

**The Economic Outlook for Georgia and the Southeast
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To the Board of Directors of the
Business Council of Georgia
Atlanta, Georgia
December 5, 1985**

Good afternoon! I am honored to have an opportunity to speak to the leaders of an organization which represents business and industry across the state of Georgia. My comments today will deal with the economic performance of the Southeast and the outlook for the year ahead. After reviewing the situation in the region, I shall focus on the state of Georgia. Although I probably won't be able to cover every industry in detail, if only because of the great diversity that characterizes the Southeast, I'll be glad to answer questions you might have after I've finished.

Southeastern Performance in 1985

In recent years we in the Southeast have become used to glowing growth statistics and a record of expansion that generally outshines the nation. This year, however, we have had certain trouble spots, although overall, I believe, strengths continue to outweigh weaknesses. Southeastern manufacturing has been buoyed by two major areas of strength--robust national sales of automobiles and increased federal outlays for defense, many of which have just reached full implementation and production levels. In addition to the momentum generated by these manufacturing industries, the region has been enjoying a continuation of the rapid growth in construction and the service sector that has marked its performance for a number of years now. Nonresidential construction, especially of offices and hotels, has been especially strong; the number of square feet under construction through September was more than 25 percent ahead of the first three quarters of last year. In most of the major markets absorption is healthy, although vacancy rates in some cities are rising. Residential construction, however, is up much

less. In fact, the number of permits for multi-family units is actually 10 percent below the first nine months of 1984. Yet even the moderate growth of single-family construction, relative to last year's very strong performance, constitutes quite respectable expansion, and the decline in apartment and condominium building is probably a necessary retrenchment in view of current excess supplies. Retail sales in the Southeast have been stronger than nationally, providing the impetus not only for a vast number of new jobs but also for much building activity. Construction of new shopping centers and renovations of old ones has been proceeding at a brisk clip. The service sector, including airline travel, medical care, legal counsel, and the numerous other activities that make up this portion of the economy, has grown sufficiently to offset job losses in some of the Southeast's troubled manufacturing industries.

Despite these strengths, many areas of the Southeast experienced an economic slowdown this year. In the first half the generally high level of real, long-term interest rates and a continuing response to the strength of the dollar in recent years began to take their toll on regional employment. In spite of recent improvement job growth for the year as a whole is likely to fall short of the 5 percent growth rate we had in 1984. As a result of sluggish economic growth and continued increases in the labor force, the unemployment rate in the Sixth Federal Reserve District, which encompasses Alabama, Florida, Georgia, Louisiana, Mississippi, and Tennessee, increased intermittently through the first half of the year and since then has vacillated around 8 percent. By comparison, the U.S. rate held steady for six months, then dipped in August, and has maintained that lower level into the fall.

Job losses were particularly severe in the chemical and textile industries. Intense competition in domestic markets from imports and in overseas markets from foreign manufacturers has been causing problems for other regional industries, including

petrochemicals, paper, wood products, and primary metals. In the lumber industry, for example, renewed strength in the building industry nationally has offered little relief to many regional producers because of the intense price competition they face from imported Canadian softwoods.

Weaknesses in the energy sector have been taking a heavy toll on Louisiana and southern Mississippi, both of which are quite dependent on the sale of these resources and their by-products. Comparatively slack worldwide demand relative to oil and natural gas supplies and falling prices have caused sharp reductions in the number of drilling rigs active in these areas. Coal producers in Alabama and Tennessee find their market opportunities limited by the same factors.

Meanwhile, similar conditions of oversupply and low commodity prices in U.S. agriculture have diminished demand for fertilizers, thereby, adding to the troubles of Louisiana, where production of petrochemicals is an important industry. Florida's phosphate mines, which supply much the same market, have also felt the adverse effects of weaknesses in the farm sector. Although the circumstances of most southeastern farmers are not as distressed as many of their midwestern colleagues, who rely more heavily on grain exports, many farmers in this region face the prospects of reduced revenues this year after a lackluster year in 1984. Some also are heavily in debt and face the prospects of bankruptcy and liquidation. To make matters worse, an unusual number of hurricanes this year has wreaked havoc on many farm lands located near the Gulf Coast.

