

THE ECONOMIC OUTLOOK FOR THE NATION AND THE SOUTHEAST
Remarks by Robert P. Forrestal, President
Federal Reserve Bank of Atlanta
To the East Cobb Rotary Club
August 10, 1988

I. Introduction

- A. When people discuss the economy of Cobb County, they talk about growth.
- B. Of course, "growth" has more than one connotation.
 - 1. On one hand, you have growth in population that leads to growth in jobs and business--that is a good thing.
 - 2. But that growth has brought with it growth in the number of cars on the county's roads, in the number of people drawing upon water and sewage systems, and in demands on public schools.
- C. Cobb County has the kinds of problems many areas would love to have, but they are problems all the same.
- D. I am going to talk about economic issues in the region's economy, and you will see that Cobb's situation mirrors a dilemma faced by other high-growth areas in the Southeast--how to keep up with infrastructure needs demanded by rapid economic expansion.
- E. Before I discuss this and several other major issues in the region's economy, let me begin by taking a look at my expectations for the national and regional economies in the coming 6 to 18 months.

II. The National Economic Outlook

- A. I look for our economy to expand at roughly 3 1/2 percent in 1988 in real GNP; this implies slightly slower growth over the remainder of this year, and I believe growth will be slower next year as well.
- B. Inflation, as measured by the consumer price index, will probably turn out to be around 4 1/2 to 5 percent and remain in that range in 1989.
- C. Unemployment should fluctuate in the 5 to 5 1/2 percent range for the coming 18 months.
- D. The chief dynamic in this outlook is a structural adjustment in the economies of the U.S. and its major trading partners.
 - 1. The long expansion here was initially driven by domestic consumption.
 - 2. Now, we look to exports for a greater share of growth.
 - 3. Our major trading partners are seeing the mirror image of this process--

they have had faster growth in domestic demand and are moving away from exports as the main source of expansion in production and jobs.

- E. The shift started in late 1986 when the United States began to feel the effects of the lower foreign exchange value of the dollar.
 - 1. It led to steady improvements in net exports in terms of a greater volume of goods being exported and much slower growth in the volume of goods being imported.
 - 2. The latest GNP reports showed a nearly \$19 billion gain in real net exports in the second quarter following a \$17 billion gain in the first quarter.
- F. This structural transition is a necessary correction, but it will not be without difficulty.
 - 1. Americans will find that our standard of living is rising by less than the amount we produce.
 - 2. A greater portion of our products will be sold overseas to provide the foreign exchange we need to pay our foreign debts.
- G. Still, the present stimulus from our export position is helping to revive sectors that were weak earlier in this expansion, particularly manufacturing.

III. Outlook for the Southeast

- A. Continued or even faster growth in manufacturing bodes well for the Southeast.
- B. There is a slight hitch in the effects of the currency realignment as far as southeastern industry is concerned, however.
 - 1. Last year the dollar finally began to depreciate against the currencies of Canada and developing countries in the Pacific basin--the chief competitors of many regional industries like forest products and apparel.
 - 2. Yet the amount of currency realignment is quite small compared to the dollar's fall against the yen, the deutsche mark, and currencies of other advanced economies.
 - 3. Cost structures in many developing countries are also far more favorable to the kind of low-wage, labor-intensive production that have been the staple in much of the South.
 - 4. Thus, for many of the region's industries the likelihood of substantial improvement is not high.
- C. Louisiana and Mississippi will do better than last year, which appears to have been the trough.
 - 1. Mississippi's economy has benefited from the upturn in manufacturing.

