

AN OVERVIEW OF THE ECONOMY: U.S.A., SOUTHEAST, AND ATLANTA

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I am delighted to have an opportunity to take part in this seminar on the subject, "Why Do Business in Atlanta and the Southeast?" I would like to talk today about the current economic situation and the outlook for 1985 and beyond, perhaps to the end of this century. My remarks will cover the United States as a whole as well as Atlanta and the Southeast. From my perspective, current economic conditions are quite healthy, and the outlook for the U.S. is bright. Moreover, prospects for Atlanta and the Southeast are even more promising.

National Scene

The United States experienced rapid economic growth in 1984. GNP expanded at a rate far in excess of what many, including myself, had anticipated. Despite a sharp slowdown in the third quarter, the full-year growth rate was nearly 7 percent, the highest in over 30 years (**Chart 1**). What's more, we were able to achieve this rapid growth without significant price increases. Inflation remained around 4 percent (**Chart 2**). Our expansion was led by consumers whose purchases of homes, cars, appliances, and a myriad of durable and nondurable items spurred businesses to increase production, build their inventories, and expand their work forces. As a result, employment expanded by over three million jobs, and the unemployment rate declined a full percentage point. From December 1983 to December 1984, America's jobless rate dropped from 8.2 to 7.2 percent. Business investment, particularly in machinery and other equipment, also

contributed significantly to the expansion we witnessed in manufacturing as well as construction (Chart 3).

Growth should continue at a moderate but respectable and sustainable pace throughout 1985. The slower rate of expansion is a welcome change from last year when growth became so rapid, especially in the first half, that it threatened to rekindle inflation. Few imbalances or weaknesses currently exist in the U.S. economy. Healthy monetary growth and an inventory adjustment in the latter part of 1984 have laid the groundwork for expansion in 1985. These factors should contribute to making this a good year, with real GNP growth probably in the range of 3 1/2 to 4 percent. Because this anticipated growth is slower than in 1984, unemployment will probably decline less this year than it did last. Still, I am quite hopeful that the proportion of Americans unable to find work will fall below the seven percent mark. Import competition, lower oil prices, and bountiful harvests should limit price increases to 3 1/2 or 4 percent, close to recent trends. Overall, I look for respectable economic growth consonant with this stage of an expansion.

Consumer spending is likely to remain strong since personal income and employment continue to advance. Business spending on machinery, equipment, new plants, and expanded production facilities should support expansion in 1985 because of the sustained growth of final demand. In addition, business investment in inventories will likely rebound somewhat, following a sharp deceleration of inventory growth that occurred during the fourth quarter of 1984 and a simultaneous improvement in final sales.

A major source of short-term strength is fiscal policy, which is highly stimulative. Defense expenditures, in particular, should work to maintain substantial momentum in

the nation's factories, even if some federal budget cuts are applied in this area. Another stimulus is monetary growth, which has been reasonably strong, particularly for M1, the narrowest measure of money (**Chart 4**). This growth and earlier declines in interest rates should encourage further economic expansion in 1985.

Problems

Of course, some potential problems and weaknesses loom ahead, and certain sectors of the American economy are less likely to be sources of expansion this year. Perhaps the foremost area of continuing weakness is the international sector. As you well know, the value of the dollar relative to the currencies of our major trading partners has risen substantially (**Chart 5**). At one point it was almost 90 percent above its 1980 trough. The high exchange value of the U.S. dollar and the slower recovery in Europe and developing nations have sapped considerable strength from American manufacturing and farming. In past business cycles, high real interest rates adversely affected construction and capital investment much more than other sectors of the economy. In contrast, U.S. exports and American industries that compete heavily with foreign producers have suffered the most in the current cycle. While capital spending and residential building proceeded apace last year, despite high real interest rates, the merchandise trade deficit for 1984 totaled over \$123 billion, far higher than the previous record shortfall of \$69 billion in 1983 (**Chart 6**).

The outlook for the dollar is uncertain. Despite narrowing interest rate differentials and large trade deficits, the dollar was strong in the early part of this year. It has fallen a bit since then. Even at lower levels for the dollar, however,

some time would have to elapse before our balance of exports and imports improved substantially since trade patterns adjust more slowly than financial markets.

Another problem, and one that I believe is the major source of the imbalances in our expansion, is the very large U.S. budget deficit. Such government deficits tend to exert upward pressure on real interest rates. High real interest rates place a drag on investment because capital spending is especially sensitive to credit costs. Investment in inventories is also dampened when carrying costs are high. Businesses have responded to the high real rates that have prevailed in this expansion by holding inventory-to-sales ratios at historically low levels.

Another problem related to high real interest rates is the apparent malaise in America's financial markets. High real interest rates and greater competition have increased pressures on financial institutions. Deregulation enabled traditional financial institutions to compete with newer firms, although some were not really in a strong enough position to do this well. In a few cases, they sought riskier investments as a means of maintaining profit margins. The number of bank failures has been higher in the past few years than at any time since the Great Depression of the 1930s. Our financial system is quite complex, perhaps unduly so. There are several regulatory agencies and many different types of institutions. Recent developments seemed to threaten first the viability of one of our largest banks and later some of our savings institutions. Yet these disturbing events produced no systemic risk, and I can assure you that the safety and soundness of the American banking system is intact. On the whole, there is no reason to be unduly alarmed by this evidence of adjustment to a more competitive business climate. However, lowering the deficit and thereby easing

pressure on real interest rates would certainly mollify some of the strains of this transition.

Longer Term Prospects

Notwithstanding these challenges, I believe the fundamental strengths of the U.S. economy are so great that our long-term economic outlook is extremely positive. One of these strengths is technology. We are witnessing and living through a miraculous time in history in terms of technological breakthroughs. To cite only a few examples, think of the regular space shuttle flights with their scientific experiments and commercial applications, the advent of super-computers that will enable us to analyze problems of mammoth complexity, the increasing factory use of robots which free people from performing dangerous and unhealthy tasks such as painting and welding and which perform these jobs with a higher degree of precision than humans could, and the advances in genetics and medical science and their associated applications to agriculture and surgical procedures such as the mechanical heart. Such truly wonderful developments will enrich the lives of people everywhere. During the last recession, American businesses learned, or rather relearned, the importance of investing in technologically advanced equipment and methods in order to compete in the global marketplace. I say relearned because the United States has historically been a technological leader. The effect of the recent resurgence in capital investment should be a reacceleration in U.S. productivity growth.

Other factors should also enhance our nation's productivity. For example, the much-larger-than-usual generation born in the two decades after World War II has now been educated. As fewer new students enter our schools, we should be able to devote

more resources to the quality of education and fewer to the addition of new classrooms and buildings that were previously needed to accommodate our swelling student population. Most members of this generation also have found permanent jobs. In the future, therefore, a larger portion of our national labor force will consist of experienced workers, who generally are more productive.

Businesses, too, are learning to be more productive. They have found that such improvements are necessary to survive and prosper in the more competitive environment created by two important developments—the rise of a global marketplace and the deregulation of several major U.S. industries including transportation, communication, and financial services. As each of these factors—technology, demographics, global competition, and deregulation—fosters productivity gains, the United States should enjoy healthy and enduring macroeconomic growth.

The Southeast

This expected national economic growth will provide a sound basis for continued expansion in the Southeast, including Atlanta. In fact, the outlook in this section of the United States is even brighter than that of the nation as a whole because the region's economy is based on a set of diversified, fast-growing economic activities. Evidence of the Southeast's well-balanced economic base and the associated strong growth can be found by comparing jobless rates in the two largest southeastern states with those in the nation (**Chart 7**). As you can see, our performance measured by this important indicator of economic activity has been consistently better than the nation's. Even during the depths of the two recessions in the early 1980s, Georgia's and Florida's jobless rate remained below that of the United States as a whole.

The Southeast, at least that portion of U.S. Federal Reserve System over which I have responsibility, encompasses six states—Alabama, Florida, Georgia, Louisiana, Mississippi, and Tennessee (**Chart 8**). North and South Carolina are also southeastern states. Their economies are quite similar to those of the other six states. This eight-state region covers approximately 391,000 square miles or over 1 million square kilometers, almost twice the size of France. The population of this region, including the Carolinas, is over 42 million, about 18 percent of the United States and around three-fourths of the population of France.

Not only does the Southeast constitute a substantial portion of the United States, but also it is one of the fastest growing. From 1970 to 1984 the number of people in this eight-state area increased 30 percent, whereas the United States as a whole grew only 16 percent (**Chart 9**). It is not that southerners have larger families than other Americans. Rather, people and businesses from other areas of the United States have been moving to the Southeast. Their reasons for doing so include our milder climate, a set of popular attitudes expressed politically in state and local laws that are highly favorable to business, a modern transportation system, and abundant water, forestry, energy, and other natural resources.

The Southeast's transportation network includes not only rail lines, modern airports, some of the newest and safest portions of the U.S. interstate highway system, and the mighty Mississippi River but also a soon to be opened canal which will appreciably reduce the time required to ship coal and other southeastern commodities to port. This canal, linking rivers in Tennessee and Alabama, should boost international shipping especially into and out of Mobile, Alabama, one of the Southeast's seven major ports. These seven ports already handle a large volume of exports and imports. Several have

recently undergone expansion and modernization. Thus, it is not surprising that the value of goods handled at the majority of ports in the Southeast grew more rapidly than in the nation as a whole in 1984 (**Charts 10a, b**).

The influx of businesses and people drawn to the Southeast because of our region's transportation, climate, and resources has been a positive economic force in itself. It has helped to increase personal income at a faster rate than the national average (**Chart 11**). In-migration also spurs demand for new homes, apartments, and office buildings as well as for theaters, restaurants, stores, and doctors. Thus, it is not surprising that construction, wholesale and retail trade, and services are three mainstays of the southeastern economy. The rapid growth of population and personal income has made the Southeast an attractive retail market. Retail trade has increased by a larger margin in Atlanta and the Southeast than elsewhere in the United States (**Chart 12**). Residential building has also been growing at a faster pace than nationally, largely because of this in-migration (**Chart 13**). The importance of construction complements the Southeast's abundant forest resources, which are able to supply over one-fourth of America's lumber needs.

