

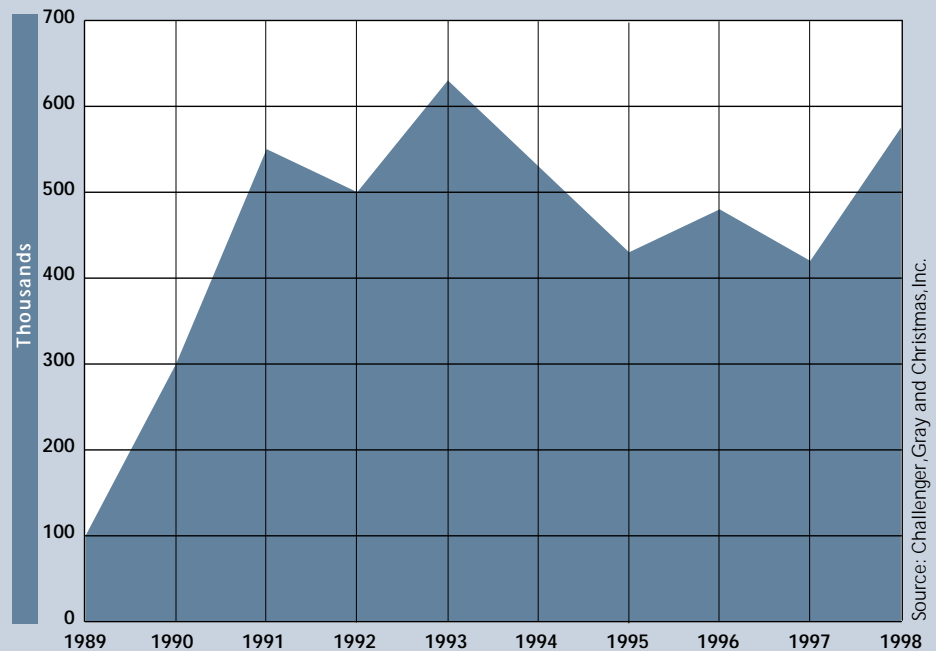
Manufacturing Blues

Once again the dawning of the new year prompts economists, statisticians and the like to finalize the previous year's statistics and begin projections and forecasts for the new one. It's the time of year when the victors and victims of the economy are weeded out and graded on performance. According to the latest economic data, it appears the manufacturing sector failed to make the grade in 1998.

Due to the Asian crisis and financial turmoil at home, manufacturing struggled in 1998, and is still having problems. A report by the National Association of Purchasing Managers (NAPM) indicates the manufacturing economy contracted for 7 straight months (June through December) in 1998, with activity dropping to its lowest level in nearly eight years. The Purchasing Managers Index (PMI) of manufacturing activity ended the year at 45.1%, the lowest level since May, 1991, and held below 50% for the last seven months of 1998. According to the NAPM, an index above 50% indicates the manufacturing economy is generally expanding,

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Staff Cuts Announced by U.S. Corporations



What Now For Laid Off Workers

Manufacturing workers had reason to fear the worst in late 1998 as the ax man eliminated some 574,629 jobs. Some of the bigger blows came with the announcement of over 61,000 total job cuts by Boeing, Exxon-Mobil and Johnson & Johnson. By year's end, the number of layoffs reached a record high, and are still growing. So what expectations should a laid off worker have when searching for new employment?

The Labor Department's latest survey of displaced long-tenured workers, conducted in early 1998, brings good news to recently laid off

employees. The survey found that between 1995 to 1997, 67% of laid off workers were reemployed at full-time jobs, 14%-16% were working part-time or at home, and only 12%-14% had dropped out of the labor force.

The workers in this survey fared much better than in the 1993-1994 survey. Only 38% of reemployed full-timers experienced pay drops (compared to 55% in the previous survey), while 21% suffered cuts of more than 20% (down from 38% in the previous survey). The time it

