THE ECONOMIC OUTLOOK FOR 1990
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Good afternoon! It is a pleasure for me to speak to the Atlanta Electric League. I would like to take advantage of this opportunity to give you my views on the outlook for the national and regional economy in 1990 and to make a few observations on Atlanta's economic prospects in particular. Since we are at the beginning of a new decade, I would like to look a little further ahead as well. As you all know, the economic environment in which Atlanta and the rest of the Southeast compete for business is changing dramatically. Markets for goods and services are no longer confined within national boundaries. Instead, technological advances along with the increased importance of international trade in the economies of all countries are speeding us toward a single global market. Although Atlanta and many other parts of this region have established a considerable foundation in international trade, we have some serious challenges to meet if we are to be in the forefront of tomorrow's globally competitive economy. Before I discuss those, however, let me give you my thoughts on how the national economy, the region, and our city 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 about 2 percent for the year. The effects of the Boeing strike, adjustment in the auto industry, and unseasonable winter weather have already led to some anomalous economic indicators early in the year. However, I do not see any signs on the horizon that suggest this seven-year expansion is about to end. With slower growth than in 1989, though, the jobless rate could edge up slightly to 5 1/2 percent. But slower growth should also temper 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 deceleration in inflation I foresee would 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 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.

I feel real net exports will contribute too by growing moderately in 1990. The dollar has appreciated only about 5 percent against the currencies of our major trading partners since its trough of just over a year ago. Moreover, 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, I see several weaknesses in next year's economic picture--particularly auto sales, residential construction, and government purchases. 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 are likely to 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 in 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. During 1989 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 into 1989. One cause of the slowdown was the renewal of manufacturing in some areas of the country that had earlier lost people to booming Sunbelt states. The increased availability of factory jobs kept workers at home and encouraged others to defer retirement or return from places to which they had relocated. Southeastern industries sensitive to population growth--construction, services, and trade for example--suffered setbacks or a noticeable deceleration as the inflow diminished. This year, though, I see manufacturing slowing in the nation, and thus we may see in-migration begin to pick up slightly in the Southeast, though not at the rate we enjoyed in the mid-1980s.

As usual, services and trade will lead the region's employment growth. Tourism should continue to draw numerous visitors from this country and abroad to the expanding number of regional attractions in 1990 and lend sustained strength to business activity. Increased in-migration could provide some impetus to the construction industry this year as well. Housing, commercial office, and retail construction will be sluggish at best because of past overbuilding.

I expect manufacturing here to perform at a rather subdued level. Slowing domestic demand makes the outlook for chemicals and paper less bright than it has been. The apparel industry also remains battered by foreign competition. However, the Southeast's machinery-production industries, along with its 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 the region's auto plants.

Even more than construction and manufacturing, agriculture should be a source of strength to the Southeast after a positive year in 1989. Debt among farmers who survived 1988's drought is down, and foreign as well as domestic demand promises to remain strong enough to allow for profitable expansions of output in the year ahead.

I look for Georgia 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, though, residential building may improve somewhat in 1990. Manufacturing of transportation equipment, which also experienced setbacks last year, could suffer additional declines in 1990 as defense spending is cut further and auto sales remain weak. The anticipated softness in construction and consumer spending on durables like cars suggest that the state's textile industry will probably be unable to sustain 1989's strong rate of growth. Prospects for modest consumer demand also suggest that the apparel industry, which is still experiencing considerable 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.

Since Georgia's performance depends heavily on Atlanta's economy, the overall picture for the metro area can be inferred from what I have just said about the state as a whole. In 1989, average annual employment in Atlanta grew by 2.2 percent, about what I expect again for this year. Atlanta's construction activity should increase this year, but construction employment will probably increase only marginally after falling by nearly 5,000 over the past two years. Homebuilding will probably remain weak, but some impetus for construction should come from public spending on I-20 improvements, MARTA expansion, and the Georgia Dome. I am, however, concerned that we are experiencing a continuing surge of downtown office construction that is difficult to explain in terms of anticipated 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. Thus, we may be creating an additional future oversupply in a city that already suffers a 20 percent vacancy rate.

Issues in the Southeastern Economy for the 1990s

Summing up the outlook for the first year of the 1990s, it seems likely to turn out as a reasonably good one for the nation as well as for Atlanta and the Southeast in general. However, in order for this region to maintain the kind of economic performance that will keep us growing in the evolving world economy, we must make a renewed commitment to the objective of overall development as opposed to growth for its own sake. We have now made major strides toward building the factories and offices needed to accommodate the expansion of private business here. Now it is necessary to shift some of our energies in the direction of public programs that can foster future economic development.

