

AN ECONOMIC PROFILE OF THE UNITED STATES AND THE SOUTHEAST
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Good morning! I am pleased and honored to have been invited to your country to present an economic profile of the southeastern United States. I had the privilege of meeting some of you in May when a group of Argentinean government and business leaders came to Atlanta. At that time, I began a number of very good conversations about this region of the United States and its potential as a gateway for exporters. Unfortunately, our time together was short, and I was not able to present as complete a picture as I would have liked. Consequently, I was delighted to have this opportunity to come to Argentina and tell you more about the Southeast.

The economy of the southeastern United States is quite diverse and is in many ways a mirror of the entire U.S. economy. Therefore, I would like to set the stage for my remarks on my region by presenting my outlook for the U.S. economy as a whole and its implications for U.S.-Argentinean relations. Then I will turn to the Southeast and explain the economic importance of this vibrant region.

Outlook for the U.S. Economy

Beginning with the outlook for the United States, I believe that over the next year or so the economy will grow at a rate of

about 2 percent or perhaps somewhat less, as measured in terms of real, inflation-adjusted gross national product. Thus I do not believe that the expansion we have experienced for more than seven years is about to end. Even with this moderate growth rate, I expect only a small rise in unemployment from the present level of about 5.2 percent. This is because our labor force is increasing at a slow pace in comparison with the past. Unfortunately, this relative shortage of labor has meant that we have seen little easing of wage increases, certainly less than we previously would have expected with GNP growth rates of the sort that we have seen over the past nine months. If labor force growth stays as low as it has been, we will not make much further progress in reducing inflation. On the other hand, while inflation is still too high from my standpoint, I do not see it getting any worse. Price increases, as measured by the Consumer Price Index, are likely to remain at about 4 1/2 to 5 percent between now and next year at this time.

My outlook for continued, albeit slow growth, arises because I think that a few pronounced weak points will be outweighed by several important sources of strength. Let me first touch on the weaknesses. Automobile manufacturing and real estate have been troubled and are likely to remain weak compared with performance earlier in this expansion. Underlying the problems in these industries is a demographic shift that will continue to have a profound influence on the U.S. economy for the next several years.

The generation born after World War II has been called the "baby boom." Many new families were begun, and average family size grew as well. The unusually large number of children born during that time reached adulthood, entered the workforce, married, and began their families during the 1970s and early 1980s. Their consumption pattern naturally expanded to include new cars and, first-time purchase of homes. Now, however, growth in demand attributable to such purchases has diminished. Members of the large age cohort are becoming more concerned with educating their children and planning for their own retirement. The generation following the baby boom in these markets is considerably smaller.

Compounding the impact of this demographic adjustment on the market for new homes, overbuilding in commercial real estate has produced an excess of office and retail space in many major markets. Our tax laws overstimulated this activity in the past. Until this extra space is absorbed, commercial building is likely to remain weak. Thus, some of the industries that contributed to economic strength in the last decade have lost a good deal of momentum. One other sector that will not stimulate the U.S. economy as much as the recent past and I am happy to see this is government spending. Although the federal government's structural deficit is likely to remain too large for the foreseeable future, progress toward reducing its size should keep government purchases on a downward path.

Aside from autos, construction, and government, though, prospects for growth are reasonably good. I look for capital goods producers and exporters to prosper over the next year and a half. Underlying the strength I foresee in the investment sector is the fact that American manufacturers have concentrated on improving productivity through capital investments, further strengthening their competitive position. A key factor influencing an increase in exports is the good economic growth that our major trading partners are experiencing, thereby creating excellent markets abroad for U.S. products like computers and aircraft. Also, the recent softness of the dollar in the exchange markets, if it persists, will bolster this demand.

The importance of foreign-trade activity in my outlook for the months ahead also points to a second factor that, along with demographic shifts, will remain important to the U.S. economy for many years to come. The share of both imports and exports in the U.S. economy has grown substantially over the past 40 years. Exports, which were just over 7 percent of GNP in 1947, ran about 14 percent of total GNP last year. The share of imports rose from 4 to 16 percent. This shift helps to buffer the U.S. economy from domestic shocks.

Unfortunately, Latin America's share of U.S. international activity is not as healthy today as in the past. Twenty-five years ago, over 20 percent of U.S. imports came from Latin America. That

portion has fallen by nearly one-half, while U.S. exports to the region as a share of our overall world exports are down by more than 12 percent for the same period. The total value of trade between the United States and Argentina, as a percentage of U.S. world trade, has fallen by nearly 60 percent since 1965.

