

## **THE SOUTHEAST IN A GLOBAL ECONOMY**

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**To the Forest Products Research Society**

**November 20, 1990**

Good afternoon! I am pleased and honored to have the opportunity to speak to the Forest Products Research Society. I have been asked to give you my views on economic trends that will affect the U.S. and regional economy through the year 2000. I will also touch upon the forest products industry's prospects for the remainder of the century. One unifying theme will run through all these topics, and that is the single global market for goods and services that is rapidly taking shape. We in the Southeast need to assess our ability to compete in this global economy, and I would like to point out several areas in which we must continue to work to enhance our competitiveness. Before I do that, however, let me give you my outlook for the economic prospects of the United States and the Southeast in the decade ahead.

### **Outlook for the U.S. Economy**

I see a moderation in U.S. economic growth as measured by real gross national product in the coming decade compared to the past. We have enjoyed GNP expansion at an annual average rate of nearly 2 3/4 percent over the past two decades. During the 1990s, though, I think we should expect to see growth closer to 2 percent or even a little less. My main reasons for this view are, first, a relative saturation of consumer demand here; second, the implications of demographic trends already taking effect in our economy; and, third, greater worldwide competition for investment capital. On the other hand, I view exports as a source of support for expansion as more and more U.S. goods flow to foreign consumers.

Before I elaborate on the particulars of my outlook, I should point out that a key economic variable has been thrown into uncertainty by recent events in the Middle East. That, of course, is the price of oil. From our present vantage, it is virtually impossible to foresee where oil prices will finally settle until the Persian Gulf crisis is resolved. Thus forecasts are even more difficult. However, it is clear that what is going on in the Middle East will raise costs for many businesses and dampen output. In the near term, this will reduce potential GNP. We have suffered a significant supply shock, which, unfortunately, cannot be offset by monetary policy or other public policies that work by influencing demand.

Looking at long-term prospects for U.S. growth, I see other constraints as well. First, a degree of saturation may have taken hold in consumer demand. First-time purchases of homes and automobiles seem to have peaked among the "baby boom" generation--the large generation born in the decade after World War II and now passing into middle age. The U.S. housing and auto industries have already felt the effects. This slackening of demand is not entirely negative, however, insofar as it mitigates to some extent the inflationary forces that have been troubling for some time. As you know, price pressures, as gauged by the consumer price index, had been increasing stubbornly even before the run-up in oil prices. The Fed has been trying to hold inflation in check. While progress seems to come slowly, I believe we would be in worse shape had the central bank not pursued this objective.

Aside from these demand-side effects, demographics will adversely influence our economy's capacity to produce. The pool of entry-level labor is shrinking compared with the

recent past now that the baby boom has been absorbed into the workforce. Scarcer supplies of labor, at current levels of output, imply higher costs over most of the coming decade. U.S. industries will need to counter these costs by more investment in labor-saving technology.

Unfortunately, competition for the capital to make those investments is likely to be greater in the coming decade. One source of competition could be the U.S. government's funding needs associated with large fiscal deficits if Congress cannot maintain an effective budget-deficit reduction program. The international economy also provides numerous alternatives for investors, among them emerging opportunities for higher rates of return in Eastern Europe, strong investment demand in Western Europe, and, eventually, I believe, a resumption of lending in Latin America.

Meanwhile, greater integration of the world's economy should continue to bolster exports for U.S. firms. The outlook for Europe is a bit stronger than for the United States, and this suggests healthy markets abroad for U.S. goods. Farther down the road, I also look for a revival of the once-important but now stagnant trade relations between the United States and Latin America as those countries continue to get their economic houses in order. I grant that a lengthy period of adjustment will be needed before the U.S.S.R. and the former communist nations of Eastern Europe can provide new markets for U.S. goods. Still, I feel that toward the end of the decade we may be deriving more income from trade with those countries as well. Assuming such developments occur, I believe that exports will probably be a major source of U.S. growth in the coming decade. However, lower consumption, slowing growth in the labor force, and

competition for investment funds from domestic and international sources are likely to keep overall growth from being as strong as in the 1970s and 1980s.

### **Economic Outlook for the Southeastern United States**

I believe this outlook for the nation suggests that the southeastern region of the United States has good prospects for renewed economic expansion in the 1990s. The main engine for the economic growth we have enjoyed here over the past two decades has been a sizable influx of individuals and businesses. 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, the need for greater efficiency has been spurring U.S. firms in the last several decades to seek southeastern locations because of the region's cost advantages. Many foreign firms have also come here seeking the same advantages, which 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. Such cost advantages as well the area's favorable business climate have drawn businesses and people, causing the southeastern economy to grow faster than that of the nation in recent decades.

