The Outlook

Remarks of
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to the
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Today I bring you good news—the recovery that took hold last year has matured into a solid expansion. The national economy should grow at a healthy rate this year, but the Southeast's economy should grow a bit faster. And Georgia's outlook is even brighter than the region's.

Virtually all sectors and all areas of the Southeast show promise as we move further into 1984. Georgia should run close behind Florida, whose economic growth seems likely to set the pace for the entire South. Alabama, Louisiana, and Mississippi, on the other hand, have more catching-up to do than Georgia and the rest of the region.

The strongest rebounds seem likely in the southeastern areas that produce consumer goods or defense materials. Defense spending will stimulate the local economies surrounding the region's many defense installations. That assessment should prove encouraging to Columbus, which, as you know, serves as home to the Army's Fort Benning. Fort Benning already contributes $50 million each month to the local economy.

The service industries promise to attract a continuing influx of new residents into both Georgia and Florida. As employment rises in the service industries, increased spending for housing and consumer durables will help give a boost to the economies of both states. Increasing consumer buying should mean more good news for textile firms such as Columbus Mills and Cartersville Spinning Co., which manufacture carpet, and Fieldcrest and Bibb, two producers of towels and sheets. All these mills stand among the largest employers in Columbus.

Despite the rosy outlook for Georgia and Columbus, the nation will continue to face problems that are both complex and stubborn. We are plagued with lagging international trade and energy sectors. We are troubled by the woes of heavily indebted less-developed countries, whose burdens carry far-reaching implications for the global economy. We still wrestle with high interest rates and unemployment. And perhaps most disturbing of all, we have been unable to gain better control of federal spending or reduce the federal deficit.

I'll address those questions shortly. But first, let's look at our prospects for 1984, starting with the national economy.

The National Scene

The year just past, obviously, was an encouraging one for our national economy, with recovery reaching full speed by midyear. It now seems that growth will continue at a safe and sustainable speed right through 1984, and possibly well beyond. Today we can find signs of economic strength all around us. The nation's economy grew in real terms in the second and third quarters of 1983 at rates of 9.7 and 7.6 percent and at 4.9 percent in the fourth quarter. Those ringing cash registers you have been hearing in our department stores are one of the most obvious signs of the renewed economic vigor. Retail sales dipped a slight 0.2 percent in February following a strong 3.3 percent gain in January. What's more, consumers aren't limiting their purchases to stereos and household goods; they are committing themselves to major investments as well, putting their money down on acquisitions such as automobiles — and even homes. Consumer credit expanded by $4.3 billion in January, following a record $6.6 billion advance in December. Sales of automobiles in January were over 30 percent greater than in January 1983. With mortgage interest rates stabilized, even though higher than we might wish, the number of housing permits issued late in 1983 remained strong. Housing starts rose 11.2 percent in February, following a 16.6 percent increase the month before.

Clearly, the consumer's new-found willingness to spend is a sign of improving national confidence. It offers indisputable evidence that Americans, who generally were reluctant to commit their hard-earned money during the recession months of 1981 and 1982, now are convinced that better times lie ahead. They are encouraged, for instance, by a cooling of the inflation that eroded our economy for so many years. Inflation, which averaged a frightening 13.5 percent in 1980 (as measured by the consumer price index) dropped to just 3.2 percent last year.

The public's new optimism spells good news for those who manage manufacturing industries, or who work for them. It is their happy lot to produce the goods sought by these purchasers. Predictably, industrial output has been gaining strength for months, with business equipment production leading the way. Idle plants across the country are reopening or are recalling furloughed workers. We are seeing this welcome trend in our own region, as I'll discuss in just a moment.

