Good evening! I'm honored to be a part of your "executive night" program and delighted to have this opportunity to meet with the banking leaders of west central Georgia and eastern Alabama, both those of you who are members of the National Association of Bank Women and your guests. Working as you do with banking institutions, I'm sure you have special interest in locally important economic activities like textile, apparel, and food manufacturing as well as financial services. To understand what has been going on in these industries, I think we need to investigate national and even international developments. For that reason, a good portion of my remarks tonight will focus on the larger picture. I will, however, bring the outlook closer to home by saying a few words about the Southeast and then leave you with some thoughts about the major issues that could adversely affect our economic prospects if they're not resolved. When we finished, I'll be happy to answer any questions you may have.

Economic Conditions and Prospects in the United States

The Southeast's economy will be affected by the main factors that will determine the economic prospects for the nation as a whole through the end of the year; so we'll need to take at least a quick look at the national outlook in terms of the three major indicators—gross national product, unemployment, and inflation—before narrowing our focus to our own region. I look for GNP to expand once again at a rate of 2 1/2 percent even a bit faster this year. The first quarter rise of 4.3 percent is not likely to be sustained since much of that growth was a buildup in inventories. I was pleasantly surprised by the drop in April's unemployment rate to 6.3 percent from 6.6 percent in the previous month. Still, my outlook for only moderate GNP growth should not lead to much
dditional reduction in unemployment. Inflation should accelerate from last year's average pace of less than 2 percent as measured by the consumer price index to 4 or even 1/2 percent in 1987.

The importance of international developments to our domestic economy is driven home in the outlook for 1987. The higher prices in my forecast—even greater increases than in 1985—are in large part due to international factors. These include not only the stabilization of oil prices but also the rise in other import prices, which as of last year were up 8 percent. The international sector is also critical to the outlook for GNP growth. I look to the foreign trade front to provide the stimulus that will maintain our moderate growth rate. The other major components of GNP—consumption, investment, and government purchases—don't look all that strong. I don't think consumption will be weak, but neither do I expect it to be the main source of growth in the economy as it has been in recent years. It is true that consumer assets are high in concert with gains in the stock market and home values. Debt-to-income levels are also very high, though, and the savings rate has fallen to quite low levels. Consumers may very well want to bolster their balance sheets, and this makes faster growth in consumption unlikely.

Sluggishness in the consumer component of GNP reflects the beginning of a trend at the Fed have been predicting for some time, namely, smaller annual increases in per capita consumption. This is largely the inevitable "morning after" following the spending binge that we as a nation have been on—both publicly and privately—almost since the start of this decade. Now we must embark on what will be a rather long period of paying back some of the debt to the rest of the world that we amassed to finance that

With consumption expected to slow, we must look elsewhere for economic stimulus.
vestment, another component of GNP, is unlikely to lead growth either. On the one hand, there was a temporary need for new investment to replace the considerable rundown of inventories in the last quarter of 1986. This cleared stocks and set the stage for the strong growth in the first quarter of this year as inventories were replenished. The positive impetus to production will probably be balanced, however, by the fact that business investment has been declining, partly because of low capacity utilization but mainly due to the overbuilding of offices and retail space. Changes in the tax code have exacerbated this situation by treating some aspects of investment less favorably. In time this revision should lead to a more efficient allocation of capital as the revised tax code encourages investment dollars to be distributed more according to the dynamics of supply and demand. In the near term, though, we may see some uncomfortable adjustments develop until excess space is absorbed. Office construction, along with apartment and condominium building, is likely to be weak in the year ahead. While mortgage rates—up a bit now but still considerably lower than a few years ago—would continue to boost the single-family housing market, I don't expect to see much further increase in housing starts since they are already at a pretty healthy level. The chief determinants of new home sales will probably be demographics and overall economic growth. As for government purchases, budget deficits are thankfully on a downward slope, but this, of course, means much less fiscal stimulus than in the past.

This leaves us net exports as an engine for the expansion. An improvement in the U.S. international sector is expected for two reasons. One is the decline in the value of the dollar in foreign exchange markets. While this factor works with a lag, the dollar has been declining for two years now and we have begun to see an impact. In fact, exports began picking up in real terms in the last three months of 1986 while imports flattened. In the first three months of this year, real net exports—the change in exports less that in imports—improved by $13.8 billion. The second reason to expect a turnaround in the
The trade sector is related to something I mentioned earlier, namely that we cannot keep increasing our borrowing from abroad indefinitely. For some time now we have been spending more on consumption, investment, and government than we actually produce domestically. The substantial expansion of the federal budget deficit has contributed to this situation. To meet our aggregate demands we have been importing far more than we export and borrowing from abroad to finance these imports. Of course, this cannot go on forever. Our creditors may become less willing to lend, and, just as any borrower eventually learns, debt service inevitably rises along with the debt and becomes a burden. So the time has come to start repaying. While GNP or national output will grow about the same rate in 1987 as it did last year, more of that increase in output will be exported and less of it will be available for domestic use.

