Regional Update

Regional Recovery Continues at a Modest Pace

Recent data and reports from the region's business contacts indicate that economic activity continues to increase moderately, although labor market indicators continue to lag. A majority of business contacts indicated that current cost pressures remain high, citing increasing material prices and rising benefits outlays. However, most firms remained reluctant to pass input cost increases through to consumers given intense competitive pressures. Recently, though, some manufacturing and retailing contacts noted that they are anticipating passing on price increases to customers in 2011.

Retail sales and tourism revive

Most southeastern retail stores noted that holiday sales were above their expectations and indicated that traffic and sales increased compared with a year ago. The outlook among merchants remained optimistic. District automobile dealers indicated that vehicle sales improved recently and were ahead of year-ago levels. Sales of commercial trucks were also up modestly.

Tourism activity increased slightly relative to year-ago levels for both business and leisure travel, and the outlook remained modestly positive going into 2011. Hotel occupancy rates rose in several of the region's major markets compared with last year. Cruise lines reported an increase in both bookings and pricing power.

Real estate and construction remain soft

Weakness persists in the real estate sector as both builders and brokers noted very low levels of activity.

Reports from most Southeast homebuilders indicated that the pace of new home sales growth remained weak. Builders also noted construction activity held steady at very low levels. The outlook was mixed, with Florida and Georgia builders expecting weaker activity over the next several months, while elsewhere in the region, homebuilders expected only modest improvements. Monthly home price measures indicated that new home prices in the Southeast continued to weaken, most notably in Alabama and Florida.

Residential broker reports indicated that the pace of existing home sales growth remained weak compared with a year ago but said declines had moderated. Throughout the region, distressed sales continued to hold down existing home prices, which remained below year-earlier levels in most areas. Real estate agents' outlook for sales growth over the next several months improved somewhat from previous reports.

Nonresidential construction activity remained at low levels as well. Commercial contractors reported that the pace of development and backlogs remained below the year-earlier level. Contacts indicated that access to funding remained challenging, and competition for projects had become more intense. Many indicated that they expected the commercial market to remain constrained in 2011.

Manufacturing and transportation see mixed performance

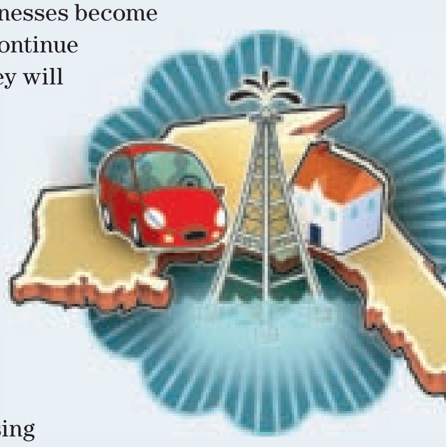
Most manufacturers noted increases in new orders and production levels, although those producing construction-related goods continued to experience slower activity. Several contacts expressed plans to increase production in the short term. Transportation companies reported that freight volumes were rising but that the pace of growth had slowed.

Labor markets struggle to grow

Southeastern states shed 57,500 jobs in December 2010, while the aggregate unemployment rate for the region remained at 10.5 percent—well above December's national rate of 9.4 percent. Business contacts reported that their hiring plans for 2011 have not changed, with most remaining hesitant to add to their permanent labor force until they experience a sustained increase in sales. Southeastern firms continued to note a preference for increasing existing staff hours and using part-time or temporary staff to hiring permanent, full-time workers. Nevertheless, some contacts noted that they plan to hire in 2011 at a conservative pace in response to increased output and planned store openings. However, state and local budgets remain under stress, which may result in cutbacks to public sector employment in 2011.

Atlanta Fed President Dennis Lockhart spoke at Miami Dade College on January 31, noting, "Confidence appears to be growing. According to the Conference Board, consumer confidence rose sharply in January. Business confidence is also building. Business leaders remain cautious regarding investment and hiring, but in my contacts with business people across a range of industries, I hear more optimism than I heard even a few weeks ago. I believe that as businesses become more assured that growth will continue and their revenues will grow, they will increase investment and hiring."

Although not reflected in labor market data through December, employment should grow slowly as this renewed confidence gains traction.



