

**THE ECONOMIC OUTLOOK FOR THE SOUTHEAST AND FLORIDA IN 1987**  
**Remarks by Robert P. Forrestal, President**  
**Federal Reserve Bank of Atlanta**  
**to the Meninak Club of Jacksonville**  
**April 13, 1987**

Good afternoon! I am pleased to have this opportunity to meet with you Men in Action of Jacksonville. Thanks to the commitment of people like yourselves, I find a growing realization outside this area that Jacksonville is a city in action, poised to assume an expanded leadership role in our region. The Federal Reserve Bank is proud to be a part of the development that is changing the face of Jacksonville by building our new facility here. The building project demonstrates our optimism that the growth Jacksonville and Florida in general have enjoyed in recent years will continue. In 1986 it was Florida's vibrant growth that, along with the economic advances of the Atlanta and Nashville areas, helped to keep growth in the Southeast as a whole above the national average. Today, I'll be talking about the prospects for the region and the state of Florida in 1987. First, however, I'll provide some context for those remarks by discussing briefly the national economic outlook.

**The Economic Outlook**

As you know, there are three basic measures of performance commonly used to gauge how the nation is doing, economically speaking—gross national product adjusted for prices (or real GNP), unemployment, and inflation. Last year real GNP grew 2 1/2 percent. That was close to par for our nation's postwar performance, but, with ample excess capacity in the nation, the rise did not seem all that fast. Given this relatively moderate pace of expansion, it took some time to nudge unemployment down from the 7 percent mark, where it remained lodged for most of the year. The figures have looked somewhat better recently, though, as civilian unemployment fell to 6.7 percent in December and held at that level until March, when it dropped again to 6.6 percent. The

measure by which we did best in 1986 is inflation. The rise in the consumer price index was the lowest in two decades. The low level of price increases was a pleasant surprise, but it came primarily as a result of the drop in oil prices. As petroleum prices declined to half or less of their 1985 levels, inflation abated further from the moderate rate of the recent past.

Turning to the economic outlook for 1987, I foresee the expansion continuing at about the same pace as last year, that is, around 2 1/2 percent. Such a growth rate is unlikely to bring about much further reduction in unemployment since the number of new jobs will probably just keep pace with the number of people who want them. So joblessness may fall only a little bit, if at all. However, inflation, as measured by the consumer price index, may rise to 4 or even 4 1/2 percent since the benefits of sharp declines in energy prices have been for the most part absorbed by the economy. Three factors—the international sector, consumer spending, and energy prices—are of prime importance in this outlook.

The chief source of support for the growth I envision is a turnaround in the international sector. There are several reasons to expect such a pickup. During the last two years the dollar has declined substantially against the currencies of most of our major trading partners. It has fallen over 40 percent against the Japanese yen and nearly 50 percent against the German mark. The depreciation in the dollar's foreign exchange value last year began to be translated into higher prices for most foreign goods—with the important exception of oil—relative to domestically produced items. More recently, according to research conducted at the Atlanta Fed, the dollar's fall has finally broadened to include the currencies of Canada and the newly industrializing countries of the Pacific, though the margin of decline is still much less. Thus, there is reason to believe that the dollar doesn't need to drop any more. The decline we have had should,

over time, provide U.S. manufacturers with stronger demand, from at home as well as abroad. In fact, exports began picking up in real terms in the last 3 months of 1986 while imports have been waning. Monthly data for early 1987 showed a seeming reversal of this trend, but these very preliminary estimates are for nominal as opposed to real trade flows. Despite some month-to-month volatility in trade figures, I expect the trade deficit to continue narrowing in 1987.

Aside from an improvement in our international trade position, another factor that should help maintain the pace of economic activity is consumer spending, even though it is likely to grow at a more modest pace than in the last few years. The sustaining factors underlying the rate of growth in consumer spending will be reasonably healthy wage and salary growth and personal tax cuts that will increase disposable income in many households. Also the stock market rally has added to household wealth and is likely to boost spending moderately.

Consumers received a windfall last year when oil prices fell dramatically from just over \$30 per barrel and settled in at around \$15. The cost savings realized from that drop allowed people to divert money they would otherwise have spent on energy to other forms of consumption, which in turn gave a positive impetus to the entire domestic economy. No such extraordinary stimulus can be expected this year, as oil prices have rebounded into the high teens and will probably stay at that level for the foreseeable future. Prices in the high teens still represent a decline of over a third since late 1985, though, and carry beneficial effects pretty much across the board. Even oil producers, for whom boom turned to bust last year should find prices in the current range holding forth the possibility of modest recovery.

