Effect of the Economic Downturn in the Fifth and Sixth Federal Reserve Districts – the Southeast

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The states in the Fifth and Sixth Federal Reserve Districts are shown in Table 1. As seen, the states, and the local units within them, are economically diverse. Four of the 11 states rank among the lowest nationally with regard to state gross domestic product (GDP) including Mississippi (50), West Virginia (49), South Carolina (46) and Alabama (44). The local units within these states, already strained economically, are likely to be harshly affected by the recession. Louisiana, ranked 38th, is in worse shape than indicated by its GDP because the price of oil has plummeted. Three states rank around the middle in state GDP (Georgia—26, Florida—25, and North Carolina—21) while Maryland (14) and Virginia (8) are relatively affluent. An examination of other economic indicators similarly reveals similar variation. Moreover, some state and local revenues are threatened by particular economic indicators as will be noted.

Economic Activity

From August 2007 to August 2008 economic activity declined in 36 states.[1] However, economic activity had declined in only 2 of the 11 states in the 5th and 6th Districts as of the last calculation of this indicator in August 2008. Economic activity in Georgia and Alabama decreased by 0.2%; increased in West Virginia by 2.6%; and increased by 0.5% on average in the 11 states. This indicator likely has taken a downturn as indicated by rising unemployment rates in many of the states.

Unemployment Rate

In November 2007 state and local units experienced relatively low unemployment rates. The average unemployment rate was 4.1%, ranging from Virginia (3.2%) to South Carolina (8.4%). In November 2008 the average unemployment rate has increased to 6.5%, which was a 51% increase. Four states experienced dramatic increases: Alabama, 3.7% to 6.7% (81% increase); North Carolina, 4.7% to 7.9% (68% increase); Georgia, 4.5% to 7.5% (67% increase); and Florida 4.4% to 7.3% (66% increase). South Carolina has the third highest unemployment rate in the country (8.4%). High unemployment rates especially strains state and local services such as Medicaid, public hospitals, food stamps, unemployment insurance, public health and public housing. Less severely affected, four states maintain relatively low unemployment rates including West Virginia (4.6%), Virginia (4.8%), Louisiana (5.3%) and Maryland (5.3%).

Homes in Foreclosure

Triggering the recession has been the inability of many homeowners to pay their mortgages as housing prices have plummeted in some states and locales. The average foreclosure rate, as of October 2008, in the study states was 3.7%. The foreclosure rate in

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[1] Donald Boyd and Lucy Dadayan. 2008. *The Damage is Just Beginning.* The Nelson A. Rockefeller Institute of Government.

Florida was by far the highest (15.6%). A distant second was Maryland (4.2%). The rest of the states are closely bunched between Alabama (1.1%) and Virginia (3.3%).

Reliance of Finance and Insurance

With the housing downturn, many lending institutions, saddled with ill-advised loans, have either ceased to exist or have merged with other institutions. In the study states, North Carolina is most reliant on finance and insurance institutions, ranking 5th nationwide. In 2007 North Carolina the finance and insurance business sector contributed 12.7% of the state's GDP. The merging of Wachovia Bank with Wells Fargo Bank has had severe economic consequences for North Carolina in general and the Charlotte metropolitan area in particular. Reliance on this business sector ranged from Maryland (3.1%) to North Carolina (12.7%) averaging 6.0%.

Revenue Dependency

The revenue mix of local government and state governments is one indicator of governments' ability to weather economic downturns, other factors being equal. Local units that are heavily dependent on state revenues can see states reduce their transfers to balance state budgets. Property taxes tend to decline less than the sales or income taxes because most localities do not assess properties annually. Assessed values thus remain the same during a recession except for properties sold at lower prices and properties that are foreclosed. Sales and income taxes, however, can decline even faster than the decline in national and state GDPs. Finally, local units set the price of current charges and utilities. Table 1 indicates the percent distribution of municipal government revenues from the state government, property and sales taxes, current charges and utility revenues.

State Government Revenues

Maryland is by far most reliant on state government transfers. Forty one percent of its revenues are from the state, followed by Mississippi (21.0%) and Tennessee (12.7%). Most states, however, are less reliant ranging from West Virginia (2.7%) to Florida (8.2%) and averaging 10.8% for the 11 states.

Property Taxes

Most dependent on the property tax are Virginia (25.3%), Maryland (23.3%) and North Carolina (21.9%). The other states range from Alabama (5.8%) to Florida (17.2%) and average 15.1% for the 11 states.