With more people returning to their jobs, our worrisome unemployment picture is improving. Total employment, which had remained nearly flat throughout 1982, began to edge upward once again near the end of 1983. The jobless rate fell to 8 percent in January, the lowest rate in over two years. That means more of America's workers are taking paychecks home, which helps to explain both the retail spending activity and the renewed national confidence that it reflects. In fact, personal income increased by 1.1 percent in October, by 0.7 percent in November, and by 0.5 percent in December and January, after adjustment for both inflation and seasonal factors. That represents a solid gain in real buying power.

Do we need more evidence that the recovery is moving ahead at good speed? Consider that corporate profits rose by one-third over the second and third quarters of 1983 and by nearly two-thirds in the fourth quarter, an increase that is having a profound effect in generating new business investment. A recent special survey by the Wall Street Journal indicates corporate profits may have risen at nearly double that rate in the fourth quarter. Early this month, Chrysler reported profits of over $700 million, and Ford and GM had earlier reported profits of nearly $2 billion and about $3 billion, respectively. Business inventories and new factory orders are both gaining and will continue to do so, since inventory-to-sales ratios remain very low. And the Commerce Department's Index of Leading Indicators, which monitors our overall economic health, increased for 14 consecutive months before it paused to catch a breath in November. It resumed its rise in December.

So much for last year. What's ahead for the national economy in 1984? More of the same, I believe, except that we can look for a more moderate — and more sustainable — growth rate. That might be the best thing that could happen at this stage. A realistic growth projection seems to be something in the neighborhood of 5 percent, give or take a few tenths of a point. That should help ease the upward pressure on interest rates that might be caused by more rapid growth. Interest rates, in this eventuality, may be fairly stable, not straying too far above or below their present levels. Faster growth would tend to push interest rates higher.

Prices seem likely to behave quite respectably over the year, although they probably will rise a bit more than they did in 1983. Even the most pessimistic economic prophets expect consumer prices to rise little more than 6 percent in 1984 on a fourth-quarter-to-fourth-quarter basis, while the more optimistic predict an inflation rate of 5 percent or below. Finally, with real economic growth continuing — even though at a moderate pace — unemployment should decline further. With a continued decline, consumer spending should continue to fuel the recovery into 1985.

The Southeastern Recovery

Turning now to the regional economy, we find the Southeast entering a new stage of the recovery. While the entire nation faces rather bright prospects for the remainder of 1984, some parts of our region seem likely to grow even more vigorously. I am glad to confirm what most of you are seeing in your own businesses: that Georgia is one such area promising vigorous growth.

The Southeast, like the nation, began a strong upturn in the first half of 1983. The revival in residential construction that became evident late in 1982 stimulated the Southeast's construction-related industries. The substantial furniture and carpet manufacturing industries in parts of the Southeast began to expand rapidly to meet the renewed demand for the things that help to make a house a home. As unmistakable signs of recovery encouraged consumers to resume spending, sales of autos and textiles grew briskly. More recently, the recovery has spread to the Southeast's heavy concentration of auto parts and textile manufacturers.

As we move further into 1984, the recovery seems to be rolling along at a comfortable clip. Employment continues to grow nicely, and unemployment is declining, although the Southeastern states hardest hit by the recession — Alabama, Louisiana and Mississippi — were still suffering from jobless rates in the 10-12 percent range until quite recently. The average rate for the region has dropped from near 11 percent at the beginning of 1983 to about 9 percent by yearend. A second year of economic expansion nationally almost certainly will bring further improvement in the Southeast's unemployment picture. And that, in turn, suggests that there will be money in local consumers' pockets to keep merchants restocking their inventories.

In our own home state of Georgia, unemployment had already fallen below 7 percent by January 1984. Columbus saw a drop from 9.7 percent unemployment in December 1982 to an 8 percent rate last December. Our state has been enjoying brisk economic activity. The mix of service-related industries in Georgia, as well as

Florida, have protected them from the more painful layoffs that afflicted neighboring areas whose economies are more heavily dependent on manufacturing. Yet even manufacturers in Alabama, Mississippi, and Tennessee are rehiring workers in response to the nation's recovery. Louisiana, whose economy remains heavily dependent on the sluggish petroleum industry and international trade, also has shown good improvement recently, although it began its turnaround later than the other southeastern states.

