THE ECONOMIC OUTLOOK FOR 1990
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Good evening! It is a pleasure and an honor for me to speak to the Mortgage Bankers of Greater Miami. The beginning of a new year is a good time to take stock of our prospects in the coming months, and I would like to take this opportunity to give you my views on the outlook for the national and regional economy in 1990. I would also like to look a little further ahead since we are at the beginning not only of a new year, but also a new decade. I think the next ten years hold signs of brilliant promise. The globalizing of markets that gathered momentum in the past decade should continue to bring greater benefits to people here and around the world. I am particularly encouraged, as I know you must be, at the virtual stampede among Eastern Europeans to join the market-oriented economies. Of course, there are obstacles that must be overcome before these promises are fully realized, and I would like to talk about some of these in addition to highlighting the positive economic developments I see in the offing. Before I do that, however, I will give you my thoughts on how the national economy and the region should perform in the year ahead.

The National Outlook

I believe that growth in this country will slow in 1990. Real gross national product should decelerate to 2 or 2 1/2 percent for the year. Even though we could see a quarter or two of very subdued business activity after a rebound from the Boeing strike, I see few signs that suggest it will end in the near term. Indeed, the rate I am projecting is close to our nation's average rate over the past four decades, that is, pretty close to our long-range potential. With slower growth than in 1989, though, the jobless rate could edge up slightly to 5 1/2 percent. But slower growth should also ease price pressures, holding inflation to around 4 1/2 percent after a spurt early in the year.

Unlike recent years, when consumption or export-driven manufacturing has been a clear leader in pushing growth, I do not expect one particular sector to set the pace in 1990. Indeed, the kind of growth I anticipate should be largely a result of momentum from past expansion that is rather evenly distributed among the various parts of the economy. Among these, personal consumption, spurred by continued growth in employment and personal income, should be one force helping the economy along. In addition, the decline in inflation I foresee will translate into higher real wages in the year ahead and continue to encourage spending.

A second, though more moderate, positive input is likely to come from business fixed investment, especially for computers, aircraft, and industrial equipment--as opposed to investment in new factories and the like. However, capital spending for industrial equipment could well slow after the large additions to capacity made over the past few years and the squeeze we have seen in corporate profits.

Real net exports, too, will contribute by improving modestly in 1990. The dollar has appreciated only about 4 percent against the currencies of our major trading partners since its trough of just over a year ago. And the economies in the industrialized countries are much stronger than when the dollar was previously at this level. Finally, I look for a good year in agriculture in most of the country, assuming the weather cooperates. Farmers should continue to rebuild agricultural inventories diminished by the 1988 drought. Foreign sales of U.S. farm commodities should be healthy also.

On the other hand, auto sales, residential construction, and government purchases are the weaknesses I see in next year's economic picture. It seems people may be holding onto their cars longer, perhaps because of improved quality or the growing use of five-year financing. The resulting decrease in demand for new cars combined with higher prices for many new models should keep sales soft. Demographic factors should hold housing demand in check as well. In the generation following the so-called baby boom fewer families are being formed each year compared with the situation in the last decade. Government spending is also slowing--though not quickly enough to suit me. Still, fiscal stimulus will probably diminish.

Aside from these soft spots, the dark cloud on an otherwise bright horizon is still inflation. I suspect we are in danger of congratulating ourselves too much for a modest near-term slowing in inflation. Let me remind you, however, that at a 4 1/2 percent inflation rate, which we could experience this year, prices double in about 16 years. Moreover, in addition to temporary weather-induced pressures, we will continue to experience growing labor shortages due to demographic shifts. These fundamentals suggest that no letup in price pressures is likely in the early years of this decade unless we are willing to tolerate slow growth for a sustained period. Thus while the nation enjoys respectable growth 1990, we need to keep a watchful eye on inflation.

Regional Outlook

Turning to the regional outlook, I think the Southeast will perform about on par with the nation on average in 1990 after a year of lagging behind. Economic activity here slowed a bit more sharply than in the country as a whole last year. In particular, the in-migration that has been one of our chief sources of strength for many years tapered appreciably in 1988 and 1989. One cause of the slowdown was the renewed health of manufacturing in some areas of the country that had earlier lost people to booming Sunbelt states. The renewed availability of factory jobs kept workers at home and encouraged others to defer retirement or return from places where they had relocated. Industries sensitive to population growth like construction, services, and trade suffered setbacks accordingly as the inflow diminished. This year, however, I see manufacturing slowing in the nation, and thus we may see in-migration begin to build in the Southeast again, though not at the rate we enjoyed earlier in the 1980s.

