month moratorium, according to the Louisiana Department of Natural Resources. And Hornbeck executives said the offshore rig count should return to pre-spill numbers reasonably soon.

Energy companies lease areas of the Gulf from the federal government for 10 years at a time. BP, as the biggest leaseholder in the Gulf, holds oil and gas rights on 4 million acres of ocean floor. In U.S. federal waters of the Gulf, 32 million acres—roughly the size of Louisiana—are leased by exploration companies, according to the BOEM. ■

effect. Lafayette’s mining jobs in 2010 paid \$81,000 a year, on average, while in New Orleans they paid \$111,000, according to the most recent data from the Louisiana Workforce Commission, formerly the state’s Department of Labor.

Bending plenty of steel

Ironically, some workers and companies that serve the offshore drillers benefited from the 2010 moratorium. A prime example is Houma, Louisiana-based Gulf Island Fabrication Inc. Gulf Island builds offshore platforms and other structures for oil and gas production. When much of the drilling in the Gulf was halted, the producers prepared for the resumption of work after the moratorium, said Kerry Chauvin, chairman and chief executive officer of Gulf Island and a member of the Atlanta Fed’s Energy Advisory Council. (Shipp and Goodson are also members.)

Gulf Island has roughly doubled its employment to 2,300 in the past 18 months. The company is busy with a record \$630

million backlog of work, headlined by a \$300 million, 25,000-ton offshore platform it is building for a major oil company.

Louisiana also a major energy consumer

Companies that service oil and gas producers are not the only winners in the current cycle. Cheap natural gas is a tonic for major gas users—no small matter in Louisiana. In addition to its position among the nation’s top energy producers, the state is a prolific consumer, in part because of its large petrochemical industry. Louisiana in 2009 was third behind Wyoming and Alaska in energy consumption per capita, using energy at twice the rate of the United States overall, according to the EIA.

Consider Dow Chemical. The company spends more than \$1 billion a year on fuel—or “feedstocks,” in industry parlance—for its six Louisiana plants, said Shipp, who heads the company’s operations in the state and in Texas. Chemical manufacturing requires extreme heat and other processes that consume vast

amounts of natural gas, oil, oil byproducts, and other fuels. Dow Chemical also generates some of its own energy.

“The impact of shale gas and low-cost energy is a big deal for the chemical industry and for Dow,” Shipp said.

Inexpensive natural gas is prompting Dow to reopen a plant it shuttered two years ago in St. Charles Parish near New Orleans, a move that will put 800 people back to work.

Dow was purchasing natural gas in the spring at a price more than two-thirds lower than it paid in 2000 and 2001. Prices are even lower in the Persian Gulf region, but shipping costs make U.S. gas a better bargain, Shipp noted.

Low natural gas prices have spurred a number of Louisiana expansion announcements from petrochemical makers, Dismukes said. In addition to Dow’s plans, Sasol Ltd., a South African manufacturer, last September announced plans to build a plant in Calcasieu Parish to convert natural gas into diesel fuel. The project could cost up to \$10 billion, the company says. Sasol is also studying the feasibility of investing an additional \$3.5 billion to \$4.5 billion in its existing Lake Charles site to produce a natural gas derivative used to make ethylene, an ingredient in numerous polymers and plastics.

Louisiana’s energy sector has helped the state economy outpace the other five southeastern states since 2007, based on an index of economic activity developed by the Federal Reserve Bank of Philadelphia. It should also be noted that Louisiana experienced a less severe downturn than other southeastern states and the country as a whole. The recession claimed 8.5 percent of jobs in the Southeast, and 6.4 percent nationwide. Louisiana employment dipped 4 percent. In the subsequent recovery, regional and national employment increased 2.5 percent and 2.8 percent, respectively, through March. Meanwhile, Louisiana employment has climbed 4.2 percent, according to the BLS and the Atlanta Fed.

Louisiana unique in the Southeast

Louisiana is unquestionably the energy hub of the Southeast. The state boasts 57,400 jobs in the mining and logging category, virtually all of them in oil and gas extraction, the BLS says—more mining and logging employment than in the other five southeastern states combined.

Louisiana ranked third among states in total energy production in 2009, according to the latest data from the EIA. Only one other southeastern state, Alabama, ranked among the top 28 energy producers. For January 2012, Louisiana ranked seventh in crude oil production, down from fourth in 2009 and fifth in 2010, by EIA data. That slight dip in the rankings reflects increased production in some other states, such as North Dakota, and the decline in Louisiana production. The state was third in natural gas output, behind Texas and Alaska.

Another statistic illustrates just how significant energy is to Louisiana’s economy. The four economic sectors most rooted in



oil and gas production—oil and gas extraction, petroleum and coal product manufacturing, support services for mining, and chemical manufacturing—account for 24 percent of the state’s economic activity, according to 2009 data, the most recent available from the U.S. Bureau of Economic Analysis. That’s six times the proportion of the U.S. gross domestic product accounted for by those industries. By this measure, only Alaska and Wyoming are as dependent on energy as Louisiana. (Texas produces more energy than any state but has such a large economy that energy makes up a smaller share of total activity.)

Energy is not all of Louisiana’s economy, certainly. But it is obviously vital, and more diverse than one might assume. As the nation experiences an energy renaissance, the Southeast’s energy hub finds its own reality to be a complex roux of economic effects. ■

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

Regional Update: Economy Continues Moderate Expansion

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. In addition, many businesses expressed concern regarding the impact of high energy prices on the outlook. The ongoing financial stresses emanating from Europe are another concern. Importantly, contacts did not indicate that they were altering business plans because of these potential downside risks.

Employment strengthens while catching up

Many of our business contacts supported the idea that recent employment gains were related to firms' "catching up" and restaffing to levels that were more in line with current needs. These firms cut back payrolls severely during the recession and the early stages of the recovery. While companies continue to turn to part-time, temporary, and contract workers to meet short-term needs, their outlook for hiring full-time employees is a bit more tempered. In fact, some staffing firms noted that a variety of businesses were aggressively hiring contract labor. Hiring by manufacturing firms remained largely positive, and reports from the health care and hospitality sectors were especially buoyant, although there appears to be some seasonal effect with regard to the latter.

Many firms continue to report difficulty finding qualified applicants for skilled positions. Some contacts in the agricultural sector and many in the trucking business are also experiencing difficulty finding qualified employees. One large manufacturer addressed the lack of qualified workers by bringing back retirees on a contract basis to help train new hires. Firms also indicated a growing concern about retaining top employees. Some companies have implemented programs to retain top talent, and many firms have reinstated merit pay programs for their most valuable staff.

Prices show some flexibility

Though most contacts continued to report that they have little pricing power, more firms recounted successful attempts or plans to pass on price increases since our last report. Increased transportation costs, especially those resulting from higher gasoline and other fuel prices, were reportedly passed on to customers without much difficulty.

The inflation expectations of businesses in the Southeast for the coming year fell to 1.8 percent in May, down from 2.1 percent in April, according to our most recent business inflation survey. Firms also reported that their unit costs had risen 1.6 percent compared with this time last year, which is 0.3 percentage points lower than their assessment in April.

Looking forward, firms' expectations for nonlabor costs subsided in May. Only 9 percent predicted a strong upward influence from those costs—a significant decline from the 18 percent that responded in a similar way in April. Firms anticipate labor costs will put only little or moderate upward pressure on prices in the year ahead.

General economic activity trends positively

Consumer spending in the Southeast remained positive as mild weather appeared to boost sales in some areas. Auto sales have been especially strong, and industry sources expect sales to remain solid going forward.

Tourism remains strong in the region. While our contacts in the hospitality sector do not anticipate continued gains at the rate experienced last year, overall tourism levels should remain strong this year. All contacts noted that a significant surge in gasoline prices, above current levels, would pose a threat to this outlook.

Indeed, many of our contacts cited gasoline prices as a concern, but few report significant changes in consumer behavior stemming from higher pump prices. The notable exceptions were reports from contacts in rural and lower-income areas, where higher gasoline prices are already having an impact on spending in these areas.

In early April, the Atlanta Fed's Center for Real Estate Analytics conducted a survey of 150 contacts in the real estate and construction sectors. According to the survey respondents as well as input from our boards of directors and our Real Estate Advisory Council, sales of new and existing houses were improving in the Southeast.

Besides normal seasonal trends, contacts attributed the increase in sales and buyer activity to attractive pricing and increasing levels of consumer confidence. While low mortgage rates were cited as an influential factor, rates have been low for some time and were not considered to be the sole reason behind the recent rise in activity. They also noted an overall improvement in the credit quality of mortgage applicants as contributing to the improvement in the housing sector. Interest in home buying is increasing modestly, reportedly from first-time home buyers,



as evidenced by a growing number of people participating in homebuyer-education programs.

Single-family construction was picking up slightly in prime locations, while multifamily building activity continued to be healthy. Home sales were increasing at a faster pace in more desirable locations that have better-rated school districts. Generally, home prices seemed to be stabilizing or experiencing more modest price declines than they have over the past several years.

Manufacturing activity across the region remained healthy. The Southeast Purchasing Managers Index (PMI) produced by Kennesaw State University rose 2.5 points in April from March to an index reading of 63.5. New orders and production components increased and, like the overall PMI, remained robust with index readings of 71.1 and 71.9, respectively.

Several large auto manufacturers announced plans to add to payrolls and increase production. A major industrial equipment producer and two midsized manufacturers announced plans to expand their presence in Georgia. Production and investment in the energy sector remain very strong.

Transportation contacts continued to report volume growth across most segments. Rail reports noted significant volume increases in shipments of automobiles, steel, and forestry products. Domestic coal shipments slowed because of the effects of warmer weather and lower natural gas prices.

Looking ahead

Around this time last year, reports came in similar to what contacts say now—that is, the economy was expanding at a moderate pace and the outlook, although not free from downside risks, was positive. Although we are all wary of a repeat of 2011's summer swoon, most observers do not expect the economy to derail in 2012. The fact that payroll employment gains in our six-state region decelerated in April to a gain of 14,400 jobs—from March's increase of 19,200 and February's 31,300 gain—has not altered the view that the regional economy remains on a moderate growth track. ■

Econ 101: Transmission of Monetary Policy

In its broadest terms, “monetary policy” refers to the actions undertaken by a central bank to promote macroeconomic stability. These actions influence the availability and cost of money and credit. But how does monetary policy get transmitted?

