

## Regional Update

### Economic Activity Positive yet Disappointing

The rate of economic activity in the Southeast appeared to slow during the summer, but overall trends remained positive. For example, overall job growth was disappointing in the region in June, declining nearly 27,000. However, the private sector added almost 17,000 jobs across the region during the month, the difference in part reflecting the decline in temporary census employees. Taking a broader view, the Southeast added 32,600 private-sector jobs in the first quarter of 2010, which was followed by an additional 70,400 in the second quarter. The region's unemployment rate was 11 percent at the end of the first quarter but had fallen to just 10.4 percent by the end of the second, also reflecting slow progress in the labor market. While job growth has been slow and unemployment remains high, the overall trends in the labor market have been relatively positive, albeit disappointing.

### Consumers hesitate

Recent consumer indicators were disappointing. The Atlanta Fed's latest informal poll of retailers around the region showed that merchants were less optimistic than they were in the spring. Most respondents reported that activity in July was below expectations, and compared with June, traffic was down slightly. Regional measures of consumer confidence also fell recently. Most notably, the University of Florida's measure of consumer confidence declined in May, June, and July, perhaps in part because of the impact of the oil spill on Floridians' outlook. More broadly, retail activity and confidence have not held their gains of earlier in the year when economic activity began to accelerate. Consumer spending is clearly off its 2009 lows, but the slowdown in the rebound has been disappointing.

Overall, tourism continued to show signs of improvement compared with last year. Reports from Miami and New Orleans indicated that business-related travel and convention bookings remained positive. Leisure travel was positive in most Southeast destinations except for the Gulf Coast, where significant concerns were reported over the oil spill and its impact on tourism. Hospitality contacts in the area noted that some canceled bookings have been filled by the presence of cleanup crews, oil company workers, and the National Guard. Contacts not located along the Gulf Coast have stated that bookings have increased as a result of deflected business from oil-affected areas.

### Housing falters

According to reports from regional homebuilders, the level of new home sales in July continued to weaken, falling further below the year-earlier level. More than half reported that home sales declined from June to July. Overall, Southeast construction activity softened as well. Builders' comments indicated that

downward pressure on home prices was increasing, and more contacts reported that home prices declined on a year-over-year basis than in recent months. However, reports indicated that home inventories declined compared with a year earlier. The outlook among the region's builders for new home sales and construction remained weak, and comments suggested a growing level of frustration and concern.

Overall, reports from real estate agents indicated another sharp decline in home sales in July compared with a year earlier. Reports indicated that sales fell slightly below the year-earlier level. A look at responses on a month-to-month basis also indicate that sales growth continued to weaken as well, falling below the June level. Housing inventories in the region continued to rise on a year-over-year basis. Contacts noted mounting downward pressure on home prices across the region, and home prices weakened somewhat in July. The outlook for sales growth over the next several months improved slightly overall but remained somewhat negative on a year-over-year basis.

### Manufacturing cools

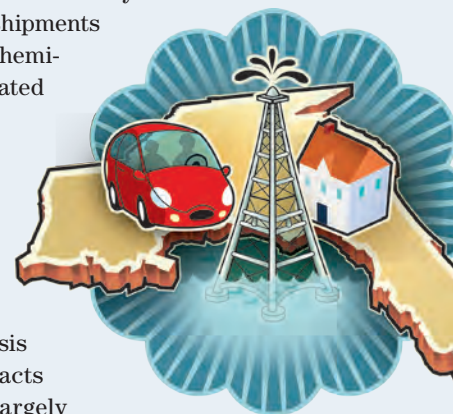
July's Southeast purchasing managers index (PMI) appears to be adjusting to a slowdown in the inventory cycle but still remains above 50, indicating expansion. However, the PMI reading of 56.3 for July is the third consecutive month of decline. July's decrease is the result of weakness in the new orders component of the survey, which has dropped because 18.6 percent fewer respondents reported higher new orders from April's high mark of 78.3. Supplier delivery time, a leading indicator, slipped from 32.4 percent of respondents reporting slower delivery in May to 13.9 percent doing so for July.

The Southeast's vehicle production and sales have gained steam this year, however. Vehicle production through mid-July was up 85 percent from last year, better than the nation's 68 percent increase. Regionally assembled vehicle sales—up 30 percent from 2009 levels—are also ahead of the national pace.

Freight activity remained above weak year-earlier levels, led by increased shipments of motor vehicles, metals, and chemicals. Meanwhile, contacts indicated that Gulf ports were operating normally, and commerce along the Mississippi River remained uninterrupted.