Prices feel pressure

A majority of business contacts indicated that current cost pressures were higher, citing increasing material prices and labor and benefit costs. Many firms also noted that they were setting aside funds for expected future increases in employment taxes and health care costs. However, firms remained reluctant to pass input cost increases through to consumers given intense competitive pressures.

Lockhart noted these trends in his Miami speech when he said, "We are hearing stories that businesses incurring higher input costs may try to pass them through to retail prices. Higher input costs have not, however, translated to broad inflation of consumer goods and services. And, importantly, longer-term inflation expectations have stabilized in a healthy range."

Nearly all contacts noted that markups were either near or below what they considered to be normal, reporting that increased productivity has placed some downward pressure on product prices.

Looking ahead, we expect the region to continue to mirror the national recovery, but perhaps at a more modest pace because of the significant impact of the weak housing sector and the slow pace of development in the region. ∎

University Studies

Although the Great Recession ended in June 2009, overall growth during 2010 was weak compared to previous post-recessionary periods. However, towards the end of the year, signs of improvement began to appear as gross domestic product (GDP) growth accelerated and labor markets began to stabilize. Annual forecasts produced by members of the Local Economic Analysis and Research Network (LEARN) indicate that the pace of growth should be sustainable and that 2011 is anticipated to be a better year.

Alabama anticipates leveling out in 2011

Alabama's economy was stable during 2010 and, according to the University of Alabama's economic outlook, the state should begin showing steady growth in 2011. Sam Addy, the director of the Center for Business and Economic Research, calls for Alabama's real GDP to grow more than 3.4 percent for the year. Employment should increase 0.7 percent in 2011 after declining 1.1 percent in 2010. The report also foresees unemployment remaining high for some time. However, as a result of the state's diverse job base, Alabama's economy should rebound more quickly than other states.

Recovery under way in Georgia

Georgia's economic recovery was sluggish in 2010, but the University of Georgia's Simon S. Selig Jr. Center for Economic Growth estimates that Georgia will sustain its recovery and expand GDP by 2.3 percent in 2011. According to the center's forecast, 2011 will mark the end of three years of job losses, but the state's jobless rate will remain stubbornly high. Georgia's nonfarm employment is predicted to rise by about 1 percent, the first annual gain for the state since 2007. The state's unemployment rate is forecast to decline to about 9.5 percent by the end of 2011. The center also forecasted that the state's fastest-growing industries in 2011 will be business services and the transportation and warehousing industry. It also noted that for the first time in many years, Georgia's manufacturing industries will add jobs.

The center predicts that consumer spending in the state will increase about 2 percent in 2011, which is tepid from a historical standpoint but a welcome improvement compared with 2010. As for the housing market, the center expects Georgia's home sales to continue to rebound in 2011, which should allow home prices to stabilize. However, the huge inventory of unsold homes will keep a lid on home-price appreciation.

Slow recovery foreseen for Mississippi

According to the semiannual *Mississippi Economic Review and Outlook*, published by the Mississippi Institute of Higher Learning, Mississippi's recovery from the recession could be a slow one. Marianne Hill, senior economist at the institute, forecasts Mississippi's gross state product to rise to 2.1 percent in 2011. The report also projects employment to increase in 2011 by about 0.6 percent and the unemployment rate to drop to 10.2 percent from 10.9 percent in 2010 as job creation gains momentum. Personal income is expected to rise 3.1 percent in 2011, in line with trends in employment and output. Wage and salary payments are forecast to rise 2.5 percent in 2011, up from an increase of only 0.5 percent in 2010. ∎

Data Corner: Small Business Trends

Recent data from the Atlanta Fed's fourth quarter 2010 survey of small businesses shows business conditions improving in the Southeast, but access to credit markets remains a challenge for many businesses. Employment at small firms has also picked up in recent months, contributing substantially to overall job growth for the nation. The desire and ability of small firms to expand and hire new employees plays a large role in the pace of the economic recovery, according to the survey.

