

THE SOUTHEAST REGION IN THE YEAR 2000
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Good morning! I am delighted to have this opportunity to look ahead to the year 2000 and talk about how the economy of the Southeast might look at the end of this century. I know that most of you are human resources professionals and are interested in how economic prospects relate to the job market in our region. Therefore, I'll begin today by giving you some ideas about the present condition of our region's economy, and how changes in the international economy are having profound effects on the way we do business both in the nation and in the Southeast. Then I'll discuss how three major trends--changes in demographics, the structure of industry, and the movement toward a global marketplace--will affect employment here. After looking at these dynamics, I will discuss what I consider to be the region's major long-term challenge--the inadequacy of our current educational system to prepare workers for the types of economic activity that will become increasingly important as this century comes to an end.

The Current Transition in the National Economy

If we are to project what our prospects are likely to be in the year 2000, it is important to have a sense of where we stand now. A good way of doing that is to survey current economic conditions and our expectations for the rest of this year. Since the region's economy is likely to reflect the national picture, we need to begin by touching on the basic elements of the U.S. economy. In 1987, total output grew 2.9 percent in real, or inflation-adjusted terms. This is a good rate of expansion, especially considering the fact that we have now enjoyed uninterrupted growth for over five years. This growth helped lower the jobless rate to 5.8 percent by December--the lowest it had been in eight years. Unemployment has fallen even further since, and in February it was down to 5.7 percent. Inflation was not too bad last year either. For the year, the consumer price

index rose at an average rate of 3.7 percent. I believe our economy will continue to grow in 1988, although at a somewhat slower pace of 2 and 1/2 percent. Unemployment should hover in the neighborhood of 6 percent, and I do not foresee any acceleration in inflation.

The effects of the globalization of the marketplace--one of the major themes I shall discuss in a moment--are strongly present in my economic outlook for the nation and, as we shall see, for the Southeast too. In particular, international factors are helping to cause a basic transformation in the sources of America's economic growth. Until recently, that growth was fueled by the high level of consumption in our country. Because the dollar's sharp appreciation on foreign exchange markets between 1980 and 1985 made imports cheaper, much of this demand was met by imported products. This in turn led to the record trade deficits we have been experiencing. Now, consumption at home is decelerating somewhat, and exports of American-made products have begun to provide the impetus to growth that was earlier made by consumption.

The primary reason for this change is the fall in value of the dollar compared to the currencies of our major trading partners. Since its postwar high against those currencies in early 1985, the dollar fell to its 1980 level. Indeed, at times it fell to unprecedented postwar lows. This shift has made our products less expensive to foreign consumers and at the same time rendered foreign products more expensive here. Thus we can observe the mirror image of developments in the United States taking place in the economies of our trading partners. They are shifting from exports to consumption for growth in their economies and will hopefully buy even more of our products as the trend continues.

This transition is a positive development, not only because exports help manufacturers here, but also because, in the long run, the shift will help restore balance to world trade. I believe the effects of this transition in the world market will be felt throughout our economy, not just in 1988 but for years to come. They will certainly have an impact on those of us who live in the Southeast, although perhaps not as pronounced

an effect as in some other regions of the country.

Prospects for the Southeast

On average, the southeastern economy has outperformed the national economy for the past several years. I think we can expect that record to continue, mostly because our strong states like Florida and Georgia are very strong and compensate for weaknesses elsewhere. Because of the anticipated increase in exports nationally, it is likely that manufacturing here in the Southeast will also benefit. The greatest benefit will go to those regional industries like textiles that have converted their operations to labor-saving machinery. Other important southeastern industries like apparel, however, which still rely heavily on low-cost labor will continue to suffer from import competition.

The disadvantage of the latter industries arises in part from the fact that the dollar has not dropped as much against against the currencies of Canada and developing countries in the Pacific basin as it has against the yen, deutsche mark, and currencies of other advanced economies. These countries are major competitors for important regional products like lumber and apparel. Thus manufacturing here will not be boosted by the falling dollar as much as, say, the auto industry. Moreover, many of these developing countries can support the kind of low-wage, labor-intensive production that prevails in much of the South but at even lower costs than we can provide here. For many of the region's industries, then, the likelihood of substantial improvement is not high. As we shall see in a moment, this means that we need to be thinking about encouraging the development of different kinds of industries as we move towards the end of the century.