Dave Altig, the Atlanta Fed's research director, has described the transmission of monetary policy by making it analogous to the snapping of a long rope that has many tassels coming off it. These tassels represent the various credit markets in the economy. Normally, when the Fed snaps one end of the rope by raising or lowering the target for the fed funds rate—the benchmark overnight interest rate that banks charge each other to borrow funds—the motion ripples down, reaching rates on longer-term U.S. Treasury securities. Meanwhile, the various tassels on the rope reach private credit markets, where the larger economy is affected. For example, cutting the federal funds rate helps stimulate the

economy because longer-term rates tend to fall when the Fed lowers the short-term rate, and because lower longer-term rates tend to encourage purchases of long-lasting consumer goods, houses, and capital goods.

In ideal circumstances, the snapping of a rope analogy suggests that monetary policy is pretty straightforward. But circumstances are usually far from ideal. For one thing, a lot of forces other than just monetary policy are always influencing credit markets. So when the Fed snaps the rope, it needs to try to account for the fact that the wind may be blowing the rope as well. Moreover, as the recent global financial crisis vividly illustrated, there can be major impediments to the transmission of monetary policy along the rope. In his more



recent discussions of policy effects, Altig has embellished his rope-snapping analogy to include the idea of bricks sitting on the rope, impeding policy's ability to progress as effectively to the tassels at end of the rope (and Main Street) as it normally would. The Fed has undertaken some more recent policy moves, such as maintaining a very low fed funds rate target, as part of a concerted effort to crack the policy-impeding bricks, and in some cases to step over the bricks, to increase the effectiveness of monetary policy. ■

University Studies

The Atlanta Fed's Local Economic Analysis and Research Network (LEARN) consists of economists from universities or economic development centers in the Southeast who provide valuable insight into local economic conditions via information found on their websites throughout the year. Two reports in particular, published in April 2012 by members of the University Research Center of Mississippi Institutions of Higher Learning, indicated that the state is doing much better this year. One of their reports looks at the current state of the economy, and the other is more forward looking. Following are some highlights.

Growth under way in Mississippi

Mississippi's Business examines the state of Mississippi's economy. Written by state economist Darrin Webb, it assesses the state's economy using two indices it produces—the index of leading indicators and the index of coincident indicators. Overall, the report broadly notes that the state's economy has improved this year as both indices showed growth. Much of the improvement can be attributed to the annual employment benchmark revisions made by the U.S. Bureau of Labor Statistics. The revised data helped show that in the last half of 2011 and early 2012, Mississippi's economy was the strongest it had been since early 2010, but they noted

growth is mild by historical standards.

According to the report, the index of leading economic indicators rose for five consecutive months as of February. The February gain of 1.3 percent put the index at the highest level since June 2008. The gain was supported by improvements in seven out of the eight components that make up the index. As for the index of coincident indicators, it reached the highest level since January 2009 in February. The index rose 0.2 percent from a month earlier. This index experienced six consecutive months of increases. The report goes on to say that “the economy appears to be improving but remains below the prerecession peak.”

Another positive reading in Mississippi

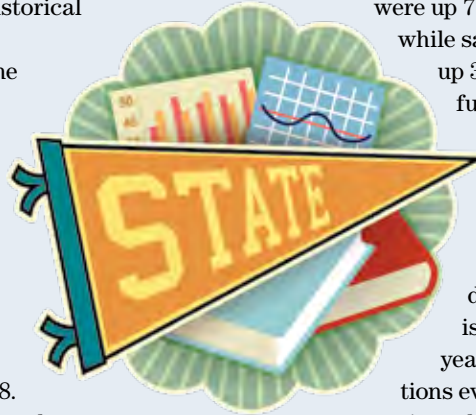
Mississippi Economic Outlook is another publication that surveys the state's economy. The headline for the April 2012 issue was “State Economy Shows Spring in Its Step.” The publication, written by economist Marianne Hill, indicated that state income tax collections through March

were up 7 percent from last year, while sales tax revenues were up 3.3 percent. State general fund revenues for fiscal year 2012 were up 5.6 percent from a year ago and 4.7 percent ahead of estimate.

The report also indicated that the economy is on track to reach fiscal year 2012 revenue projections even with tight budgets projected for the next few years.

Payroll employment grew 0.1 percent in the first two months of 2012 on a year-over-year basis. Gains were greatest in mining and lodging, health care and social assistance, and transportation and utilities. Employment growth should be positive for most industries. In particular, the report mentioned that the manufacturing sector should expand as several major facilities have already begun production. The report also said \$377 million in new investments have been announced since the beginning of the year. Additionally, reconstruction efforts following last year's tornadoes continue to boost activity. Overall, the report forecasts slow but improving growth for 2012.

Based on these reports, 2012 shows some promise of being a better year for Mississippi. ■



Data Corner: Consumer Confidence Surveys

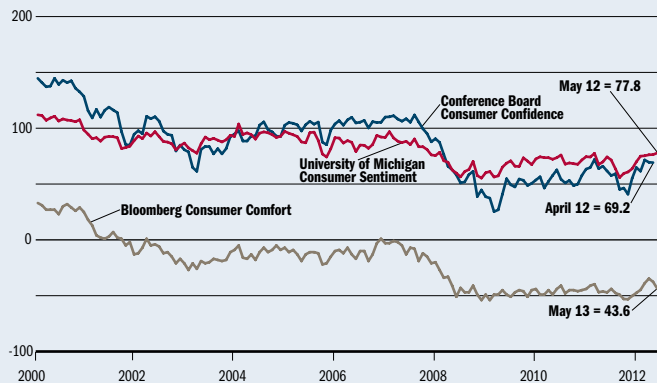
Spending on goods and services accounts for roughly 70 percent of gross domestic product (GDP), making it the single biggest contributor. Theoretically, the way consumers perceive their current and future wealth can significantly affect their spending habits. For this reason, a number of surveys have been established in an attempt to measure consumer attitudes. The three main national indices are the Consumer Confidence Index from the Conference Board, the Consumer Sentiment Index from Reuters and the University of Michigan, and the Consumer Comfort Index from

Bloomberg. Each of the surveys asks slightly different questions and thus can provide different perspectives on consumer attitudes (see the chart). Although consumer confidence measures tend to be volatile, when the indices are smoothed or combined, they can be useful predictors of future consumer behavior.

Overview of national surveys

Both the Consumer Confidence Index and the Consumer Sentiment Index are conducted monthly and have two main sets of

Consumer Confidence Indices



Note: Data are through May 2012. Conference Board data are seasonally adjusted, and 1985 = 100. Reuters/University of Michigan data are not seasonally adjusted, and 1966Q1 = 100.
Sources: The Conference Board, Reuters/University of Michigan

questions. One set of questions focuses on the current state of the economy, and the other set focuses on expectations. The Consumer Comfort Index, however, is conducted weekly and focuses only on the current state of the economy (see the table).

Question variation

The Conference Board's Present Situation Index is based on consumers' perception of local business conditions and local availability of jobs. The Reuters/University of Michigan Current Conditions index is slightly different in that it asks about attitude toward big-ticket purchases and whether personal finances have improved over the past year. Unsurprisingly, these indices do not end up being precisely correlated. The Bloomberg Consumer Comfort Survey is somewhat hybrid in nature, probing consumers about their perception of the current state of the national economy, their personal finances, and the buying climate.

Both the Conference Board and the Reuters/University of Michigan surveys contain future components that contain fairly similar questions. The Conference Board asks respondents to project about six months ahead about business conditions, jobs,

	Conference Board	Reuters/University of Michigan	Bloomberg
Indices produced	Consumer Confidence, Consumer Expectations, and Present Situation	Consumer Sentiment, Consumer Expectations, and Current Conditions	Consumer Comfort
Frequency	Monthly; advance and final estimates published	Monthly; advance and final estimates published	Weekly
Survey size	About 3,500 monthly	500 monthly	1,000 (polls 250 people weekly and gives a four-week moving average of responses)

and income. The Reuters/University of Michigan survey also asks about changes to business conditions and income, but over a longer time horizon. Instead of giving a six-month-ahead window, it asks about expected changes to finances over the next year and expected changes to business conditions over the next year and five years.

In addition to the five core questions used to compute the Consumer Sentiment indices, Reuters/University of Michigan also asks a series of other questions. These questions cover government economic policies, inflation, unemployment, interest rates, gas prices, the housing market, or anything else that could be affecting consumer behavior. These questions are often useful when trying to understand movements in the sentiment indices.

Usefulness of surveys

Many studies have shown that even after including various hard data indicators in forecast models for predicting consumer spending, adding measures of consumer confidence improves accuracy. The Conference Board also uses its measure of consumer expectations as an input to its index of leading economic indicators. ■

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

The energy sector has been a source of strength for the region in terms of exploration, production, and related manufacturing activities. At the same time, high energy prices have had a negative effect on many businesses and consumers. When you talk to your business contacts

and other officials, how are they viewing these developments? How do you see the impact on the economy in terms of growth and inflation?

Tom Cunningham, regional executive at the Atlanta Fed: Since I focus on Georgia,

there aren't a lot of people saying positive things about higher energy prices. I would assume our colleagues in New Orleans have a different on-the-ground experience, but here, there is little joy.

First, consumers get hit. Lower-income households face some very difficult

direct budget constraint issues. Higher-income households still face a change in spending that may immediately come out of potential savings but will ultimately re-direct spending dollars away from things they otherwise would have purchased. In both cases, the forced redirection of spending isn't good for the economy and is usually bad for the households.

Second, business gets hit. Whether explicitly or implicitly, businesses have some plan for spending over some future horizon. When energy prices rise unexpectedly, those spending plans get disrupted. As in the case of consumers, the pain of the change in plan will vary by business, but in all cases it is disruptive.

The importance in both cases is the disruption to economic activity. It might be that energy prices are bouncing around a more or less stable long-term level, in which case price level effects may wash out over time. But the disruption to real activity won't. This is a recurrent theme in my discussions.

Finally, there is a serious gap in the impact between urban and rural economies. On the household side, there are not the transportation alternatives in a rural area that there are in a city. For getting to work and for the everyday business of life, mass transit, carpooling, or other alternatives—walking!—simply aren't feasible in rural areas, so they have much less flexibility in adapting to changing fuel prices.

On the business side, it may not matter much if the firm is selling into a market that is larger than the immediate area—both urban and rural firms are going to have to pay the higher fuel costs. But firms that are selling into just the rural market are going to find higher shipping costs for their goods than their urban counterparts. Moreover, they are also going to be facing the customers described above that don't have the alternatives that urban residents have and consequently may have more of their spending diverted to the higher fuel costs. Rural small business then gets squeezed from both ends, much

more than those same types of business located in a larger city.

Lesley McClure, regional executive at the Birmingham Branch of the Atlanta Fed:

I've heard very few stories from business leaders that suggest they are modifying their processes or business plans as a result of higher energy prices. Of course, there are expectations that higher fuel costs will translate into higher prices for many products, especially produce trucked in from Florida, but overall businesses seemed resigned to deal with the continued stress on their margins. I am hearing a bit more about plans to pass along price increases across a broad range of products and services, and all companies acknowledge the challenge of finding the right balance for prices given the strains on the consumer. Several leaders have talked about the continued pressure on low-income families that results from higher prices at the pump. And although Alabama's unemployment rate continues to decline, the number of people who have exited the labor force remains a concern.