As usual, services and trade will lead the region's employment growth. Increased in-migration could provide some impetus to the construction industry this year. Although housing, commercial office, and retail construction will be sluggish at best because of past overbuilding, we should outperform the rest of the nation in this area. One factor working in favor of construction here is the earlier deceleration that we experienced as compared to the rest of the nation. This slump in activity allowed builders to sell off some of their inventory overhang, improving prospects for 1990. Also, industrial and public building construction should remain strong in the year ahead. Industrial building should be spurred by efforts to increase capacity. Rapid population growth in recent years has led to demand for expansion in public services which in turn requires more administrative and operational facilities. There is still a substantial supply of office and retail space already available, though, and this should hold nonresidential as well as residential construction close to last year's pace.

I expect manufacturing here to perform at a subdued level. On the positive side, the Southeast's important textile industry, which has streamlined operations through the introduction of more automation, should remain competitive internationally. Still, further sluggishness in construction portends less strength in the carpet industry. Machinery production, especially productivity-enhancing equipment and agricultural implements, should also post growth. Aerospace and certain other types of transportation equipment makers--auto parts destined for export, for example--should help offset some of the weakness foreseen in southeastern auto plants. The outlook for chemicals and paper is less bright. Both boomed earlier in response to export as well as domestic demand, but as economic growth in the nation slackens, these industries should decelerate. Imports will probably continue to offer stiff competition to southeastern apparel producers. The majority of the firms in this industry are small and lack the resources to purchase the sophisticated equipment necessary to battle competitors in countries with low-cost labor.

Even more than construction and manufacturing, agriculture should be a source of strength to the Southeast after a positive year in 1989. A couple of relatively good years have enabled many of the farmers who survived 1988's drought--and our farmers were not hit as hard by dry weather as those in the Midwest--to pull themselves out of debt and purchase additional acreage. Bumper crops in 1989 have pushed farm prices down from earlier drought-influenced levels, but both foreign and domestic demand promises to remain strong enough to allow for profitable expansions of output in the year ahead. In part as a result of strong exports of agricultural commodities and also because the dollar still remains some 30 percent below its mid-decade high-water mark, southeastern port activity should again outperform the national average in 1990. Finally, another industry strongly affected by exchange rates--tourism--should draw more visitors from this country and abroad to regional attractions in 1990 and provide further economic stimulus.

I look for Georgia and the Atlanta metropolitan area to grow at about the national average. Construction and manufacturing have been particularly weak, and I cannot say that any dramatic improvement is on the horizon. After a difficult year in 1989, residential building may improve somewhat in 1990. However, I am concerned that in Atlanta the pace of office building is outstripping potential demand. Eight buildings of 650,000 square feet or more are slated for completion in the next three years, and pre-leasing figures for several of these are lower than for similar projects in the past.

After major layoffs at auto and aircraft assembly plants last year, manufacturing of transportation equipment could suffer declines in 1990 as defense spending is cut further and auto sales remain weak. The anticipated softness in consumer spending on durables like cars and in construction suggest that the state's textile industry will be unable to sustain 1989's strong rate of growth. Prospects for modest consumer demand also suggest that the apparel industry, which is still battered by import competition, can hope for stable employment at best. Nonetheless, strength in services and trade and the good performance I expect from the state's farmers should offset these weaknesses sufficiently to give us about the same level of economic performance we experienced last year.

As for other southeastern states, Alabama's economy will probably grow more slowly in 1990. The state relies on manufacturing for a quarter of its employment, and this activity seems likely to slow in Alabama as in the rest of the nation. Florida should grow at a better clip than the rest of the region and the nation, driven by population growth, tourism, and agriculture. Both growth in permanent residents and visitors should slow somewhat, however, and the state's growth should again be moderate in comparison to the first eight years of the past decade.

After five years of contraction, Louisiana logged positive growth in 1989, and prospects look brighter for 1990. The energy industry may contribute a bit more this year than it did last year when strength came from services, tourism, port activity, and manufacturing. Still, these industries will probably lead the way in 1990 unless an unforseen surge in oil prices occurs. Mississippi may face serious problems in 1990 if auto sales and related manufacturing, on which the state is heavily dependent, slow substantially. Carrying over from late-1989 strength, services and trade should provide some stimulus, though, and the state's important agricultural production, which was below par in 1989, should improve. Tennessee's economy recovered modestly in 1989 after its near-recession of two years ago, and as a result of balanced growth in all sectors, Tennesseans should see further modest expansion in 1990.

In sum, the Southeast faces another year of slow growth compared to its performance earlier in the decade, but the pace should be in the neighborhood of that posted by the rest of the country.

Issues for the 1990s

Thus the first year of the 1990s shapes up as a reasonably good one, and looking further down the road, I anticipate developments that can keep the United States and much of the world on a path toward further growth. In particular, I believe the globalizing marketplace offers future opportunities we can barely perceive at present. The dramatic changes taking place in Eastern Europe could carry market integration in new directions, for example. And more restrained but no less stimulating developments in the European Community and elsewhere indicate to me that the pace of globalization may be accelerating.

Still, there are obstacles to overcome before we can reap the full benefits of these economic changes. Let me take just a moment to mention these since most of you are quite familiar with my views. The first is the federal budget deficit, which will remain far too high for yet another year in 1990. The second is related to the first: our need to finance excess government spending with imported capital has led to continuing imbalances in trade between the United States and our major trading partners.