### Gulf oil spill's effects appear limited

To date, the Atlanta Fed's analysis suggests that the economic impacts of the oil spill have remained largely



localized. Numerous communities along the Gulf Coast are suffering the effects of the spill, but the direct impact on the national economy appears to have been relatively minor. As in the case of Hurricane Katrina, the two main risk factors our research identified for the national economy were energy supplies and transportation. To date, the supply of natural gas and refined petroleum products has not been significantly disrupted, and key transportation facilities remain operational.

In addition, the economic footprint of the affected area is relatively small compared to the size of the overall U.S. economy. The combined gross domestic product (GDP) of metro areas along the region's Gulf Coast affected by the spill (from Loui-

siana to Panama City, including Lafayette and Lake Charles but excluding New Orleans) is less than 1 percent of total U.S. GDP. If we include New Orleans (which is excluded because its economy does not appear to be significantly affected), the total rises to 1.9 percent.

Since we have not seen disruptions in the energy or transportation sectors—and because of the limited size of the affected Gulf economic footprint—we do not see the Gulf oil spill as having a significant impact on the national economy. ■

## University Studies

The explosion of the Deepwater Horizon drilling platform on April 20, 2010, and the resulting oil spill have had a significant economic impact on the communities along the Gulf Coast (see this issue's cover story). Several university contacts in the region have shared their thoughts and ideas concerning the impact of the Gulf of Mexico oil spill with the Atlanta Fed. As members of the Local Economic Analysis and Research Network (LEARN), these experts provide valuable insight into local economic conditions. The following information provides key points from a few members on how the oil spill has hurt their areas' business and consumer confidence.

### Mississippi's business confidence was rising until the oil spill

After improving in four out of the five previous quarters, the index gauging business confidence among Mississippi Gulf Coast chief executive officers and business owners posted a decline in the second quarter of 2010. The report, released by the Gulf Coast Business Council Research Foundation, indicated that "the Mississippi Gulf Coast's sudden drop in confidence likely had more to do with the Deepwater Horizon oil spill than prevailing economic conditions." This statement was supported by the 28 percent of survey respondents who submitted written comments stating that their primary concerns for the upcoming

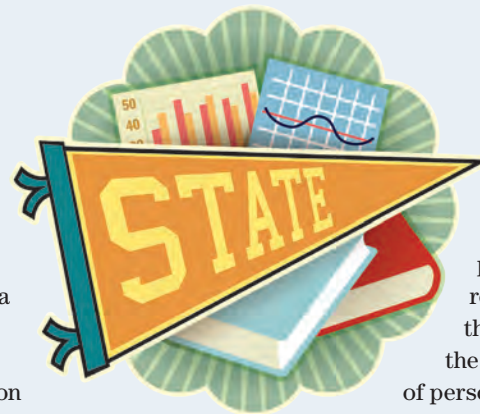
six months related to the impact of the oil spill. Their comments included concerns about indirect fallout from a negatively impacted tourism industry, downward pressure on commercial real estate, and a general uncertainty about the impact on the economy of the Mississippi Gulf Coast. The foundation collaborates with other LEARN members, such as the University of Southern Mississippi, Mississippi's Institutions for Higher Learning, and the Mississippi Development Authority, to provide ongoing research on oil spill-related economic impacts.

### Florida showed glimmers of a turnaround before oil spill

The University of Florida's consumer confidence index fell two points in July, to 65, from a revised June index of 67. "It was no surprise that consumer confidence remained subdued among Floridians in July as the oil from Deepwater Horizon continued to flow into the Gulf most of the month," said Chris McCarty, the survey director. The breakdown of the individual components shows that the components related to expectations experienced a more significant decline from the previous

month. In particular, the expectations of personal finances component fell four points to 72, the lowest reading in the history of the survey. According to the report, expectations of personal finances a year from now are at the lowest level ever recorded, as Floridians don't foresee a good outcome to the spill's effect on the state's economy.

McCarty concludes the report by predicting "that future reports of taxable sales will show a decline, attributable both to declines in tourism and caution on the part of Florida consumers who are uncertain about the effect of the spill's aftermath on their future finances. Whether the effects are real or not—and at this point the real effects seem to be limited to the northwest coast—perceptions reaching outside Florida to tourists and potential in-migrants around the globe are hampering economic recovery in the Sunshine State. Unfortunately, the absence of oil on Florida's beaches is a far less interesting story than one that reports on the potential for disaster." ■



## Data Corner: Consumer Confidence Indexes

The confidence of consumers gets a fair amount of attention because consumer spending makes up a large part of the U.S. economy. To gauge consumers' mood, surveyers have constructed indexes based on their information about consumers' level of confidence in the economy.

