THE ECONOMIC OUTLOOK FOR THE NATION AND THE SOUTHEAST
Remarks by Robert P. Forrestal, President
Federal Reserve Bank of Atlanta
To the National Association of Bank Women, Columbus Chapter
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Good evening! I'm honored to be a part of your "executive night" program and lighted to have this opportunity to meet with the banking leaders of west central ›orgia and eastern Alabama, both those of you who are members of the National ›sociation of Bank Women and your guests. Working as you do with banking institutions, ı sure you have special interest in locally important economic activities like textile, parel, and food manufacturing as well as financial services. To understand what has en going on in these industries, I think we need to investigate national and even :ernational developments. For that reason, a good portion of my remarks tonight will cus on the larger picture. I will, however, bring the outlook closer to home by saying a w words about the Southeast and then leave you with some thoughts about the major ›ues that could adversely affect our economic prospects if they're not resolved. When e finished, I'll be happy to answer any questions you may have.

›onomic Conditions and Prospects in the United States

The Southeast's economy will be affected by the main factors that will determine › economic prospects for the nation as a whole through the end of the year; so we'll ed to take at least a quick look at the national outlook in terms of the three major licators—gross national product, unemployment, and inflation—before narrowing our cus 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 stained since much of that growth was a buildup in inventories. I was pleasantly :prised by the drop in April's unemployment rate to 6.3 percent from 6.6 percent in the evious 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 verage 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 ome in the outlook for 1987. The higher prices in my forecast—even greater increases ıan in 1985—are in large part due to international factors. These include not only the :abilization of oil prices but also the rise in other import prices, which as of last year ere up 8 percent. The international sector is also critical to the outlook for GNP :owth. I look to the foreign trade front to provide the stimulus that will maintain our ıoderate growth rate. The other major components of GNP—consumption, investment, ıd government purchases—don't look all that strong. I don't think consumption will be eak, but neither do I expect it to be the main source of growth in the economy as it has een in recent years. It is true that consumer assets are high in concert with gains in the :ock market and home values. Debt-to-income levels are also very high, though, and the ıvings rate has fallen to quite low levels. Consumers may very well want to bolster ıeir balance sheets, and this makes faster growth in consumption unlikely.

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

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 ınd, there was a temporary need for new investment to replace the considerable 'awdown of inventories in the last quarter of 1986. This cleared stocks and set the age for the strong growth in the first quarter of this year as inventories were plenished. The positive impetus to production will probably be balanced, however, by ıe fact that business investment has been declining, partly because of low capacity ilization but mainly due to the overbuilding of offices and retail space. Changes in the x code have exacerbated this situation by treating some aspects of investment less vorably. In time this revision should lead to a more efficient allocation of capital as e revised tax code encourages investment dollars to be distributed more according to e dynamics of supply and demand. In the near term, though, we may see some ıcomfortable adjustments develop until excess space is absorbed. Office construction, ong with apartment and condominium building, is likely to be weak in the year ahead. hile mortgage rates—up a bit now but still considerably lower than a few years ago— ould continue to boost the single-family housing market, I don't expect to see much rther increase in housing starts since they are already at a pretty healthy level. The ıief determinants of new home sales will probably be demographics and overall :onomic growth. As for government purchases, budget deficits are thankfully on a ›wnward 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 .S. international sector is expected for two reasons. One is the decline in the value of e dollar in foreign exchange markets. While this factor works with a lag, the dollar has :en declining for two years now and we have begun to see an impact. In fact, exports :gan picking up in real terms in the last three months of 1986 while imports flattened. the first three months of this year, real net exports—the change in exports less that in ıports—improved by $13.8 billion. The second reason to expect a turnaround in the 'ade sector is related to something I mentioned earlier, namely that we cannot keep ıcreasing our borrowing from abroad indefinitely. For some time now we have been ›ending more on consumption, investment, and government than we actually produce ›mestically. The substantial expansion of the federal budget deficit has contributed to ıis situation. To meet our aggregate demands we have been importing far more than we ‹port and borrowing from abroad to finance these imports. Of course, this cannot go on ›rever. Our creditors may become less willing to lend, and, just as any borrower /entually learns, debt service inevitably rises along with the debt and becomes a ırden. 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 ‹ported and less of it will be available for domestic use.

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

utlook for the Southeast

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

The main factors that will determine U.S. economic performance this year will also ıve a primary bearing on how this part of the country does. Stabilization of the energy ector will be especially important to Louisiana and parts of Mississippi, both of which ıve been adversely affected by the sharp fall in oil prices last year. There is reason to ope that things will not get any worse even if they don't get much better any time on. 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 owth is on the horizon.