Chris Oakley, regional executive at the Jacksonville Branch: During the most recent cycle of discussions, central and north Florida REIN [Regional Economic Information Network] participants certainly had the cost of fuel and its impact on the consumer at top of mind. As a matter of fact, for most, fuel-cost volatility had moved into the top position in terms of worries, displacing concerns about the situation in Europe. Even so, most contacts indicated that the threshold for a significant shift in consumer behavior had likely shifted to a number north of \$4 a gallon, citing a "been there, done that" mentality among most consumers. Of course, for those with low and moderate incomes, any move upward requires offsetting reductions in other spending. The more recent easing of prices has resulted in a collective sigh of relief among those with whom I've talked recently.

From a business perspective, REIN participants indicated some level of success with passing on fuel cost increases to their customers, primarily through the

use of surcharges. Typically, businesses are not able to recoup rapid increases but work to make up shortages on the back end as prices ease. Interestingly, some transportation contacts indicated that price volatility is forcing at least the consideration of alternatives, like compressed natural gas. There is a movement afoot to create fueling stations that could accommodate vehicles built or retrofitted to run on such fuels. Creating this type of lower-cost option may be a silver lining to volatile fuel-price clouds.

Juan del Busto, regional executive at the Miami Branch: Fuel costs continue to be a concern for most of our contacts. The exception seems to be the automotive industry, where sales continue to be brisk. Better-performing and more fuel-efficient vehicles have helped push back the shock factor of \$4 per gallon fuel. In fact, some industry experts have said that they see \$5 per gallon as the new threshold for extreme concern.

In the travel and tourism sector, business continues to be good for hotels, conventions, etc. However, contacts are very concerned about the potential impact on business if fuel prices continue to rise, particularly for summer vacation traffic. One airport contact tells us that fuel is now 35 percent of airline costs and continued escalation will result in an adverse impact on not only their business but also their suppliers, etc.

Cruise contacts report that the higher fuel costs have resulted in scaling back their normal level of capital expenditure investments—for example, in new ships. As a result of higher fuel costs, both their profits and distributions to their shareholders have suffered. Their outlook is one of cautious optimism for very modest growth in 2012–13.

Restaurant operators have had to pay more for their food as a result of higher fuel shipping charges. They've seen their margins shrink where they cannot competitively pass on the costs to the customer.

In summary, higher fuel costs have had an impact on many sectors. While

some are doing better than others and some are doing fairly well, it continues to be a concern everyone is watching closely. **Lee Jones, regional executive at the Nashville Branch:** Nashville directors and REIN contacts reported hearing little to no major adjustments in the spending patterns of consumers tied to rising fuel costs. However, it is a concern on the minds of many. Sticker shock at the cost of a fill-up at the gas pump is prevalent, but reports of altering business practices are minimal, with the exception of those who drive a lot between business locations. Often, they are choosing to move their schedules around to minimize back-and-forth driving. Several directors noted that lower-income workers, particularly those living in rural areas with long commutes to the job, are disproportionately impacted negatively by rising fuel prices.

Several REIN contacts, along with branch director Bill Krueger, vice chairman of Nissan Americas, observed that

rising fuel costs have created a demand for more fuel-efficient vehicles and have shifted the mix away from big trucks toward smaller cars. Because this is the third run-up in fuel prices in recent years, many observed that consumers and businesses are not panicking and are counting on prices to recede again soon. Businesses with a shipping component are passing on fuel surcharges to the customer or are focusing on reducing fuel consumption and costs through shipment consolidations.

Anecdotes from our contacts included observations that some companies—such as a local delivery service—were using GPS technology to map out routes more efficiently and minimize left-hand turns. A Knoxville director heard reports of grade schools modifying pickup-line policies around “no idling.” A carpet cleaning vendor indicated that if gasoline reached \$5 per gallon, he will become more diligent in scheduling numerous appointments in one area of town and

enforcing his minimum ticket price per customer.

Robert Musso, regional executive at the New Orleans Branch: High energy prices have not had much impact on companies and the way they conduct their business. While many companies acknowledge it has an impact on the consumer, the companies also admit it has not had a negative effect on consumption of their products and services.

The price of energy is viewed as a temporary bump and, depending on the type of business, it may not be passed on to the consumer or is done so temporarily through a fuel adjustment surcharge, where it can be readily and easily withdrawn as prices go down. Increases in the cost of energy must be sustained over longer periods than those we have recently experienced to permanently have an impact on production costs and pricing. ■

Grassroots continued from page 5



The coastal casinos are a bulwark of the Biloxi-Gulfport economy. The metro area represents the nation's third-largest casino market, behind only Las Vegas and Atlantic City.

8.8 percent and the United States' 8.1 percent rate. The population is down only about 4 percent from its pre-Katrina total, compared with the roughly 9 percent reduction in the New Orleans metro area. Combined revenue from the coastal casinos has fallen from its 2007 peak of \$1.3 billion. But it has been remarkably stable at \$1.1 billion in each of the past three years, according to the Mississippi

Department of Revenue. “The gaming industry on the Mississippi Gulf Coast has proven to be very resilient,” King said.

Even better, a spate of recent investments—some private, some public—is raising hopes. The Port of Gulfport is undergoing a \$500 million expansion funded by federal money for Katrina recovery. On the casino front, Landry's Inc. announced in March that it plans to buy the Isle of

Capri Casino Hotel in Biloxi, rebrand it as the Golden Nugget, and invest \$150 million to add restaurants, amenities, and upgraded hotel rooms. Also, Jimmy Buffett's Margaritaville Casino & Restaurant-Biloxi opened just before Memorial Day. The \$60 million project employs about 1,000 people. Margaritaville's opening marks the first time since Katrina that the coast had 12 casinos.

Add in a recently opened art museum as well as technology and marine science attractions, and the Biloxi-Gulfport area hopes to attract a diverse group of visitors.

“If you can look out beyond a one- or two-year myopic view of where we are on the coast,” Dennis said, “the horizon is extremely bright.” ■

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

Hitting the Target: Inflation Expectations and Monetary Policy

Low and moderate price change is the implicit goal of the Federal Reserve's price stability mandate. In pursuing this objective, it's helpful for policymakers to consider many indicators of future price change, including inflation expectations.

A well-established measure of household inflation expectations currently exists in the survey conducted by the University of Michigan, but, curiously, no similar measure existed for businesses, until recently. Federal Reserve Chairman Ben Bernanke mentioned this deficiency in his speech at the National Bureau of Economic Research's 2007 Summer Institute:

Information on the price expectations of businesses—who are, after all, the price setters in the first instance—as well as information on nominal wage expectations is particularly scarce. ...[Further,] how do changes in various measures of inflation expectations feed through to actual pricing behavior?

The Atlanta Fed offers one remedy with the Business Inflation Expectations (BIE) survey. This monthly online survey is designed to gauge the general business conditions and inflationary sentiments of southeastern businesses. A panel of approximately 350 executives and business owners receive the survey each month.

Information gathered from our panel allows Atlanta Fed researchers to assess the inflation expectations

and inflation uncertainty of businesses. Panelists also weigh in on their current sales levels and margins, as well as anticipated sources of price pressure in the coming year.

In addition to gauging firms' price-setting environment and expected changes to year-ahead unit costs, the survey investigates issues of longer-term interest for research and policy by asking a special question each month. For example, last October's special question showed that 49 percent of respondents understood the Federal Reserve's long-term inflation target to be 2 percent (see chart 1). Significantly, this survey was conducted prior to the Federal Open Market Committee's (FOMC) announcement in January of an official inflation rate target of 2 percent.

Another recurring special question asked at the beginning of each quarter will gauge firms' inflation expectations over the longer term (annually over the next five to 10 years), providing some indication of whether firms' inflation expectations are as well anchored over a longer time horizon.

Thus far, survey results show that although the distribution of near-term (the next 12 months) and longer-term inflation expectations are centered on the Federal Reserve's 2 percent target, there is an expectation of greater upside risk with respect to long-term inflation and greater downside risk with respect to near-term inflation (see chart 2). The FOMC's inflation rate goal is a long-run

SMALL BITES TO FILL BIG APPETITES

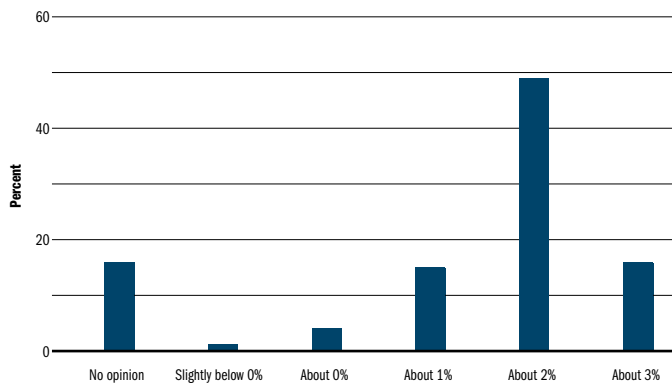
macroblog

In less time than it takes to eat lunch, the Atlanta Fed's *macroblog* will keep you well informed about today's economic developments, monetary policy, and much more. You'll find commentary directly from our economists, who also invite you to share your insights.

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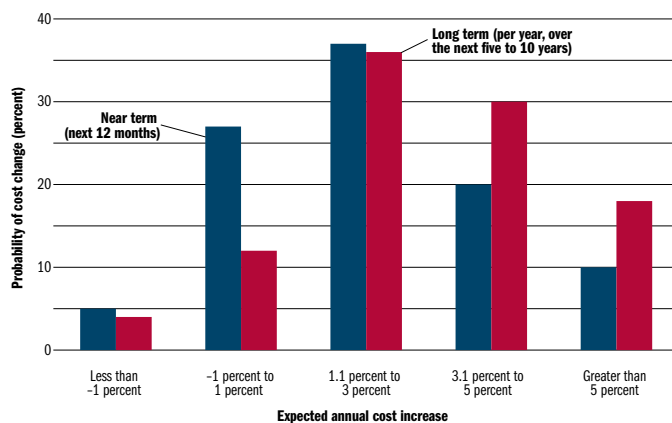


Chart 1
Businesses' Awareness of Long-Run Inflation Target



Source: Federal Reserve Bank of Atlanta

Chart 2
Distribution of Respondent Expectations for Unit Costs



Note: The survey reflects responses of Sixth District firms to the Survey of Business Inflation Expectations between April 9-13, 2012.
Source: Federal Reserve Bank of Atlanta

objective, so the discovery of greater upside risk over the long term is noteworthy.