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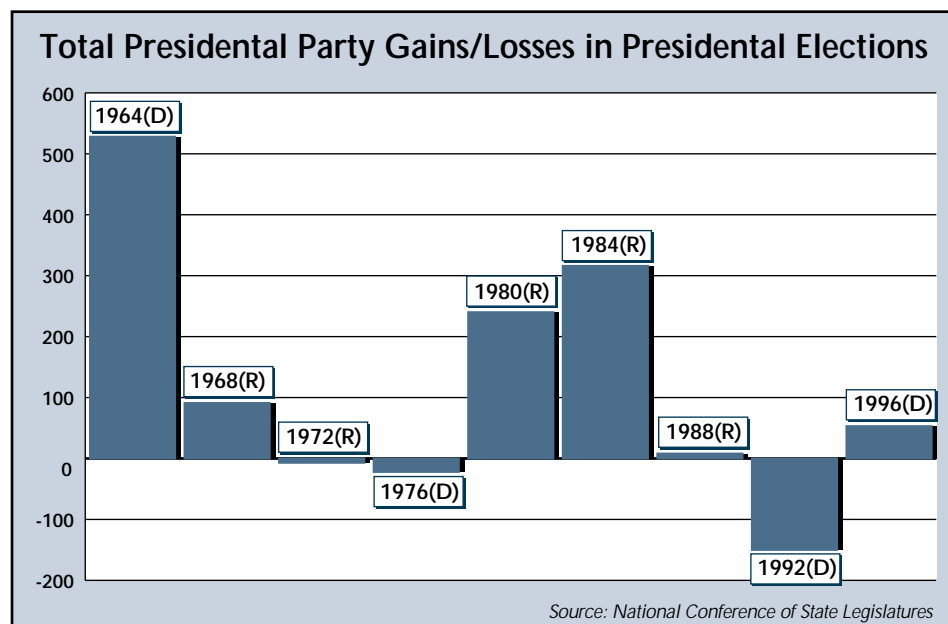
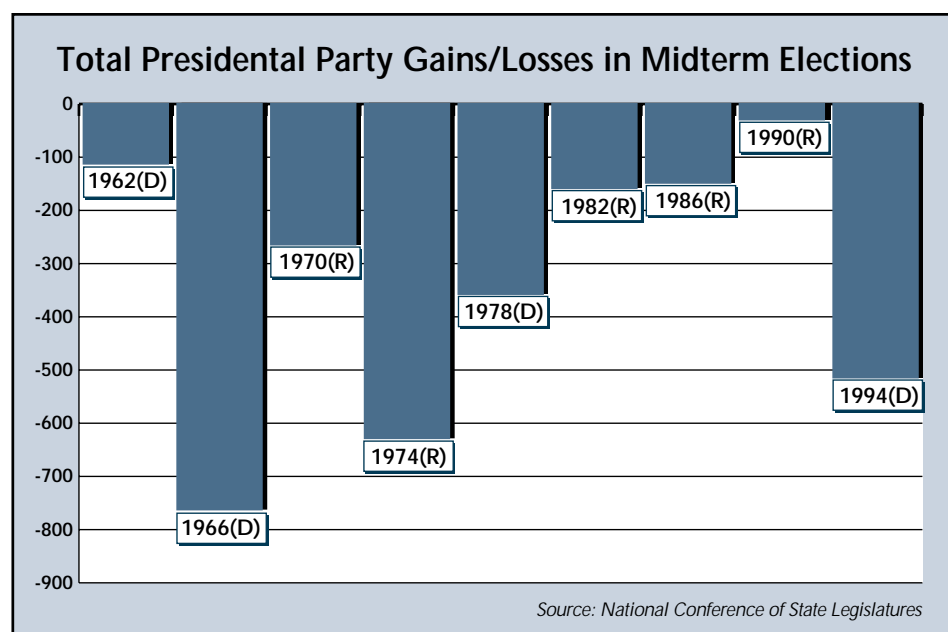
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Trendy Politics

When it comes to politics, more often than not the only point Americans can agree upon is that they disagree. Our present two party system—its representatives and platforms—are diametrically opposed to one another. Middle ground seems to be a thing of the past as people and politicians alike hold to the ideals and beliefs of their chosen party, with no intention of compromising. Politics doesn't have to always be a battlefield, however. Regardless of which side of the political fence you stand on, a look at history and a few trends reveals some interesting (and nonpartisan) facts about our current political system.

For instance, presidential elections tend to follow certain historical patterns. In presidential election years, the party that wins the presidency tends to gain legislative seats (although there are exceptions). In midterm elections, however, the president's party has lost state legislative seats in every election. These patterns in state legislative elections are generally consistent with outcomes in congressional races in presidential vs. midterm years (see accompanying charts).

Comparing politics with stock market performance reveals another interesting trend. For the past 10 years, Salomon Smith Barney has tracked the relationship between the presidential cycle and the performance of the stock market (see accompanying table). For Democrats, the second year of the presidential cycle has traditionally been the worst as the average return for second years under Democrats has been 7%, compared with 10.8% for second years under Republicans. In the second year of Clinton's first term, the



average was up only 1.3%, the worst performance in his term to date.

Another fact about presidential cycles and the stock market is that the stock market returns for a four year presidential cycle are rear-end loaded. Consider two investors, A and B. Investor A is invested for only years one and two of the cycle (and out years three and four) and Investor B is invested for only years three and four of the cycle (and out years one and

two). Starting in 1926, by the end of 1997, they have been invested 36 years each and since they both started with \$100 you might think their results would be somewhat similar, when in reality, they aren't even close. Investor A's portfolio is worth \$948 and Investor B checks in with \$19,346. In the four year election cycle, years three and four outperform years one and two by a factor of more than 20 to 1, according to Salomon Smith Barney.