In particular, we need to find ways to diversify our activities and to spread growth more evenly throughout the region. Much of the Southeast has not shared in the rapid growth enjoyed by cities like Atlanta and Nashville because of overconcentration in single industries such as energy and agriculture or labor-intensive products like apparel. Such patterns have led to widening economic gaps between urban and rural areas in many southeastern states. In Georgia, for example, per capita income in non-metro areas was less than three-quarters of that in metropolitan areas in 1987. In large measure this disparity is a result of our failure to address fundamental issues that also underlie this region's competitive shortfalls in the global marketplace. Thus I feel it is essential for us to examine these issues and begin working on our weaknesses. Four of the major factors we need to assess are the Southeast's labor force, our environmental and industrial infrastructure, our financial structure, and finally, our governmental institutions.

I will begin with the labor force, where at this point the weaknesses seem to overwhelm the strengths. I refer, of course, to the relatively poor educational performance in most states in this region. While we have been catching up a little, Southerners on average have attained fewer years of schooling and have a higher rate of functional illiteracy than is the case elsewhere in the nation. Adult illiteracy is estimated to be at or above the national average in every state in the Southeast, for example. High school drop-out rates are also higher. Georgia has the fourth lowest rate of high school graduation among the 50 states. Only two-thirds of Georgia's teenagers finish high school.

Several southeastern states have taken steps to improve education. Georgia's

Quality Basic Education program is one such initiative. Attempts have also been made to bring teacher salaries closer to national standards. However, every southeastern state fell below the national average in per capita state and local spending for education in 1987. Thus, further efforts are absolutely essential if we are going to build a labor force that can compete in the world economy and attract new businesses to the region. With regard to improving the levels of workers already on the job, business involvement, as well as voluntary efforts, will be needed to combat the handicaps of an incomplete or inadequate education.

In tandem with such direct educational efforts, we must address the higher levels of poverty that make our region's population less receptive to education. Poorly fed and housed children learn more slowly and less effectively than people free of such stresses. Therefore, an attack on substandard living conditions in the region is not only our responsibility as a humane society, it is essential for raising the quality of our labor force. These kinds of improvements fall into the category of long-term development. We cannot expect to make up for decades of neglect in a few years; we must think in terms of a generation, perhaps two, before substantial improvements are made. Thus we must be patient in waiting for our payback but confident that the rewards will be worth the wait.

A second focus for the region's self-assessment should be our environmental and industrial infrastructure. Clearly, the South is an attractive place to live. Our climate and the availability of land have lured many people and businesses to the region. Our well developed transportation systems--waterways, railroads, highways, and airports--are a source of tremendous strength today as they have been in the past. We need to be sure that we retain these valuable assets. We have to find ways to preserve our environmental amenities at the same time we promote expansion and growth. Otherwise we risk weakening the forces that attract people and industry and help us grow in the first place. Some of our states, such as Florida, clearly have concerns about this, and anyone who drives north Atlanta's clogged roads at rush hour knows first-hand what I am talking about.

The base of our financial structure, a third area of concern, is generally strong in much of the region. Commercial banks in the Southeast typically have higher capital ratios than their counterparts in other regions. Nevertheless, our banking laws are in need of reform. States here were among the leaders in developing a regional banking compact five years ago. Yet much of the nation is now moving slowly but steadily towards nationwide interstate banking. Many of the 50 states have allowed banks from any other state to enter on a reciprocal basis, but few states in our region have taken this important step. One effect of continuing restrictions is that the large southeastern banks may have difficulty maintaining their relative size advantages as banks from other states with more liberal legislation expand. Clearly, our legislators and bankers need to rethink their priorities if our home-grown institutions are going to be able to compete effectively in the future.

This point brings me to our regional governmental structures. Our state and local governments provide some good input to growth, but they have certain idiosyncracies that create problems, too. Most state governments here are generally favorable to business. Taxes in the region are relatively low, for example. The problem is that we have too much government. The layer upon layer of county systems, area authorities, and urban governments all add up to a massive and redundant structure. We elect so many officials at the state level that it is virtually impossible for our governors to develop and carry out agendas. Much of this fragmentation is a remnant of the post-Civil War era, when it was thought that dispersion and duplication would prevent any group from attaining significant power. Unfortunately, that is quite true, and it has the effect of encouraging officials to protect their little bits of turf rather than work together on vital projects. It is also leads to the inefficiency of building small, local facilities where larger ones could have better quality and be more cost effective. One example is the way our states allocate money for higher education. With our excellent transportation system it seems more reasonable to move the students to the colleges than to try to put new colleges close to potential students. In this and other ways, I feel we could spend less on government and more on our ultimate social goals.

Conclusion

In conclusion, I feel the nation, the Southeast, and Atlanta can look forward to another year of modest growth in 1990. I believe that the United States, like other participants in the global market, can continue to prosper as the world's economy becomes more integrated. However, the Southeast needs to make the kinds of changes I have just outlined if it is to enlarge its participation in the global economy. I am convinced that we can do these things if we work together. The start of this new decade would be an excellent time to launch these efforts in pursuit of a globally competitive region in a globally competitive nation.