The survey will continue to explore more aspects of firms' pricing decisions and the environment in which these decisions are made as a means of better understanding the likelihood of inflation and how cost increases are passed on to consumers.



To follow its progress and view current and historical summaries of its results, visit the Business Inflation Expectations Survey page on the Atlanta Fed website at frbatlanta.org/research/inflationproject/bie. ■

This article was written by Nicholas Parker, an analyst in the Atlanta Fed's research department.

Out of the South:

Exports Buoy Region's Economy



Exports have become an increasingly significant part of the region's economy. The Southeast's globally interconnected economy—with its fortuitous location and plentiful ports and coastline—is contributing to surging, if surprising, exports, such as the flood of international travelers whose southeastern expenditures constitute a major export.

When Marc Skalla and his brother Rusty took the reins of the family business in 2009, he was thinking big—as in millions of new customers in other countries. The company, SASCO Chemical Group Inc.—a chemical company specializing in environmentally safe products—had survived 60 years with very few exports, but Skalla knew that in order to expand the Albany, Georgia-based business significantly, he'd have to tap into the hundreds of millions of consumers who live beyond the U.S. borders.

In 2010, after a few fits and starts and with the help of the Georgia Department of Economic Development, SASCO began

exporting in earnest to new markets in Latin America, Spain, and the United Kingdom. Within a year, the company's exports had grown 120 percent, earning it the Governor's International Trade award in October 2011. Today, SASCO's two-year experiment with exports has put the company well on its way to realizing the Skallas' ambitions—revenues have increased by 50 percent, its payroll has grown roughly 15 percent, and last year it opened a state-of-the-art research and development center in Macon. Despite the company's early success with exports, that growth is only the beginning, Skalla said. "It's like climbing a ladder, and we're only on the second rung."

Remarkably, SASCO was able to achieve these gains even as the overall economy was shedding jobs and struggling to recover from the 2007–09 recession. Indeed, although the discussion on U.S. trade largely revolves around the nation's large trade deficit or the commonly accepted myth that the U.S. manufacturing sector has withered into irrelevance, SASCO's success underscores an important trend playing out in the Southeast and across the nation—exports are booming and in the process are helping drive the economic recovery.

Rising exports lift the Southeast

Without a doubt, exports have been a bright spot in recent years. After dropping precipitously during the global downturn in 2009, the value of U.S. exports of goods and services has rebounded

significantly. In 2011, they grew nearly 14 percent to a record high of \$2.1 trillion, according to the U.S. Commerce Department. The rebound was even stronger in the Southeast, where merchandise exports alone grew more than 20 percent to top \$213 billion (a figure that would be even higher if the Commerce Department's state-level tally of exports included service exports such as tourism and business and professional services).

Importantly, exports have accounted for nearly half of the increase in U.S. gross domestic product (GDP) since the recession ended in 2009. They also create jobs. According to a 2010 report released by the U.S. Commerce Department, for every \$165,000 in exports, one job is created or retained. A Brookings Institution study reported that export-supported jobs grew nearly 6 percent in 2010—a period when the overall economy was shedding jobs. Products leaving the Southeast also benefit industries such as transportation (see this issue's article on the trucking industry).

The impact on southeastern jobs is clear, especially in the manufacturing sector, where much of the region's export activity is concentrated. In some states in the region—namely, Alabama, Georgia, Louisiana, and Tennessee—at least 20 percent of manufacturing jobs depended on exports in 2009, according to the Commerce Department. Further, export-related jobs on average pay better than those in domestic-oriented industries. The Commerce Department puts the pay premium at 13 to 18 percent above the national average.

With such benefits, perhaps it's no surprise that the federal government made exports a cornerstone of its efforts to boost economic growth. The National Export Initiative, launched in January 2010 by the federal government with participation by a variety of federal agencies, aims to double U.S. exports by the end of 2014 by, among other things, increasing trade advocacy, improving access to export financing, and removing trade barriers.

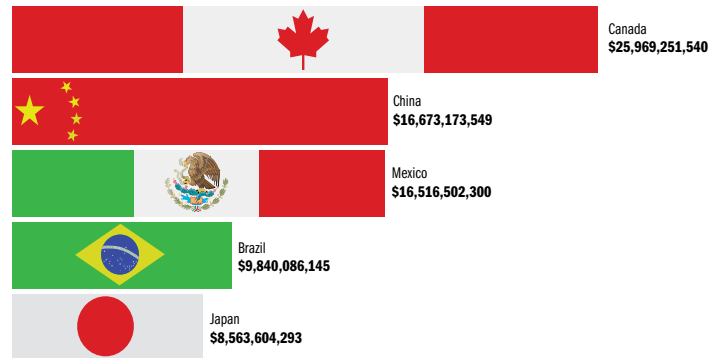
Developing economies propel export boom

A variety of factors are driving exports, including strong economic growth and the expanding middle class in many emerging markets, especially the powerhouse trio of Brazil, India, and China. Although more than one-third of U.S. exports are destined for Canada and Mexico, the so-called BIC economies have become key markets for U.S. goods and services. Indeed, exports to those countries nearly doubled in value between 2007 and 2011, and their share of total exports grew from 9 percent to 11 percent, according to the Commerce Department.

China and Brazil in particular are a growing force in the Southeast's export market. Those countries—along with Canada, Mexico, and Japan—were the region's largest export markets in 2011. Southeastern exports to China—including transportation equipment, paper, and agricultural products—have grown more than 120 percent in the past four years to nearly \$17 billion. Bra-

Chart 1

Top Southeast Export Markets in 2011



Note: Figures represent the value of products exported in 2011.
Source: U.S. Commerce Department

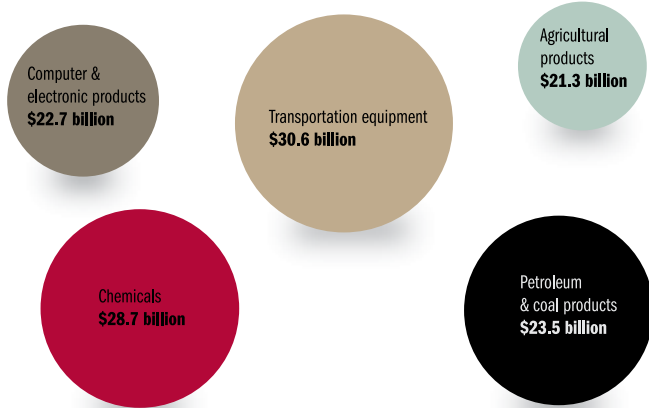
zil, likewise, has solidified its place as a key destination for such southeastern exports as chemicals, transportation equipment, and petroleum and coal products (see chart 1). The region's merchandise exports to Brazil—South America's dominant economy—grew more than 60 percent between 2007 and 2011 to reach \$9.8 billion.

In addition to strong growth in emerging markets, other factors such as free trade agreements, interest rates, and currency exchange rates have helped boost the country's exports, explained Gary Hufbauer, a senior fellow at the Peterson Institute for International Economics. "Not just in the U.S., but globally, interest rates are quite low," he noted. This has been "very encouraging for the capital goods industries—and capital goods are an area where the U.S. is extremely strong," he added. Also, "relative to Latin American currencies, the U.S. dollar is pretty competitive," which has helped make U.S. goods and services more affordable in those countries.

Cars help drive exports

These and several other factors have helped fortify the Southeast's exporting prowess. The region's merchandise exports in 2011 accounted for nearly 15 percent of the U.S. total, according to Commerce Department data. But perhaps the biggest export success story is the transportation equipment industry, which at over \$30 billion was the region's largest export category in 2011. A hefty share of those exports was a product of the Southeast's robust automotive manufacturing sector, which has expanded in recent decades as foreign auto companies such as Kia Motors, Volkswagen, and Nissan established plants in the region.

Chart 2
Top Southeastern Exports in 2011



Source: U.S. Commerce Department

As reported in an April 2012 *USA Today* article, excess plant capacity, currency exchange rates, and free trade agreements have made the United States a more attractive place to build automobiles. As a result, auto exports have jumped in the past five years. The Southeast is reaping its share of the benefits—several of the assembly plants that ramped up exports are located in the region, including the Mercedes-Benz and Hyundai plants in Alabama, Nissan plants in Tennessee and Mississippi, and the Kia plant in Georgia. In the four years leading up to 2011, the region's exports of transportation equipment, a large share of which are automobiles, have increased nearly 33 percent, according to the Commerce Department. Additionally, the South Korea-U.S. Free Trade Agreement (KORUS FTA) that went into effect this March should further boost auto exports. The KORUS FTA, just one of several trade deals signed in recent years, removes import tariffs on almost all U.S. vehicles and virtually eliminates tariffs on auto parts.

While transportation equipment is undoubtedly the region's biggest export category, several others have regional significance as well (see chart 2). Southeastern exporters sold more than \$28 billion in chemicals, \$23 billion in petroleum and coal products, and nearly \$23 billion in computer and electronic products in 2011. On a smaller yet still significant level, the region exported more than \$16 billion worth of machinery and more than \$7 billion in paper products during the same time period.

Additionally, agriculture—once the backbone of the southeastern economy—continues to feature prominently in the region's exports. As farm exports have boomed for the United States as a whole—growing 18 percent, to \$136 billion in 2011,

Bringing the World to Florida

Nicki Grossman, president and CEO of the Greater Fort Lauderdale Convention and Visitors Bureau, discussed the economic impact of tourism as an export.

Many people are surprised to learn that international travel to the United States counts as an export. Can you explain how purchases made by international visitors work their way into U.S. export figures?

When we send U.S.-made products to another country and purchases are made in that country, it creates a positive economic impact for the United States to sell that product. The same is true when international visitors arrive and spend their money on goods, services, hotel rooms, rental cars, etc. Their spending is akin to our sending products to be purchased in other countries, or [what we classify as] exports.

In the Greater Fort Lauderdale area you represent, what is the economic impact of foreign visitors? In Greater Fort Lauderdale, 23 percent of our 11.1 million visitors arrived from outside the United States. Their economic impact was nearly \$2 billion. These visitors tend to stay longer at our destination and certainly shop more than domestic visitors.

What types of activities does your organization engage in to help draw international visitors? Aside from advertising and promotional activity, the GFLCVB has sales and marketing representation in Canada, the United Kingdom, Germany, South America, and Scandinavia. We work with airlines and tour operators to increase awareness of our destination. We budget \$1.5 million for these activities. **The federal government has emphasized attracting international visitors, as evidenced by the Brand USA program. How do you expect these additional promotional efforts to play out in your area?** The U.S. tourism effort will carry our marketing message throughout the world, helping us leverage our marketing dollars.

