

South Hall Rotary Club  
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## THE REGIONAL ECONOMIC OUTLOOK FOR 1989

Growth in the Southeast slowed appreciably last year, and I do not foresee a quick return to the robust pace we enjoyed earlier in the expansion, when the margin of growth between the region and nation was quite pronounced. On balance, I expect that the southeastern economy will maintain the lower growth rate attained during 1988. Farmers in this part of the country did not fare as badly as their midwestern counterparts during last year's drought. Thus, agricultural producers here would stand to benefit from the good year in farm markets I anticipate.

As in the rest of the nation, the Southeast should also enjoy growth in manufacturing as a result of improving exports and diminished import competition. Interestingly, though, the rebound here so far has not been as strong as in the industrial heartland. In 1988 the winding down of defense contracts was a negative factor for aircraft and electronics plants in the region, and this year should offer no reversal. Still, many primary and intermediate producers--paper and chemicals, for example--are running at full tilt and will likely remain at high levels. If apparel sales maintain their momentum from the end of 1988, factory output in this important regional industry should reverse the losses incurred last year. An increase in apparel could boost overall manufacturing employment rather than exerting a drag as it did in 1988. Another major southeastern industry, textiles, should perform well largely because of the degree of automation that has been added. However, automation also means that textiles will not contribute significantly to employment growth. Moreover, carpet demand could taper off as construction continues to ebb. Weakness in construction nationally will also inhibit growth in the region's important softwood lumber industry.

Construction will probably be weak here, as it will in other parts of the country.

Except for industrial plants, commercial properties tend to be overbuilt just about everywhere. Moreover, the Southeast experienced a break in the pattern of steady population growth that had been an engine of expansion for many years--especially in Florida, Georgia, and parts of Tennessee. This slowdown in new arrivals made 1988 a weak year for residential construction as well. Underlying conditions, including an increase in mortgage interest rates, suggest that this situation will persist in 1989, though some uptick in in-migration and, hence, building may well occur now that the repercussions of several major layoffs last year are behind us.

One reason for the diminished numbers of new residents has been the resurgence of manufacturing in areas of the country that had lost jobs earlier in the current expansion. Even Florida has felt the pinch as more older workers in other states, finding themselves in greater demand, elect to defer retirement. Fortunately, however, although the dollar has risen against foreign currencies in recent months, it is still low enough to encourage foreigners to visit Florida and other vacation spots in the region. The dollar's value is also prompting more domestic travel by U.S. residents by making trips abroad costlier. Thus tourism promises to boost economic growth.

Still, with fewer people coming to the Southeast than earlier in the decade, expansion in the service and trade sectors will probably remain slower than in recent years. Like construction, these businesses are quite population-sensitive. Nonetheless, these two sectors, by virtue of their size, will again be the major sources of new jobs. Government, too, will probably employ more people. Past population growth has created a need to improve education and expand infrastructure, and these activities are falling largely on the shoulders of the state and local governments.

Here in Georgia, we will probably see continuing weakness in construction and in

the manufacturing of transportation equipment, textiles, and apparel. Eastern's strike has also cut employment in the transportation sector, although hope remains for some recovery before the end of the year. The manufacturing losses should be about offset by machinery production and by export-driven strength in paper, metals, and chemicals, however, and on balance I think manufacturing employment will stabilize in 1989. Growth in the labor force has begun to rekindle the job expansion in services that had slowed earlier. Indeed, I look for total employment to grow modestly this year despite the substantial job losses in transportation, manufacturing, and construction. In addition, Georgia farmers received more rain than those in many other parts of the nation last year and thus fared better during the drought. With abundant rainfall thus far in 1989 and increased plantings of grains and soybeans, agriculture should again be a positive force in Georgia's economy this year. All told, we should have a reasonably good year in 1989, although I do not expect a return to the heady growth we enjoyed earlier.

In summary, the region's growth rate, which had been better than the national average for much of this decade, will probably remain closer to that average in the year ahead. Florida will again lead the region in economic growth. Georgia and Tennessee will have respectable years but not up to the pace established through 1987. What would help Louisiana most in the short term would be a substantial increase in oil prices. (In the long run, of course, the state must diversify.) While OPEC's latest accord offered some promise of higher oil prices, these agreements seem to be far shakier in the 1980s than in the 1970s, and it is difficult to pin strong hopes on the success of this one. Nevertheless, a substantial upturn in energy prices would help Mississippi, too, and would benefit Alabama's producers of steel pipeline. Along with good foreign and domestic demand for steel and paper, better apparel sales could boost industries that are important to these two states, and help to offset expected weakness in their important lumber industries.