Good morning! It is a pleasure and an honor for me to have the opportunity to speak to the Mississippi Bankers Association. This organization, which is now just over a hundred years old, characterizes the strength and stability that runs through the banking community in this state. I found further evidence of those qualities in reviewing a draft of a bank profitability study which my staff is preparing for publication this summer. The study shows that in 1989 Mississippi banks once again performed better than the national average in such measures of profitability as returns on assets and equity and also adjusted net interest margin. The primary reason for this above-par record was the relatively low loan-loss provisions at Mississippi banks; indeed, loan-loss expenses here have been well under regional averages during the past 5 years. I would like to congratulate you on this record, which testifies to the efficient way in which you have been going about the business of banking in this state.

I have been asked to give you my views on the outlook for the national and regional economy, and I shall also make a few observations on Mississippi's economic prospects. Since we are at the beginning of a new decade, I would like to look a little further ahead as well. I think the next ten years hold signs of brilliant promise. The globalizing of markets that gathered momentum in the past ten years 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. My remarks will touch on some of these in addition to highlighting the positive economic developments I see in the offing. Before I do that, though, let me begin by giving you my thoughts on how the nation, the region, and this
state should perform in the year ahead.

The National Outlook

I believe that economic growth will be slower in 1990 than it was in 1989. Gains in real gross national product should decelerate to a rate of about 2 percent for the year. However, I do not see any signs on the horizon that suggest this seven-year expansion is about to end. Even with more moderate growth, I expect little rise in the unemployment rate because the labor force is also increasing more slowly. While we are unfortunately not likely to make much further progress in reducing inflation, I do not see the situation getting any worse. Prices are likely to increase 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 major force helping the economy along.

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 decelerate in view of the large additions to capacity made over the past few years and the squeeze we have seen in corporate profits.

I feel international trade will contribute too by growing moderately in 1990. The dollar has appreciated only about 6 percent against the currencies of our major trading partners since its trough in late 1988. Thus, our exports are still available at competitive prices. Moreover, the forecast for other industrialized economies is for faster growth
than in the United States. Thus foreigners should be able to buy more U.S. goods than they could even a few years ago when the dollar was somewhat lower. 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 spending. 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 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 given the still mammoth proportion of the federal budget deficit. Nonetheless, 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 becoming comfortable as a nation with the current rate of inflation. Let me remind you, however, that at a 4 1/2 percent inflation rate, which we shall probably experience this year, prices will double in about 16 years. Moreover, in addition to temporary weather-induced pressures like those in the early months of this year, over the longer term we will continue to experience growing tightness in labor markets 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 on average will perform about on par with the nation 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. In particular, the in-migration that was one of our chief sources of strength for several years in the mid-1980s reached its peak in 1987. After that, the flow slipped appreciably in 1988 before stabilizing in 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, however, I see manufacturing slowing in the nation. 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. Still, 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 the region's important chemical and paper industries 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 should help offset some of the weakness that is likely in the region's auto plants. Consistent
foreign demand for their products helps insulate the region's auto parts suppliers from the domestic downturn in the auto industry, for example.

Aside from services, trade, and certain types of manufacturing, agriculture should be a source of strength to the Southeast after a positive year in 1989. Farm debt 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.

As for Mississippi, the economy here is performing surprisingly well, given its strong links to manufacturing. The nationwide weakness in manufacturing has been reflected in a decline in Mississippi's manufacturing jobs since the fourth quarter of last year. Production of electrical equipment, furniture and fixtures, and textiles and apparel has been particularly soft. However, robust growth in the state's service, trade, and agricultural industries has kept total employment increasing briskly. Strength in these areas has reduced Mississippi's unemployment rate nearly a full percentage point from this time a year ago. In fact, the state's total employment is increasing twice as fast as the average for all southeastern states.

Employment gains have in turn contributed to a burst of residential construction activity here during a period when the other states in the region are seeing either no gain or strong declines from year-ago levels. The state's farm sector is also a source of strength, buoyed by relatively high prices and good export sales. Production and income prospects are promising in the poultry industry, and growers have indicated that acreage for cotton, Mississippi's major crop, will rise by about one-fourth in 1990. The increased use of machinery, fertilizer, and chemicals in producing this larger crop should provide a substantial boost to agribusiness here as well. Taken in sum, all the indications are that, even if manufacturing remains sluggish, strength in other sectors should still mean a moderately good economic performance in Mississippi this year.
Issues 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 Mississippi and the Southeast. 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 exciting 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. Foremost among these is the federal budget deficit, which will remain far too high for yet another year in 1990. A 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. However, our federal budget deficit has helped make us a net debtor nation—indeed the world's largest—when we should be acting as a creditor not only for third world countries but also for Eastern Europe.

Having noted these problem 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 energy 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 just noted, 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 inevitable 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 has been 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, bringing the benefits of lower prices and greater choice to consumers here.

Unfortunately, the financial services industry is being kept from gearing up for the global market by certain antiquated regulations. Deregulation built into plans for Europe '92 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 as well as the capacity to handle sizable and varied transactions.

U.S. banks are currently constrained by interstate banking restrictions and limitations on the types of businesses in which they can engage. Thus, the partially completed state of deregulation in this country is acting as a detriment to 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 perpetuate many of the present system's inefficiencies.

By the way, most of 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 region's interstate compact has begun to
fray, as Louisiana and Kentucky have opted for nationwide entry, and Tennessee also plans to open its borders in 1991. However, other southeastern states continue to resist, and by doing so they limit the horizons of their banks. This is true not only for larger banks that might wish to expand outside the region, but for smaller banks as well. The latter could find the value of their charters increased if more outside banks could be counted among the ranks of potential purchasers. Thus, until Congress begins to move on this issue, I think states in the region need to act swiftly to join the nationwide interstate movement.

Conclusion

In conclusion, I expect reasonable, if somewhat slower growth with diminishing price pressures nationally, though we cannot afford to become complacent about inflation. The Southeast should perform at about the national average. 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.