Has the European crisis and downturn affected the volume of visitors from the euro zone? Over the last two years, international tourism has grown nearly 15 percent from throughout the eurozone because those travelers are looking for value. To those potential travelers, prices in the United States offer significant value when measured against travel to many other international destinations. ■



according to the U.S. Department of Agriculture—so too have the Southeast’s. “The last decade has been fantastic” for the region’s agriculture and food exports, which have benefited from robust foreign demand, explained Jerry Hingle, chief executive officer and executive director of the Southern United States Trade Association (SUSTA). “We’ve seen strong growth in many of the things that are harvested here, such as cotton, soybeans, wheat, and rice,” he added. Indeed, exports of southeastern agricultural products topped \$21 billion in 2011, accounting for nearly 30 percent of the U.S. total, according to the Commerce Department.

The impact is even larger when the region’s \$10 billion exports of food manufactures are included. This category—which encompasses value-added agricultural products such as specialty foods, meat and seafood products, and a host of other processed foods—has enjoyed steady growth in recent years. Especially important is that with processed foods, value is created domestically, explained Hingle. When shipped abroad, those products are typically consumed there and not reimported into the United States. “In this way, it is a true economic engine,” he said.

Although merchandise goods such as these make up the bulk of U.S. exports, the country’s competitive service sector also claims a significant share. Totalling \$600 billion in 2011, U.S. service exports accounted for about 30 percent of total exports. The government doesn’t publish state-specific data on service exports, so it’s difficult to get an exact read on the region’s exports of business and professional services, royalties and license fees, and financial services, among other things. But because the Southeast economy is largely representative of the U.S. economy, Atlanta Fed contacts say, so the region’s trends likely mirror those playing out on the national stage.

South Americans come to shop

A key component of U.S. service exports is travel. When foreign visitors to the United States make purchases—food and lodging, for example—these purchases are considered exports. Travel exports, which account for a fifth of total service exports, topped \$13 billion in February 2012, according to the U.S. Office of Travel and Tourism Industries (OTTI). Like exports overall, foreign travel to the United States dropped steeply during the global downturn but has recovered in the past two years. By 2011, international visits to the United States reached a record-breaking 62 million people, more than half of whom hailed from Canada and Mexico. At the same time, visitors from other locales account for a growing share of travel exports, a trend that is expected to continue in the near future. The OTTI projects that visitors from South America and Asia will grow nationally by 47 percent and 49 percent, respectively, by 2015.

With its temperate climate and myriad attractions, the Southeast is a top destination for foreign travelers, a fact especially evident in Florida, which was second only to New York in drawing international visitors in 2010, according to the OTTI. Nicki Grossman, president and chief executive officer of the Greater Fort Lauderdale Convention and Visitors Bureau and a member of the Atlanta Fed’s Travel and Tourism Advisory Council, has seen the impact of foreign travel firsthand. The south Florida area she represents has experienced a surge in visitors from Latin America, especially Brazil. This trend is playing out across the state, according to data from Visit Florida, the organization that markets the state’s tourism industry. In 2011 Brazil was the second-largest source of international visitors to the state. Mexico and Argentina trailed close behind in fourth and fifth places.

In fact, Brazilian travelers, consumers, and businesses have earned such a prominent place in the state’s economy that in

A variety of factors are driving exports, including strong economic growth and the expanding middle class in many emerging markets, especially the powerhouse trio of Brazil, India, and China.

2011 the country was named “Floridian of the Year” by *Florida Trend* magazine. As the article explained, Florida has become the number one destination for Brazilian travelers, with more than one million visitors to the state in 2010. The factors driving the surge are twofold, noted Grossman. Many Brazilians are visiting friends and family in the area. But in addition, “they come to shop,” she said. This trend is partly because many in-demand items such as clothes, shoes, and electronics are less expensive here, she explained. Visitor traffic at Sawgrass Mills, an outlet mall in Sunrise, Florida, underscores the region’s draw for retail-minded tourists. The shopping center lured more than 40 million domestic and international visitors in 2011 and, according to Grossman, nearly 50 percent of the credit cards used at the mall were from Brazil. She expects the influx of Brazilian and other Latin American travelers to continue “as long as their economies are strong and they are willing to spend on travel,” she said.

Unforeseen factors can halt the momentum

Of course, exports are subject to influences beyond U.S. borders, and some of the very factors that support stronger exports today could also reverse their momentum. Exports are vulnerable to the whims of the global economy, including the growth of key trading partners and the relative strength of other currencies. For instance, many of the major emerging markets for U.S. goods could be affected by the eurozone crisis and slow economic growth. As Michael Chriszt, a vice president in the Atlanta Fed’s research department, and Galina Alexeenko, a director in the Atlanta Fed’s Regional Economic Information Network, noted in a January 2012 *SouthPoint* blog post, the Southeast does not have a large exposure to Europe. However, the crisis could have an indirect impact on southeastern exports by way of emerging markets. According to a January 2012 article in the *Wall Street*

Journal, exports could suffer if European lenders decrease their exposure to emerging markets because of new capital requirements.

Signs already appear that the breakneck pace of economic growth in many emerging economies is starting to slow. In its April 2012 *World Economic Outlook*, the International Monetary Fund projected that growth in emerging and developing economies would slow to 5.7 percent in 2012, down nearly half a percentage point from 2011.

Finally, if turmoil in global financial markets were to cause the U.S. dollar to gain strength relative to other currencies because of its “safe haven” status, this strengthening could dampen the region’s exports, explained the Peterson Institute’s Hufbauer.

Room to grow

Although the United States has benefited from robust exports, plenty of room to grow remains. Only 1 percent of domestic firms export their products. At the same time, 95 percent of the world’s consumers are beyond U.S. borders. Further highlighting exports’ potential is that, at about 13 percent of GDP, they account for a significantly smaller share of the U.S. economy than in other developed economies. For instance, exports make up 29 percent of GDP in Canada, 25 percent in France, and a whopping 47 percent in Germany. Although the United States’ relatively small ratio is partly a reflection of its large domestic market, economists largely agree that boosting U.S. exports will yield significant benefits for the overall economy by creating new opportunities for growth, as well as helping to create jobs, increase productivity, and rebalance the U.S. economy. ■

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

“The Value Is Created Here in the United States”

An Interview with Jerry Hingle of SUSTA



JERRY HINGLE

Title	Executive Director and Chief Executive Officer
Organization	Southern United States Trade Association
Website	susta.org
Other	Hingle directs SUSTA's efforts to develop export markets for high-value food and agricultural products from the southern United States. As an appointee to the U.S. Department of Agriculture's Technical Advisory Committee for Trade, he advises the federal government's trade negotiators on issues affecting the industry. He also serves on the Louisiana District Export Council. Prior to joining SUSTA, Hingle held management positions with the Southern Forest Products Association and the American Forest & Paper Association.

Jerry Hingle is executive director and chief executive officer of the Southern United States Trade Association (SUSTA), a nonprofit association that works to boost the region's exports of high-value food and agricultural products.

EconSouth: *To start out, can you describe the two categories of products your organization helps promote? What makes a “high-value” food product different from an agricultural product?*

Jerry Hingle: “High-value” food and agricultural products are value-added or finished products that are usually prepared and packaged for consumer retail or the food service industry. Think of the types of products you'd see on grocery store shelves. What's important about exports of these types of products is that the value is created here in the United States. Exports of raw commodities, such as feed grains, go through little handling and processing here in the United States. They are usually shipped bulk to markets around the world for further processing there. High-value foods go through all the stages of production and packaging here.

ES: *Agriculture for many years was the backbone of the Southeast economy. What is its role in today's economy?*

Hingle: It still is the backbone of our economy. In fact, agriculture is one of the leading economic sectors in many U.S. states. American agriculture supports one in 12 jobs in the United States and provides American consumers with 83

percent of the food we consume. Food security has become a hot issue around the world, but here in the United States we're fortunate to have the resources and infrastructure to be highly self-sufficient in food and agriculture and to be competitive worldwide.

ES: *What is the economic impact of exports of agricultural and high-value products on the region's economy?*

Hingle: Exports have always been important to the southeastern United States, as far back as our early colonial days when tobacco and cotton formed the fabric—pun intended!—of our economies. Today, for some commodities, such as grains, over half of our production is exported.

According to the USDA [U.S. Department of Agriculture], for every \$1 billion in exports, 8,400 jobs are created here in the United States. Agricultural exports out of the southern United States eclipsed \$58 billion last year, making this a much-needed engine for economic growth and employment. Keep in mind that agricultural exports don't benefit only farmers and ranchers—all those working in transportation, banking, insurance, and other related industries benefit from exports as well. [Editor's note: See this issue's article on the trucking industry.]

ES: *What are the region's most important export markets? How has that ranking changed over time?*

Hingle: Canada has traditionally been our largest export market, followed by

Mexico and Japan. But China has become a formidable market, thanks to its strong economic growth and insatiable appetite for Western goods. Our exports to China have more than doubled in the past five years and may soon eclipse all other markets.

Asian markets account for 40 percent of our total food and agriculture exports, while our European partners only account for about 8 percent.

ES: *Poultry products have been a key export for many southeastern states—where is all that poultry headed?*

Hingle: Most U.S. poultry production is centered in the southern United States—led by Georgia, Alabama, and Arkansas—so an uptick in exports has been a boon for producers in this region.

Countries with a growing need for inexpensive proteins are increasingly turning to the United States for supply. Our top markets include Mexico, Hong Kong, Russia, and China. Total U.S. poultry exports reached a record \$4.91 billion last year, a 17 percent increase from 2010.

The poultry industry expects more export growth as it becomes more price competitive and as economies around the world—particularly in emerging markets—continue to grow.

ES: *Agricultural exports have grown strongly in recent years. What's driving the expansion?*

Hingle: Exports certainly have been growing strongly. In fact, 2011 was the strongest year ever on record for U.S. agriculture exports, reaching over \$136 billion. America's agriculture sector is highly productive and efficient, making us cost-effective in global markets—as long as the playing field is level. A relatively weak U.S. dollar and low interest rates have also helped our competitiveness.

But equally important is the fact that U.S. food and agriculture is highly recognized around the world for its safety and quality. Toward that end, many organiza-

tions such as ours are busily promoting the qualities and availability of U.S. products through international trade shows, buyer missions, and a host of promotional tactics. We've put thousands of U.S. exporters in contact with overseas buyers, resulting in millions in export sales that otherwise would not have happened. This promotion is undoubtedly driving some of this export growth.

ES: *The United States has signed a number of high-profile free trade agreements [FTAs] in recent years. How have those affected the region's agricultural and food product exports?*

Hingle: Each time we sign a free trade agreement with another company or region, we see an immediate and tangible increase in exports to that market.