If this trend continues, 1999 and 2000 could very well be above-average years for stock market performance.

History, however, does not always behave as we might predict. For instance, Republicans controlled 19 state legislatures going into the November 1998 election. They were expected to continue a long-running trend by winning more legislatures than they have held since 1968. But history, as it turns out, was not on their side, and they dropped to 17 (shown on the map). Democrats now control 20 state legislatures.

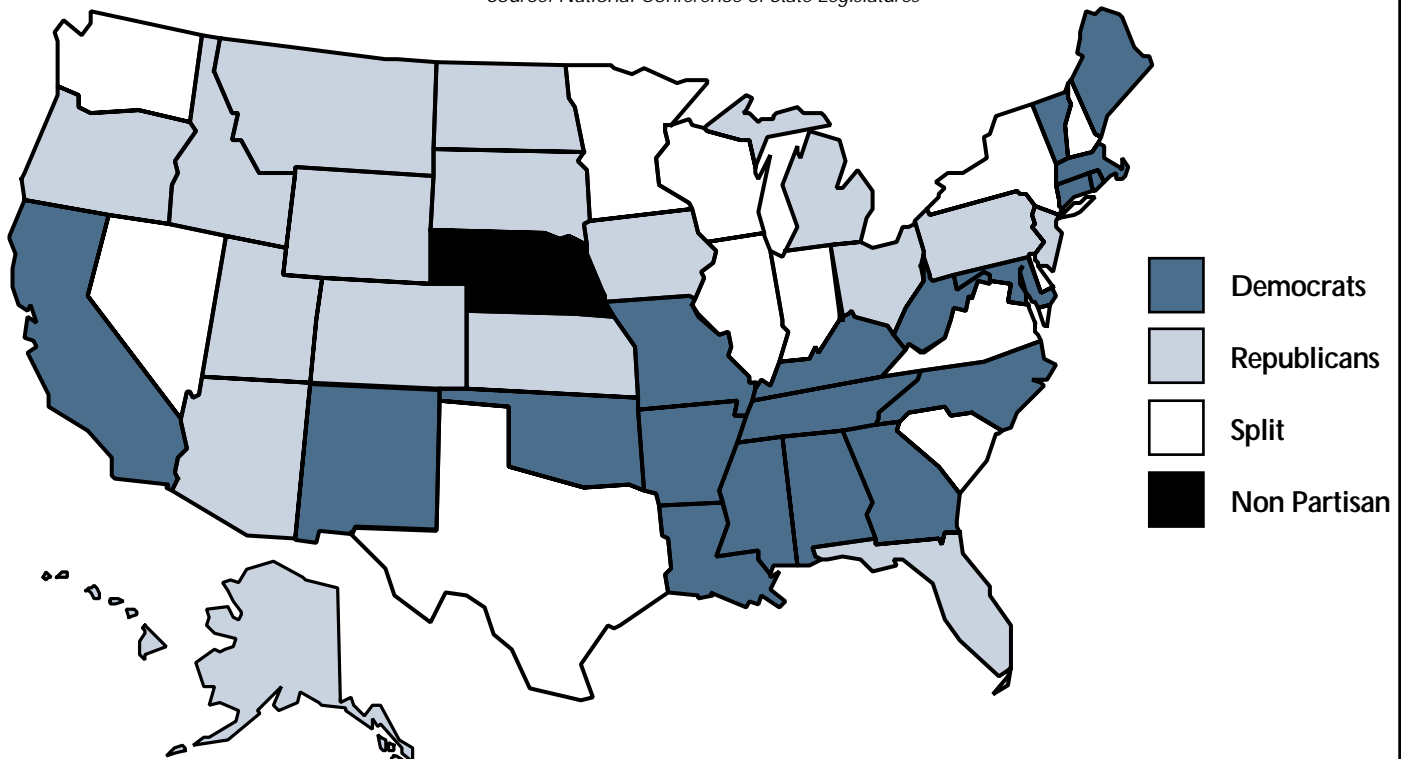
It has been said that history repeats itself, so whether you're investing in the stock market or just trying to forecast election outcomes, you may want to refer to a few of the previously cited statistics. □

PRESIDENTIAL CYCLES AND THE S&P 500 (1926-1997)

