

# THE ECONOMIC OUTLOOK FOR THE UNITED STATES AND THE SOUTHEAST

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## Introduction

The high-profile negotiations in regard to Bosnia have recently focused attention on what members of the diplomatic corps do. Under normal circumstances, though, diplomats labor in relative obscurity, not unlike central bankers such as myself. Today as you meet and greet each other at this annual event, I would like to offer a few comments about the geographic arena in which you operate by way of an economic outlook for the United States and the Southeast.

## I. U.S. Outlook

- A. Overall economy should do better in 1993 than in 1992 when GDP expanded by only around 2 percent.
  - Has settled into a pattern of moderate--that is to say, not particularly rapid--growth. The large jump in GDP growth registered in the last quarter of 1992 (4.7 percent) raised false hope that the economy would continue to grow that much stronger. However, taking into account the lower numbers that have been coming in for the first quarter compared with the last quarter of 1992, I believe GDP for 1993 should end up, on an annual average basis, at around 3 percent. Growth in the second half of the year should be stronger than growth in the first half.
  - Inflation still remains well in hand. May creep slightly higher than the 3 percent level of last year to land somewhere in a range between 3 percent and 3.5 percent.
  - I expect that for 1993, the unemployment rate could move slightly below an annual average of 7 percent. The first three months of this year have seen relatively decent employment growth coupled with an upward revision of the numbers in late 1992.
  - This slightly more positive news about employment gives some confidence for continued modest growth without any major stumbles.

B. A few items to keep in mind that affected 1st quarter performance:

- Weather was bad at the wrong time. Snowstorm came in March, thus affecting two areas:
  1. Slowed down construction, which usually picks up in the springtime with the onset of good weather. Housing starts fell more than 4.5 percent in March.
  2. Kept consumers from buying items, such as Easter outfits. Total retail sales fell 1 percent in March, the largest drop since January 1991, with the largest declines in department store sales, furniture, and building materials.
- Tax refunds were substantially smaller due to lower amounts being withheld.
- Also, people are anticipating higher taxes, so they are being conservative in their spending now.

C. Sources of strength and weakness for 1993

- Recent positives: Low interest rates, somewhat improving employment picture, and revival of Canada's economy (our major exporting customer).
- Underlying strengths of U.S. economy: consumer spending, particularly on durables; residential construction; and capital investment by businesses, especially on computers and other equipment.
- Why? Consumer debt service as percent of income, for example, has fallen to levels not seen since 1986. Therefore, households in better position to purchase goods typically financed with credit. Also on consumer side, productivity rose quite dramatically in latter part of 1992, leaving scope for income to rise. Also, pent-up demand for various goods that have simply worn out over time but not been replaced.
- However, aging of the population will constrain big jump in demand for either housing or consumer durables.
- Areas of weakness: commercial construction, government spending, international trade
- For this audience, let me go into more detail about the troubling shift in international trade from the positive to the negative side of the growth ledger.

Weak net export performance is due to a slowdown in growth of other major industrial nations. As you know, some countries have been verging on recession.

1. Poor conditions have been limiting demand in Europe.
2. Central banks have begun to lower short-term interest rates significantly.
3. Japan is going through a protracted adjustment to the drop in asset values and to continued demographic shifts. However, the Japanese government has implemented an aggressive fiscal stimulus plan with part one already in the pipeline and part two under debate. Combined with some ease on the monetary side, these measures have improved the outlook for later in 1993.
4. The one definitely bright note, which I mentioned earlier, is that the economy in Canada is beginning to revive--good news for the United States.
5. This worldwide weakness is not likely to be reversed in 1993, nor is slackened demand for U.S. products by advanced economies likely to be offset by rising demand in Latin America and the Pacific Rim. Their rapid growth rates are not enough to make up for their relatively small share of U.S. exports.
6. At the same time, a pick-up in GDP growth in the United States usually leads to a rise in imports. As a result, the merchandise trade gap has begun to widen after narrowing steadily since the late 1980s. (It grew by nearly 30 percent in 1992, widening to \$84 billion.)

## II. Southeastern Outlook

- A. Outlook for the Southeast in 1993 is much brighter than it has been in several years and growth in the region should outpace the nation.
  - Employment growth is ahead of the nation. During 1992, Southeast added nearly 300,000 new jobs--a 2 percent growth rate, at least double the national gain.
  - On an average annual basis, the Southeast could add more than 400,000 jobs to the economy in 1993. That number sounds good, but it also shows how moderate this rebound is: during the 1984 recovery, by contrast, the Southeast added around 700,000 jobs--and it did so from a smaller base.

B. Why will the Southeast do better than the nation?

- This region produces the goods that people have been buying once the recession ended and the recovery began: apparel; lumber to build houses; textiles such as carpets, draperies, and other home furnishings; home appliances, like air conditioners and stoves.
- The regional economy also got a boost from the damage done by Hurricane Andrew. Hurricane-related construction should provide a stimulus through the middle of the year.
- The nationwide pent-up demand for consumer durables that I mentioned earlier is also good news for the Southeast, which is home to many auto and auto-related manufacturers. In addition, textile companies provide products destined for cars.
- Construction of single-family homes in the region is likely to continue the growth begun in 1991. The reason is that many young home-buying people live in or have moved to this region of the country.

C. Areas of weakness

- Industries that specialize in nondurable goods, particularly apparel, are experiencing weaker demand. In the long term, apparel producers face increasing competition from countries where unskilled and semi-skilled workers are willing to work for less.
- The Southeast is not a major capital goods producer, so will not benefit as much from expected strength in capital spending by businesses on equipment.
- Consolidation in service industries has hit hard in Southeast (layoffs in banking, communication, transportation firms, for example).
- Decline in defense spending will adversely affect Southeast. Proposed military base closings will cause loss of about 25,000 jobs around the region.

D. Brief look at Georgia

- By end of 1992, Georgia showing a relatively balanced, moderate economic recovery. Seems to be back on a favorable track after having absorbed several significant negative economic shocks over the past four years. Shrinkage in airline payrolls continues to drag. Georgia also did not do so badly with military base closings--will actually gain 5,000 jobs.

**Conclusion**

In conclusion, the nation is experiencing modestly improved growth with fairly good job growth, and the Southeast will do even better than the nation during 1993 in terms of growth. As a nation, under new leadership in the White House, we have begun to grapple with the budget deficits, which I believe have created a significant drag on economic growth. I would like to point out that the President's deficit reduction package is not dead. In fact, he succeeded in getting his first budget passed in record time--the quickest passage since 1974. If Congress can bring itself to make the hard choices in reducing the deficits, then it is more likely that interest rates will stay low. Overall, if we are able to succeed with solid deficit reductions, the implications for the Southeast and the nation are extremely encouraging. I am more hopeful than ever that we can meet this challenge.