What can be done to revive trade between our countries? My outlook for fairly slow or somewhat slower growth in the United States over the years to come implies a more competitive market for imports from most countries in the near term. However, I feel several factors are at work to boost Argentina's competitiveness and improve its share of the U.S. import market. One is the prospect that U.S. Treasury Secretary Brady's plan might move us in the direction of reducing the external debt of Argentina and other countries where the excessive burden of foreign obligations has long been an obstacle to internal growth and international commerce. Closely related to the Brady plan, efforts to bring down the level of debt through debt-equity swaps have improved the climate for foreign direct investment in Latin America. In Argentina, some observers estimate that such investments will nearly triple in 1990 over 1989 levels. I take this interest as a sign of renewed confidence in the prospects for economic improvement here. As this flow of capital continues, I expect to see higher productivity from Argentinean business.

For the longer term, I am encouraged by the steps that

Argentina, along with some of the other larger Latin American countries, are taking to reduce fiscal imbalances and enhance free-market competition. By removing the distortions associated with excessive government spending and interference with the economy, you will promote the allocation of all resources--financial and tangible--to their most efficient use. As a result, you will enable businesses in your country to sell their products wherever they can achieve their highest return, whether at home or abroad, and also to buy the materials and equipment they need at the lowest possible price. Argentinean consumers will likewise benefit from a wider array of goods--and at more competitive prices.

Finally, I think Argentina's desire to explore new alternatives for trade, which you have demonstrated by your interest in this conference, is an extremely positive sign. Some of the most successful economies over the past several decades--Japan, West Germany, and the newly industrialized countries of the Pacific Rim--have consciously sought to enhance their foreign trade sectors as part of their strategies for development. Similarly, you and others among your countrymen are looking for better ways to exploit Argentina's comparative advantages in the global market. I certainly hope that your work will result in economic improvement here through greater international trade not only with the United States, but with all the countries that are partners in the emerging global market.

Economic Profile of the Southeastern United States

Having talked about the U.S. and to some extent the global economic environment, I would like to narrow my focus to the southeastern United States. I will be talking primarily about the area in which the Federal Reserve Bank of Atlanta operates. This includes the states of Alabama, Florida, Georgia, Louisiana, Mississippi, and Tennessee.

These six states constitute a large region, whether measured in terms of area or population. Together they cover nearly 800,000 square kilometers, about 30 percent the size of Argentina. However, with 35 million inhabitants, the population of this region is slightly larger than Argentina's. My city of Atlanta is considered by many to be the economic center of the Southeast. Atlanta's population, including its suburbs, is about 2.9 million. Other important metropolitan areas include Miami, which is approaching 2 million in population, and New Orleans at 1.4 million.

The region's 35 million people earned nearly \$550 billion in personal income in 1989. Together with the many tourists who visited this part of the country, they made over \$240 billion in retail purchases last year. More important than the size of this region is its phenomenal growth during much of the 1970s and 1980s. Whether measured in terms of income or employment, the Southeast has expanded more rapidly than the United States as a whole in the

last decade or so. Personal income rose 135 percent in the six southeastern states between 1979 and 1989 versus closer to 120 percent for the United States as a whole. The growth in income was due largely to the rapid expansion of jobs. Over the last decade the region's employment rose around 30 percent compared with 20 percent for the nation. This economic expansion, along with the district's generally balanced economic composition, helped keep the unemployment rate in the two largest southeastern states--Florida and Georgia--below the U.S. average for most of the 1980s. Let me outline a few of the reasons for this strong performance.

One contributing factor has been the rapid in-migration of people to the region. Population growth here has outpaced the nation's as a result of this influx--not because of high fertility. The Southeast's population grew 18 percent from 1980-1990 versus 11 percent nationally.

Why have people moved to the Southeast in such numbers? A number of economic trends have worked in our favor. However, having historically lagged behind the rest of the U.S. economy, Southerners in recent decades have recognized the need to promote development, for example, by actively recruiting business to relocate and investing in transportation systems and other public services.

As a result of these dynamics, many individuals have relocated

here during their retirement years to take advantage of the region's milder climate, improved amenities and generally lower cost of living. Others have moved because of employment opportunities. American businesses are decentralizing, particularly their sales and distribution operations. At the same time, their location preferences are shifting for many types of activities. These trends are motivated in part by the need for greater efficiency. Competitive pressures have been spurring American businesses in the last several decades to seek southeastern locations because of the region's cost advantages. These include lower wage levels, less burdensome taxes, relatively low land prices, and reduced distribution costs associated with readily accessible transportation networks and enhanced market proximity. These cost advantages as well the area's favorable business climate have drawn businesses and people and caused the southeastern economy to grow faster than that of the nation in recent decades.

Like many American businesses, foreign firms have also found it profitable to locate production, distribution, and sales facilities in the Southeast. Foreign direct investment, measured in jobs created, has grown faster in the Southeast than in the United States as a whole, and people in the region have been warmly receptive to the new businesses that have grown up as a result. International financial institutions have spread in the region too. Over a hundred such institutions, including U.S. and foreign firms

specializing in international banking, are located in the Southeast.