Sales Taxes

Louisiana (25.2%), Alabama (24.9%) and Florida (13.2%) rely most heavily on the sales tax. The other states range from North Carolina (0.8%) to Georgia (8.3%) and average 8.3% for the 11 states.

Current Charges

Most dependent on current charges is West Virginia (40.2%) and Mississippi (29.0%). The other states range from Maryland (8.3%) to Georgia (23.4%) and average 19% for the 11 states.

Other Economic Indicators

Louisiana received just over 8 percent of its revenues in 2007 from severance taxes mostly from oil and gas according to Census Bureau data. In May 2008, with oil prices at an all-time high, the legislature reduced income taxes by $360 million. However, as the price of oil has plummeted, an $865 million surplus has turned into a projected $2 billion deficit next year.[2]

Local units in Alabama and Maryland receive 2.2% and 5.7% of their revenues from the income tax, respectively. State and local units dependent on manufacturing generally and the automotive sector in particular are being especially rocked by the economic downturn. Sales of foreign cars have declined less than those of American cars. Four of the 11 states have foreign car manufacturers including Kentucky (Toyota), South Carolina (BMW), Alabama (Mercedes Benz and Honda), Tennessee (Volkswagen and Nissan) and Georgia (Kia). These states stand to benefit greatly should Ford, General Motors and Chrysler continue to decline.

Summary

Especially challenged by the recession are the less affluent states. Four of the six poorest states include Mississippi, West Virginia, South Carolina and Alabama. All but South Carolina have unemployment rates higher than the average for the 11 states. North Carolina has had a 68% increase in unemployment and relies heavily on the hard-hit banking sector. Louisiana has witnessed a sharp reversal in fortune as oil prices have plummeted. Florida is among the nation's leaders in foreclosed homes, which affects local property tax revenues in particular.

Maryland and Virginia seem to be in a better position to weather the recession. They rank 14th and 8th in per capital income, respectively. They also have relatively low unemployment rates as does West Virginia.

[2] Adam Nossiter. 2008. For Louisiana, Those Bons Temps Proved All Too Brief. *NY Times,* December 19.

Table 1

	Per Capita GDP (Nat Rank) (1)	State Government	Property Tax	Sales Tax	Current Charges	Utility Revenues		Homes In Foreclosure (2)	Economic Activity (3)	Reliance on Finance and Insurance (4)
Alabama	44	3.7	5.8	24.9	11.1	35.1		1.1	-0.2	5.4
Florida	25	8.2	17.2	13.2	20	22.6		15.6	-1.6	7.1
Georgia	26	3.1	10.8	8.3	23.4	27.4		2.4	-0.2	6.5
Louisiana	38	9.2	11.4	25.2	17.6	16.8		2.6	1.4	5.7
Maryland	14	41.2	23.3	2.3	8.3	2.2		4.2	0.2	3.1
Mississippi	50	21	12.9	2.3	29	24.6		1.4	0.4	4.2
North Carolina	21	8.1	21.9	0.8	18.7	27		1.9	0.5	12.7
South Carolina	46	5.3	15.3	4.8	12.4	38.7		3.2	1	5
Tennessee	33	12.7	13	2.5	9.1	45.6		1.3	0.3	5.8
Virginia	8	3.2	25.3	1.3	19.3	37.1		3.5	1	6.5
West Virginia	49	2.7	8.8	5.9	40.2	12.5		3.3	2.6	4

(1) U.S. Department of Commerce, Bureau of Economic Analysis. 2008. State Economic Growth Slowed in 2007
(2) Federal Reserve Bank of NY. 2008. Credit Conditions in the U.S.
(3) Nelson A. Rockefeller Institute of Government. 2008. The Damage is Just Beginning
(4) Ibid.

Table 2

	Unemployment Rate Nov 2007	Unemployment Rate Nov 2008	Change
Alabama	3.7	6.1	65%
Florida	4.4	7.3	66%
Georgia	4.5	7.5	67%
Louisiana	3.7	5.3	43%
Maryland	3.6	5.3	47%
Mississippi	6.2	7.2	16%
North Carolina	4.7	7.9	68%
South Carolina	6.1	8.4	38%
Tennessee	5	6.9	38%
Virginia	3.2	4.8	50%
West Virginia	0	4.6	
Average	4.1	6.5	50%
Median	4.4	6.9	49%
Standard Dev	1.7	1.3	17%
Variance	2.8	1.7	3%

Source: U.S. Department of Labor, Bureau of Economic Statistics. 2008. Regional and State Employment and Unemployment Summary.