Economic outlook brightens

Small business owners in the Southeast anticipate hiring more employees, expect sales to accelerate, and plan to spend more on capital expenditures in the coming months, according to the 131 firms that participated in the Atlanta Fed surveys in the last three quarters of 2010. Excluding those in the construction and real estate industries, 41 percent of repeat respondents anticipate increasing employees over the next 6 to 12 months. Further, the net percent of respondents anticipating an increase has been steadily improving throughout 2010 in all three categories of economic activity.

Firms' Outlooks for Hiring, Sales, and Expenditures

Anticipated changes to:	Construction and real estate			All other industries		
	Q2	Q3	Q4	Q2	Q3	Q4
Employees	-13	-7	-11	26	28	32
Sales	16	18	17	38	49	50
Capital expenditures	-21	-7	-9	10	20	31

Note: Figures represent percentage of survey respondents' anticipated changes. The responses equal the percentage of firms anticipating positive changes minus the percentage of firms anticipating negative changes. The three surveys cited included 131 respondents.
Source: Atlanta Fed small business survey

This activity is consistent with the nationwide trend in employment at firms with fewer than 500 employees. While only about half of all private payroll employees work at small businesses, more than 90 percent of private job growth has come from small businesses during this period, according to a national employment report from the payroll-processing firm ADP.

Credit availability shows mixed progress

Access to credit remains an obstacle to many small businesses. The portion of lenders in the Federal Reserve Board's Senior Loan Officer Opinion Survey on Bank Lending Practices reporting more willingness to lend did not improve in the third or fourth quarters of 2010 despite recent increases in the portion citing greater demand. Repeat respondents in the Atlanta Fed small business survey have a slightly different story to tell. Excluding firms in the construction and real estate industries, the portion experiencing no obstacles to credit has increased for three consecutive quarters while the percent citing tighter lending standards has fallen. The percentage of firms that had their financing needs met mostly or in full decreased slightly in the fourth quarter, but combined with information from the senior loan officer survey showing that demand is increasing, this result could be because of a greater number of requests for credit.

Firms' Credit and Financing Experiences

	Construction and real estate			All other industries		
	Q2	Q3	Q4	Q2	Q3	Q4
Percent who had their financing needs met mostly or in full	57	57	50	81	88	86
Percent experiencing no obstacles to obtaining credit	24	22	27	45	48	51
Percent citing tighter lending standards as an obstacle to credit	59	61	57	37	39	34

Note: Figures represent percentage of survey respondents. The three surveys cited included 131 respondents.
Source: Atlanta Fed small business survey

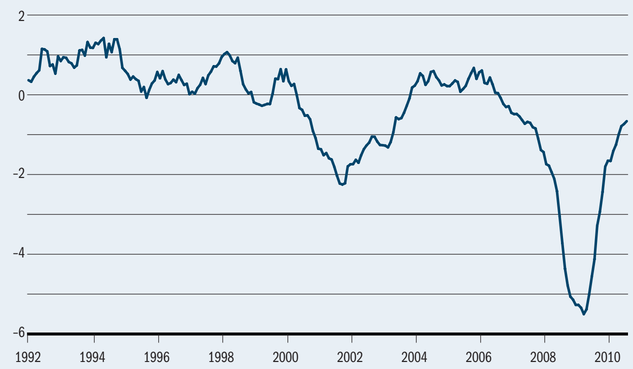
While economic outlook measures have improved recently and credit conditions suggest progress, conditions remain below those seen before the recession, and full recovery could prove especially prolonged for the hard-hit construction and real estate industries. ∎

The D6 Factor

The D6 Factor remained negative for all of 2010, ending the year at –0.66. The index improved by 0.34 points from the previous quarter and by more than 3.5 points from a year ago. The D6 Factor has been on the upswing since the record low of –5.5, set in April 2009. Although the index has been in negative territory since December 2006, the year-end level represents overall improvements in southeastern economic activity. ▮