These conditions in agriculture and energy are reflected in the performance of southeastern ports, many of which are handling less cargo than last year or are expanding their volume more slowly than ports elsewhere in the country. Moreover, trade volume

remains well below levels existing during the late 1970s. Fortunately, as 1985 draws to a close, the southeastern economy is showing some pickup from the slow growth that characterized the first half of the year. Reports from merchants around the region on their early holiday season sales indicate that this year will be a better year than last. What's more, a number of factors suggest that the outlook for next year is somewhat brighter than 1985 proved to be. Before I turn to that subject, however, I would like to review briefly the performance of the Georgia economy.

Performance of Georgia

Georgia's economic performance in 1985 has exhibited many of the troubles that are plaguing the rest of the Southeast. For the first time in 3 years Georgia's jobless rate in August was higher than the nation's! However, statewide averages tend to mask the dual nature of economic performance here. Atlanta, which accounts for almost half the state's employment, has enjoyed somewhat slower but still quite strong growth, whereas most of the rest of the state has experienced much greater sluggishness or actual declines compared to last year. The only other Georgia city that has been generating much job growth is Augusta, and even that has been modest. Payroll employment in Columbus and Albany has actually been declining in recent months relative to year-earlier levels.

Since Georgia's manufacturing and farming tend to be concentrated in rural areas and smaller cities, this disparity is not surprising. The textile and apparel industries, which account for one-third of the state's manufacturing jobs, have been especially hard hit by factors I noted previously. Atlanta, like many large cities, is far less dependent on manufacturing. What's more, many of the factories and plants located in the metropolitan area are in rapidly growing industries. These include not only such large facilities as Lockheed's military aircraft plant and several auto assembly plants but also

numerous small computer and electronics firms operating in the city and its environs. Population growth is another factor favoring Atlanta. According to preliminary estimates, it now seems that population growth in 1985 will exceed last year's high levels. New residents typically stimulate demand for housing, stores, restaurants, health care, entertainment, and economic activity generally.

Of course, Atlanta's economy is not without its blemishes. As in the state, the unemployment rate has been rising, from 5.4 percent last September to 5.7 percent in September of this year. This rise reflects both the influx of people to the city and a deceleration of employment growth from last year's phenomenal 9 percent rate. Another factor keeping unemployment from falling in Atlanta may be that so much growth is occurring on the outskirts of the city. Because of the distance of many new openings from job seekers living in older parts of the metro area, some people remain in need of work while employers elsewhere cannot fill vacant positions. Until our transportation systems, public and private, have time to catch up with this expansion on the city's perimeter, the area's unemployment rate may remain somewhat higher and localized pressure on wages somewhat greater than underlying economic conditions warrant. Another potential weak spot in Atlanta's otherwise strong economic record this year pertains to inflation. Whereas last year prices here were advancing at a slower rate than nationally, inflation is now higher than in the United States as whole. Prices in Atlanta rose at a 4.9 percent rate for the twelve-month period ending in August compared with a 3.4 percent pace in the United States. A final sector that is a cause of concern is nonresidential construction. Office buildings and retail outlets are being planned and built at a pace that is outstripping the current level of absorption and perhaps the city's potential for growth in retail sales over the next few years. Although plans on the drawing boards for both office and retail space indicate substantial momentum will

continue into 1986, I feel that eventually some adjustment seems inevitable to allow the space now available to be absorbed.

Outlook for 1986

The economic outlook for Georgia and the Southeast in 1986 will hinge largely on two factors—U.S. economic performance and the condition of key sectors in the southeastern economy. With regard to the first—U.S. economic performance—I expect the moderate rebound we experienced in the third quarter to be sustained, on average, in the coming year. We achieved a growth rate of more than 4 percent in the July-through-September period. That figure is quite strong. In fact, it exceeds the pace at which I think we can reasonably expect to grow at this stage of the business cycle without introducing serious inflationary pressures. If we can continue to expand at a rate in the neighborhood of 3 percent, I would view it as quite healthy growth.