Another source of strength in the southeastern economy is defense. The region has numerous military bases and produces a considerable portion of the nation's defense-related electronics and transportation equipment. The space program also has several important centers in the Southeast, particularly Florida and Alabama. Defense manufacturing together with space-related economic activity has sown the seeds for private sector development of a variety of businesses that research, develop, and market technologically advanced products and processes. These private companies are located primarily in Florida, Alabama, Georgia, North Carolina, and Tennessee.

I'm not saying that the Southeast is a utopian region where there are no problems whatsoever. We in the Southeast are concerned with the current situation of some farmers, producers of energy-related commodities like coal in Alabama and natural gas in Louisiana and Mississippi, and textile and apparel manufacturers in the Carolinas, Tennessee, Mississippi, and Georgia. However, even in some of these traditional industries, the application of advanced technologies is enabling southerners to compete effectively. The carpet mills of north Georgia, for example, have invested in sophisticated computerized equipment used in the production of rugs. They are, therefore, able to produce carpets fashioned virtually to the tastes of individual customers while charging prices low enough to vie successfully against foreign producers with much lower labor costs.

Atlanta

Atlanta, the economic center of the Southeast, is a concentration of the best aspects of the southeastern economy with none of the region's few weaknesses. Atlanta is a major city, with all the amenities associated with urban living (**Chart 14**). At the same time, Atlanta is a beautiful place in which to live. The city is noted for its gently rolling hills, abundant streams, trees, and flowering shrubs (**Chart 15**). Atlanta's people are a diverse and cosmopolitan mixture of old-time Southerners and newly arrived Northerners, who enjoy working and playing together and who are bound by their common love of Atlanta (**Chart 16**).

Atlanta's economy is based on the distribution—by air, rail, and truck—of goods throughout the Southeast and the nation, on business and personal services, and only to a minor extent on manufacturing (**Chart 17**). Atlanta's population is growing at a rate

that is among the fastest of any city in the United States. As in the rest of the Southeast, population in-migration to Atlanta stimulates construction. We have already seen that the pace of residential construction in Atlanta exceeded that of both the Southeast and the nation. Commercial construction has also been booming in Atlanta. Although vacancy rates recently began to rise slightly, demand has largely been expanding fast enough to keep up with the surge in supply. Last year, Atlanta businesses absorbed more than 4.5 million square feet, over 427,000 square meters, of new office space.

In addition, in-migration fuels the growth of various business and consumer services such as health care, entertainment, accounting, and engineering. Such economic activities are usually less affected by changes in the business cycle than is manufacturing. Therefore, Atlanta's economy is more stable over time. Along with an abundance of general business and consumer services, Atlanta enjoys the additional benefits of a large and growing convention industry.

This service industry is based on Atlanta's Hartsfield Airport and the city's extensive hotel and convention facilities. Atlanta has about 35,000 first-class hotel rooms and, by 1986, will have almost 40,000 (**Chart 18**). Most of these were built within the last decade and offer lower rates than do comparable first-class and luxury hotels in other convention cities. Atlanta's airport, the second busiest airport in the world (**Chart 19**), is newly built and specially designed to handle large numbers of air travelers smoothly and efficiently while offering quick and reliable linkages to all parts of the nation and around the world. As you know, Atlanta-based Delta Airlines just inaugurated direct service to Paris. In 1984, Atlanta's Hartsfield Airport handled almost 39 million passengers. This figure represents an increase of 3 percent over 1983. International passenger traffic rose even more rapidly, 13 percent. Atlanta's air traffic

is located in a single airport, whereas the other cities boasting higher air travel—Chicago and New York—have two or three airports, respectively, thus making connections less convenient. Atlanta's excellent air transportation is enhanced by its outstanding expressways and a new rapid rail system, serviced by French-made trains. Together with the recently expanded World Congress Center, these transportation and lodging facilities contribute to Atlanta's rank as the third busiest convention center after New York and Chicago, cities which have much larger populations and longer established reputations as convention centers (Chart 20).

Manufacturing is a relatively minor aspect of Atlanta's economy. The city has two major auto assembly plants, which have rebounded sharply in this expansion as a result of the upsurge in auto sales nationally and extensive investment in modernized equipment locally. The increase in American defense spending has been a boon to Atlanta in this expansion since the Lockheed plant, located on the outskirts of the city, won a major contract to produce C-5B cargo planes. Lockheed is one of the single largest employers in Atlanta. A growing share of our city's manufacturing base is in the rapidly expanding "high-tech" industries. Over 150 high-tech firms operate in the Atlanta metropolitan area, employing more than 33,000 people. Many of these are in the field of electronics, telecommunications, and computers. Their genesis and development owe much to Atlanta's outstanding colleges, universities, and technical schools. Finally, Atlanta has progressive financial institutions to round out its economic base. All these factors make the potential for "doing business in Atlanta" in 1985 and well beyond immensely promising.

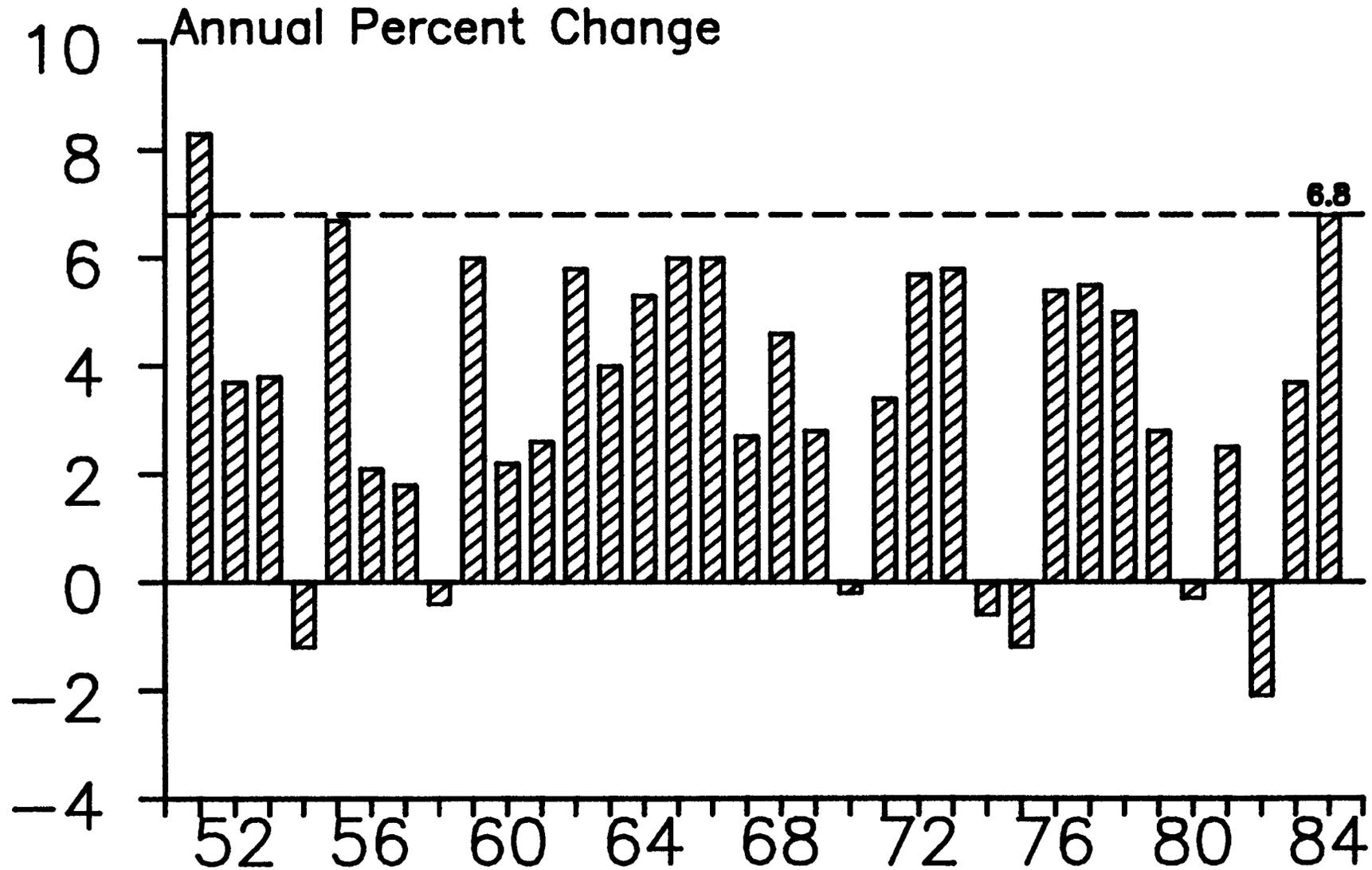
Let me conclude where I began. Nineteen Hundred Eighty-Five will be a year of good economic growth for the United States, with relatively low inflation and

unemployment. There are and always will be dangers, problems, and uncertainties, but I really believe America's future holds enormous promise. This macroeconomic outlook will enable advantages held by Atlanta and the Southeast to support even faster economic expansion than anticipated for the nation. These advantages—rapidly growing markets, low taxes, favorable laws covering business, an excellent transportation system, and a growing base of high-technology manufacturing—will make international opportunities for "doing business in Atlanta" not only pleasurable and profitable but also the source of enormous future growth. Why do business in Atlanta? I think the reasons are obvious.

