

**THE GLOBAL ECONOMY AND ITS IMPACT ON THE SOUTHEAST**  
**Remarks by Mr. Robert P. Forrestal, President**  
**Federal Reserve Bank of Atlanta**  
**to the International Forum Program**  
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Good evening! It's a pleasure to join you for this session of the Cobb International Center's quarterly International Forum. The Cobb Center does much to expand the horizons of our business community by hosting these gatherings of people who are working to make Atlanta a truly international city. I am also pleased to be addressing the autumn installment of the series. Fall is traditionally a time of gathering in and of taking stock, and for the next few minutes, I would like to take stock of the international economic situation as I see it and what this "inventory" implies for the Southeast. I'll conclude with some comments and observations about international business prospects drawn from my recent trip to Japan, China, and Hong Kong.

**Economic Performance in 1986**

As we survey the world economy in 1986, it seems appropriate to begin with the United States because of our leading role as an "engine of growth." U.S. economic growth this year has been marked by imbalances. GNP expanded at a rapid 3.7 percent pace in the first quarter, slowed to 0.6 percent in the second, then rebounded to a 2.4 percent annual rate of growth in quarter three, bringing the average for the year thus far to 2.2 percent. Progress toward reducing unemployment remains frustratingly slow. The jobless rate still stands at the same level it did two years ago—7 percent. On a more positive note, inflation proved to be considerably milder than expected. Due largely to declines in oil prices, consumer prices actually fell for several months and, as of September, the CPI was up just 1.7 percent from its level a year ago.

While the uneven economic performance of GNP from quarter to quarter is troubling, the imbalances among sectors of the economy give me greater concern. Consumer spending has been growing at a healthy pace, benefiting the service sector, for example. Residential construction, particularly single-family housing, has also been doing well. New home sales recently rose more than 10 percent. On the other hand, the energy industry, along with those sectors most exposed to international trade—farming and manufacturing—have suffered adverse effects more serious than general macroeconomic indicators reveal. Although until quite recently the dollar has been declining steadily and substantially over the last year and a half, our trade deficit remains at record levels despite the modest improvement indicated by recent merchandise trade figures. Some lag was expected before the trade balance improved, but the length of the lag is somewhat surprising.

One reason we haven't seen a turnaround in the U.S. net export position despite the dollar's more than one-third drop against the currencies of Japan and Europe is that economic performance elsewhere in the world has been sluggish. In fact, GNP fell in the first quarter in a number of advanced economies. Fortunately, activity did pick up substantially in the April-to-June period in Germany as well as much of Europe, and more recent data for the third quarter indicate further moderate expansion. Still, unemployment rates are stubbornly high. In Britain, Holland, and Belgium, 1986 is likely to be the fifth straight year of double-digit joblessness. Many other countries also report high unemployment though we have seen modest improvements in some such as Germany, where the jobless rate stood at 8.8 percent in September. Japan's economy also advanced somewhat after a weak first quarter, but its rebound was more modest and industrial production fell this summer. Unemployment there is only 2.9 percent—low by our standards but high for Japan. Inflation, however, is quite mild in most of the industrial economies. Consumer prices have actually declined in Germany since last December.

The reason for the slower performance of the world's other advanced economies is that domestic demand has been much weaker than in the United States. Fortunately, recent figures suggest that domestic consumption is increasing, at least in Europe, helping to offset some of the slowdown in export sales, which had been propelling growth in many of these countries as well as Japan.

Less developed countries, or LDCs as they are often called, have also experienced moderate growth thus far in 1986. Non-OPEC LDCs will probably expand at a rate of 3.6 percent, the same as last year. Although inflation remains a problem in some nations, the decline in interest rates has been a boon to many indebted Latin American countries. On the other hand, the drop in oil prices is having a devastating effect on some oil-exporting LDCs like Mexico, Nigeria, Ecuador, and Venezuela.

### **Outlook**

Turning to the outlook for 1987, I think several factors warrant optimism about the future. For the United States, I am hopeful that our balance of trade will improve, boosting income and lowering unemployment. The September figures showed an overall decrease of 2.7 percent in our imports from foreign countries, though at the same time exports were down slightly. That was the second straight month our trade deficit narrowed, and we might be encouraged that the long-awaited turnaround may have at last begun. It is important to understand that even if the trade deficit merely flattened, its drag on overall GNP growth would be reduced and the pace of expansion would accelerate. For instance, if the trade deficit had not worsened from 1984 to 1985 but merely stayed the same, albeit quite large, GNP growth would have been 1 1/2 percentage points higher last year. Thus, even though we are not likely to return to a balanced trade position in the coming year, even a slight improvement would have a large impact.

It is true that prospects for business investment are not bright. Tax revisions, low capacity utilization, and a glut of office space will probably discourage business investment in structures. At the same time, we might see more investment in productivity-enhancing equipment, and the very low level of inventories relative to sales suggests an increase here as well. Government spending probably won't be a stimulus though neither will it exert a significant drag, given the slim hopes for deficit reduction of any size. Even with the probable flatness in these sectors, the balance of current strengths and weaknesses suggests that economic growth over the rest of 1986 will be respectable at this point in an already long expansion. In addition, the pace of growth could pick up in 1987.

Europe's growth during the remainder of 1986 may also be a little higher, though on average this year might fall below last. However, 1987 should bring a resurgence, especially for Germany. One favorable factor for many European nations is the oil price declines. Since energy costs affect so many economic activities and Europeans lack the domestic energy resources that we in the United States have, the reduction in oil prices is especially significant. Because oil is a dollar commodity and the dollar has weakened significantly, their oil bill has fallen by much more than ours.