As I said a moment ago, there are some areas in the Southeast that are doing very well and raising the average for the entire region. In contrast, other areas are performing much worse than the national averages. Only two states--Georgia and

Florida--have unemployment rates below the national average. Meanwhile, at the other extreme, Louisiana has the second highest unemployment rate in the United States, and Mississippi is not far behind. These disparities are due mainly to two factors. One is the types of economic activities that are the most important in each area. The second is the population growth that is continually boosting the economies of Florida, and certain metropolitan areas like Nashville and Atlanta.

Looking at the mix of industries in the various states, we find that Louisiana, Mississippi, and Alabama have not been keeping pace with an important change affecting U.S. industry in general--one that I will discuss in more detail in a moment. At a time when the emphasis in the U.S. economy is shifting away from activities like natural resource extraction and low-wage manufacturing to high-tech production and services, Louisiana's economy relies heavily on the oil and gas industries. Alabama and Mississippi are dependent to a great extent on farm commodities and other raw materials. Prices for all these commodities have been low for several years, not only in the United States but all over the world.

While the outlook is now brighter, the fact remains that commodity-based economies are quite volatile because they are so susceptible to world price swings. In addition, much of the manufacturing in those states is in industries that pay low wages to workers who are not highly trained. They are unable to compete with producers employing even lower paid workers in developing countries like Taiwan, Korea, and China. This means low-skilled workers will continue to lose their jobs. What's more, when they do, their lack of education will make it difficult for them to find new work. This burden of structurally unemployed workers can add to the strain on a state's economy, especially if it is lacking in balance and diversity. These two weaknesses--the volatility of resource-dependent economies and the loss of jobs to foreign countries--has been retarding the growth of some southeastern states and is likely to do so in the future

unless measures are undertaken to institute change.

Just the opposite conditions can be observed in Florida and parts of Georgia and Tennessee--people are moving into those areas, providing bigger markets for goods and services, and helping their economies to expand. People move to Atlanta because there are many new jobs here, especially in higher skill, higher paying careers. They move to Florida partly for the same reason and partly to retire; Florida also attracts tourists with its beaches and amusements like Disney World. An influx of people such as these areas have experienced tends to stimulate the construction industry and service sector growth. That is because new people means added demand for shopping facilities, doctors, lawyers, and the like. These areas also have better balance in their economies because manufacturing is proportionately less important, and much of what local factories make is higher value-added products.

Changes Affecting Labor Markets at the End of the Century

In looking at our region, then, we have a vivid example of how diversification and emphasis on services and advanced manufacturing can propel rapid gains in employment and income while overreliance on other forms of business--especially natural resources and low-wage manufacturing--can create or exacerbate problems. Since the shift from manufacturing to services is one of the long-term trends that will be affecting us from now until the end of the century, this is a good point to examine in more detail that trend and the others I mentioned at the outset. Once again, the three trends I think we should all be aware of as we look toward the year 2000 are changes in the demographics of our country, the shift from manufacturing to services as the most important form of economic activity, and the globalization of our markets.

Given the importance of population growth to economic performance in areas like Florida and Atlanta, there are two key questions we should ask: first, whether we can

expect that population growth to continue; second, whether there will be any changes in the composition of the population that will affect the economy. The answer to the first question is yes. Our population is likely to keep growing faster than the national average though the pace will probably taper off. This will occur because members of the large baby-boom generation have now entered the workforce and are less likely to relocate. In general, people in their twenties are highly mobile as they leave college and look for work. The baby boomers are past this period now and will not move as much again until they are in their sixties and retire. In our region, which has been greatly stimulated by population increases, this demographic shift means that growth will probably be slower than in the past.

With regard to the second question, I would like to point out one important economic influence that seems likely to surface within this general slowing of population growth--shortages of labor particularly for entry-level jobs. A shrinking pool of labor force entrants will probably occur because the baby boomers are out of the entry-level phase of their careers and the generation that has followed them is considerably smaller. In addition, the fertility rate of the baby-boom generation is the lowest in American history. In fact, it is below the replacement level. From this we might project a shortage of entry-level workers through the mid 1990s, when the children of the baby boom enter the work force. This could cause possible wage pressures in the interim and might also result in demands to alter our restrictive immigration policies.