Party	President	First Year	Second Year	Third Year	Fourth Year	Compound Annual Growth
R	Coolidge	N/A	11.6	37.5	43.6	30.1
R	Hoover	-8.4	-24.9	-43.3	-8.2	-22.7
D	FDR	54.0	-1.4	-47.7	33.9	31.6
D	FDR	-35.0	31.1	-0.4	-9.8	-6.5
D	FDR	-11.6	20.3	25.9	19.8	12.5
D	FDR/Truman	36.4	-8.1	5.7	5.5	8.8
D	Truman	18.8	31.7	24.0	18.4	23.1
R	Eisenhower	-1.0	52.6	31.6	6.6	20.6
R	Eisenhower	-10.8	43.4	12.0	0.5	9.5
D	Kennedy/Johnson	26.9	-8.7	22.8	16.5	13.5
D	Johnson	12.5	-10.1	24.0	11.1	8.6
R	Nixon	-8.5	4.0	14.3	19.0	6.7
R	Nixon/Ford	-14.7	-26.5	37.2	23.8	1.6
D	Carter	-7.2	6.6	18.4	32.4	11.6
R	Reagan	-4.9	21.4	22.5	6.3	10.7
R	Reagan	32.2	18.5	5.2	16.8	17.8
R	Bush	31.5	-3.2	30.6	7.7	15.7
D	Clinton	10.0	1.3	37.4	23.1	17.2
D	Clinton	33.4	TBD	TBD	TBD	TBD

Partisan Control in State Legislatures –1998

Source: National Conference of State Legislatures



International Brain Drain

Pick up any newspaper or magazine and you're likely to read about how the Asian crisis is negatively impacting the U.S., from the mounting trade deficit to the much anticipated recession. There is at least one discipline, however, that may be benefiting. According to the Institute of International Education (IIE), the nation's fifth largest service sector export—higher education—is actually thriving. After experiencing years of decline and negligible growth, the number of foreign students in the U.S. increased 5.1% this year. Moreover, Asian students, who make up over half of international student enrollment (57.6%), increased 6.4%.

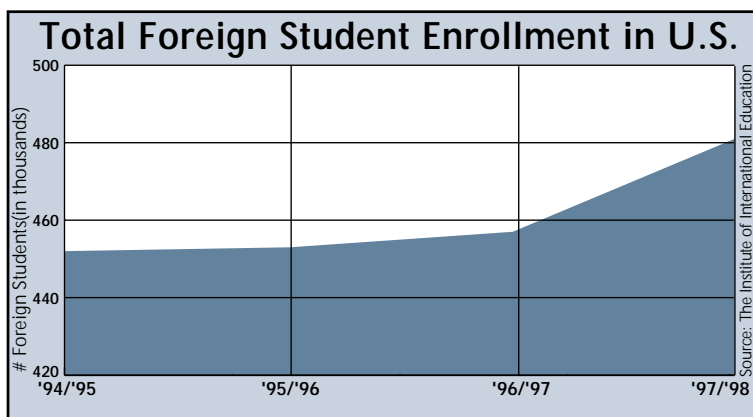
Japan is the leading country of origin for all foreign students (47,073), followed by China (46,958) and Korea (42,890). Among Asian countries of origin, Korea, Thailand and China experienced the greatest foreign student enrollment increases, up 15.5%, 11.9% and 10.5% from last year, respectively.

There is no evidence to suggest the increase in Asian students is due to a troubled economy at home. It is believed, however, that students are extending their stay in the U.S. due to poor conditions awaiting them in their homeland. Regardless of the reason, U.S. colleges and universities are not complaining about the recent surge in Asian enrollment. Although foreign students comprise only 3% of America's total higher education population, they have a significant impact on the local economies in which they study. According to Department of Commerce data, foreign students contribute over \$7.5 billion to the U.S. economy each year

in tuition and living expenses alone. This amount doesn't take into account personal spending in the economy for students and family members, and the pockets

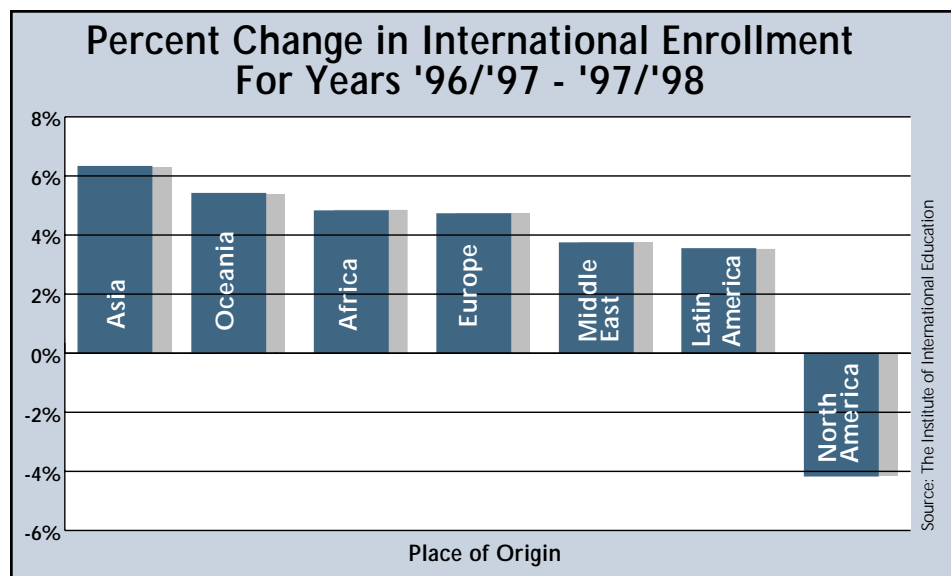
appear to be deep. The majority of students do not need financial aid or any governmental assistance. The primary source of funds for international students, as reported by IIE, is from personal and family resources (67%), compared with 5.9% from student's home government/university, 2.3% from employment and 0.8% from the U.S. government.