Remarks at Atlanta Chamber of Commerce Business Seminar
Paris, France
April 23, 1985

Chart 1

U.S. GROSS NATIONAL PRODUCT GROWTH

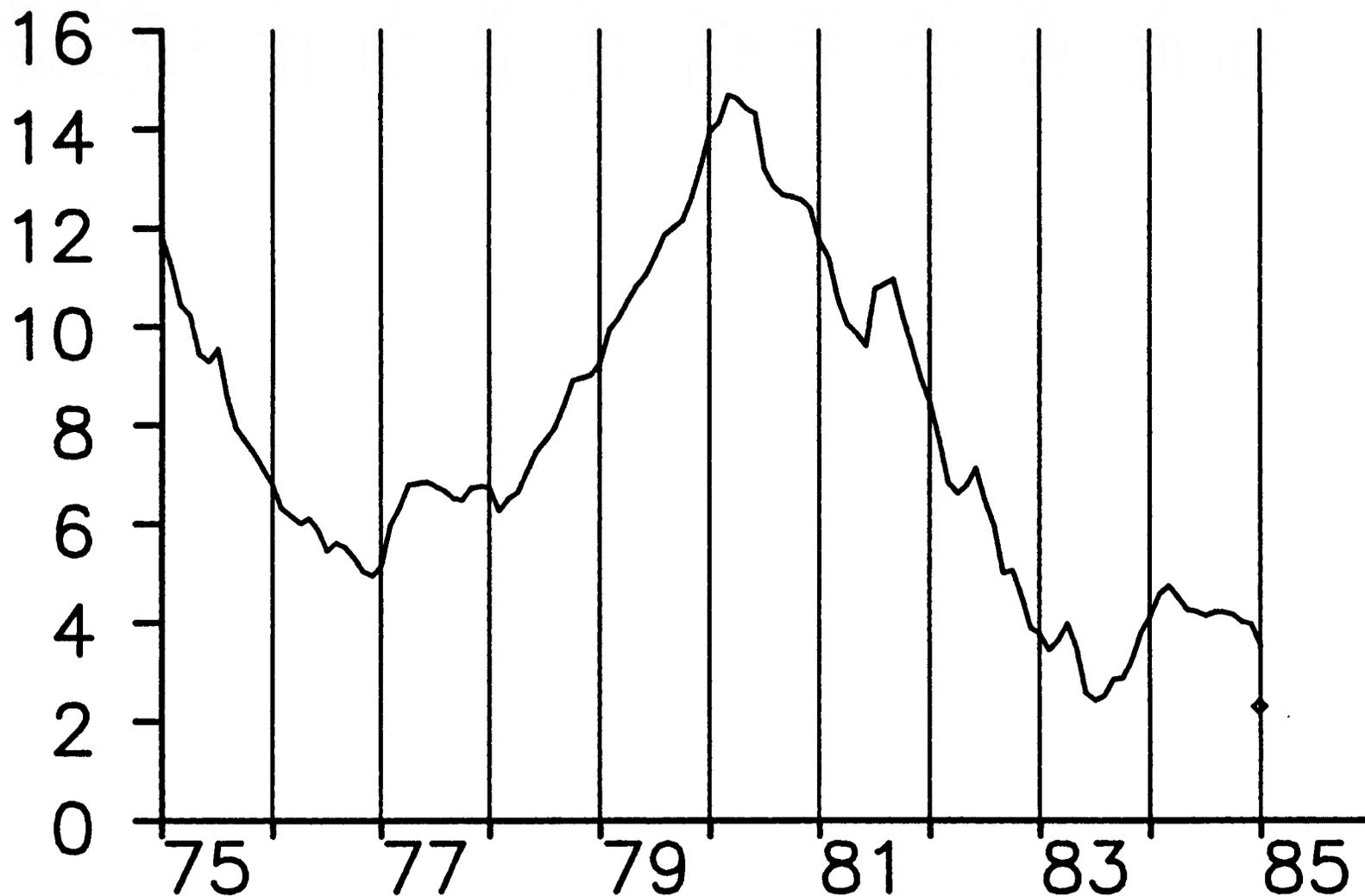


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Chart 2

CONSUMER PRICE INDEX

Monthly Year—Over—Year Percent Change

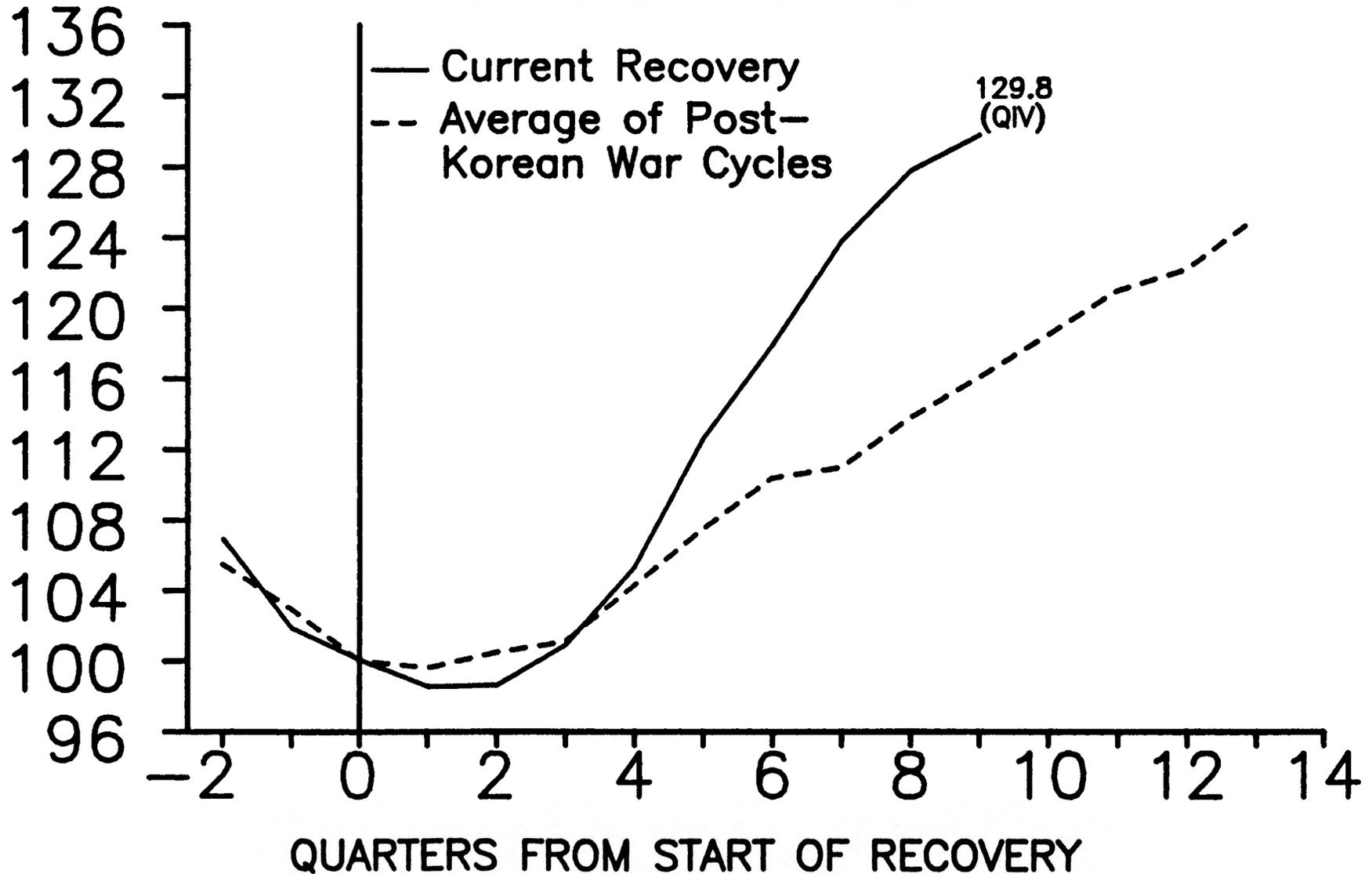