Another detriment to market expansion is the debt of the less developed countries (LDCs). Early last year Treasury Secretary Brady took a step in the right direction by raising the possibility of debt reduction for these countries. Aside from a reduced debt burden, though, what the LDCs need is an influx of capital to get their economies rolling once more. Ideally, we would be making loans to these countries to help them import the capital equipment and other goods they need. However, our federal budget deficit has helped make us a net debtor nation when we should be acting as a creditor not only for third world countries but also for Eastern Europe.

Having noted these problems areas in the process of globalization, let me turn to the reasons I am optimistic about the world's economic future. Some of the past year's most exciting news came from two fronts in Europe. These were the sudden turn of events in Eastern Europe and the great strides made toward the European Community's market unification scheduled for 1992. In 1989, we marvelled as Marxism-Leninism seemed to be withering away before our eyes. Daily we read in our newspapers of some astonishing development in Eastern Europe: Solidarity won the national election in Poland, Hungary abolished one-party rule, the Berlin Wall was dismantled. These countries want and, I believe, will move toward the political and economic self-determination their European neighbors enjoy. As they do, they could provide fertile markets for outside goods and services as well as sources for labor, materials, and technical innovations. Equally important, their emergence from isolation may mean that the world can begin spending less of its energies and resources arming for war and more on raising living standards.

Of course, the process of change in the communist bloc may not be smooth in either an economic or a political sense over the next few years. For one thing, these countries have no experience with market mechanisms and also lack the financial infrastructure to interact effectively with outside countries. They also need an infusion of capital to get started, and, as I said earlier, we are not in a position to help out. Additionally, let us not forget that our hopes outstripped reality in the case of China in May and June of last year. Still, I feel the move toward market and political liberalization is inexorable in the long run in China as well as the rest of the nonmarket economies. There is simply no way to eliminate the weaknesses from their systems of production without fundamental reforms.

A second important European story was the EC's progress toward market integration at a rate that would have seemed impossible even two years ago. It seems more certain than ever that in the first few years of this decade Europeans will draw together into a market with more consumers than the United States. This will have a major impact on the future course of business in Europe and among the EC's trading partners, including the United States. Most immediately, the dismantling of barriers to shipping and selling goods should open this large market for the kind of retailing to which we are accustomed here. Our industries are geared toward large manufacturing runs that supply products to nationwide retail outlets and distributors with numerous local accounts. It seems likely that post-1992 Europe will tend toward a similar market structure, and this should prove advantageous to U.S. producers. Also, freer flows of capital within the EC will probably hasten the consolidation of industries there. We should see large new firms join the ranks of the multinationals. Such pan-European giants promise to raise the level of competition in Europe and eventually in this country as well.

Unfortunately, the industry with which I am most familiar and which plays a keystone role in our economy--the financial services industry--is being kept from gearing up for the global market by certain antiquated regulations. At present the world's largest financial instititutions are overwhelmingly European and Japanese. Further deregulation built into plans for Europe '92 could lead to the formation of more large banks there, and such a development could have important implications for the competitiveness of American institutions. Multinational corporations look for banks that can offer "one-stop" convenience in meeting their requirements. As international trade grows, this demand requires financial institutions to maintain a presence in all the important economic centers and the capacity to handle sizable transactions.

U.S. banks are presently underrepresented among the world's top banking institutions in part because of interstate banking restrictions and limitations on the types of businesses in which they can engage. If size is in fact a competitive advantage in the global market, the partially completed state of deregulation in this country acts to the detriment of our banks. It is important that Congress remove this impediment by repealing Glass-Steagall prohibitions on activities in which banks can engage. I would also like to see legislation in favor of nationwide interstate banking. By 1992, the individual states will have achieved de facto interstate banking on their own. However, we will still have a hodgepodge of laws that could retain some of the inefficiencies of the present system.

In the latter regard, by the way, the states in the Southeast, which were among the first to opt for a regional intersate arrangement, are now falling behind in taking the next step by allowing full access to all outside banks. The longer we resist, the more we limit the horizons of our own banks. Thus, until Congress begins to move on this issue, I think we need to act swiftly in Georgia and other states in the region to join the nationwide interstate movement.

Conclusion

In conclusion, I think the year ahead will be a good one for the United States and the Southeast. By "good" I mean I expect reasonable growth with diminishing price pressures, though we cannot afford to become complacent about inflation. Meanwhile, the 1990s are beginning with encouraging signs that the global market may be expanding in scale and scope. The consolidation of the EC and the possible inclusion of Eastern Europe and other communist bloc nations holds great potential for economic betterment around the world. I would hope that in the midst of this promise we can find ways to balance our federal budget and free up more of our savings for investment at home and abroad. If we can get our fiscal house in order we will be better able to take up the great challenge of the 1990s: extending the reach of globalization by opening new markets and making existing markets more open.