Earlier, I suggested that some parts of the Southeast, those that produce consumer goods or defense materials, seem likely to grow faster than the nation in 1984. While defense spending will stimulate the local economies surrounding the region's many military installations, the greatest benefits should go to areas producing sophisticated defense hardware. Florida will get the alligator's share of the contracts, but Georgia — with such installations as Fort Benning — stands to benefit as well.

It was, of course, the sharp upsurge in national housing demand through the fall of 1983 that did the most for Georgia's industrial "horseshoe" where manufacturing is concentrated in such cities as Columbus, Macon and Rome. And the near-term outlook is for continued strength in the housing market; therefore, the mills and other light industries that feed carpets, upholstery fabrics, furniture, lumber, and similar items to the nation's homebuilders and buyers should enjoy a profitable year. For the longer term, the national prospect for housing and for textiles and apparel generally, is bright: the baby boom generation is entering the 25-to-45 age group that has traditionally spent a high proportion of its income on housing, home furnishings, and apparel.

However, the tufted carpet industry in northwest Georgia is extremely sensitive to changes in housing demand. This region, which accounts for three-fifths of U.S. carpet production, is particularly dependent on sales of new homes.

Indeed, most of the state's work force concentrates on manufacturing nondurable items. Textile and apparel goods, in particular, account for about 35 percent of Georgia's manufacturing employment. Apparel plants, which form two-fifth of that figure, are scattered across the state, but textile factories are concentrated in this horseshoe area. As you know, it is not uncommon for smaller towns in the horseshoe to be dominated by a single apparel or textile plant.

This concentration in manufacturing leaves your region vulnerable in two ways. The first is vulnerability to the business cycle. Nondurable manufacturing generally is less volatile than the durable "smokestack" industries, but distinctly more volatile than the service-and-government orientation of the Atlanta area.

The vulnerability of manufacturing in the horseshoe was demonstrated during the recent recession. Between the beginning of 1982 and July 1983, fully 43 plants employing more than 100 persons each closed in Georgia. Twenty-one were in the horseshoe area, including four of the six closed plants that once employed more than 500 persons. Four of the six large closed plants produced textiles, and a fifth produced apparel.

With the recession behind us, our manufacturers' greatest challenge is posed by foreign competition, particularly in textiles and apparel. More than 14 percent of the U.S. textile market now is supplied thorough imports, while nearly 6 percent of apparel sales is foreign-produced. And because foreign production can produce stock textile items with much lower labor cost, these numbers are growing.

Yet a continuation of the national economic recovery through 1984 should set many sectors of our regional economy to humming. The airline, tourism, and convention businesses, important throughout the Southeast, should grow sharply as conventioneers and vacationers flow into attractions like Atlanta's convention facilities, Disney's EPCOT Center, and the 1984 World's Fair in New Orleans. A great many Georgians will be able to afford those refreshing weekends in the North Georgia mountains. It could be a banner year for Southern hospitality industries.

There is even cause for optimism on the part of our region's troubled agribusinessmen. A severe drought across most of the Southeast in 1983, as you know, left our farmers hard pressed to repay the debts they had accumulated over several years of adversity extending back to 1977. For the survivors, however, the outlook is brighter for 1984. Since crops were short in 1983, farmers are likely to resume full-scale planting. That means the merchants who sell them seed, fertilizer and equipment should see a resurging demand for their wares. The demand for farm products should be strengthened by the general improvement in our nation's economy and by growth in agricultural exports.

That's a thumbnail description of the outlook, as I see it. The Southeast's economy, which has done its share of sputtering since 1980, finally has begun to hum like a well-tuned automobile. Construction and manufacturing firms are gearing up for what they are confident will be a second consecutive year of growth.