The result of this influx of people and businesses is a southeastern economy that is now pretty well diversified. Historically, the region relied largely on farming, but agriculture now accounts for less than 5 percent of personal income in most southeastern states. Farmers in the Southeast have also moved away from their historical reliance on cotton and tobacco to a wide range of products. The region has become a major supplier of poultry and also produces abundant soybeans, peanuts, citrus fruits, rice, sugarcane, beef cattle, dairy products, and fish.

Of course, certain natural resource activities remain significant, but today they are closely integrated with manufacturing activities, such as food processing and turning the area's abundant timber resources into lumber, furniture, and paper products. In fact, the region is able to supply nearly one-fifth of the nation's total lumber needs. Processing raw materials derived from energy as well as timber resources makes chemical production an important southeastern industry.

Two other industries that grew out of the region's farm base--textiles and apparel--are still proportionately larger than their counterparts elsewhere in the United States, but employment in these industries has been declining for over a decade. Meanwhile,

other industries have been supplanting them. The production of electronic, telecommunications, and computer equipment, especially the kinds used in the defense and space programs, has become a vital source of jobs and value added, especially in Florida, but also in particular cities in Alabama, Tennessee, and Georgia. In Atlanta, for example, over 150 high-technology firms operate in the metropolitan area, employing nearly 90,000 people. Transportation equipment has also become a leading industry in some states. Products range from aircraft, ships, and space vehicles to cars and trucks.

No description of the southeastern economy would be complete without discussing the service sector, which has contributed greatly to job growth. Many services--including banking, retail establishments, and medical facilities--have increased at a fast pace to meet the needs of the area's rapidly growing population. However, other services, such as the Southeast's major sea and air ports, have been expanded and modernized and now serve not merely as regional distribution centers but as national and even international hubs. New Orleans is the busiest port in the United States in terms of combined domestic and foreign waterborne tonnage. Miami, Tampa, and Jacksonville in Florida, Savannah, Georgia, and Mobile, Alabama, are also important regional ports. These ports maintain the most modern facilities and are able to handle a wide variety of cargo efficiently. Atlanta's Hartsfield Airport is the second busiest airport in the world, while the Miami

and Nashville airports also accommodate increasing flows of travellers.

Another regionally important service whose market extends beyond the local population is tourism. Florida's beaches, warm climate, and numerous recreational facilities attract visitors from the rest of the country as well as from Canada, Europe, and Latin America. However, Florida does not have a monopoly on the tourist trade. Atlanta has greatly expanded its number of first-class hotel rooms. These lodging facilities--together with its exposition hall, the Georgia World Congress Center--enable the city to host more convention delegates than most American cities.

Thus, the Southeast of today has been blessed by rapid growth and an economic structure that has become fairly well diversified. Unfortunately, certain parts of the region have not benefited as much from this growth. Many rural areas, for example, face bleak economic prospects as the former mainstay of their economy--low-wage manufacturing--loses out increasingly to lower cost producers in developing countries. States like Louisiana, which are overly dependent on natural resources such as oil and gas extraction, are also facing severe challenges in fostering economic development.

I must also acknowledge that overall growth in the Southeast slowed appreciably in the late 1980s. Manufacturing in many other parts of the United States picked up in response to faster growth

in exports starting about 1987. Since Southeastern industries are not as export-oriented as those in other regions of the country, many people who might have moved to the Southeast decided to stay where they were because opportunities were improving more at home. Thus, migration from other parts of the United States to the Southeast began to slow at the same time that overall population growth among young American adults began to recede. This shift depressed the demand for housing, office buildings, and services relative to what it had been. In the 1988-89 period the Southeast's rate of employment growth fell behind the nation's for the first time in many years.

In 1990, I am glad to say, the Southeast is once again growing on a par with the nation, and in several states the pace of expansion is faster than that nationally. Soon the Southeast should once again outpace the nation in its growth--and continue to do so--although perhaps by a smaller margin than in the 1980s. The advantages that brought people and businesses here then are still with us--lower costs, excellent transportation networks, a good climate, and, much like Argentina, a positive attitude toward external business linkages, based on our recognition that such a mindset can foster healthy growth.

Conclusion

In conclusion, I believe the Southeast is in an excellent position to expand and look further past its natural borders. The

diversity of economic activity in the region and its attractiveness as a place to live, visit, and invest suggest that the Southeast is poised to play a greater role in the national and global economy in the years ahead. Since I envision international trade as one of the chief forces driving the global economy and the economies of its individual participants, I am anxious to see the region continue to expand its international horizons. Perhaps the description of the region I have just given will prompt some of you to explore opportunities for helping us achieve that objective.