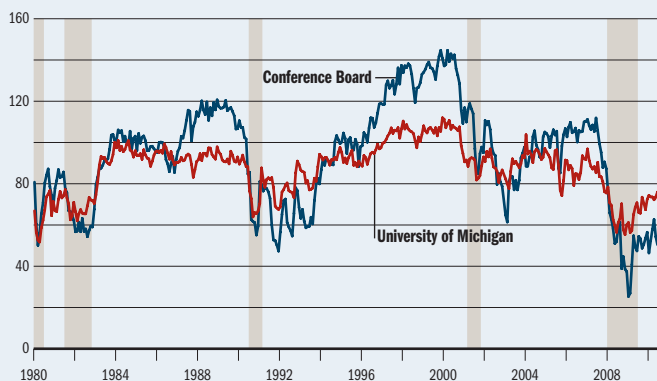
Two of the more prominent consumer confidence indexes are from the Conference Board and the University of Michigan (see chart 1). Both are available on a monthly basis, but the University of Michigan also releases a preliminary midmonth estimate and a final estimate at the end of the month.

The Conference Board and the University of Michigan survey consumers across the country every month to ask questions regarding business conditions and personal finances. Both surveys ask questions about consumers' perspectives on the current economic condition and their future expectations (see charts 2 and 3), and their responses are used to build the indexes.

The two indexes differ in some respects. The University of Michigan surveys about 500 consumers, while the Conference Board surveys about 3,500 households a month. Also, some of the survey questions differ. For example, the University of Michigan asks a question about future buying plans. The Conference Board asks questions about consumers' perspective on the labor market. Because of the methodological differences, there can be some differences in the levels of the indexes. However, they tend to move in the same direction.

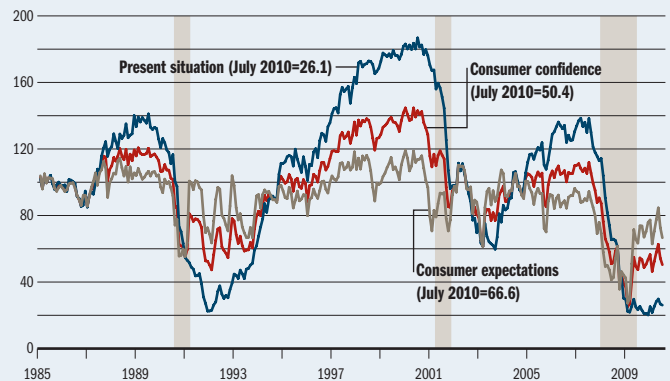
The overall consumer confidence index gets most of the press coverage. Also worth paying attention to are the current conditions and future expectations indexes. In addition, the Conference Board and the University of Michigan construct

Chart 1  
University of Michigan and The Conference Board  
Consumer Confidence Indexes



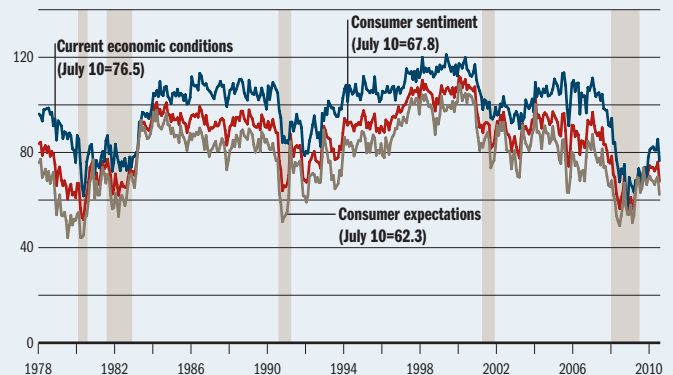
Note: Data assume recession ended June 2009.  
Source: The Conference Board and the University of Michigan

Chart 2  
The Conference Board Consumer Confidence Index



Notes: Data are seasonally adjusted. 1985=100. Data assume recession ended June 2009.  
Source: The Conference Board

Chart 3  
University of Michigan Consumer Sentiment Index



Note: 1966 Q1 = 100. Data assume recession ended June 2009.  
Source: University of Michigan

indexes dissecting consumer confidence between geographical areas, income levels, and age groups.