Despite the strengths represented by strong consumer spending coupled with lower dollar and oil prices, the national economy has, to be sure, some areas of weakness. Capital spending by business will remain weak as will construction of condos and apartments. Tax changes and past overbuilding of offices and multifamily housing units are chiefly to blame for this. Another factor is that the federal budget deficit appears to be on a downward slope. While this is certainly a welcome development, it means government will be providing less stimulus than in the past. Finally, agricultural prospects are not exactly glowing. However, the farm situation may be less bleak if we extend the forecast horizon somewhat.

Even taking my concerns into account, I am confident that increased exports and domestic sales arising from the lagged effects of the dollar's decline together with the lower level of energy costs we now enjoy should be sufficient to sustain the present level of growth through this year. I hope that if manufacturers increase production to meet renewed demand at home and abroad, it will contribute to a more balanced growth, which will spread to those areas of the nation that did not share the expansion of last year.

### **Outlook for the Southeast**

What does this outlook imply for the Southeast? Though the region on average has tended to outstrip the nation in its rate of expansion, the more balanced growth that I just mentioned would be especially welcome news to certain parts of the Southeast. This section of the country includes not only prosperous and fast-growing localities like Atlanta, Nashville, and most of Florida but also weak or even depressed places such as Louisiana.

The main factors that will determine U.S. economic performance this year will also have a primary bearing on how this part of the country does. Stabilization of the energy

sector will be especially important to Louisiana and the parts of Mississippi that have been adversely affected by the sharp fall in oil prices last year. There is reason to hope that things will not get any worse even if they don't get much better any time soon. If oil prices remain near or a bit below recent levels, at least the losses should be stemmed even though little growth would be generated. Along with the energy sector, agriculture will be a lingering area of weakness in the Southeast, not only during 1987 but perhaps for several years to come due to continuing imbalances between supply and demand. At least the effects of the drought that devastated much of the Southeast last summer should be largely behind us, though.

On a more positive note, improvements in the trade balance would spell good news for many southeastern manufacturers who were subject to either intensified import competition or greater difficulty in marketing abroad after the dollar appreciated in the early 1980s. One particular problem that affected many industries here is something I mentioned earlier in passing—the failure of the dollar to depreciate against major foreign competitors such as Canada and the newly industrializing countries of the Pacific rim. Consequently, the Southeast's important forestry industry continued to be battered by Canadian softwood. The same has been true of apparel makers who compete with clothing manufacturers in Taiwan, Korea, and Hong Kong. Fortunately, this situation has finally begun to show some progress. In recent months the new dollar index, developed by economists at the Atlanta Fed in part to measure the differential impacts of currency changes on particular regions and industries, has indicated that the dollar is on a downward trend relative to these currencies. I expect these realignments to help. Still, foreign competition has led certain traditional southeastern industries to restructure through increased automation. This means that whatever turnaround the textile industry and others in similar situations undergo is not likely to have a dramatic impact on employment. Any rise in output will generate some new jobs, but employment gains will

not be proportionate to advances in output.

Other locally important industries are likely to face mixed prospects this year. Auto and related manufacturing, for instance, which is a significant and growing economic activity in Georgia, Tennessee, and Alabama, may not perform as strongly as last year if consumer spending for durables tapers off at the national level. Defense contracts are the bread and butter of many of the region's electronics producers as well as makers of transportation equipment like aircraft. With spending by the federal government expected to slow, activities in these industries may be hampered.

Aside from the effect of macroeconomic factors like deficit spending trends, the trade balance, and consumer spending deceleration, the Southeast's growth is heavily influenced by some unique regional factors. Probably the most important of these is population growth, or more specifically in-migration. By shoring up real estate markets in their present hometowns, the continued growth of the national economy I've projected will make it easier for people who wish to relocate to the Southeast. Confident of their ability to sell their houses, these migrants can join the inflow of people to the region and spur corresponding gains in industries like trade and services. Population-driven growth among the providers of services ranging from schools and hospitals to recreation and the whole gamut of retail establishments is one of the major reasons for the relatively rapid employment and income gains of Florida and Georgia.

In principle, the in-migration of new residents stimulates demand for new houses, apartments, offices, and retail space, in turn making for a bustling construction industry. In the near-term, we may see continued expansion in single-family housing in some parts of the Southeast. Other segments of the construction industry will not, however, do as well as one might expect, given the anticipated amount of population

expansion. Multi-family building along with construction of offices and retail space is likely to be weak. The reasons for this apparent anomaly are the tax law changes and the fact that many local markets in the Southeast were substantially overbuilt in recent years and need time for all the new space to be absorbed. Summing up, though growth in the Southeast on the whole may decelerate somewhat from last year, it is still likely to be fast enough on average to stay ahead of the nation, and in many areas the prospects are for pretty robust expansion.