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Chart 3

REAL BUSINESS FIXED INVESTMENT

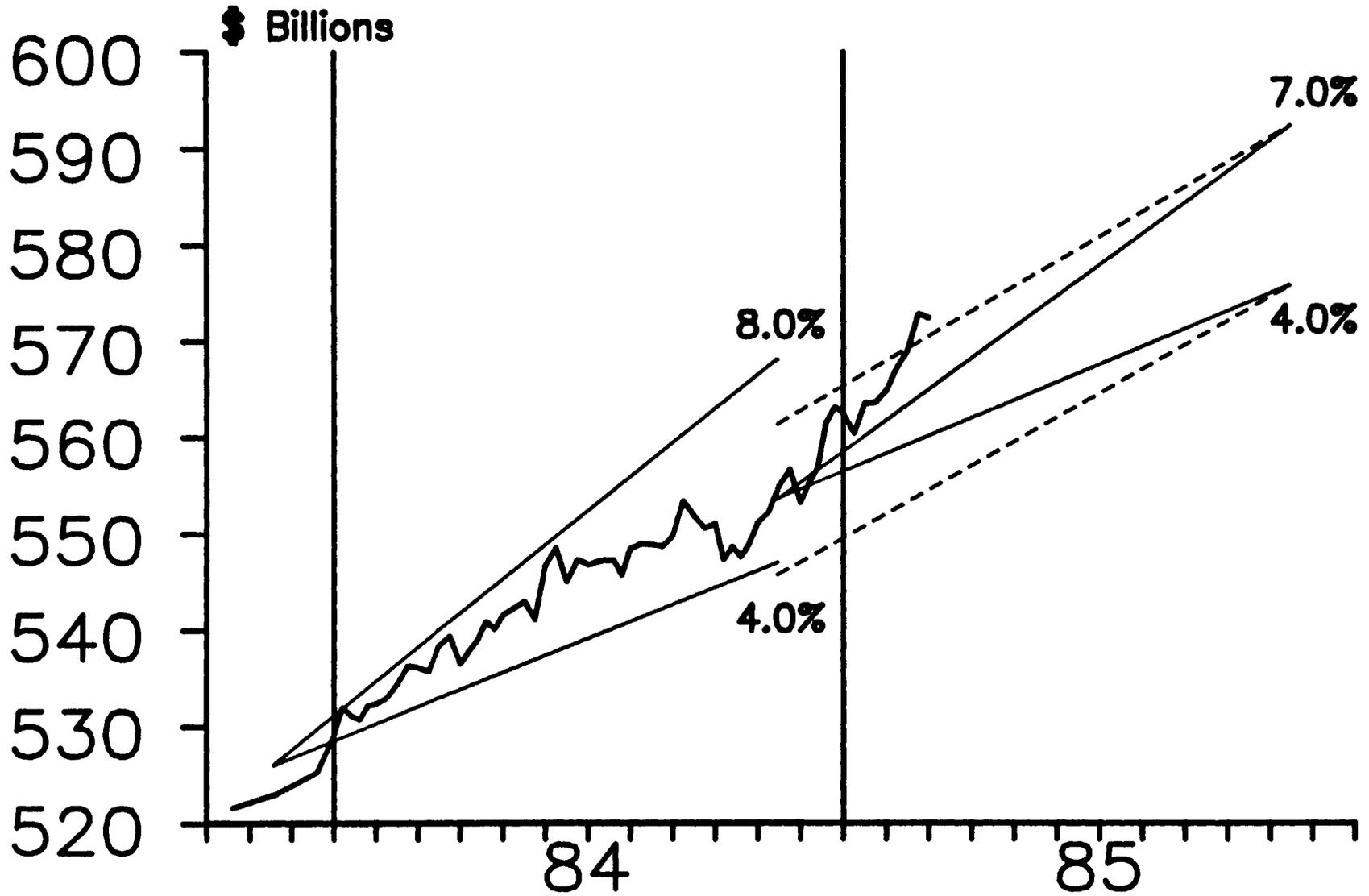
Index, Trough=100



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Chart 4

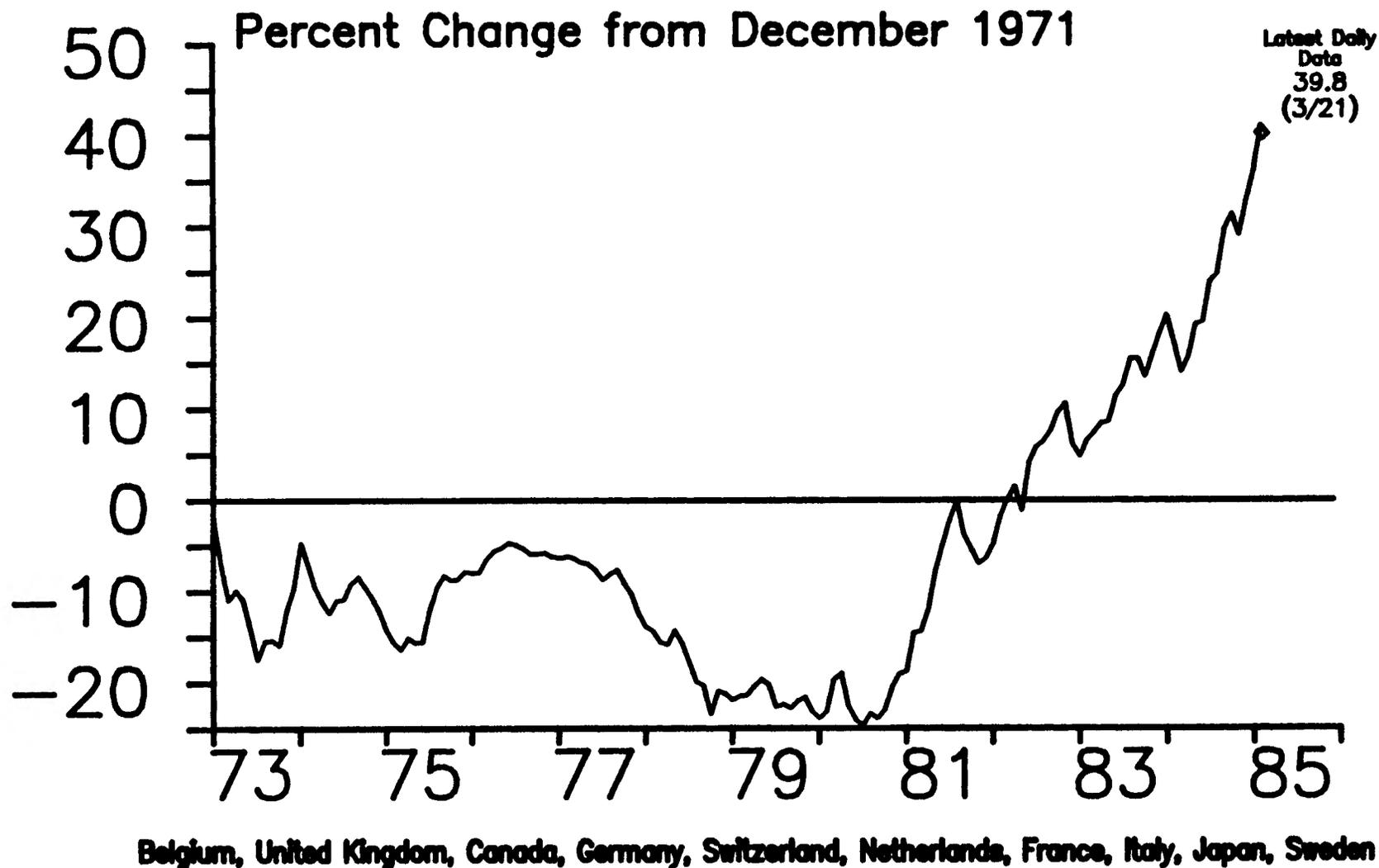
MONEY SUPPLY-M1



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Chart 5

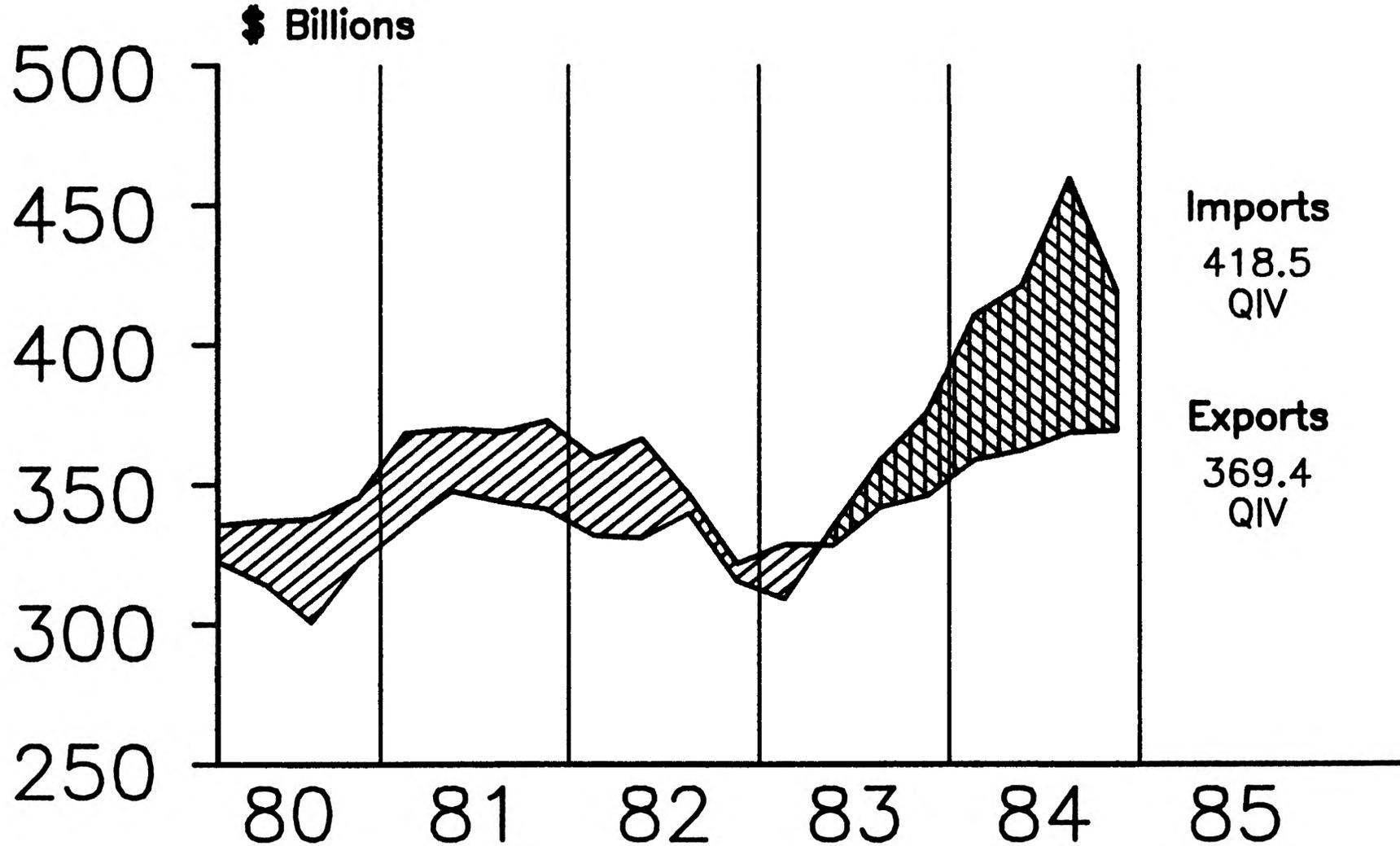