I must acknowledge that overall growth here slowed appreciably in the late 1980s. The primary reason for this deceleration was the revival of manufacturing in many other parts of the United States that came in response to faster growth in exports starting about 1987. This slowed

the in-migration that had been the mainstay of the Southeast's economic expansion previously. 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 started 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 nationally. In the years ahead, I expect the Southeast in general to outperform the nation although perhaps by a smaller margin than in the 1980s. The advantages that brought people and businesses here are still with us--lower costs, excellent transportation networks, a good climate, and a positive attitude toward external business linkages, based on our recognition that such ties can foster healthy growth.

### **Prospects for the Forest Products Industry**

The forest products industry, of course, plays a significant role in the Southeast's economy, and I would like to make a few observations on the industry's prospects in the years ahead. I expect continued growth for the region's forestry products producers through the 1990s. A chief reason for this optimism is the industry's growing participation in the global market. In fact, in 1989 this country became a net exporter of wood products for the first time since

1980. Foreign demand should increase over time partly because of the decline of forested acreage in South America, Eastern Europe, Africa, and Asia. The ongoing efforts of international trade negotiators to lower trade barriers on forest products may help further open overseas markets to U.S. suppliers. In addition, developing countries will require wood products to help address the critical need to improve their infrastructures. In meeting this growing worldwide demand, the Southeast already has the advantage of a climate that allows faster replacement of timber than competitors in the northern United States, Canada, and Scandinavia. Moreover, this edge is being further increased by technological developments like cloning of superior pine stock.

Two forces that could impose restraints on the industry include shifting demographic trends and growing environmental concerns among voters and their elected officials. As I mentioned earlier, construction activity is likely to be less brisk than in the last decade when so many young families were buying their first homes. Given the much smaller size of the generation following behind, domestic demand for lumber is likely to slow. Indeed, it could be some time before new residential construction, which accounts for about one third of the country's annual consumption of softwood lumber, returns to the robust levels of the mid-1980s. Fortunately, the upturn in exports may help offset this softness in demand here.

A second area of concern to the industry is the increasing pressure to close national forests to harvesting in favor of wilderness and habitat conservation. In my opinion, the environmental movement will grow in importance in the decade ahead, and forest products



producers will have to find ways to accommodate the public's interests. However, the kinds of restrictions that now protect endangered species in national forests may, by reducing supplies elsewhere, contribute to higher prices for producers in the Southeast. This region is less reliant on cutting in public land than other areas. The environmental issue may also increase demand for other forestry products. Just last month, for example McDonald's announced it was abandoning its plastic foam hamburger container and replacing it with a paper wrapper. Thus, I feel the forest products industry in general, and in the Southeast in particular, displays ample resiliency to overcome the weaknesses I see in the years ahead and remain a source of strength to the region's economy.

### **Issues in the Southeastern Economy for the 1990s**

Summing up the outlook for the decade ahead, it seems likely we will experience moderate growth in the nation and somewhat faster expansion in the Southeast than in the United States on average. However, in order for this region to maintain the kind of economic performance that will keep us ahead in the evolving world economy, those of us who live in, work in, or just care about this region must be completely honest and candid about the challenges we face as well as our strengths. 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 as opposed to growth for its own sake. Three of the major factors we need to assess are the Southeast labor force, our environmental and industrial infrastructure, and our financial structure.

I will begin with the labor force. Many qualities of southern workers are praised by firms from outside the region, including foreign firms, that relocate here. However, most states in the Southeast have relatively poor educational performance compared with the rest of the United States. 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. This weakness can be a liability in attracting the kinds of new industries that will help the region develop into a strong participant in the global market. For one thing, we need to reduce our dependence on being the low-cost producer--a possibility that is being rapidly eroded by the newly industrialized economies of Asia--and expand our base of high-tech and service industry companies. To do this, we need workers who can effectively operate the kinds of equipment and perform the more complex tasks such firms require. For another, if our school systems do not meet the standards outsiders demand for their own children's education, they are less likely to set up shop here.

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, southeastern states still tend to fall below the national average in per capita state and local spending for elementary and secondary education. Thus, further efforts are 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.



A second focus for the region's attention should be our environmental and industrial infrastructure. The South is without question 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. The issue is most salient in Florida, but we can see it beginning to arise in major cities like Atlanta as well.

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. Instead, they have limited interstate banking to nearby states. 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.

**Conclusion**

In conclusion, I feel the nation and the Southeast can look forward to continued, if more subdued growth in the 1990s. The decade promises to be a good one for the region's forestry products producers as well, particularly if it continues to develop export markets and is creative in its approach to environmental issues. The Southeast needs to make the kinds of changes I have just outlined to improve its competitiveness in a changing world economic environment. However, I believe the objective of becoming a truly world-class place to live and do business is becoming clearer to everyone who lives in the Southeast. Thus, I am confident that we have the will and the ability to enlarge our participation in the global economy in the decade ahead.