The states which are benefiting the most from foreign students are California, the leader for the highest foreign student enrollment at 65,292. New York is a close second with 51,264 foreign students. Other large host states include Texas, Massachusetts and Florida, each with international student enrollment over 20,000. Though ranked second in total



number of foreign students, New York has the largest concentration of students located in New York City. With 29,855 divided among the five boroughs, New York City is considered the world capital for international study, with New York University enjoying the largest foreign student enrollment at 4,964. It's not just the major universities attracting international students, however. International enrollment in community colleges has increased by an impressive 20% over the last four years.

According to the Institute of International Education, the top two fields of study for international students are business administration and engineering. □



Wake Up and Pay Your Taxes

Before you go prospecting for new customers, you might want to consider the steep lodging taxes which may be imposed on you for an overnight sales call. State and local governments in every state impose taxes on short-term accommodations (30 days or less). And these taxes are not likely to let up anytime soon.

If a tax can be classified as a favorite, the lodging tax is it. Voters find it relatively painless to approve taxes paid primarily by visitors. And since lodging tax proceeds tend to support projects which benefit everyone (tourism promotion, sports facilities, convention centers, etc.), its popularity has gained. But if you're a business traveler, you might find it a little painful.

Accommodations may be taxed multiple times—once in the form of a general sales tax (at either or both the state and local level), and again in the form of a lodging tax (either locally, at the state level, or both). Forty-seven states and the District of Columbia levy statewide taxes on accommodations. Forty-three states authorize one or more local governments to levy a lodging tax. It seems that states have more leniency with taxing options when it comes to the lodging tax. In Massachu-

setts, for instance, no local governments are allowed to levy sales or income taxes, but may charge a lodging tax.

No state is free of the lodging tax. Even states without state sales taxes, such as Alaska, California, Nevada and Oregon, allow lodging taxes to be levied at the local level. And the seven states that do not permit local governments to impose lodging taxes (Connecticut, Delaware, Hawaii, Maine, Montana, New Hampshire and Rhode Island) impose a state lodging tax instead.

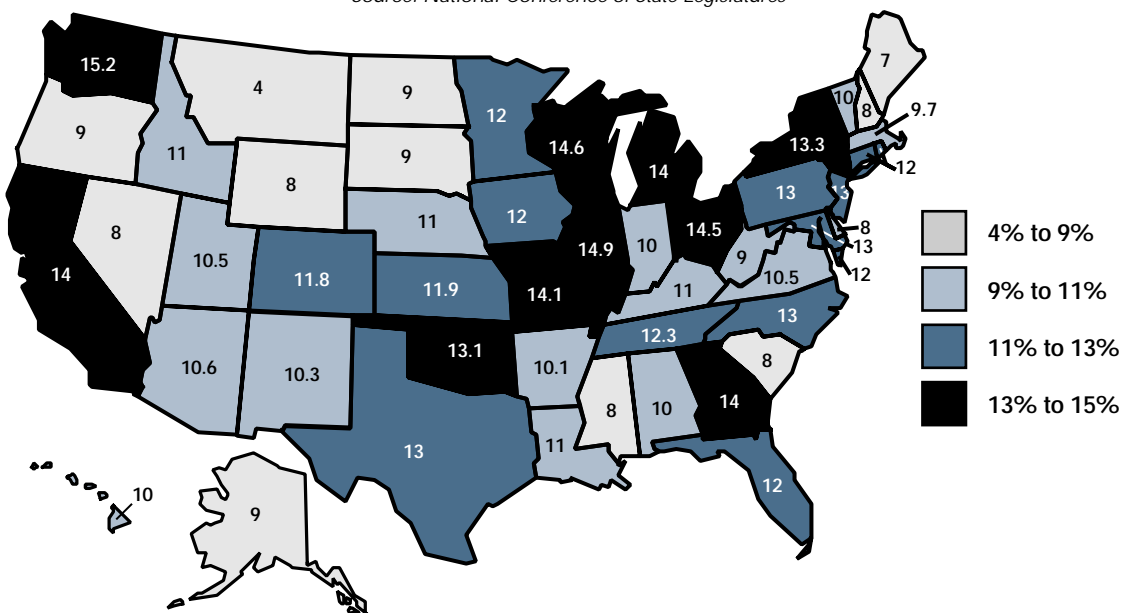
The lodging tax shown in each state on the map was derived by adding both the state and local tax. By using the most expensive city in each state for the local lodging tax portion, the map represents the highest possible lodging tax imposed by each state (for example, the 13% lodging tax in Texas is derived by adding the 6% state tax

and a 7% local tax in Dallas, the highest local lodging tax imposed).