### **Outlook for Florida**

One of those areas is Florida. Economic growth in Florida has been faster than in the nation as a whole for a number of years, and even though the state's expansion rate this year will probably decelerate somewhat, growth here promises to outpace the United States average once again in 1987. Continuing inflows of people and corresponding gains in employment and personal income are major reasons for projections of the state's more rapid growth. Migration of new people to Florida has contributed to a rate of population growth three times greater than the nation's in the 1980s. This steady stream of new residents in turn propels two of Florida's largest economic sectors—trade and services.

Short-term migrants, better known as tourists, also boost the state's service and trade businesses. At the same time they expand local and state government coffers through the sales tax they pay on purchases made here. Last year was a good one for Florida tourism. The dollar's depreciation, along with fear of terrorism, encouraged both Americans and foreigners to travel in the United States rather than in Europe. Since more foreigners visit Florida than any other state, the increase in tourists from abroad was quite significant. This development helped offset the smaller-than-anticipated rise in domestic travel to Florida. Discount airfares attracted many Americans to more remote U.S. destinations like Hawaii and to the Caribbean. On the whole, though, the

past year was a good one for tourism. Relatively cheap gasoline prices and the currency realignment we've had should make 1987 another good year, attracting foreign visitors as well as domestic travelers to Florida.

All those visitors and new arrivals won't help the construction industry this year as much as they have in the past, however. As elsewhere in the nation and the Southeast, Florida's builders have pushed supplies beyond the consumption capacity of even a rapidly growing population. Therefore, single family residential construction will probably show no growth this year, and multifamily housing, office, retail, and industrial building is likely to decline.

Although Florida has progressed rapidly and far toward the service economy that we read so much about, extracting raw materials and making them into goods is still important in the state's economy. In fact, manufacturing's share, while still less than in most other states, has been a growing source of stimulus as it has undergone a transition from dominance by natural resource processing, that is, food, paper, chemicals, and lumber production, to high value-added industries like electronics. This year manufacturing should receive an impetus from the dollar's decline and the resumption of serious work on the space shuttle. Much of the state's industrial sector produces electronic transportation equipment tied to the defense and the space programs, and accordingly what happens to those public sector programs is quite important to private industry here. Unfortunately, the benefits of new shuttle efforts probably won't be felt until after mid-year, and, with the plateauing or even slowing of defense spending, growth of other technologically advanced industries will be dampened. However, the declining dollar's effect on prices of electronic parts and products abroad should bolster Florida's high tech manufacturing to some extent.

Though the forest products industry is being eclipsed by high tech, it is still an important employer and one whose outlook is difficult to forecast. Canadian competition, which has been fierce in the softwood market for which most Florida trees are destined, should be muted somewhat by our northern neighbor's agreement to impose a 15 percent export levy on timber leaving that country. However, demand for such lumber could well weaken as residential builders regroup and await the absorption of the surfeit of apartments and condominiums nationwide. (Softwood lumber is an important component of these buildings.) Moreover, the new tax treatment of pulpwood and lumber is less favorable for forest-products businesses. Thus the year for Florida manufacturing should be mixed.

Other traditional economic activities—farming and mining—also continue to play an important role in Florida's economy. Florida has escaped many of the problems in agriculture that have made headlines in the Midwest and the Southeast. Most parts of the state did not suffer the severe drought that devastated Georgia and other parts of the region. In addition, Florida's farm products—citrus and vegetables—are less affected by the international economic dynamics that have proven so adverse to grain producers. Citrus production in 1987 promises to be excellent, in fact the largest in three years. Demand for Florida vegetables should be healthy this year even though competition from Mexico and the Caribbean will probably not abate dramatically. Mining, on the other hand, faces continued bleak prospects. Florida has considerable phosphate deposits, but because of foreign competition and weak worldwide demand for fertilizer I don't foresee growth on the horizon of this industry. To keep things in perspective, though, we must remember that this is a small component of the state's economy.

Summing up the outlook for Florida, despite probable weak spots in construction and certain industries, the state is likely to retain and even increase its attractiveness to

new residents and businesses both from elsewhere in the nation and from abroad, thereby keeping its overall pace of growth ahead of the nation's.

### **Conclusion**

In conclusion, I feel the appropriate attitude when looking toward 1987 and beyond is one of patient optimism. The year ahead for the economy of the nation should build upon the moderately expansive record of 1986 while moving toward better balance. Inflation will no doubt be worse than last year but I certainly don't see a return to the levels we had earlier in the decade, and higher import prices will have some beneficial effects, especially on the energy and manufacturing sector. In turn, those areas of the Southeast that have been through hard times should benefit. Meanwhile, the region's lure to individuals and businesses, both foreign and domestic, should continue, helping this region, and Florida in particular, maintain the vigorous pattern of growth that has characterized it in recent years.