Even taking my concerns about foreign debt into account, I am confident that increased exports and domestic sales together with the lower level of energy costs we now enjoy should be sufficient to sustain the economy for another year. The same forces, steady oil prices and shifts in international trade, will dominate the inflation structure. Prices of petroleum and other commodities are still well below their levels of a year ago. Without the boon of declining energy and commodity prices, however, measures of inflation are likely to return to their pre-1986 pattern, though not to the acceptably high levels we saw earlier in the decade. If inflation remains basically in check, gains in production to meet greater demand for American-made products should help us achieve the moderate rate of growth I foresee even if overall consumption does not increase much.

**Outlook for the Southeast**

The satisfaction of more demand domestically, together with another positive development—the recent stabilization in energy prices—would help those areas of the
country most dependent on mining and manufacturing. These developments would foster greater balance among economic sectors and regions of the country than we have experienced in the last several years. More balanced growth would be especially welcome news to certain parts of the Southeast, which includes not only prosperous and fast-growing localities like Atlanta, Nashville, and most of Florida, but also weak or even stressed places such as Louisiana, which is part of the oil patch. The economies of Alabama and Tennessee as well as much of rural Georgia are more oriented to manufacturing and as such have been facing many of the same foreign trade-related difficulties as the nation. In contrast, the service-based economies of Florida and certain metropolitan areas in other states have been doing quite well and seem likely to continue on that path.

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 parts of Mississippi, both of which 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. The rig count has been inching up. While recent oil prices have not been flat, the end does seem to be toward far more stability than last year. If oil prices remain near a bit below recent levels, at least the losses should be stemmed even though little growth is on the horizon.

Along with the energy sector, agriculture will be the lingering area of weakness, not only during 1987 but perhaps for several years to come. Heavy indebtedness incurred during periods of prosperity will continue to go unserviced, resulting in additional bankruptcies and foreclosures among borrowers and loan losses for lenders. Moreover, the U.S. economy as a whole is less dependent on grain crops and hence on export
markets, which are glutted. Thus, the Southeast stands to gain less from expected international developments than, say, the Midwest, but the basic picture is also less bleak begin with. We can only hope that the current shortage of rainfall will not become as rious as last year's drought and add to farmers' difficulties.

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. Any improvement would probably not be dramatic in the short run, however. The apparel industry, for example, faces import competition from the newly industrialized countries the Pacific rim—Taiwan, Hong Kong, and Korea. The currencies of those countries ve only recently begun to move up slightly against the dollar, and so U.S. apparel makers have not had measurable relief from the effects of expensive dollars. The textile industry, which also competes with cheaper products from abroad, has taken an gressive approach to the problem and rebounded to better health. By substituting pital for labor, fabric and carpet producers were able to turn record profits last year. Fortunately, this adjustment won't save jobs, since more efficient producers need wer workers to produce the same amount of goods. Thus, whatever turnaround the textile industry and others in similar situations undergo is not likely to have a dramatic pact on employment. Any rise in output will generate some new jobs, but employment ins will not be proportionate to advances in output.

Other locally important industries are likely to face mixed prospects this year. into and related manufacturing, for instance, which is a significant and growing onomic activity in Georgia, Tennessee, and Alabama, may not have as strong a year as st if consumer spending for durables tapers off at the national level. Defense contracts e the bread and butter of many of the region's electronics producers as well as makers
transportation equipment like aircraft. With spending by the federal government expected to slow, activities in these industries may be hampered. Much of Florida's industrial sector produces electronic and transportation equipment tied to the defense and space programs, and the resumption of serious work on the space shuttle will have stimulative effects for numerous private industries there. Unfortunately, the benefits of space shuttle efforts probably won't be felt until after mid-year. However, the lower dollar's effect on prices of electronic parts and products abroad should bolster high tech manufacturing in Florida and elsewhere to some extent.

Aside from the effect of macroeconomic factors like the downward trend in deficit ending and the anticipated correction in the trade balance, this region's growth is also influenced by some unique regional factors. Probably the most important of these is population growth, or more specifically in-migration. Continuing inflows of people and corresponding gains in employment and personal income are major reasons for the more rapid growth of Florida and Georgia. Florida's population has expanded at a rate three times as fast as the national average in the 1980s. The influx of new residents multiplies demand for new houses, apartments, offices, and retail space, in turn making for a bustling construction industry. Recent arrivals also generate greater demand for a variety of services ranging from schools and hospitals to recreation and the whole gamut of retail establishments.