All in all, the economic picture is quite an encouraging economic picture. Yet, somehow, a good many of us find ourselves dissatisfied with it. Good as it is, we know it could be better. And we wonder what is holding us back.

Problems Remain

Clearly, the nation's economy retains some worrisome trouble spots. The international trade and energy sectors, which slumped in the 1981-1982 recession, remain somewhat sluggish even now. A strong dollar and world recession cut into international trade flows throughout most of 1983, including the flow of agricultural and energy products at most ports of our region. The economic recovery in the United States and other nations should help to stimulate the volume of crucial exports, such as coal, phosphate, pulp and paper, and chemicals. It should also increase imports of oil and machinery into the United States. That would be good news for Savannah and Brunswick, as well as for other Southeastern ports. Of course, increased imports may not be such good news in view of our persistent deficits in world trade; we must hope to balance them with a rising level of exports.

In the new year, our nation's widening merchandise trade deficit should help to increase the value of key foreign currencies in terms of our dollar on foreign exchange markets. That would enable those nations to buy more goods from manufacturers in the United States, firms such as Columbus' locally owned international exporters — W.C. Bradley Enterprises, Columbus Foundries, Lummus Industries, and Morton Machine Works. If that happens, the export of goods manufactured in the United States should grow steadily — although probably slowly — over the year. That would supplement the increased trade flow arising from economic growth elsewhere around the world. However, a rapid drop in the exchange value of the dollar could cause capital outflows and reduce our savings pool for use by investors.

Another global problem that could cause us trouble locally is the plight of heavily indebted less-developed countries — the so-called "LDCs" that have been so much in the news recently. The list of nations hard-pressed to pay their national bills is a long one — including nations such as Brazil, Mexico and Argentina in our own hemisphere and Poland a world away. They may be remote in terms of miles, but their financial crises carry momentous significance to us both in political and in financial terms.

What about other problems that still trouble us?

High interest rates and unemployment are two of those problems. In both cases, we can take comfort in the fact that their levels have retreated from the peaks that they reached not so long ago. Yet real interest rates remain high by historic levels, and any renewal of an upward trend could help squelch the expansion that we are enjoying. Unemployment, though continuing to decline, also remains high; our 8 percent rate represents around 9 million workers out of jobs — an affront to our national wish to see all citizens share in the nation's prosperity.

I noted earlier the success that our nation has achieved in standing up to another problem, the menace of inflation. We in the Federal Reserve take pride in our contribution to that effort. I believe that it demonstrates the great importance of an independent central bank that can take appropriate monetary action without regard to short-run political considerations or pressures. The fight against inflation has been a painful experience for many, yet it had to be waged to halt the truly terrifying erosion of our national resources that we saw during the 1970s. But has the job been completed? Many in the marketplace are skeptical. They question our willingness as a nation to keep a rein on wage settlements and price hikes, and they question the determination of the Federal Reserve to stick by its guns. But I can assure you that we will continue to fight inflation with vigor. We will not surrender the gains that have been won at such considerable cost and pain to many in our society. The 1984 monetary policy targets announced last month by the Fed's Chairman Volcker should reassure the nation on that score.

But, if our monetary policy is to remain resolute, what about the other side of the coin? What about fiscal policy? Can the federal government regain control of our budget and its persistent deficits? Monetary and fiscal policy must operate hand in hand if we are to achieve our goal of smooth economic growth. You simply cannot drive with one foot on the brake and the other on the accelerator.

Do Deficits Matter?

One of the debates in contemporary economics is centered around the question of whether federal budget deficits matter. I am convinced that repeated deficits in the hundreds of billions of dollars do, indeed, matter. When the federal government must borrow so heavily from the limited pool of credit that must also meet the needs of business people like yourselves, it has important implications for the economy. It affects your ability to obtain the credit you need — at an interest rate you can afford. I am not suggesting that the deficit problem should be solved by levying a tax or surtax to offset the projected deficit. That would simply exchange one problem for another. The consumers who are playing such an important role in fueling our recovery cannot spend money that has been taxed out of their pockets and into the federal coffers. By the same token, funds taxed out of the private sector are no longer available to finance our crucial private capital investment. In any event, our experience over the last half century suggests that increased tax revenues are unlikely to be used for debt reduction. The temptation to channel them into increased federal spending seems irresistable.