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

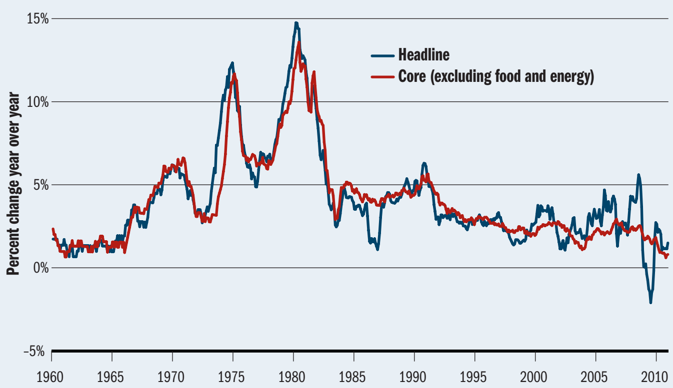


Note: Data are through December 1, 2010.
Source: The Federal Reserve Bank of Atlanta

Econ 101: Inflation, Deflation, and Disinflation

A general rise in the level of prices over time, when each unit of currency buys fewer goods and services, is referred to as *inflation*. *Deflation*, on the other hand, refers to a fall in the general price level. *Disinflation*, conversely, describes a scenario when prices are rising, but at a slower pace than before—or a declining rate of inflation. In other words, if the rate of inflation is positive but falling, prices would be disinflating; if inflation is negative the economy is experiencing deflation.

Consumer Price Index



Note: Data are through December 2010.
Source: U.S. Bureau of Labor Statistics

Excluding a few notable exceptions, the United States has generally experienced positive but modest inflation in the post-Depression era. In the past 20 years, prices have grown at an average pace of around 2.5 percent. However, on a month-by-month basis, overall—or *headline*—inflation can be volatile. For that reason, economists often refer to *core* inflation. Core inflation attempts to smooth out the headline number by excluding the most volatile components, typically food and energy prices, which tend to show a relatively large monthly variance. (Other measures of core inflation include trimmed-mean, median, and moving averages of price statistics.)

More than a half-dozen major statistics aim to gauge changes in prices in the United States, including the consumer price index, the personal consumption expenditures price index, producer prices, import prices, employment cost index, and unit labor costs. ▮

On the Ground: An Interview with Tom Cunningham, Atlanta Fed Regional Executive

Would you briefly describe the role of Georgia regional executive? The Federal Reserve Bank of Atlanta has established the Regional Economic Information Network, or REIN. The logical outcome of the federal nature of the Federal Reserve System is that while monetary policy is not made on the basis of local conditions, each district or region served by a Reserve Bank can bring local economic information to the policymaking process, and information will collectively span the domestic economy. The Atlanta Fed's REIN initiative is our attempt to make that process systematic. Our region is quite large, and the information gathered through our REIN process can be quite useful in the policymaking process.

How is information gathering structured throughout the Atlanta Fed's region? Each of the branch offices in the Sixth Federal Reserve District (Jacksonville, Miami, Birmingham, Nashville, and New Orleans) has an executive who functions as the focal point for REIN activities in that section of the region. Atlanta is the headquarters for the Sixth Federal Reserve District and so can be thought of as a branch of the Atlanta Fed serving Georgia. So the Atlanta regional executive functions as the focal point for REIN activities within the state of Georgia.

In the private sector, the territory of the Federal Reserve Bank of Atlanta contains 38 of the Fortune 500 companies. Of those, 14 are located in the state of Georgia. In the public and nonprofit sectors, Georgia is home to many national and multinational organizations that significantly influence or respond to national and world events. Discussions with the leaders of those organizations can provide a great deal of insight into the challenges faced by the overall economy.

Outreach to local chambers of commerce, trade associations, and other various local groups are also an important way of bringing the perspective of small and medium-size businesses as well as the general public to the policy table. Again, the regional executive is central to that effort.

What do you bring to the job? For about a decade, one of my assignments in the Atlanta Fed's research department was to run our regional research group. That assignment happened to coincide with the Atlanta Olympic Games, so it was an interesting time for an economist watching the region. Economists have terrific models for thinking about how small, open economies interact with the rest of the world. In the real world, however, there are a lot of complications in trying to apply those models. Our region, however, has an economy that is large—roughly the size of Italy—and is completely open in most of its trade, because that trade is done with the rest of the United States. So in an abstract sense, we can use the international trade models to understand a lot of what's going on, both in our region and in the rest of the United States. It's a cool application of the models, and it can be really useful for understanding economic phenomena that might otherwise take a long time to show up in the macroeconomic data. I think my experience in the regional group is going to provide a really useful base for this new assignment. ▮