To make predictions about consumer spending based on the indexes can be difficult as they can be volatile from month to month, but looking at the general direction of the indexes gives an idea of consumers' economic outlook, which may be reflected in their spending decisions.

Recent readings show tempered consumer confidence in the economy. The readings have improved since the recession, but they are still far below the levels of consumer confidence that typically accompany economic expansions. ■

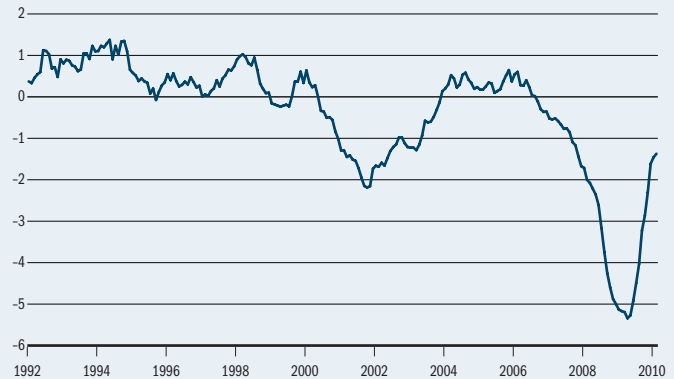
## The D6 Factor

The D6 Factor landed at -1.4 in June, ending the second quarter of 2010 slightly higher than the first quarter. (A negative value indicates that economic conditions are weak.) However, the trend seems to be slowing as the index inched up only five-tenths of a point from the previous quarter. The improvement, albeit small, was positive, which indicates improving conditions for some of the underlying series that are used to compute the index. The D6 Factor has steadily been trending upward from its record low set during the third quarter of 2009, marking the third consecutive quarter of increases for the index. ■

### About the D6 Factor

The D6 Factor is an estimate of the trend common to 25 distinct monthly series of economic data for the six states of the Sixth Federal Reserve District. It provides a broad measure of Southeastern economic conditions that is available more frequently than estimates of gross domestic product (GDP) for the six states. Also, unlike an average of state-level GDPs or other factors, the D6 Factor can filter out idiosyncratic shocks that disproportionately affect individual states. For detailed information on the D6 Factor's construction, see "When More Is Better: Assessing the Southeastern Economy with Lots of Data," by Pedro Silos and Diego Vilán (*Economic Review*, Third Quarter 2007).

The D6 Factor



Note: The growth rate is normalized to zero. Data are through June 2010.  
Source: Federal Reserve Bank of Atlanta

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

### How has your region been affected by the Gulf oil spill?

#### Julius Weyman, regional executive at the Birmingham Branch of the Atlanta Fed:

The simple summary for Alabama is the oil spill has hammered the portion of the Gulf Coast region that belongs to Alabama. The big-ticket item for the people and businesses in this area is tourism, and it is clear that this sector has been punished. The real estate sector down on our coast, already reeling because of the recession, is also having a hard go of it. The Gulf Shores, Fort Morgan, and Orange Beach areas are really struggling and could lose a lot before things are settled down. The area is different from many places in that a large proportion of businesses are smaller, owner-operator affairs as opposed to national chains. That limits their ability to endure, particularly as the spill comes on the heels of a major recession. Many endured and leveraged, hoping this would be their bounce-back year. That won't be happening now.

On a different issue, Mobile and some parts of Baldwin County attached to Mobile's port economy provide an opposing view. While the tourism sectors have also suffered in these areas, business spending from BP and others involved with the cleanup have propped the area up, offsetting some of the losses from traditional tourism spending.

#### Chris Oakley, regional executive at the Jacksonville Branch:

On the east coast of Florida, there has been no significant negative impact from the oil spill. In northeast Florida, the

oil spill has created a tight summer rental market for the beaches, and many in the hospitality industry have seen record occupancy in the month of July as a result of deflected business from the Panhandle, Alabama, and Mississippi. Most contacts in central Florida have not felt any significant impact from the oil spill, but along the Gulf Coast, small business are suffering because the peak season for profitability has come and gone. West coast and Panhandle retailers virtually unaffected physically by the spill are seeing weaknesses in sales, though not at a catastrophic level.

We have heard grim stories of the economic impact of the oil spill: hotel projects in the Panhandle that may be postponed or cancelled altogether and retail boat sales on the Gulf Coast that have come to a standstill in some areas. There is a gloomy economic climate, and the uncertainty of the long-term impact on the fishing and tourism industries has most companies in a holding pattern, delaying capital expenditures and other business decisions.