In the long run, then, the solution to the deficit problem must come in the form of better control of federal spending. We must learn to prevent problems, not try to spend ourselves out of them. To gain that kind of control, we must be more sensitive to the need for national priorities. Instead of heeding the countless special interest groups clamoring for increased federal spending, our representatives must develop realistic national priorities. They must remember always to ask this essential question when considering an appropriation: Can we afford it? Too often, the only question asked has been: Do we want it? We simply cannot continue to promise our people increased social spending, increased defense spending, low inflation, full employment — and lower taxes at the same time.

But Congress does not deserve the full blame for this overspending. Our legislators reflect the pressures directed at them by their constituents. The solution must come, at least in part, in the form of public information efforts that cultivate a broad understanding of basic economic realities.

In our commendable zeal to improve the equity with which we divide our national productivity, we may have devoted inadequate attention to the producers. As a result, our nation's productivity has improved more slowly than that of some competitors in the world marketplace.

Let me emphasize that I thoroughly support the idea of dividing the fruits of our national prosperity fairly. History shows rather clearly that there have been serious inequities. A number of social institutions, such as labor unions, sprang to life and were given considerable power because of a widespread recognition that those inequities were all too real. But I do want to suggest that we must keep before us the fact that it is economic growth that provides the resources we must have if we are to address our social problems.

Improving productivity will involve not only technology but also the sociology of our economic world. For example, the recession helped some companies to see that they could achieve substantial gains through more cooperative labor-management relations, in good times or bad.

Both labor and management must continue to evolve. That message is clearly conveyed by the lessons we are learning from our former students, the Japanese. The relationship between labor and management can become more collaborative and productive.

We must also continue the program of selective deregulation now underway. That program is intended to untie the hands of our economic producers whenever greater operating freedom will serve the broad public interest. We must judge regulations not only on the basis of their stated intentions, but also their actual, overall impact. And we must abandon regulations that serve only narrow special interests at the expense of the society as a whole.

Making the Transition

Just what are the long-run implications of our increasingly successful efforts to enhance productivity through robotics, computerization, and other technological innovations not yet conceived? How many programmers and computer technicians will we need? What percentage of our working population has the potential to acquire the needed skills? How frequently will we need to retrain them? Of those who cannot compete in those high-tech occupations, how many can be absorbed by our growing service industries?

How may our nation's businesses make this transition into a new era? How may private enterprise and government keep pace with this social revolution? The Atlanta Fed will continue to serve as a forum for such crucial economic questions as those regarding productivity and competitiveness. But I hope that these questions also will be discussed earnestly in our universities and our state legislatures and, of course, on Capitol Hill — in all the forums that collectively provide a basis for public policy decisions. If we fail to address these questions in seeking realistic economic policies, we may find ourselves in the position of an astronaut trying to control a spaceship with a buggy-whip.

Let me conclude by saying that my optimism about our nation and our region transcends the good economic news of 1983 and 1984. To be sure, if history is any guide, we will have low as well as high points in the business cycles in the years ahead. However, we have just survived a serious recession with our political, business and financial institutions not only intact, but perhaps even stronger than before. Equally important, we weathered the storm with less social unrest than we might have expected a few years ago.

I am convinced that our nation's ability to emerge from that recent ordeal in such good shape is due in no small measure to the strong will of the American people to rise above adversity and to continue with rugged determination to achieve a quality of life made rich not just by material goods but by justice and spiritual values as well.

That is why I am further convinced that our great nation will continue in its historic role as the leader of the Free World. And that essentially is why I remain constantly optimistic about our future and our destiny.

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