Expectations of continued growth nationally suggest that movement to the southeast will persist, since most people who want to relocate will be able to sell their houses elsewhere. In addition, the dollar's decline should have a positive impact on other kind of in-migrant—a temporary one, namely the tourist. Florida attracts more reign visitors than any other state. A lower dollar translates into more visitors from abroad as well as more domestic travel by Americans. Tourism tends to stimulate
demand for services and trade in much the same way that permanent population growth does. Therefore, workers will continue to find jobs in the expanding service and trade areas so that the region's total employment should increase by about half a million new jobs in 1987.

Construction—the other population-driven economic sector—will not, however, do as well as one might expect, given the anticipated amount of population expansion. Single-family housing may continue to expand, but multifamily building along with construction of offices and retail space is likely to be weak. The reasons for this apparent anomaly are the effects of the tax law change on business investment and the fact that many local markets were substantially overbuilt in recent years and need time for all the new space to be absorbed.

Despite probable weaknesses in construction and energy, together with mixed performance in manufacturing, the Southeast overall seems likely to benefit from the forces that will shape U.S. economic performance in 1987—particularly an improvement in the trade balance and more stable energy prices. In addition, the region would retain and even increase its attractiveness to new residents and businesses, both from elsewhere in the nation and from abroad. The states that are likely to do best are, once again, Florida and Georgia due to their disproportionate population growth and the diversity of their economies. The Columbus-Phenix City area has a similar balance between manufacturing, ranging from textiles and apparel to iron castings and packaged goods, and services such as insurance and credit card processing. Thus, I would expect our local economy to participate in the expansion I anticipate for the state in general. Louisiana and Mississippi, whose economies are based primarily on farming, forest products, and energy, will probably end up at the other end of the spectrum. Alabama and Tennessee are likely to turn out to be somewhere in the middle. Whatever happens
manufacturing nationally should be reflected closely in these two states. Though growth in this region may decelerate somewhat from last year, it is still likely be fast enough on average to stay ahead of the nation.

Sues and Problems

There are several weighty issues that could, if unattended, arrest or reverse the anticipated modest rate of expansion. These issues include imbalances in global trade patterns, inappropriate fiscal policies, and protectionism. First, world trade patterns need to undergo a major correction. To begin with, the United States must increase its exports. I believe that in the short run, net exports are being pushed in this direction by exchange rate realignment. In the long run, however, the American business community's heightened awareness of international conditions must be translated into greater sensitivity to foreign markets. We must find ways to sell as aggressively in outside markets as we do at home, and this means becoming more familiar with other cultures, learning to speak the languages of foreign purchasers, and interpreting their spoken signals. With Americans' experience in the psychology of marketing, it should be obvious that a product's appeal to overseas consumers is conditioned by subtleties of national taste and custom. Yet we persist in remaining international illiterates, paying such less attention to understanding foreign cultures than foreigners pay to investigating ours. It may be that the loss of our competitive edge that so many mention, is due more to our failure to understand others than it is to inefficient production and lack of quality.

Aside from the steps America might take to bring balance to trade flows, other advanced industrial economies need to rely less on exports and more on domestic demand. Japan and West Germany could stimulate their economies by accelerating taxes and implementing a generally more expansive fiscal policy. Both countries' economies could benefit from such policies since both have high unemployment rates.
A fiscal stimulus would not only relieve joblessness, but it would make more money available for consumption of both domestically manufactured and imported goods—a development that would speed the reduction of America's trade deficit.

I am concerned that if the world's industrialized economies don't act soon to bring out this shift in trade patterns, the forces of gloom could undermine our economy. Among the world's by burdening American trade policy with protectionist baggage. While I sympathize with the agony of industries, some of them here in our own region, which are losing ground to foreign competition, I look with dismay upon the many calls for protection. Tariffs, subsidies, and other trade barriers cannot guarantee that protected industries will become more viable—a fact which the experience of agriculture illustrates all too well. Instead, they weaken them further by shielding them from competition. It almost certainly guarantees retaliation from our trading partners, and erosion of our purchasing power and the choice as consumers.

Rather than overreacting to short-term imbalances, it is critical for us to continue pending our vision to include all the possibilities held out by the evolving international order. Our recent positive experience with Canada convinces me that through negotiation rather than confrontation we can convince our trading partners to assume their own responsibility for keeping the exchange of goods and services as well as labor and capital as unrestricted as possible. We should continue to call on Taiwan and China in particular, two nations with extraordinarily high trade surpluses and substantial port barriers, to lower the protective walls which make it impossible for many of our goods and services to penetrate their markets. Raising protectionist barriers is an attempt to "beggar your neighbor" and get a larger share of the output pie. History teaches us, however, that in reality it only reduces the size of the pie and ends up hurting