Montana, which does not tax accommodations at the local level, is clearly the cheaper alternative with a 4% state lodging tax. The most expensive state is Washington, which imposes a 6.5% state lodging tax with an 8.7% local lodging tax in Seattle, totaling 15.2%. Other states which impose a hefty tax include Illinois, Wisconsin, Ohio and Missouri, which all exceed 14%. Georgia is the most expensive option in the Southeast at 14%, with Mississippi and South Carolina representing the cheapest options (both at 8%). New York City is the most expensive option in the Northeast at 13.3%. □

Lodging Tax Percentage (Combined State and Local)

Source: National Conference of State Legislatures



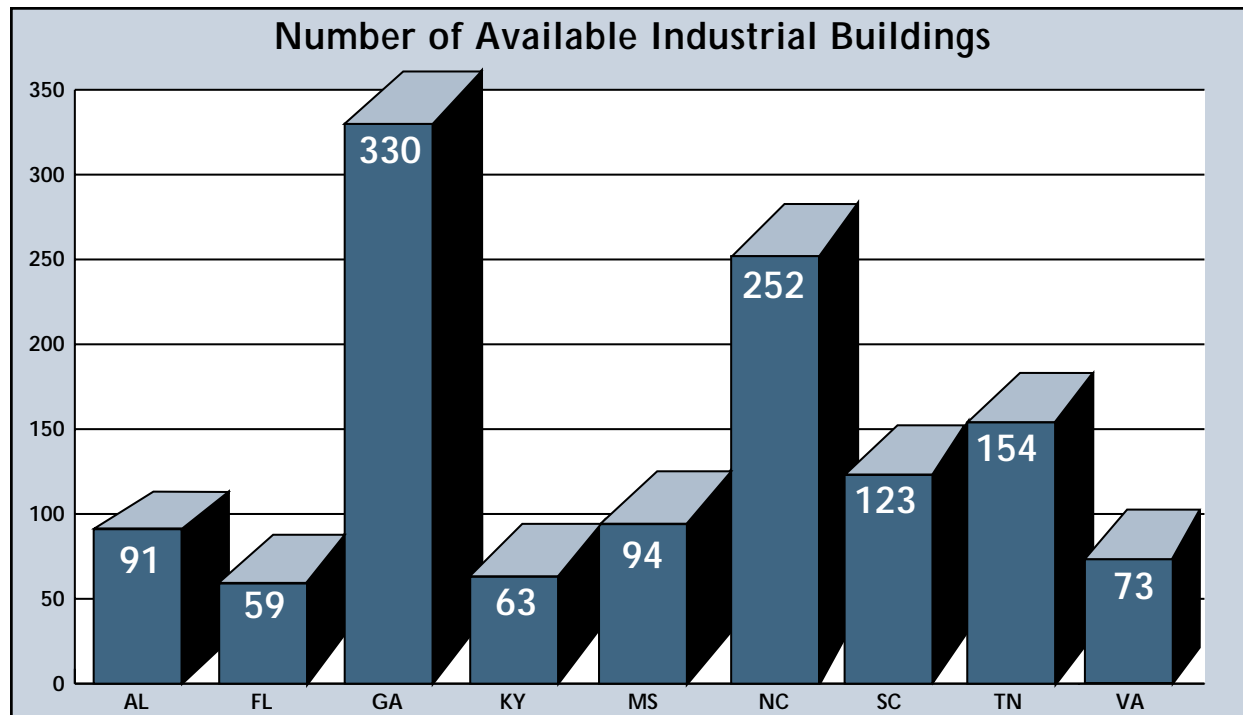
The Southeastern Industrial Real Estate Market

The Southeastern Industrial Market is defined as functional and available manufacturing and distribution facilities, typically located in non-metropolitan/secondary markets 50,000 sq. ft. and larger. There are currently 1,239 buildings available totaling 180,310,403 square feet. The average building is 145,529 square feet, was built in 1978, is 11.1 miles to the nearest interstate, and has been on the market for 24 ½ months. Rail service is in place or available for 39% of the buildings and 9% are crane-served. The following are state-by-state summaries highlighting various building attributes:

Overview

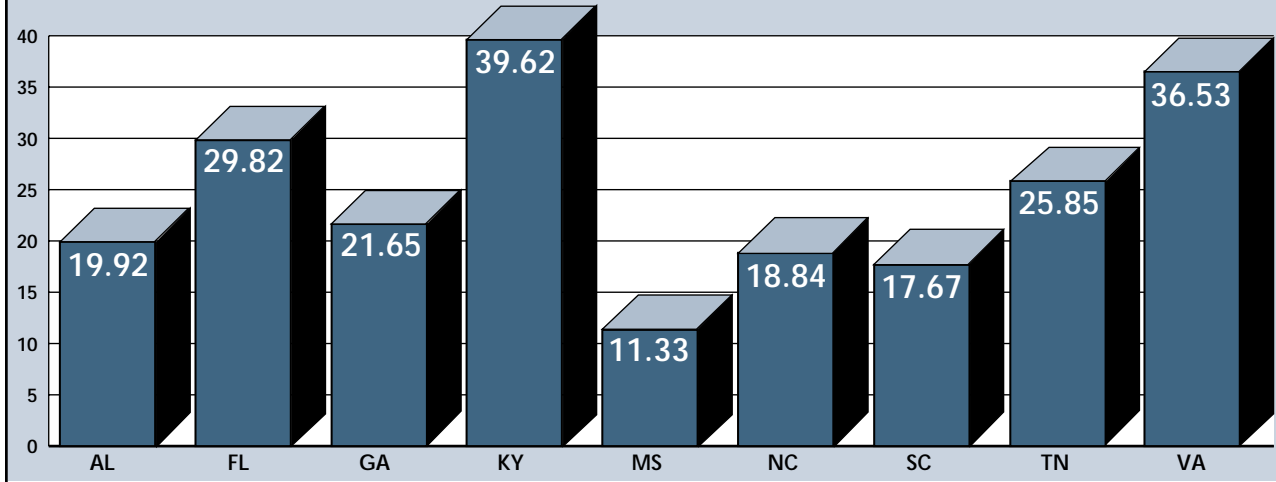
State	# Buildings	Available SF	Avg Building SF	% of Market
GA*	330	45,697,540	138,477	25%
NC	252	38,748,716	153,765	21%
TN	154	21,584,656	140,160	12%
SC	123	15,972,440	129,857	9%
MS	94	14,162,358	150,663	8%
AL	91	13,610,394	149,565	8%
VC	73	11,734,110	160,741	7%
FL	59	10,425,150	176,697	6%
KY	63	8,375,039	132,937	5%
TOTAL	1,239	180,310,403	145,529	100%