Along with the energy sector, agriculture will be the lingering area of weakness, ot only during 1987 but perhaps for several years to come. Heavy indebtedness incurred ıring periods of prosperity will continue to go unserviced, resulting in additional ankruptcies and foreclosures among borrowers and loan losses for lenders. Moreover, ırming in the Southeast as a whole is less dependent on grain crops and hence on export arkets, which are glutted. Thus, the Southeast stands to gain less from expected ternational 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 anufacturers who were subject to either intensified import competition or greater fficulty in marketing abroad after the dollar appreciated in the early 1980s. Any ıprovement would probably not be dramatic in the short run, however. The apparel dustry, 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 akers have not had measurable relief from the effects of expensive dollars. The textile dustry, 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. ıfortunately, this adjustment won't save jobs, since more efficient producers need wer workers to produce the same amount of goods. Thus, whatever turnaround the xtile industry and others in similar situations undergo is not likely to have a dramatic ıpact 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. ıto 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 pected to slow, activities in these industries may be hampered. Much of Florida's dustrial sector produces electronic and transportation equipment tied to the defense d space programs, and the resumption of serious work on the space shuttle will have sitive effects for numerous private industries there. Unfortunately, the benefits of w shuttle efforts probably won't be felt until after mid-year. However, the lower llar's effect on prices of electronic parts and products abroad should bolster high tech anufacturing 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 avily influenced by some unique regional factors. Probably the most important of ese is population growth, or more specifically in-migration. Continuing inflows of ople and corresponding gains in employment and personal income are major reasons for e more rapid growth of Florida and Georgia. Florida's population has expanded at a te three times as fast as the national average in the 1980s. The influx of new residents mulates demand for new houses, apartments, offices, and retail space, in turn making a bustling construction industry. Recent arrivals also generate greater demand for a riety of services ranging from schools and hospitals to recreation and the whole gamut retail establishments.

Expectations of continued growth nationally suggest that movement to the utheast will persist, since most people who want to relocate will be able to sell their mes 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 road as well as more domestic travel by Americans. Tourism tends to stimulate ɘmand for services and trade in much the same way that permanent population growth ɔes. Therefore, workers will continue to find jobs in the expanding service and trade :eas so that the region's total employment should increase by about half a million new ›bs in 1987.

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

Despite probable weaknesses in construction and energy, together with mixed ɜrformance in manufacturing, the Southeast overall seems likely to benefit from the ıief forces that will shape U.S. economic performance in 1987—particularly an ıprovement in the trade balance and more stable energy prices. In addition, the region ıould retain and even increase its attractiveness to new residents and businesses, both om elsewhere in the nation and from abroad. The states that are likely to do best are, ıce again, Florida and Georgia due to their disproportionate population growth and the versity of their economies. The Columbus-Phenix City area has a similar balance ɜtween manufacturing, ranging from textiles and apparel to iron castings and packaged ›ods, and services such as insurance and credit card processing. Thus, I would expect ›ur local economy to participate in the expansion I anticipate for the state in general. ɔuisiana and Mississippi, whose economies are based primarily on farming, forest ʼoducts, and energy, will probably end up at the other end of the spectrum. Alabama ıd 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 ʼowth in this region may decelerate somewhat from last year, it is still likely be fast ıough on average to stay ahead of the nation.

sues and Problems

There are several weighty issues that could, if unattended, arrest or reverse the ıticipated modest rate of expansion. These issues include imbalances in global trade ıtterns, inappropriate fiscal policies, and protectionism. First, world trade patterns ːed to undergo a major correction. To begin with, the United States must increase its ːports. I believe that in the short run, net exports are being pushed in this direction by .e exchange rate realignment. In the long run, however, the American business ›mmunity's heightened awareness of international conditions must be translated into eater sensitivity to foreign markets. We must find ways to sell as aggressively in ıtside markets as we do at home, and this means becoming more familiar with other ıltures, learning to speak the languages of foreign purchasers, and interpreting their ıspoken signals. With Americans' experience in the psychology of marketing, it should ː obvious that a product's appeal to overseas consumers is conditioned by subtleties of cal taste and custom. Yet we persist in remaining international illiterates, paying uch less attention to understanding foreign cultures than foreigners pay to investigating rs. It may be that the loss of our competitive edge that so many mention, is due more 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 lvanced industrial economies need to rely less on exports and more on domestic mand. Japan and West Germany could stimulate their economies by accelerating tax ıts and implementing a generally more expansive fiscal policy. Both countries' onomies could benefit from such policies since both have high unemployment rates.

›t only would fiscal stimulus relieve joblessness, but it would make more money ailable for consumption of both domestically manufactured and imported goods—a velopment 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 ›ng with the rest of the world's by burdening American trade policy with protectionist ggage. While I sympathize with the agony of industries, some of them here in our own gion, which are losing ground to foreign competition, I look with dismay upon the many lls for protection. Tariffs, subsidies, and other trade barriers cannot guarantee that ›tected industries will become more viable—a fact which the experience of riculture, one of the most heavily insulated industries, illustrates all too well. Instead weakens them further by shielding them from competition. It almost certainly arantees retaliation from our trading partners, and erosion of our purchasing power and ›e choice as consumers.

Rather than overreacting to short-term imbalances, it is critical for us to continue panding our vision to include all the possibilities held out by the evolving international der. Our recent positive experience with Canada convinces me that through gotiation rather than confrontation we can convince our trading partners to assume ›re of their own responsibility for keeping the exchange of goods and services as well labor and capital as unrestricted as possible. We should continue to call on Taiwan and pan 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 ods and services to penetrate their markets. Raising protectionist barriers is an tempt to "beggar your neighbor" and get a larger share of the output pie. History aches us, however, that in reality it only reduces the size of the pie and ends up hurting