Our contacts feel that the damage to the Gulf Coast brand could be significant, and no one knows how long it will take to rebuild confidence in the safety of the waters for recreation and seafood consumption. When cleanup workers, media crews, and politicians stop coming to the area, there will be a significant and possibly long-term dip in the Gulf Coast economy. Many folks are frustrated with the continued negative publicity in the national media coverage, when in reality things are not nearly as bad as



the news portrays, and while the physical effect of the spill seems to be limited to the northwest corner of the state, the perceived impact to would-be tourists will continue to impede Florida's economic recovery. Though it's too late to rescue the summer tourism season for Florida's west coast and Panhandle destinations, some news outlets are finally now beginning to report on the media's exaggerated accounts of oil-covered beaches.

**Juan del Busto, regional executive at the Miami Branch:**

There have been winners and losers in the tourism industry as a result of the oil spill. Contacts on the east coast of Florida have reported additional bookings by folks who diverted from the west coast of Florida, the Panhandle, and other Gulf Coast areas as a result of fear of oil intrusion ruining their travel plans. This includes both business and leisure travelers. To counter this, some hotels are offering special cancellation policies for their Gulf area hotels. We cannot assign numbers to just how much business shifted from the west coast to the east coast. One contact on the South Florida west coast area—Naples, Marco Island, and Everglades Convention and Visitors Bureau—said that reservation activity ground to a standstill. While some local tourists are savvy enough to know the east coast of Florida versus the west coast and where the oil has actually washed up on the shore, this is not true of some international tourists. To this latter group, geographically, oil washing up on the west coast beaches of Florida is the same as the east coast and all of Florida being impacted, thus causing them to cancel plans to visit Florida.

Further exacerbating the problem and the impact on tourism has been the NOAA [National Oceanic and Atmospheric Association] reporting and the media frenzy. Tourism contacts said a July 2 report by NOAA set back the tourism business leading into the Fourth of July weekend. NOAA reported a 61 percent to 80 percent

chance of oil hitting the Miami and southeast Florida beaches, which to date has not occurred. The convention and visitors bureaus tried to implement some damage control with advertising, but reports like this do not help.

The future impact for the second half of 2010 and beyond is unknown. The good news is that currently the leakage has stopped. However, the remaining oil in the water and where and when it may wash onshore and its impact is also unknown. The tourism bureaus are actively advertising, and many of the hotels—particularly in the Gulf and west coast of Florida—have incorporated flexible cancellation policies and concessions along with low room rates.

**Lee Jones, regional executive at the Nashville Branch:** We are the one Atlanta Fed office with no coastal areas. However, the East Tennessee region has experienced a surge in tourism as the Gulf oil spill has diverted family vacation plans to other regions. Cabin/chalet rentals in the Pigeon Forge and Gatlinburg areas are booming. Hotels are maintaining at least a 95 percent occupancy rate, with some days at 100 percent. According to the Gatlinburg Chamber of Commerce, local vendors reported a healthy increase in May sales over the same month last year.

**Robert Musso, regional executive at the New Orleans Branch:** The spill has had a detrimental effect on the seafood industry, specifically the oyster industry. More devastating on the human psyche, however, has been the moratorium on drilling new oil and gas wells, which may have long-lasting effects on employment and the oil industry. ■

## Econ 101: Sticky Prices

The most popular measure of price inflation in retail goods and services in the United States is the consumer price index (CPI). The U.S. Bureau of Labor Statistics computes the monthly index by measuring the average change in retail prices for a weighted basket of more than 200 assorted goods and services. While changes in the overall index can provide valuable information about recent price changes, the underlying data may also be useful in gauging future inflation.

All components of the CPI index do not necessarily behave the same way. For many of the products in the consumer basket, prices can be adjusted relatively frequently and with ease—think of gasoline or tomatoes. However, in some markets, price adjustments only take place every couple of months, or even annually or longer—like medical fees or rent. These “sticky” prices are not as sensitive to changing market

conditions as flexible prices, but they may contain more information about inflation expectations. A recent study by Federal Reserve researchers Michael Bryan and Brent Meyer found that inflation forecasts based on sticky price data tend to be more accurate than those based on the overall headline or core CPI index—an indication that this series may be one to watch for signs of future price trends.

The Atlanta Fed publishes a sticky price index each month at [frbatlanta.org](http://frbatlanta.org), and the index sorts the components of the CPI into either flexible or sticky categories. ■