Probably some of you are asking, "Yes, but, can we sustain this growth?" I believe several factors suggest that we can. First, inventory levels are extremely low; businesses will have to produce and stock somewhat more just to replenish supplies. This will foster some employment and income gains. Second, government spending, particularly for defense projects, is likely to continue at a high level at least for the next 12 months because of the way military contracts and commitments are related to production and spending. Thus, the manufacturing sector, or at least certain portions of it, should receive ongoing stimulus from federal demand for goods. The strong growth in money supply and associated lower costs of credit that we have been experiencing for some time now are also likely to have positive effects on a variety of economic activities, especially those that are sensitive to interest rates such as home and auto buying by individuals and capital spending by businesses. Finally, the dollar has declined

more than 20 percent since its peak earlier this year. Although changes in exchange rates usually take six months or so to influence trade patterns, we should begin to see some favorable changes taking place soon.

However, I would caution against hoping too much for a further significant fall in the value of the dollar because a sharp drop could quickly reignite inflation. Import prices would rise, and our dependence on purchases from other countries is considerable in the short run. Also the nation is near capacity in some areas. This is especially true with regard to employment. As troubling as our current rate of 7.1 percent sounds to many Americans, this figure is probably pretty close to a full-employment level, given the very high labor force participation rates we are experiencing. A rapid or sharp fall in the dollar could easily create bottlenecks and price and wage pressures during the adjustment period as resources are reallocated. On balance, I look for national economic growth in the area of 3 percent, accompanied by only modest declines in the unemployment rate and a generally favorable outlook for inflation over the coming 6 to 9 months. This outlook should mean better conditions for the Southeast in general next year.

Of course, the expected strength in the economy in the year ahead will vary among individual states and from one sector to another. Residential construction, especially of single-family dwellings, in the Southeast is likely to manifest continued strengthening into 1986 as a result of recent declines in mortgage interest rates and favorable demographic factors. The latter include both the large number of households now entering their child-rearing years and the expected continuation of migration to the Southeast, especially to Atlanta. On the other hand, office and other nonresidential construction may begin to decline. Many metropolitan markets are overbuilt, as I've remarked.

As I noted earlier, manufacturing activity related to the auto, defense, and some parts of the building sectors seems likely to perform well in 1986. Unfortunately, prospects for many regionally important manufacturers and their employees remain clouded. Despite relief that might be expected from the decline of the dollar, the textile industry is unlikely to regain its status as a major employer of low-skilled southeastern workers. Employment has been trending down in this industry for well over a decade. Other industries into which imports have made significant penetrations over the past few years may not experience any dramatic relief from the decline in the value of the dollar because many importers have invested heavily in building a market presence in the United States. Such producers are likely to forgo profits before they sacrifice the market share that they worked so hard to build. Similarly, the probability of substantial improvement in agriculture and energy in 1986 does appear to be too high at this point. A strong revival in regional production of natural gas must await a turnaround in global market conditions. For oil, the outlook is harder to gauge because of the recent firmness in spot prices. Although many people expect renewed price declines, inventories currently look low.

The outlook for Georgia is much the same as that for the rest of the Southeast. Notwithstanding the effects of a decline in the value of the dollar, textiles and other industries that either export substantially or are sensitive to import competition are unlikely to experience a dramatic turnaround, but some improvement is likely. Certain industries that have provided much momentum this year--autos and defense in particular--may have reached a peak and are unlikely to be the source of many new jobs in the year ahead even though their employment levels will probably remain high. After two very strong years, Atlanta's growth seems likely to slow somewhat in 1986. However, the vigor of Atlanta's economy is such that even this more moderate pace of growth will be respectable, perhaps even enviable from the perspective of some other

cities. On the whole, the improvement in national economic performance that seems to have begun is likely to continue through the next 12 months, and this development should have a broad beneficial effect on the Georgia economy.

Conclusion

In summary, the slowing growth of the regional economy in the first half of 1985 has been followed by some signs of renewed strength in recent months. I expect this expansion to carry forward into 1986 and continue throughout the year. Not all sectors of the southeastern economy will participate in the improved environment, of course, but defense and auto-related manufacturing as well as construction and services should enjoy a good year. Those sectors that will probably remain in a weakened, albeit improved condition, include textiles, agriculture, and energy. Outside Atlanta, Georgia's fortunes seem likely to follow the pattern of the Southeast generally, that is, of a moderate but broad rebound. In contrast, Atlanta will probably continue the slowing trend that it began to exhibit this year. However, the city's performance has been so stellar for the past several years that even the slower growth rate that appears on the city's economic horizon seems strong by comparison to the rest of the country. Thus, I would leave you with a note of optimism for the economic prospects of Georgia and the Southeast.