Japan's economy may not rebound as much, however, despite the stimulus that might be anticipated in the wake of the recent half percentage point cut in their discount rate. It has relatively little unused capacity. Unemployment, as I mentioned, is only 2.9 percent. Recent proposals to alter their tax system and lower rates would not take effect until April of next year, if enacted. Fiscal stimulus could also help, but earlier proposals along these lines did not go beyond the talking stage. Moreover, basic geographic and demographic factors constrain consumption in that island nation.

Non-oil exporting LDCs should gain strength in 1987 as the industrial nations of the world do better. LDCs depend heavily on advanced economies to absorb their exports. Lower interest rates, the drop in oil prices, and progress toward reducing inflation and restructuring their economies to allow a greater role for markets are favorable developments for this outlook. However, oil-exporting countries such as Mexico and Venezuela are likely to continue to have problems. Now that oil prices seem to have stabilized, the outlook for them may be a little better. Furthermore, the progress that has been achieved thus far toward averting an economic crisis in Mexico is encouraging.

Mexico has joined the General Agreement on Tariffs and Trade, agreed to liberalize import restrictions, reduced or eliminated many subsidies, eased foreign investment procedures, and started plans to sell or close many state-owned enterprises. The debt rescheduling and loan package that is nearly completed are very positive steps in the right direction for all parties concerned, and this is a very encouraging development despite the seriousness of the underlying problems. However, it is vital that private financial institutions come forth with the loan funds called for. Our humanitarian impulses as the world's leading and most prosperous economy are not the only reason that should propel us to seek a solution to this problem. We must also be concerned about the political implications of asking our southern neighbor and major trading partner to undergo even more austerity. What happens in Mexico can be an example to other developing nations in achieving further progress on the external debt issue. More importantly, it could set the stage for returning many other third-world economies back onto a path of rapid growth. Such expansion would not only help to raise living standards around the world but also provide a promising outlet for U.S. exports.

### **Implications for the Southeast**

Such international issues as LDC debt, together with economic developments in Europe, Japan, and Latin America, often seem remote from the daily lives of individuals who are not a part of policy-making circles or multinational corporations. However, they are important to each of us. What happens in the international economic arena has a great bearing on all of us here in the Southeast. This region's economy is especially sensitive to competition by foreign imports. The textile and apparel industries, which are the leading employers in many southeastern states, have been especially hard hit by import penetration. Much of the competition in these industries comes from countries like Hong Kong and Korea, whose currencies have changed relatively little against the dollar. The same is true of the lumber industry. Much of the area's vast woodlands consist of softwood, particularly pine trees, used in residential construction. This part of the forest products industry has had considerable difficulty competing against Canadian softwood lumber producers, who have a different cost structure. While hardwoods used in making furniture and flooring have remained fairly strong in the face of growing international competition and often are successful exporters, the softwood industry has suffered substantial market losses to the Canadians. Relief from these problems may have to be sought through international negotiations rather than currency realignments. The danger is that short-sighted policy options like protectionism could be substituted for the more difficult, though ultimately more rewarding, path of persuading our foreign competitors and trading partners to open their markets to U.S. goods and services and to respect the fruits of our labor embedded copyrights, patents, and other intellectual property.

On the export side global markets are somewhat less important in the Southeast than in many other regions of the United States. Whereas nationally more than 11 percent of manufacturing jobs can be traced to exports, only 7 to 10 percent of

southeastern states' manufacturing is export-oriented. Nonetheless, certain locally important industries such as chemicals do rely heavily on foreign markets. In addition, the region's soybean and tobacco farmers are dependent on consumers abroad for a substantial portion of their sales, and even some of the service sector is affected by international developments. This includes not only the major ports and airports of the Southeast but also Florida's tourist attractions, which draw more foreign visitors than those of any other state in the nation. For these businesses, issues like Latin American external debt and the dollar's value are not mere abstractions.

Another dimension of international trade in the Southeast is the large amount of foreign direct investment. Georgia and Tennessee have gained much notice as the home of numerous Japanese-owned factories. However, many states in this region are now home to manufacturing plants and distribution offices of foreign companies. Dutch and French companies have invested significantly in insurance and real estate in Florida and elsewhere. German and Swiss investors are prominent in Louisiana's petrochemical facilities. Foreign companies are also well represented in the region's metal producing plants. Along with these international activities--both exports and foreign investment--have come a number of international banking offices--Edge Act banks, international banking facilities as well as international departments of local banks. This international economic linkages not only boost employment and income growth but also help diversify the southeastern economy away from agriculture and farming.

Along these lines, I'd like to share with you some observations about my recent rip to the Far East, which was aimed at attracting even more foreign investment to this region as well as assessing the prospects for selling and investing in places like China. . . .

## **Conclusion**

Let me conclude by recapping a few matters I discussed earlier. From our vantage here in the autumn of 1986, I think we can be optimistic that in the year ahead we will see our domestic economy continue to expand and some of our troubled sectors find relief. Economic growth elsewhere in the world is also likely to remain on the moderate uptrend we've seen recently. Those areas of the Southeast that have been so vibrant in recent years will probably sustain their healthy growth, though construction could slow. Weaker states and localities may see improvement as the trade deficit narrows. My cautious optimism for the future of the world economy should not mask concern about very serious issues like Mexican debt and continuing trade imbalances. However, the growing public awareness of the importance of international economic issues here in Atlanta and elsewhere in the Southeast and the nation is encouraging. Meetings like this one tonight help raise the level of public awareness about these international economic problems, and a better understanding of the changing business environment will surely help us respond wisely and dynamically to the challenges of today's global economy.