The recent FTAs with Korea, Panama, and Colombia are real winners for U.S. agriculture, particularly for farmers and ranchers in the southeastern United States. Passage of these agreements means over \$2.3 billion in additional agriculture exports, supporting nearly 20,000 jobs in the United States, according to the USDA. With Gulf Coast ports being able to readily service Central and South American markets, we're expecting a real uptick in exports from our region.

ES: *What are some of the barriers to exporting encountered by some of the companies you help?*

Hingle: When it comes to high-value foods, high tariffs and technical and scientific trade barriers are undoubtedly our biggest issues. Foreign countries typically charge very low import tariffs on bulk commodities, but tariffs escalate quickly on products that have been further processed or packaged. American sauces and spices, for example, can face tariffs of over 50 percent in some markets, making them uncompetitive on grocery shelves. Kentucky distilled spirits can get hit with tariffs in excess of 400 percent.

When a country enters a regional or bilateral free trade agreement, it usually

agrees to keep import tariffs below a certain level. So without the ability to use tariffs as a tool to protect local industries, countries are increasingly turning to technical barriers. One example is banning imports of an ingredient for the sake of "consumer safety" despite its being widely used for decades without health concerns. The importing nation then requires the exporter to go through expensive testing and certification of the product to ensure that a food item doesn't contain a banned ingredient.

ES: *What's your outlook for the region's agricultural exports?*

Hingle: We're very bullish on the long-term outlook for agriculture exports. The math is simple: according to the United Nations, the world's population will reach 9.1 billion by the year 2050—that's a 32 percent increase in mouths to feed. And in countries with growing incomes like China and India, people are demanding more proteins, which has a multiplier effect on agriculture consumption as a result of the feed grains needed to produce things like poultry.

Meanwhile, with water supply becoming an issue worldwide and a relatively static availability of arable land, we don't see any big gains in the global food supply. That's why the United States—and certainly the southeastern United States—is poised to see strong export demand over the coming decades. ■

This interview was conducted by Lela Somoza, a staff writer on EconSouth.

A Brewing Battle?

A Review of *The Coming Jobs War*

The *Coming Jobs War* by Jim Clifton, chairman and chief executive officer of Gallup Inc., is a somewhat alarmist look at the condition of the U.S. economy. To be sure, significant problems remain for the U.S. and global economies right now. We have emerged from the worst domestic and global economic downturn since the Great Depression, and the downturn took a toll on many.

However, Clifton appears to be more apprehensive than most, and as chairman of Gallup, he has access to a lot of information that might justify his dire outlook on the U.S. economy, but his evidence leaves me unpersuaded.

In fact, throughout the book he warns his reader of a coming “Armageddon,” “economic hell,” “nightmare,” and “predicted demise.” He warns that the United States is facing the “economic battle of its life,” that “this is a ‘game-over’ moment for America,” and that this moment could be the “end for the American experiment in democracy.” But, thankfully, he has the answers (or at least some of them). He identifies 10 key components to America’s salvation, which really amount to only three distinct goals. With my organizational structure imposed, here are his three primary keys to American economic renewal:

- *Create good jobs.* This goal has six subcomponents:
 - Local elected officials should disdain any activity that does not directly lead to job creation.
 - Vibrant cities, top universities,

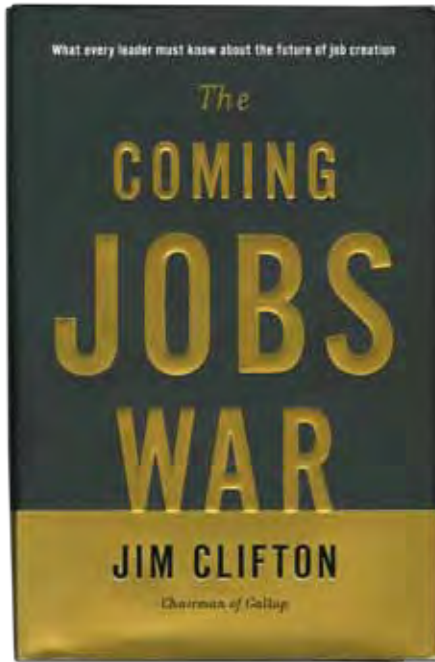
and local leaders are really the only hope for generating local job growth.

- Move investment focus away from innovation to entrepreneurship.
- Companies must place a high priority on making workers feel engaged in their jobs, producing a better customer experience, increased demand, and thus increased jobs.
- Every strategy must relate to small-business creation and acceleration.
- Exports should be tripled over the next five years.
- *Focus on preventive health care.* Americans need to develop a healthier mind-set to control health care expenditures.
- *Reduce high school dropout rates.*

The best way to create more jobs is open to debate, but these are three terrific goals—not because if we don’t achieve them, China will surpass us economically. Rather, it’s because achieving them will make us, as a whole, a more prosperous nation with increased collective well-being. This is an important distinction. By presenting these goals in a framework of going to war with China over jobs, Clifton passes up an opportunity to garner sustainable support for achieving these goals.

How best to achieve well-being?

For example, the *World Happiness Report*, cowritten by John Helliwell, Richard Layard, and Jeffrey Sachs and published by the Earth Institute at Columbia University, uses many of the same Gallup sources that Clifton cites. But that publication provides concrete examples and statistical backing to claims such as the importance of a “good” job in generating a person’s sense of well-being and happiness, traits that—along with the relationship between well-being and political stability—should provide sufficient motivation for any society to place a high priority on job creation.



In addition, framing job creation in the context of a war means one side wins and one loses. Clifton claims that if U.S. leaders fail to create enough jobs to maintain our dominance in global gross domestic product (GDP), we lose the war. In reality, our challenge is to create enough jobs to maintain a level of societal well-being sufficient for political stability. China needs to do the same. Again, we can quibble about the best way to do this and whether there are other issues (such as fair trade) that need to be resolved, but our focus has to be clear: what matters is not how well we are doing relative to China, it's how well we are achieving our own goal of sustained individual and societal well-being. I'm afraid that if our political and economic leaders focus on our *relative* progress, we will lose sight of the ball.

In fact, if our leaders focus on (relative) societal well-being or measures of happiness rather than on GDP (Clifton asserts that "Gross National Wellbeing is critical for GDP growth"), the United States has already lost. In most of the measures presented by the *World Happiness Report*, the United States consistently

ranks outside the top 10 and always behind countries such as Canada, which has not enjoyed the level of economic growth and expansion that the United States has over the past decades. In fact, the *World Happiness Report* also points out that during the decades that the United States has dominated the world in terms of GDP, our gross national well-being remained flat.

Debating government's role in job creation

Another concern I have about Clifton's admirable goals being lost in the rhetoric stems from proclamations of absolutes and exaggeration. For example, in one breath he states, "the government has never, will never, nor should it be expected to ignite badly needed sustainable economic booms." In the next breath he credits the commercialization of the Internet with the U.S. victory against Japan and Germany in what he terms the "Jobs War of 1970–2000." It's hard to know whether Clifton is not aware of, or just doesn't want to acknowledge, the billions of federal dollars that took the Internet into the social mainstream, producing thousands of jobs along the way. He credits Al Gore as a "super-mentor" by sponsoring the High Performance Computing and Communication Act of 1991 (HPCC) in the Senate, implanting the new technology in the realm of business and industry. The only credit government gets in this story is that the technology was created inside the Defense Department. What Clifton also does not mention is that the technology was "thrown into the hands of business and industry" wrapped up in a nice little \$4 billion package (the estimated amount of HPCC program funding between 1992 and 1995, according to a 1994 report from the U.S. General Accounting Office). This apparent inconsistency between Clifton's absolute dismissal of the usefulness of government in sparking sustained economic growth and an unmistakable example of government doing just that unfortunately throws many of his other unsubstantiated absolutes into question.

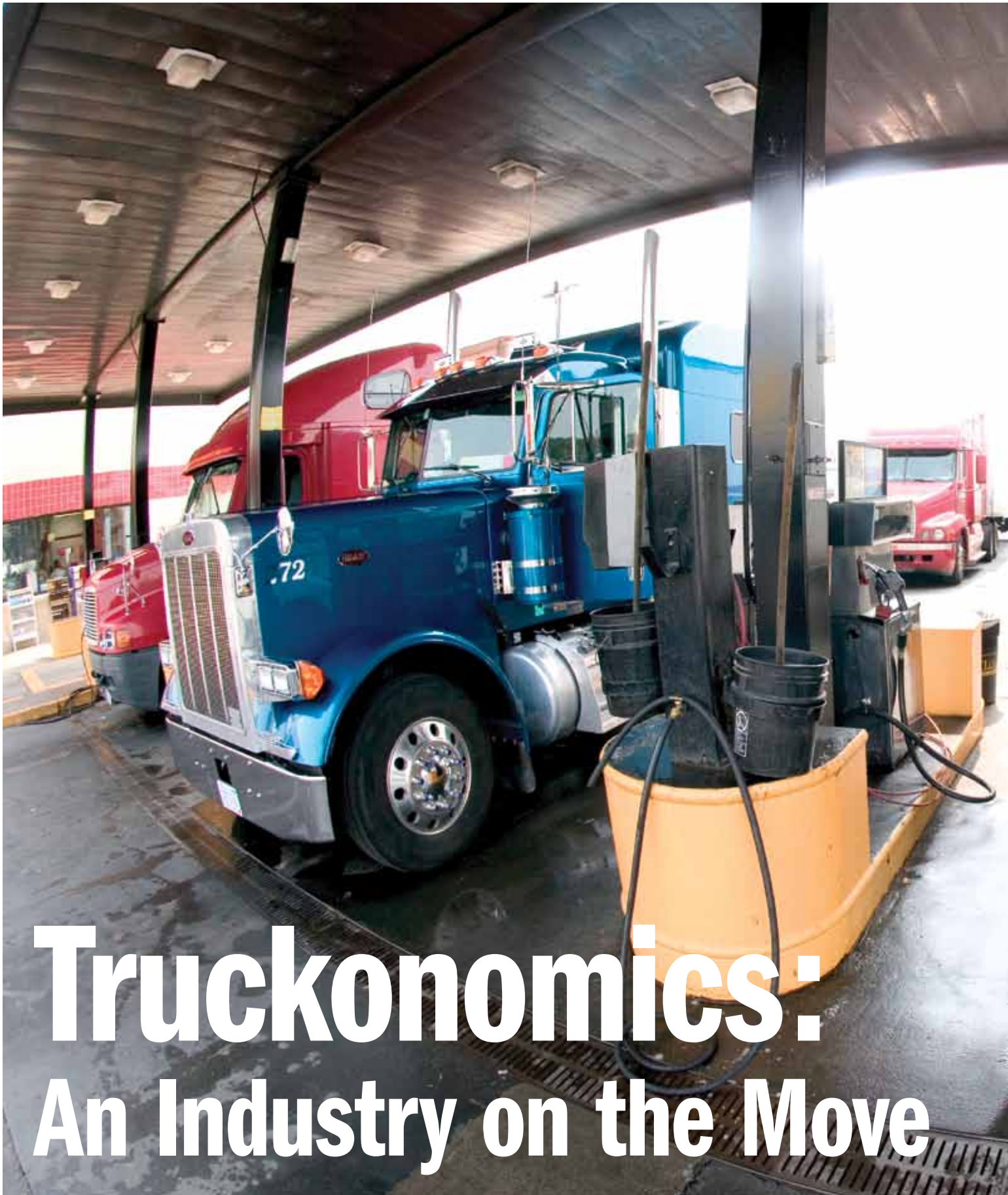


JULIE HOTCHKISS, the book reviewer, is a research economist and policy adviser in the Atlanta Fed's research department.