VALUE OF U.S. DOLLAR TRADE WEIGHTED AGAINST 10 COUNTRIES



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Chart 6

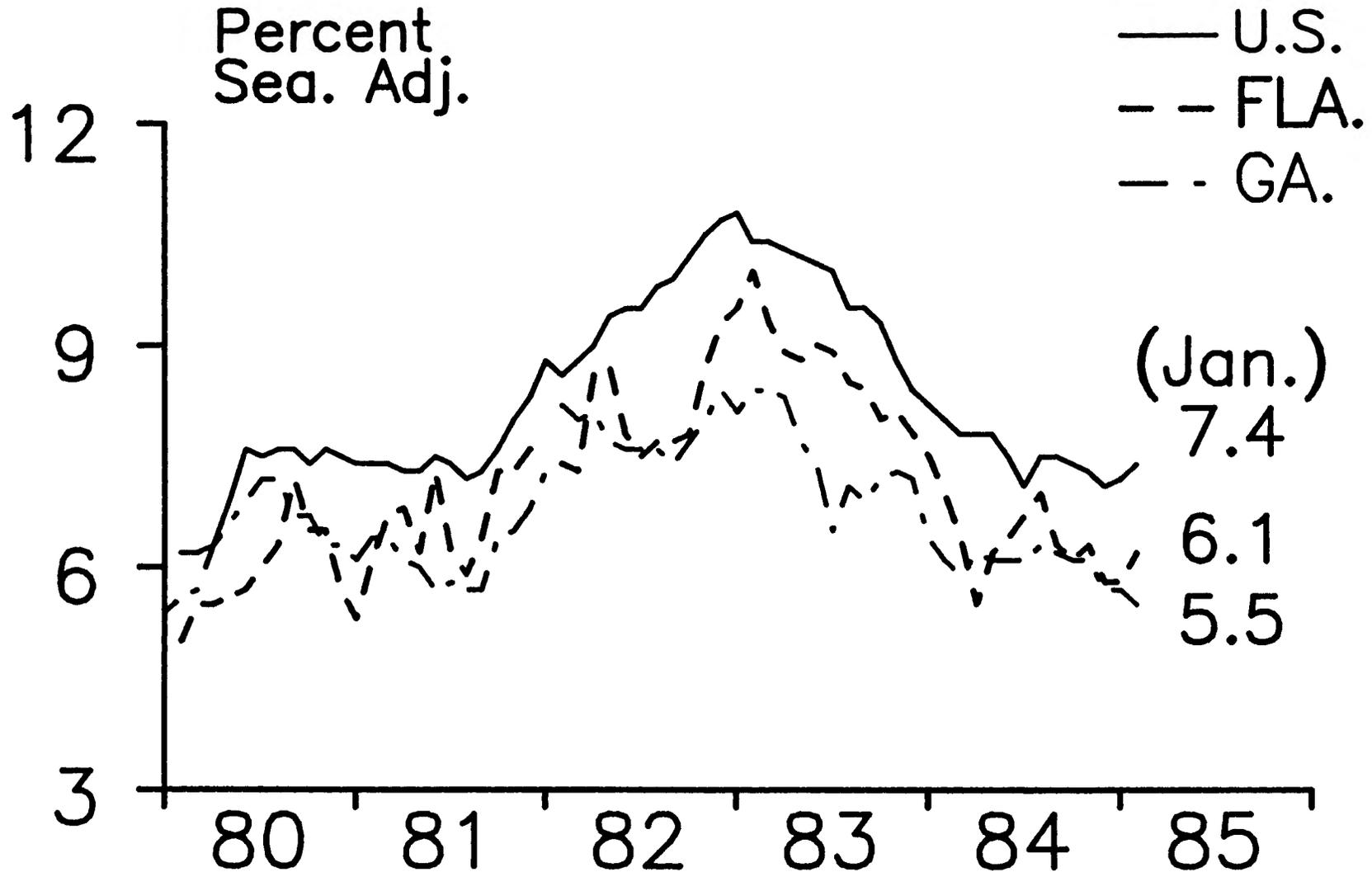
U.S. FOREIGN TRADE (CURRENT DOLLARS)



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Chart 7

UNEMPLOYMENT RATE



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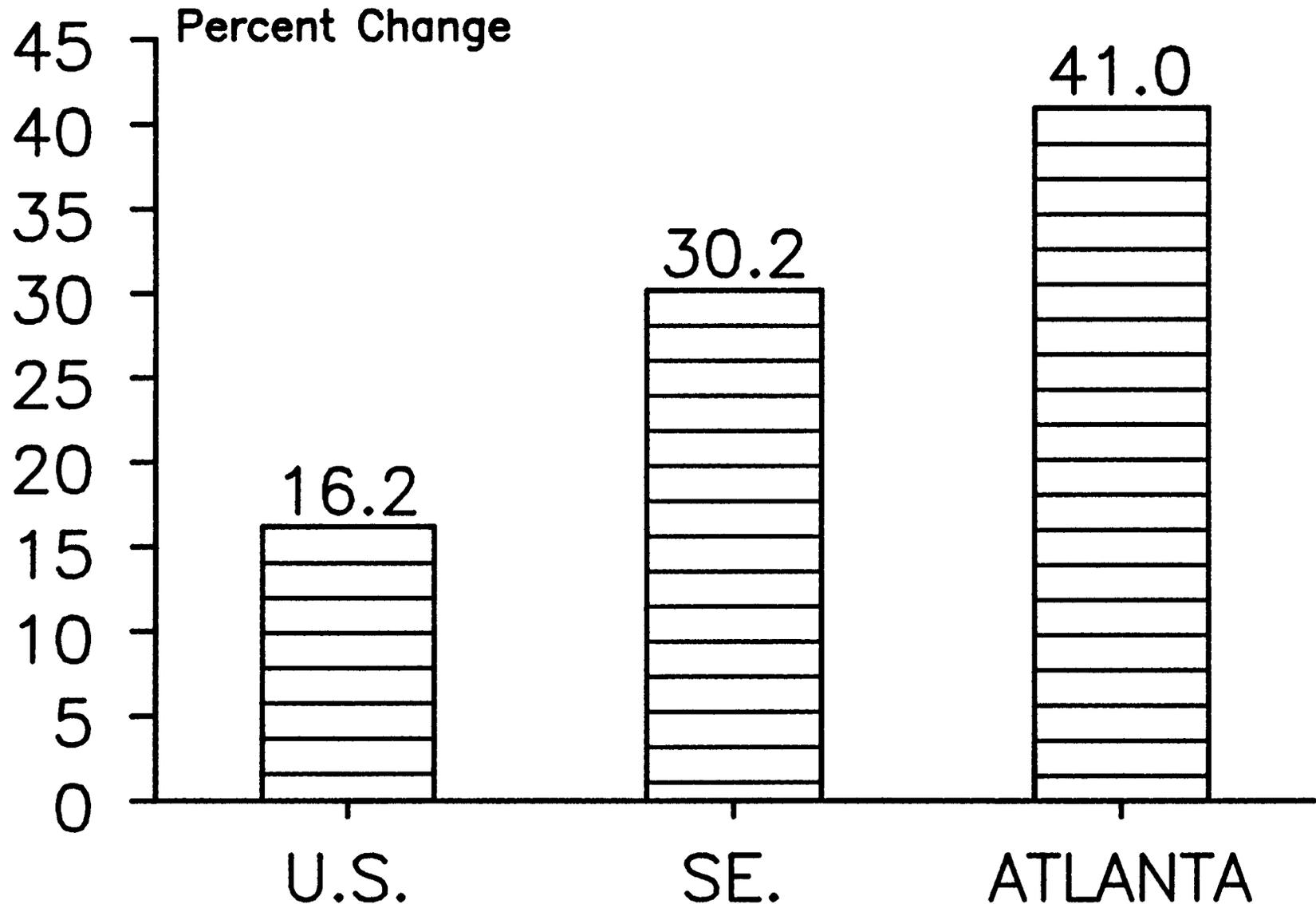
Chart 8