2. In the longer run, Mississippi's manufacturing faces downside risks because it remains heavily dependent on the low-wage sector.
 3. Louisiana's economy is lacking in balance, and with some tailing off of oil prices recently cannot look for much help from the oil industry.
 4. Improvements in manufacturing should help this state, too, however.
- D. Alabama is somewhere in the middle.
1. Manufacturing gains should help further the advances begun last year.
 2. Its natural resources sector should maintain the gains made last year.
- E. Georgia, Florida, and Tennessee can expect to see more of the good performance they have experienced of late, although their rates of growth will probably slow somewhat.
1. These states enjoy diversified economies.
 2. Rapid population growth is also a boon, especially to Florida.
 3. Since last year, in-migration has dropped off considerably in Georgia as economic recoveries in other parts of the nation have attracted some would-be residents away.
- F. That factor will affect the Atlanta area in particular, since its population growth has been one of the main engines driving the state's economy.
1. It is important to note, though, that growth will continue--it will simply not be as robust as it has been in recent years.
 2. Cobb County will remain a high-growth area for the foreseeable future.
 3. Granted, the Lockheed layoffs are a setback.
 - a. The loss of as many as 8,000 jobs at the state's largest manufacturing employer is not to be taken lightly.
 - b. It is too early to tell how much of an impact this will have on the county's economy.
 4. Still the economy here is highly diversified.
 - a. Overall job growth is averaging about 6 percent per year with a total employment of over 230,000.
 - b. This implies that the current difficulties at Lockheed may make a dent in the economy here, but it certainly won't destroy it.
- G. On balance, the Southeast should perform very well again in 1988, drawing strength from the same international forces that will boost manufacturing in the nation as a whole.

IV. Issues in the Region's Economy

- A. States like Louisiana that are overly dependent on farming, forestry, mining, and other primary industries need to diversify into alternative industries.
 - 1. Disproportionate reliance on natural resources in Louisiana and to a lesser extent in Mississippi and Alabama makes their entire economies extremely vulnerable to world-market price fluctuations.
 - 2. For the future, economic development efforts in the western states of our region should focus more on services and high-tech manufacturing rather than seeking to recruit yet more low-cost producers.

- B. A similar problem is the split between urban and rural economies in some of our states.
 - 1. The phrase "two Georgias" has been coined to compare the brisk growth of metropolitan Atlanta with slower expansion outside the city.
 - 2. A similar breach has been widening for the past decade between the urban and rural areas of Mississippi.
 - 3. These gaps are hard to close because growth in the urban areas tends to build upon itself, generating more expansion and economic strength.
 - 4. Workers in the rural areas frequently do not have the education and training to adapt to new jobs, especially those available in cities.
 - 5. In today's global economy with many sources of cheap labor, industries that have provided employment in the Southeast for decades are more likely to leave the rural areas than move there.

- C. To improve our rural areas and help states diversify, we must improve our region's educational systems.
 - 1. Education is probably the Southeast's greatest weakness.
 - 2. In the past, many of our workers have been employed in jobs that did not require much training.
 - 3. Our states have not invested as much in education as states where workers with better skills were needed.
 - 4. Our labor force is not keeping up with the rest of the nation's.
 - a. This weakness will hurt our chances in competing with other regions for new industries.
 - b. We must also compete for jobs with workers in the rest of the world.
 - 5. The only way to prepare for this competition is to make sure that graduates of our schools have a variety of skills and do not become locked in to one kind of work.

6. We should also explore ways to improve training programs for currently employed workers.
- D. One other problem that stands out involves the areas that are growing fastest--Florida and the Atlanta area, including Cobb County.
1. They must find ways to manage the growth that has led to prosperity.
 2. As you know all too well, schools, highways, sewage and water systems, and other types of public-use infrastructure are already overburdened.
 3. More people add to the demands every day, creating a threat to the environment, the quality of life, and the economy.
 4. Businesses that locate in Atlanta tend to be services like accounting and advertising, communications, and overall corporate management that economists call "footloose"--the RJR-Nabisco move is a good example.
 5. Such businesses can always move to another location.
 6. We must be willing to pay with our tax dollars to keep the infrastructure in top shape.

V. Conclusion

- A. The thread that draws together the various ideas I have discussed is the urgency of expanding our thinking to include the implications of global dynamics as well as developments near at hand.
- B. I have no doubt that we will continue to prosper in the globalized marketplace both as a nation and as a region because we have always responded to competition with the will to win.
- C. Our will to win has not diminished. We must be certain, however, that we are adequately prepared to win.
- D. To be prepared for competition in an increasingly sophisticated arena we must educate and train and then reeducate and retrain as quickly as conditions change.