Clifton is also, unfortunately, prone to exaggeration. For example, the statistic that he cites as motivation for achieving one of his top goals—reducing the high school dropout rate—is that "approximately 30% of [high school] students will drop out or fail to graduate on schedule." The problem is that "dropping out" and "failing to graduate on schedule" are two different things, and the National Center for Education Statistics (NCES) has different measures for those events. The 30 percent statistic that Clifton repeats for the remainder of his book as the dropout rate is actually the four-year public high school completion rate. This rate could be considered an important measure of the performance of a local school, but it is not the dropout rate. The NCES defines two dropout rates. The one that comes closest to what people think about as dropout is referred to as the status dropout rate, which measures the share of 16- to 24-year-olds who are not in school and who report not having a high school degree. According to the NCES, the status dropout rate for 2009 (the latest reported) was 8.1 percent overall and 9.3 percent among blacks. It's likely that most people would agree that these rates are too high, but they don't represent one-third of the students in high school. Additionally, Clifton doesn't offer solutions to this problem. He merely states that student hope must be doubled and that local leaders will know how to accomplish this intangible feat.

Further exaggeration occurs when Clifton states that San Francisco "saved the republic and national job creation" because it was the epicenter of the tech-

Book Review continues on page 35



Truckonomics: An Industry on the Move



Chances are that the chair you're sitting on or the computer monitor you're gazing into or even the magazine that you're reading spent some time on the back of a heavy-duty truck, either whole or in pieces. Though the industry continues to adapt to new technologies, intensified regulations, and challenging economic factors, its basic role in the economy remains the same.

Trucks move more than two-thirds of the nation's goods, says the American Trucking Associations (ATA). Indeed, the ATA's motto underscores the centrality of trucks in our nation's economy: "Trucks bring it!"

Truck tonnage—which is how the industry measures freight movement in (usually) Class 8 trucks, or trucks that weigh more than 33,000 pounds—is considered to be a key indicator of the overall health of the national economy. This metric makes perfect sense. A nation's gross domestic product (GDP) is measured by growth in consumer demand, business investment, and government spending. (For a look at GDP, see the Atlanta Fed's new video at frbatlanta.org/about/fedexplained/.) And when consumers, businesses, and the government spend, then computers, cars and car parts, building supplies, and other goods they purchase have to be moved to the source of the demand. It follows that if trucks are moving comparatively more "stuff," then demand must be rising, and vice versa.

In an economy that has recently shown some signs of slowing, the April report from the ATA on tonnage offered no surprises. April's tonnage index slipped 1.1 percent from the previous month, breaking a seven-month growth streak. On the bright side, despite the slowdown from March, the seasonally adjusted index was up 3.5 percent from April last year. Overall in



2011, tonnage increased 5.8 percent, which was the same growth as in 2010, according to the ATA (see chart 1 on p. 33).

However, truck tonnage fell 4 percent between December 2011 and January 2012. Bob Costello, ATA's chief economist, attributed this drop to a natural recalibration after stronger-than-normal December volumes. GDP in the first quarter of 2012 stood at an annual rate of 2.2 percent.

The road behind: Recession

The trucking industry, as linked as it is to the construction industry, took a big hit in the recent recession. Demand for shipping dropped when demand for building materials dropped. Consumer demand fell as well. Now burdened with excess capacity, carriers were forced to lower their rates. Many of the smaller trucking companies failed outright or were acquired by some of the larger companies (see the table).

Trucking Company Failures, 2008-10

Year	Number of trucking company bankruptcies
2008	5,500
2009	2,220
2010	2,500

Note: Truckinfo.net estimates 1.2 million trucking companies in the United States in March 2006.
Source: Internal Revenue Service

Trucking has emerged from the downturn a little worse for wear. With fewer for-hire trucking companies, the industry is now experiencing a shortage of capacity. In addition, the companies that survived are holding a diminished, and aging, fleet of trucks, dealing with increased federal regulations, and managing higher diesel fuel prices. Companies also continue to experience a shortage of drivers—not a new phenomenon—which strains capacity further (see the third quarter 2004 issue of *EconSouth* at frbatlanta.org).

For point of reference, the for-hire trucking companies described here generally employ heavy-duty trucks, or trucks that the U.S. Department of Transportation's (DOT) Federal Highway Administration puts into its Class 8 category, which includes all tractor-trailer trucks. Class 8 trucks carry many different types of freight, including general, refrigeration, bulk, and flatbed freight.

Class 8 trucks carry many different types of freight, including general, refrigeration, bulk, and flatbed freight.

The road we're on: Fewer trucks, less capacity

Looking back at the industry in the years leading up to the

recession, Avery Vise, executive director of trucking research and analysis at Randall-Reilly Business Media and Information, tells a story of an industry that was thriving. In 2006, he said, demand was high and trucking companies had plenty of cash. The worst thing they expected at the time was a mandated decrease by the U.S. Environmental Protection Agency (EPA) in diesel emissions for heavy-duty trucks, to take effect in 2007.

So in 2006, many trucking companies conducted what is called a "pre-buy." To avoid having to buy the upgraded, costlier trucks, they purchased inventory ahead of their normal schedule. So when the recession began in late 2007 and demand plummeted, these companies were left holding all their new equipment, said Vise. With so much excess capacity, truck values also plummeted and the companies ended up upside down (that is, they had negative equity) on their equipment.

When times are good, most companies run their trucks through the warranty period—about 48 months—and then buy new ones to replace the old. More recently, many companies have held onto their trucks longer than normal for several reasons: they lost the equity in their trucks, did not have enough cash reserves, or could not get credit even if they did have equity. All these factors combined to increase the age of the fleet in the postrecession industry.

In 2011, the trucking industry was operating with 12 percent fewer trucks than at the height of their business in 2006, according to the ATA's Costello. At the same time, tonnage levels were running about the same as or a little higher than those in 2006. The ATA's for-hire Trucking Tonnage Index for December 2006 stood at 110.6. In December 2011, the index value was 124.5. (Trucks hauled 10.7 billion tons of freight in 2006; 9.2 billion tons in 2011.)

Constrained capacity is actually benefiting the industry, for now. It's as simple as the law of supply and demand: tonnage is up, capacity is down, and so trucking companies have the pricing power to raise their rates. According to Miller Wellborn,

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Oscar Horton of Sun State International, a truck dealership, discusses the trucking industry in an interview. On frbatlanta.org, select "Podcasts."



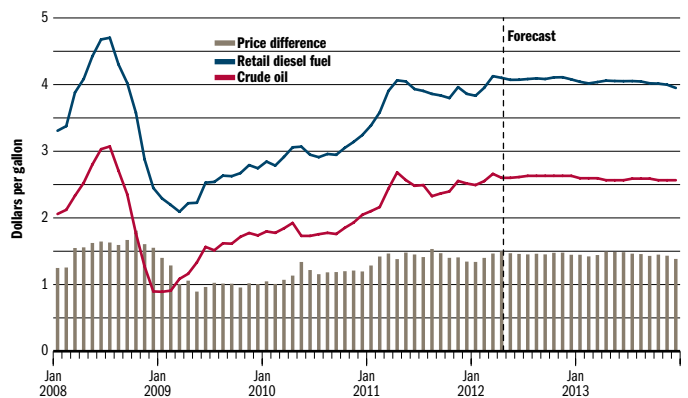


Chart 1
ATA's Truck Tonnage Index



Note: Data are seasonally adjusted.
Source: American Trucking Associations Inc.

Chart 2
U.S. Diesel Fuel and Crude Oil Prices



Note: Crude oil price is average refiner acquisition cost. Retail prices include state and federal taxes.
Source: U.S. Energy Information Administration, Short-Term Energy Outlook, May 2012

average \$4.06 per gallon in 2012, down 9 cents per gallon from the agency's outlook in April (see chart 2).

In general, "the vast majority of carriers can pass this cost on to customers," said Vise, "so on a net basis, high prices are not a big deal." The cost of fuel does become a big deal, he cautioned, when prices rise very quickly, as they did last year and as they did especially in 2008, when they spiked in July at more than \$4.70 a gallon. There is typically a 45- to 60-day lag between when the carrier makes a shipment and when the shipper pays the carrier for that shipment. If the shipper is paying a fuel surcharge based on the cost of fuel two months ago, and the prices are experiencing a double-digit rise, the carrier can be seriously harmed.

managing partner of Transport Capital Partners in Tennessee: "It's kind of like a light bulb went off for these company owners. They have learned that with a smaller fleet they can make more money." These companies have realized they have as much revenue as they had before, better margins, a smaller fleet to maintain, and fewer employees. Wellborn said that rates have gone up 10 to 15 percent, and are likely to go up another 10 percent over the next 18 months.

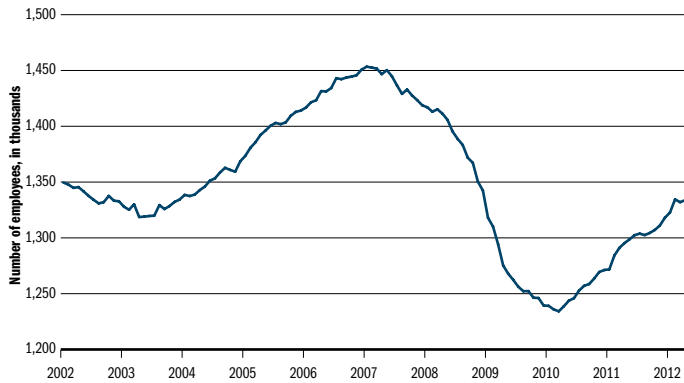
Over the last year and a half, the demand for new trucks has also increased. By the end of 2011, sales of Class 8 trucks stood at 171,358, a 60 percent increase from 2010. Class 7 truck sales were up 7 percent (41,212, compared to 38,350) over the previous year. (Listen to Oscar Horton, owner of a commercial truck dealership and a member of the board of directors of the Atlanta Fed's Jacksonville Branch, talk about his business in an *EconSouth Now* podcast.)