ATLANTA AND THE SOUTHEAST



Chart 9

POPULATION GROWTH 1970-1984

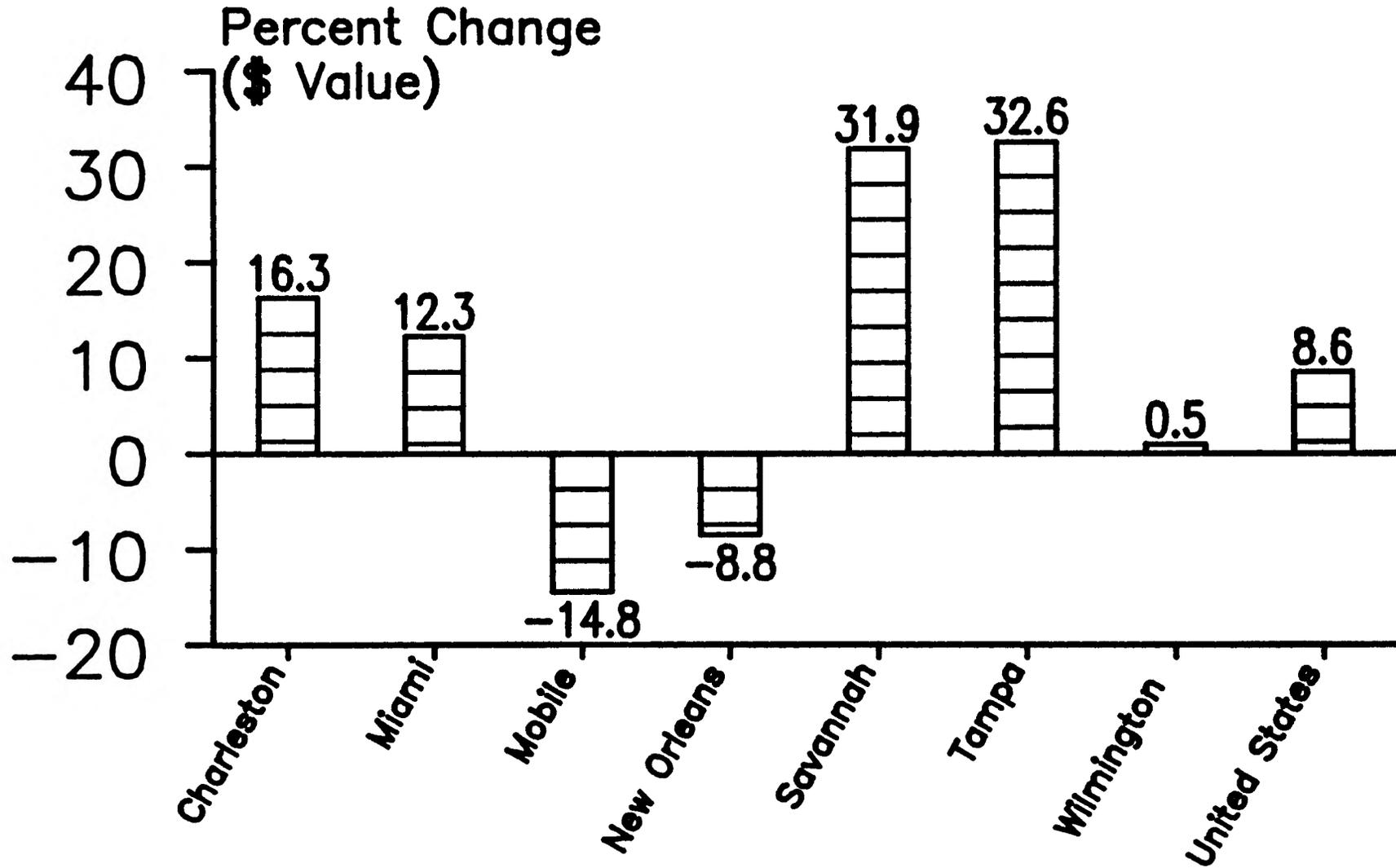


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Chart 10A

SOUTHEASTERN PORT ACTIVITY

Exports

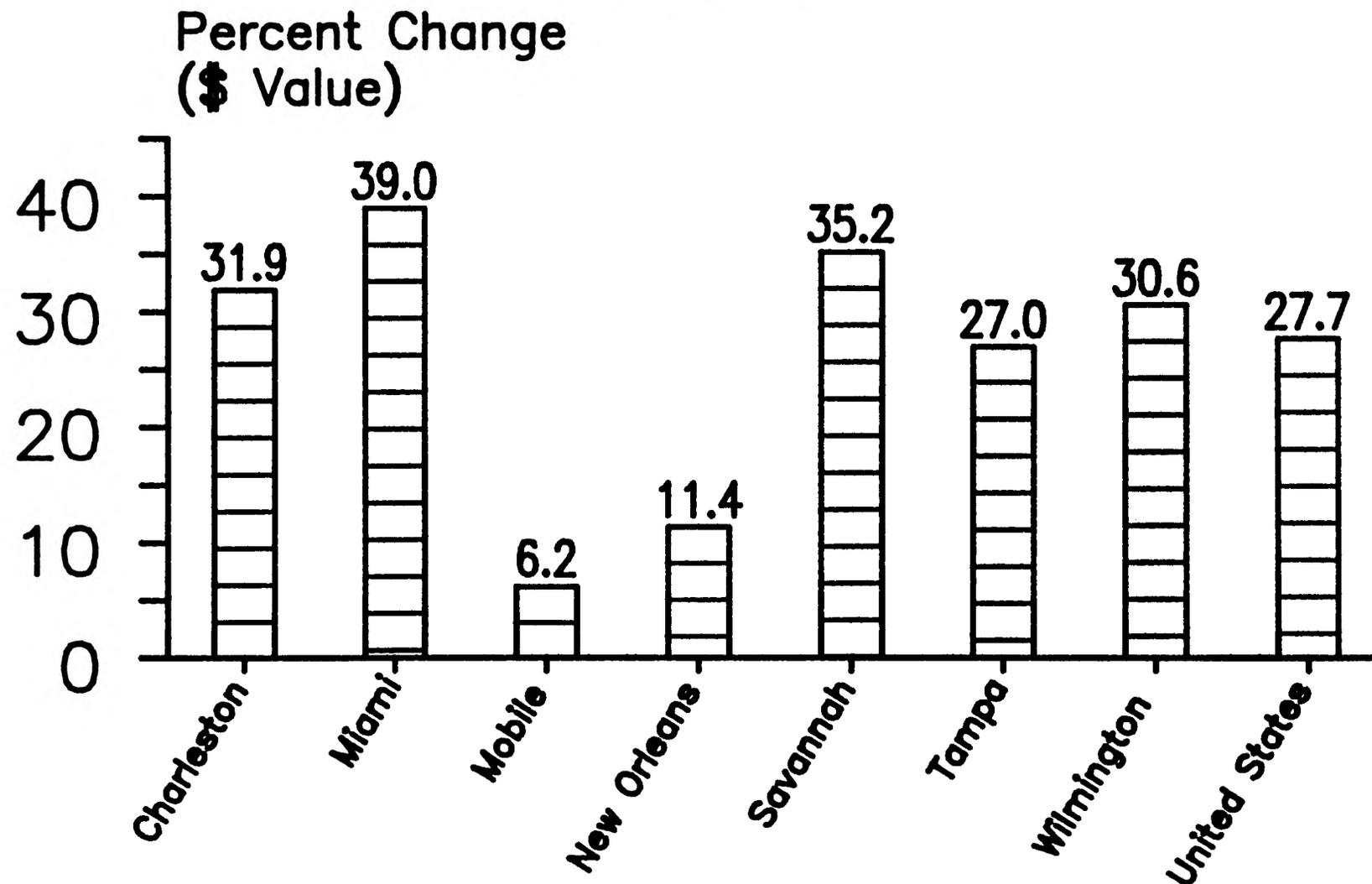


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Chart 10B

SOUTHEASTERN PORT ACTIVITY

Imports



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Chart 11

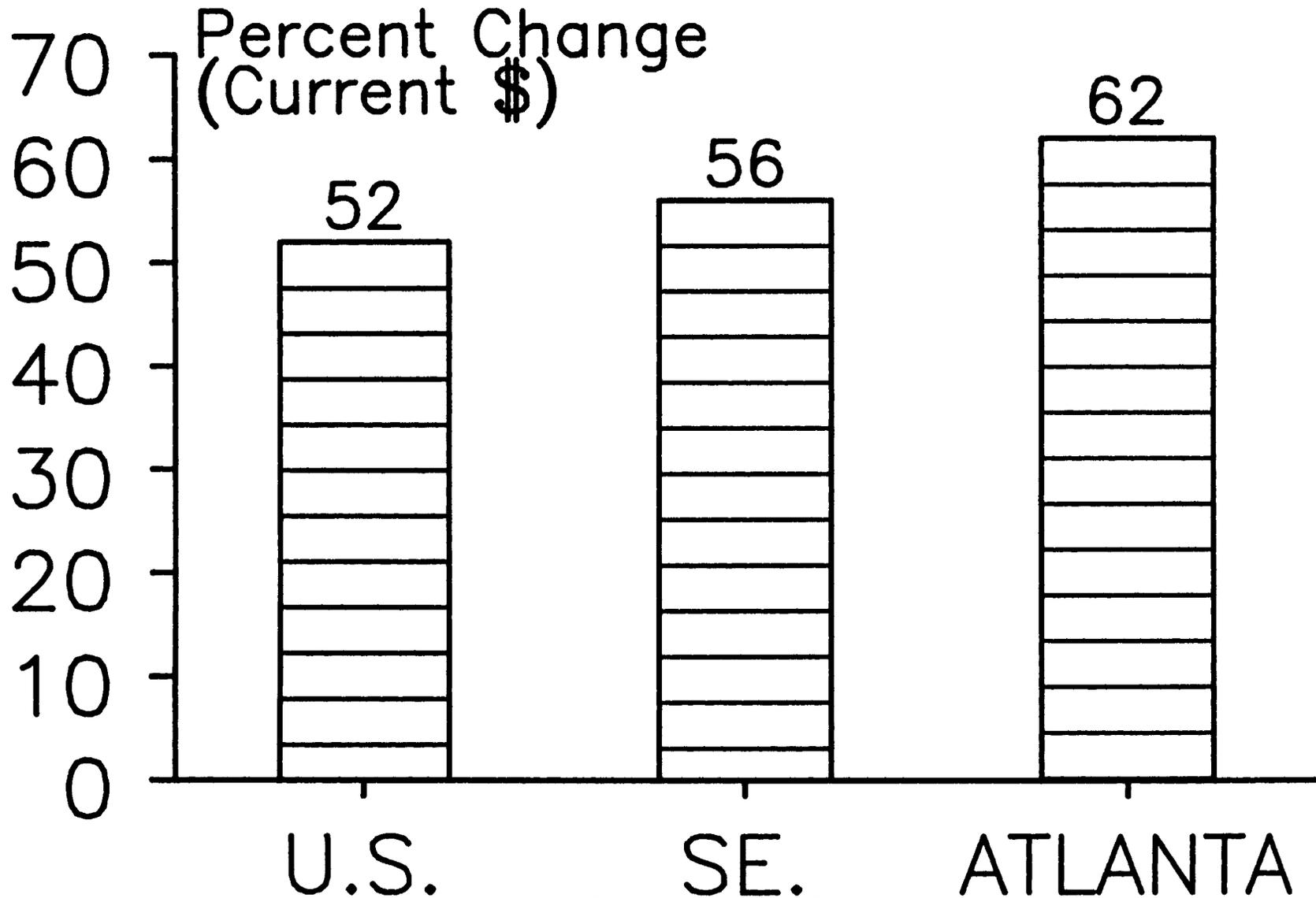
INCOME GROWTH 1970-1984



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Chart 12

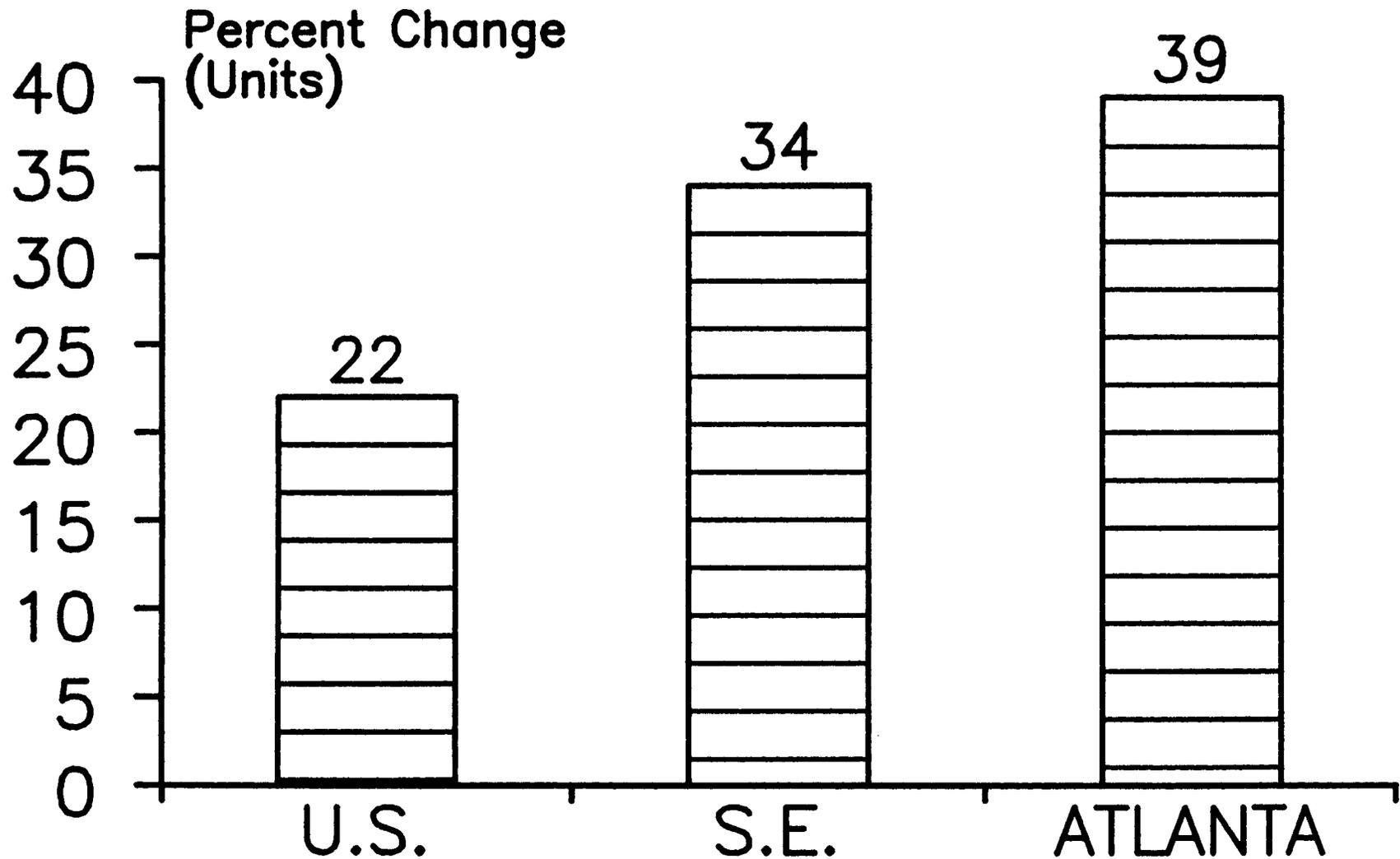