For those of us in the Southeast, the projected labor shortage has several implications. Should inflationary pressures mount as employers bid up labor costs in their competition for a smaller supply of workers, we could be even more affected because of our large service sector. For some time already inflation in services has been rising faster than in the rest of the economy. Another consequence of the labor shortage could be the need for social adjustments brought on by a relaxation of immigration regulations

and the ensuing influx of foreigners. Some parts of the Southeast, like Florida, have already absorbed a number of foreign immigrants, but other areas have not. Experience to date teaches us that planning and foresight will be necessary in any future effort to deal with the special needs of large numbers of such newcomers.

These possible challenges do not imply we should attempt to stem the shift away from manufacturing and toward services. We have seen that states which have not progressed as far on the path to service-based economies do not have good long-term prospects, unlike states with more balanced economies like Florida, Georgia, and Tennessee. The industries that have moved to places like Taiwan, Korea, and China will not return to the United States. In their place we will have to develop more service-type enterprises or turn to manufacturing industries that use high-technology and replace large numbers of workers with sophisticated machinery. Many service jobs are based on the processing of information, especially those in financial services and legal work. They therefore require workers with higher levels of skills than are required by many of the region's traditional factories. Consequently, retraining displaced low-skilled workers and properly preparing future workers are the twin challenges of the shift away from low-cost manufacturing.

The movement of manufacturing jobs to foreign countries is a part of the third major trend. More and more, the markets for goods and services are expanding outside the boundaries of individual nations to become a single, worldwide market. Of course, there has always been trade among countries. What we are seeing now, though, is greater integration of production and marketing, making the whole world market operate more and more like any single country used to work. We are all aware of the presence of clothes and electronics made in Taiwan and Hong Kong and cars made not just in Germany and Japan but in Yugoslavia.

The success of these foreign producers in cornering a substantial share of the U.S.

market has raised concerns about America's ability to compete. Now that the dollar is in a better relationship with other countries' currencies, we are beginning to see our products sold abroad and at home in greater numbers again. Nevertheless, we will not go back to the situation of a decade or two ago. At that time, the U.S. had few competitors for high-quality goods in the world marketplace. Now we must compete with increasingly sophisticated producers in many countries. We have much work to do as a nation to reverse the impression among both foreign and domestic purchasers that our quality has slipped. Since we cannot go back to being low-cost producers, we will have to concentrate on increasing our productivity. The main way I see to achieve this is by investing more capital in better production techniques--state-of-the-art machinery and technology--and in the preparation of our workers.

This brings me to my final point--the Southeast's greatest weakness in readying itself for the challenges of the end of the century. That weakness is education. In the past, many of our workers have been employed in jobs like agriculture, natural resource extraction, and low-skill manufacturing that didn't require much training. Therefore, our states have not invested as much in education as states where workers with better skills were needed. Except for Florida, we end up at the bottom of the list in the amount spent per pupil on education. Not surprisingly, high school drop-out rates are higher here. All of these facts mean our labor force is not keeping up with the rest of the nation's, and eventually that will hurt our chances of bringing new industry to the region.

As I've pointed out, not only must we think about other parts of the United States, but we must compete with workers in the rest of the world, too. We have already lost many of our low-paying jobs to other countries. In the future, we will be competing with other countries more and more for high-skilled jobs and services as well. The only way to prepare for this competition is to make sure that graduates of our schools can do a variety of things and not be limited to one kind of work. Reaching this objective entails

good basic education at the kindergarten-through-grade-12 levels, though clearly some additional training may be needed. With better education and training, workers can adjust to changes in technology and move to new jobs when old ones become obsolete. Therefore, improvement of education is something to which all our states must pay attention and which all of us must be willing to support with our tax dollars.

Conclusion

In summary, our region has had very sound economic growth for several years. That growth has been led by the state of Florida and metropolitan areas like Atlanta and Nashville. In other areas growth has been uneven because of excessive reliance on primary industries and low-wage manufacturing. As we approach the year 2000, our primary challenges will arise from changes in the patterns of population growth, the globalization of markets, and the shift to a service-based economy. Within these changes, the Southeast's future lies in greater development of information-based businesses--whether in services or manufacturing--that require highly skilled workers. To make sure that our workers are properly prepared for these new types of jobs and flexible enough to meet competition from other countries, we must invest more in educating our people.