"But this is off a low base," emphasized Vise. "We're still not back to 2006 levels. And a lot of small trucking businesses still can't get access to financing." Small carriers represent the vast majority of the market, according to Vise. "More than 99 percent of them have fewer than 100 trucks. But some of the larger carriers are extremely large, and carriers with more than 100 trucks operate about 45 percent of the equipment."

The road we're on: Fuel efficiency

Top of mind for most consumers, rising fuel prices have also been a concern in the trucking industry. First, fuel is the second-highest expense for carriers, after labor—"sometimes the number one expense," said Vise. The year began with a rapid rise in gasoline and diesel prices, raising consumer fears, again, that inflation was imminent. However, by April, fuel prices stabilized. According to new data released by the U.S. Energy Information Administration (EIA), diesel prices were actually down 4.1 cents from a year ago. Looking ahead, the EIA estimates that diesel fuel retail prices, which averaged \$3.84 per gallon in 2011, will

Chart 3
Trucking Employment



Note: Data are monthly through April 2012 and are seasonally adjusted. March and April 2012 numbers are preliminary.
Source: U.S. Bureau of Labor Statistics

Firms that are forced to operate with minimal cash reserves in a time of rising prices are at risk of running out of cash. The fuel bill exceeds the surcharge, which is what brought down many of the trucking companies that failed in 2008.

But turnabout is fair play. The lag between current prices and two-month-ago prices can sometimes work in the trucking industry's favor. Almost as fast as oil prices rose in 2008, they dropped. Now the shippers were paying fuel surcharges significantly higher than the actual cost of the fuel. This situation actually helped save some of the trucking companies that were facing closure, Vise pointed out.

Because fuel prices can have such influence on the industry, companies—especially those that are owner-operator companies—are under constant pressure to reduce fuel consumption.

Some of the responsibility for fuel efficiency in trucks these days falls on the drivers, according to Vise. Idling was prevalent in the industry as recently as 10 years ago. Long-haul truckers, who spend more time on the road than at home, would leave their trucks running overnight at truck stops, for example, to get the benefit of heating or air-conditioning. Idling heavy-duty engines consume about a half gallon of fuel per hour—maybe not much for an individual truck, but a company with 500 trucks will lose quite a lot at that rate of consumption. So in recent years, as diesel prices have surged to three or four times the levels of the late 1990s, the industry has outfitted trucks with auxiliary power units for heating and cooling and to power televisions, refrigerators, and other amenities.

Fuel costs are not the only motivator for keeping fuel consumption low. The industry is facing an increased web of federal regulations intended to reduce consumption and to reduce the output of greenhouse gases. Trucks—not just heavy-duty trucks, but also pickup trucks and vans, fire trucks, and buses—make

up the transportation segment's second-largest contributor to oil consumption and greenhouse gas emissions. Trucks consumed 37.2 billion gallons of diesel fuel, for example, in 2010.

The EPA and DOT's National Highway Traffic Safety Administration announced their "Heavy Duty National Program" in 2011. This joint initiative, which will go into effect in 2014, will require that big tractor-trailers get 20 percent better mileage by 2018. The agencies predict that the new standards will reduce greenhouse gas emissions by about 250 million metric tons and save 500 million barrels of oil over the lives of the vehicles sold between 2014 and 2018.

Truck manufacturers are always working to improve fuel efficiency. Enhancements in truck aerodynamics, the production of lighter-weight trucks, and improved rolling resistance could all yield significant improvements in fuel economy, according to a 2010 U.S. National Academy of Sciences report. Manufacturers are developing trucks that will consume alternative fuels such as compressed natural gas or liquid natural gas. They are also designing "intelligent vehicle" systems that will reduce fuel consumption by encouraging drivers to make changes, such as reducing their speed, demonstrated to save fuel, according to a 2011 *National Geographic* article.

The road we're on: Employment

Postrecession, the trucking industry is experiencing something of a driver shortage, though not nearly at the levels of several years ago, when the shortage was a major concern for the industry. However, freight volumes are continuing to grow, and the diminished industry will sooner or later exceed capacity. Several intertwining factors, put into play before and during the recession, are working together to make it sooner rather than later.

First, jobs in trucking peaked in January 2007, several months before the official start of the recession. From this peak to the recession's end, the industry cut about 226,000 jobs (or 14.3 percent of trucking employment, according to numbers from the U.S. Bureau of Labor Statistics). Most of the eliminated jobs were drivers, said Vise, but many recruiters were also cut—no more drivers meant no need for the recruiters to hire them. Now that the trucking industry is growing again and the need for drivers is rising, companies now lack the human resources personnel to hire them (see chart 3).

What's more, many of the largest truckload carriers in the industry—including Swift, headquartered in Phoenix, Arizona, and Schneider National Inc. in Green Bay, Wisconsin—had eliminated their driver training programs altogether. Swift's and Schneider's programs in particular provided a steady pipeline of trained drivers. "Between those two companies, we lost thousands of drivers per year that would be coming into the industry," said Vise.

Another couple of factors are tied into the moribund housing sector. When housing revives, not only will it increase the

demand on freight delivery, but also many of the construction workers who left that industry to drive trucks will return to construction, according to Transport Capital's Wellborn.

In addition, federal regulation programs—some recently put in place along with some on the horizon—are also working to suppress the number of eligible drivers. In December 2010, the Federal Motor Carrier Safety Administration, part of the DOT, put into place its Compliance, Safety, Accountability (CSA) program. As the name suggests, CSA is intended to improve large truck (and bus) safety by reducing the number of crashes, injuries, and fatalities related to commercial motor vehicles. The program requires trucking companies to report accident and other information, data that are used to calculate a score that assesses driver safety. CSA then makes these scores publicly available. By making companies more accountable for their drivers' safety records, and making that information available to the public, the program has effectively made some drivers less employable. Another new program has increased the visibility of drivers' safety records by requiring them to keep electronic, rather than paper, logs. All these programs have combined to raise the bar for drivers.

Vise also pointed out that close to half the workforce does not even figure into the labor pool for truck drivers—fewer than

5 percent of truck drivers are women. Much of the industry is trying to develop strategies to woo not only women drivers but also other demographic groups. For instance, many companies are looking into reducing the length of time that long-haul drivers spend out on the road and away from family. Likewise, truck manufacturers are building heavy-duty trucks with automatic transmissions to appeal both to women drivers and older drivers, who might have trouble with the older 13-speed transmissions.

The road ahead

Whether the trucking industry recovers completely from the wounds it suffered during the recession depends on the direction of the greater economy. Currently, the economic recovery still appears vulnerable to headwinds. Unemployment and housing have been very slow to recover, as has construction. And the health of all these sectors is integral to the health of the trucking industry. Still, it seems clear that regardless of how the nation's economy does, the trucking industry has its work cut out: prepare for a critical shortage in drivers, adapt to regulatory changes, and keep on truckin'. ■

This article was written by Nancy Condon, associate editor of EconSouth.

Book Review continued from page 29

nology boom, a fact used as an example of how all jobs are created locally and how important cities are in the process. Unfortunately, what Clifton attributes to the city was in reality the result of the desire of William Shockley—winner of the Nobel Prize in 1956 for co-inventing the transistor—to set up his lab in his hometown, near where his mother still lived. The implication of crediting San Francisco with the jobs created by the Internet boom is that if Shockley had grown up in Syracuse, New York, for example, the Internet boom wouldn't have occurred, and the thought of the Silicon Finger Lakes instead of the Silicon Valley would have been impossible.

My point in highlighting these examples of inconsistent absolutes and exaggerations is that a less persistent, similarly skeptical reader may miss Clifton's more salient points, which include

why solving the problem of health care expenditures is not only important from a fiscal perspective but also from a productivity perspective; the importance of engaging workers as a means to increase productivity; and the importance of the distinction between innovation and entrepreneurship.

I also believe that Clifton's belief reflected in his declaration that "I don't like to read hardcore academic books" ends up depriving his readers of important information about how to accomplish the tasks he thinks are most important. For example, how do we foster more entrepreneurs? Edward Lazear, former chair of the Council of Economic Advisors from 2006 to 2009, has published an academic article in the *Journal of Labor Economics* that gives us some clues. Employers should be encouraged to be generous in the number of roles employees play, avoiding overspecialization. In addition, business

school curricula should be structured to produce generalists rather than specialists. Basically, the more general a business student's education and the more job roles the student takes on after graduate school, the more likely that person is to become an entrepreneur.

Despite my criticisms of the exaggerated tone, structure, and absence of supporting references, *The Coming Jobs War* is a quick read and contains some gems of ideas around which citizens, politicians, and "tribal leaders" could coalesce to make a difference and improve the economic future of the United States. But Americans should not pursue these goals because China is nipping at our heels. Rather, we must do so because achieving them will make the United States more prosperous and improve our overall well-being. ■

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\$136

Amount, in billions, of agricultural exports from the Southeast in 2011
Source: U.S. Department of Agriculture, as cited in *EconSouth's* article, "Out of the South: Exports Buoy Region's Economy"

95

Percent of U.S. electricity supplied by coal, nuclear energy, natural gas, and hydropower; oil and renewable energy contribute the remainder
Source: U.S. Bureau of Land Management

10.7

Amount, in tons, of freight hauled by trucks in the United States in 2006
Source: American Trucking Associations, as cited in *EconSouth's* article, "Truckonomics: An Industry on the Move"

9.2

Amount, in tons, of freight hauled by trucks in the United States in 2011
Source: American Trucking Associations, as cited in *EconSouth's* article, "Truckonomics: An Industry on the Move"

12

Increase, in percent, of Louisiana's natural gas production in 2011 from 2010 levels
Source: Louisiana Department of Natural Resources, as cited in *EconSouth's* article, "Amid National Energy Boom, a Complex Roux in Louisiana"

21

Time, in percent, spent in recession from 1915 to 2001, following the establishment of the Federal Reserve
Source: National Bureau of Economic Research

48

Time, in percent, spent in recession from 1857 to 1914, prior to the establishment of the Federal Reserve
Source: National Bureau of Economic Research



25

Cost, in cents, of a movie ticket in 1950. (Today, that same ticket would cost between \$7 and \$10.)
Source: "What's a Dollar Worth?" produced by the Minneapolis Fed and available on the Atlanta Fed's economic education page at frbatlanta.org

closing

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The quest for oil has always entailed danger and risk. The BP oil spill in the Gulf is a recent memory (above), but an oil fire in Mooringsport, Louisiana, in August 1913 then ranked as the country's largest well fire to date.

now **and** then