**Includes buildings in Atlanta 100,000 feet and larger*

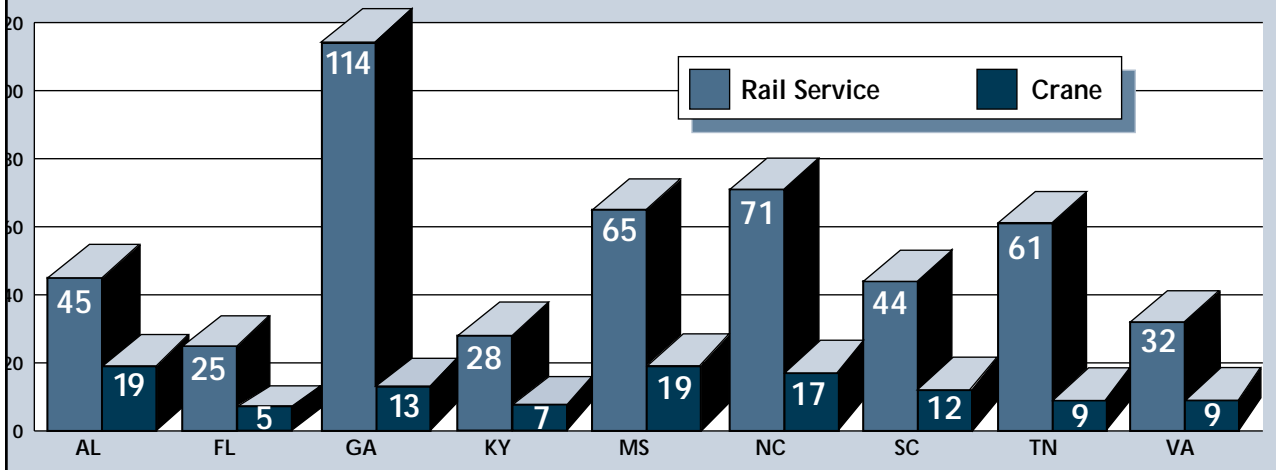


The Industrial O·U·T·L·O·O·K

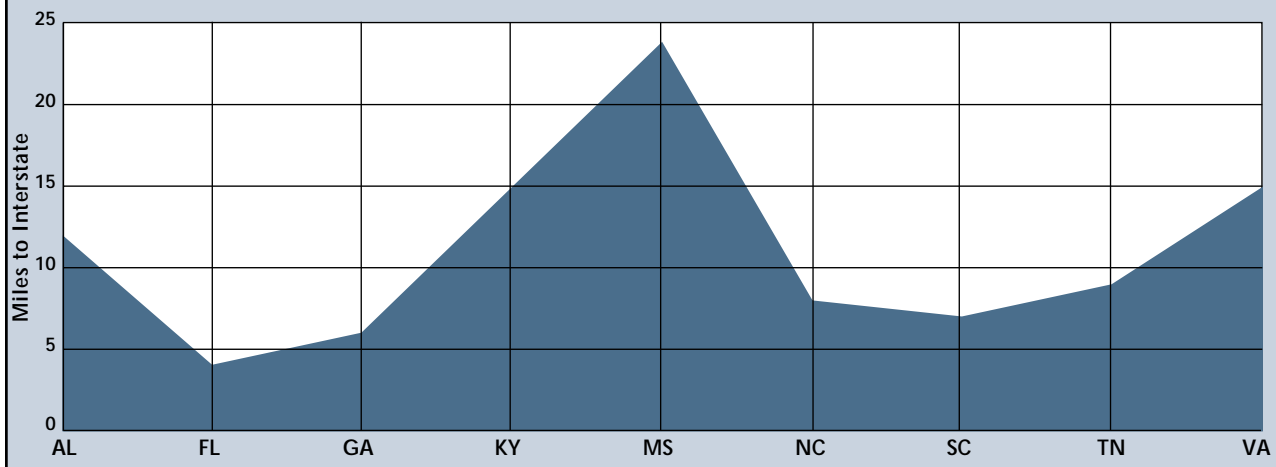
Average Months Buildings Have Been on the Market



Number of Available Industrial Buildings with Rail Service or Cranes



Average Distance to Interstate



Manufacturing – continued from pg. 1

with a reading below 50% indicating that it is contracting. Furthermore, the index for manufacturing employment also declined for the last seven months of 1998, with none of the twenty manufacturing SIC codes indicating employment growth.

In fact, the total number of layoffs for the economy reached a record high last year—the highest since 1992—with over 574,629 job cuts, according to Challenger, Gray & Christmas, Inc., with the manufacturing sector responsible for the

largest share. Between the months of March and November alone, factories eliminated some 245,000 jobs. The picture, however, isn't completely bleak. According to a survey conducted by the Bureau of National Affairs, 33% of manufacturers surveyed plan to add workers in early 1999.

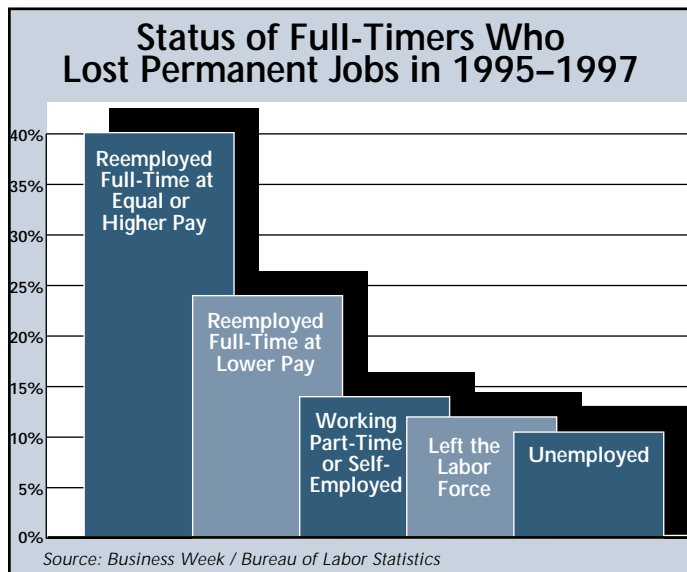
The White House is making sure there is hope for the displaced worker in 1999, as well. President Clinton outlined a \$108 million plan in January to boost American exports and buttress U.S. manufacturers against reverberations from economic crises overseas. The plan is forecast to spur nearly \$2 billion in additional U.S. exports, which would

sustain or create 16,000 high-wage American manufacturing jobs.

Even though the manufacturing sector may be sluggish, the overall economy continued to grow through 1998, with December marking the 92nd consecutive month of growth. Furthermore, the nation's unemployment rate tied a 28-year low when it fell to 4.3% in December, down from November's rate of 4.4%. If the nation continues to ride the expansion wave, it could be the longest expansion on record, more than 7 ½ years. □

What Now – continued from pg. 1

took to find new jobs also decreased from 8.3 to 5 weeks. And, most importantly, the reemployed full-time contingent's median weekly earnings were up about 2%, compared with a 14% decline in the previous survey. □



THE WALKER COMPANIES provide location consulting, brokerage, and facility development services for industrial corporations throughout the United States. For additional information on our services, or to comment on *The Industrial Outlook*, please contact:

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