RETAIL SALES GROWTH 1977-1982



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Chart 13

GROWTH OF RESIDENTIAL CONSTRUCTION 1970-1984



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Chart 14

Picture of Atlanta Skyline
samples
(on order)

Examples of what I have
in mind is marked with
orange clip in Atlanta book

Chart 15

Picture of sylvan scene -
dogwoods, azaleas, pretty house
(samples on order)
Example marked by yellow dip

Chart 16

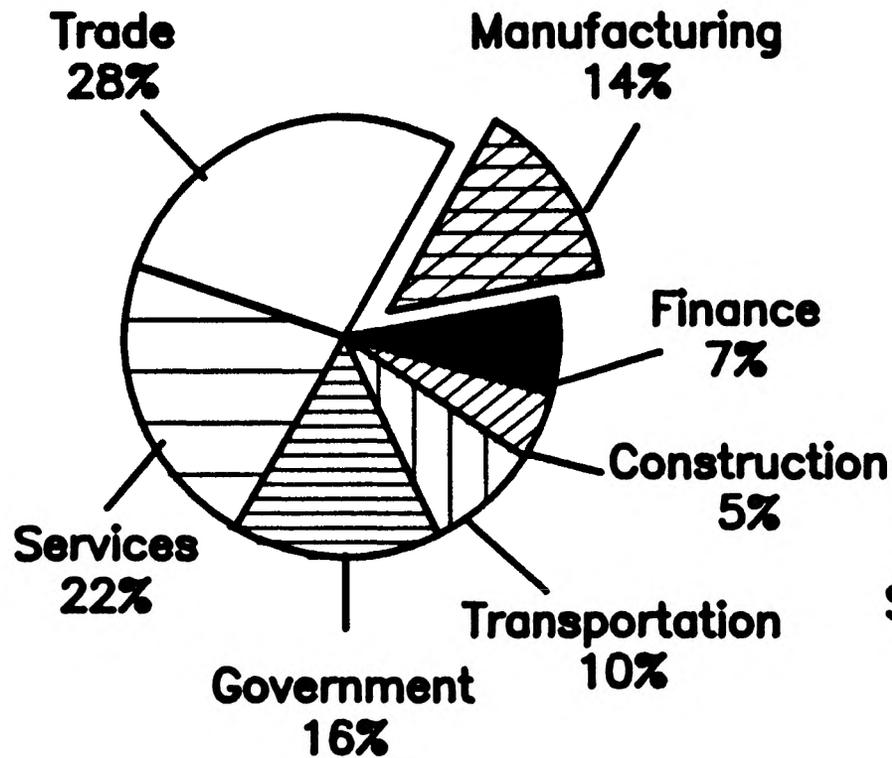
Picture of Atlanta people
(showing ~~variety~~ and
interaction of diverse
ethnic, racial groups)

Samples in order - example
is marked with pink clip

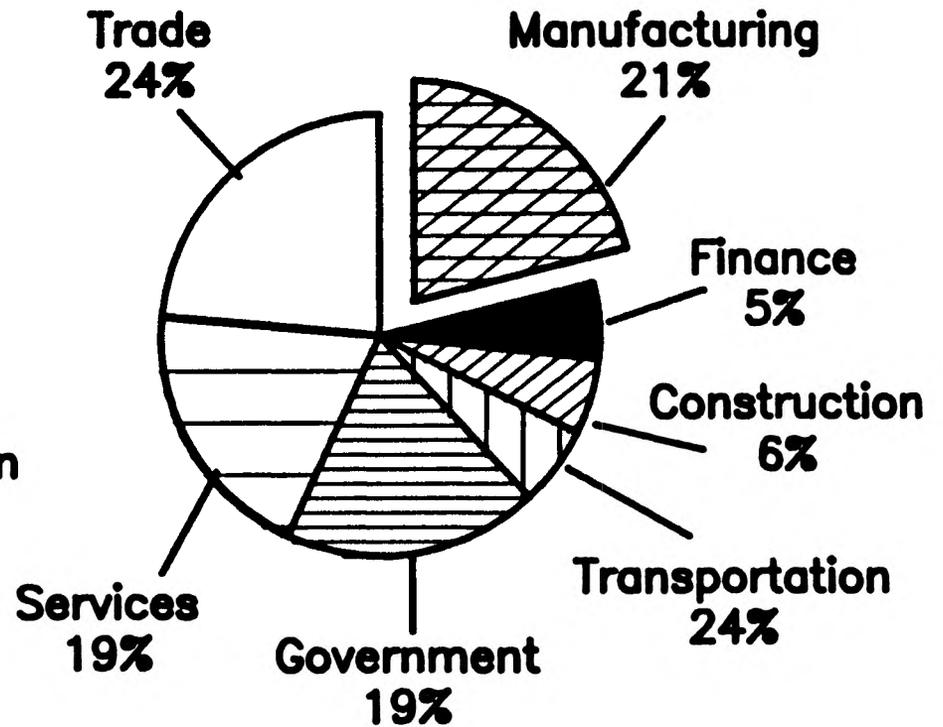
Chart 17

EMPLOYMENT DISTRIBUTION

Atlanta



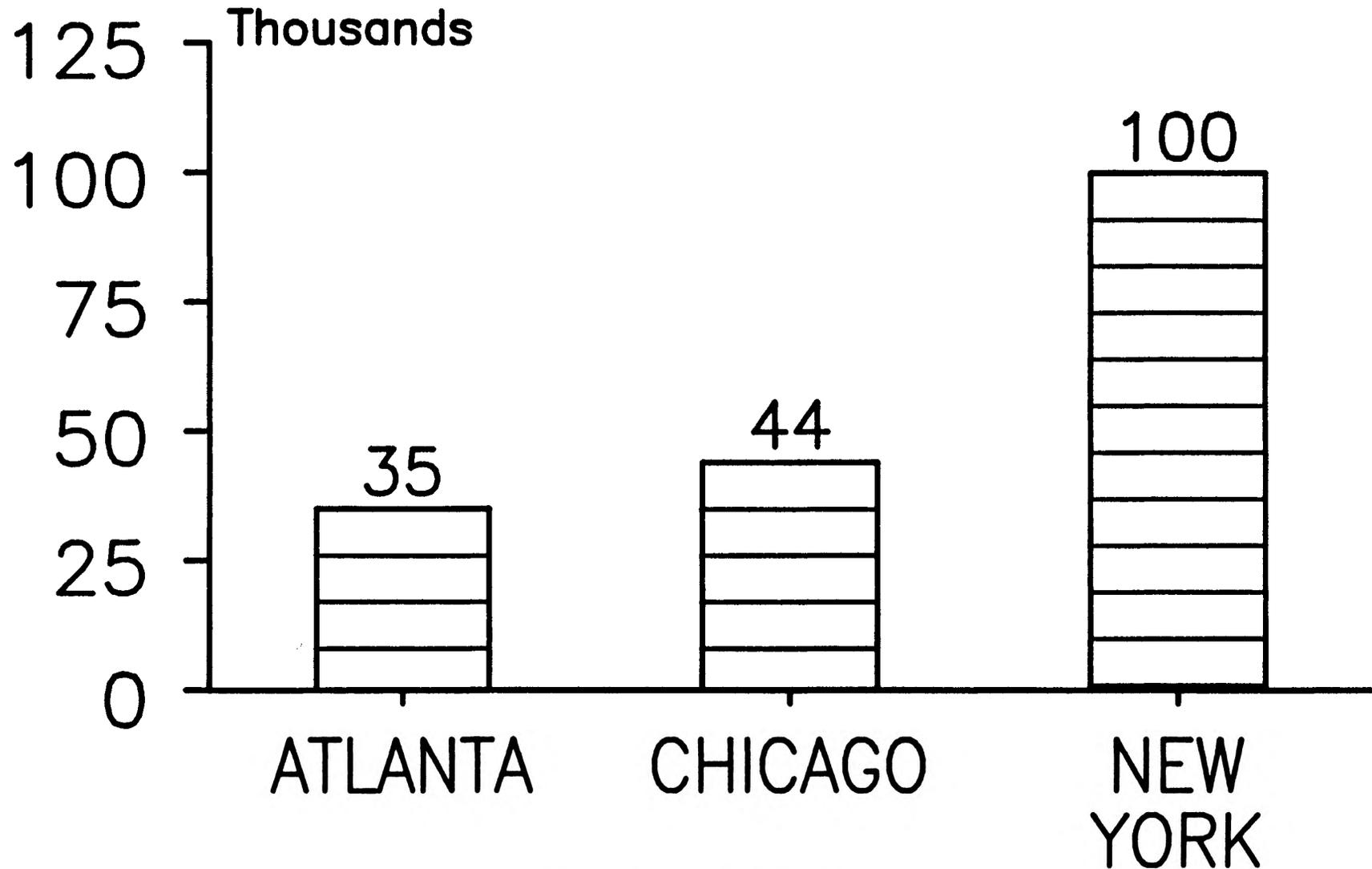
Southeast



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Chart 18

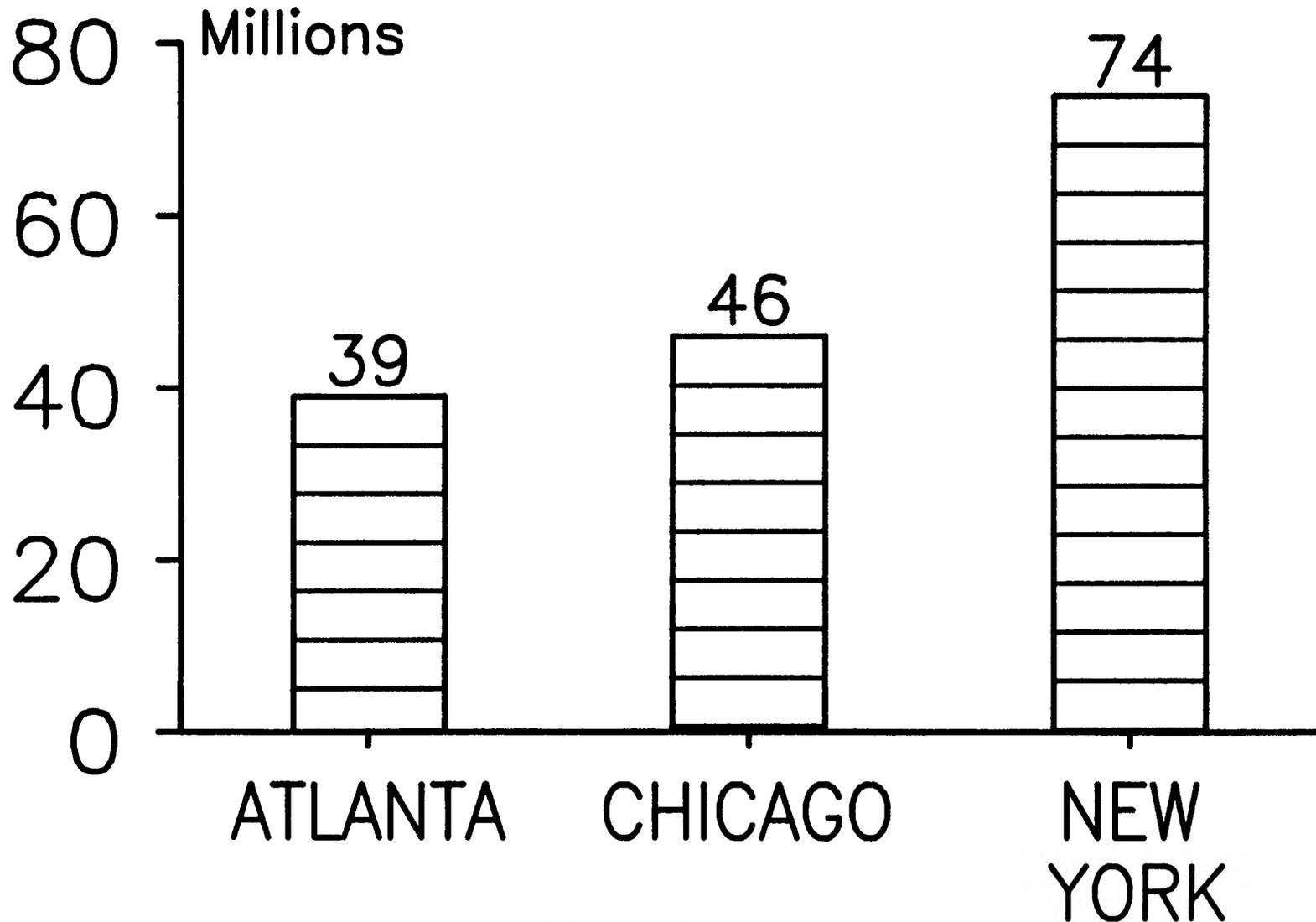
HOTEL ROOMS 1984



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Chart 19

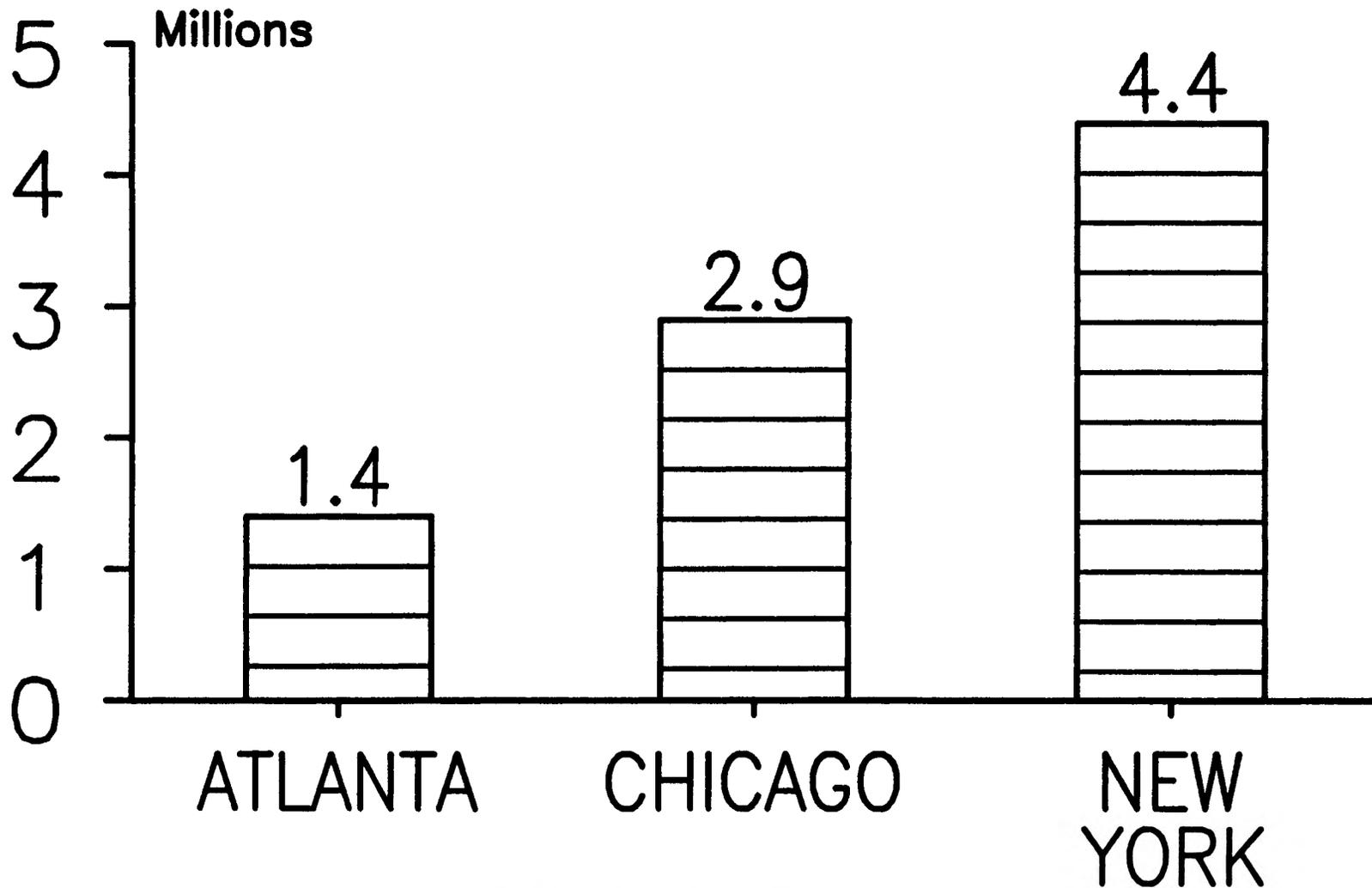
AIRLINE PASSENGERS 1984



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Chart 20

CONVENTION ATTENDANCE 1984



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