

THE ECONOMIC OUTLOOK FOR THE UNITED STATES AND GEORGIA
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It is a pleasure to be here today to discuss the economic outlook for the nation and for Georgia in particular. Before I turn to that outlook, let me first say that those who serve on the boards of financial services institutions are probably aware that managing a bank is no longer the staid and sheltered profession it used to be. In addition to the difficult times within the industry, all of us are dealing with a good deal of uncertainty in the economy. The give and take between Congress and the President on the deficit reduction plan may have contributed to this uncertainty. Consequently, with businesses and consumers not being sure of specific tax and spending changes, investment and consumption seem to have been lower than they would otherwise have been over the last half year. I believe, however, that it has been worth going through this period of uncertainty to reap the benefits later. By reducing the deficit, I am convinced we will increase the capacity of the economy to grow in the long run.

The U.S. Economy

For the near term, that is the remainder of 1993, let me briefly outline U.S. economic prospects to provide a context for the outlook in Georgia and the Southeast. I expect the overall economy to do slightly better than it did last year when gross domestic product, or GDP, expanded by around 2 percent. For 1993, economic growth is likely to end up at around 2-1/2 percent, on an annual average basis.

Inflation still remains under control, although it has begun to creep up and may go higher than the 3 percent level of last year to land somewhere between 3 percent and 3-1/2 percent. The unemployment rate has moved down from 7.1 percent at the beginning of the year to 6.8 percent in July. Nonetheless, I expect this number to average out at a little under 7 percent for the year.

The main sources of strength underlying the U.S. economy will be consumer spending (particularly on durables), residential construction, and capital investments by businesses, especially on computers and other equipment. Lower interest rates are a factor in all of these areas. The main reason is that they have enabled households and businesses to restructure their balance sheets. As a result, households are in a better position to purchase goods that are typically financed with credit, and the cost of doing so is much lower than before. With employment poised to resume an upward trend, consumer spending should remain fairly healthy--even at moderate rates of income growth.

At the same time, however, the aging evident in most of our population, despite the recent uptick in births, is an underlying factor that tempers growth in the U.S. economy. Logically, an aging population would constrain any jump in demand for either housing or consumer durables. In turn, the demand for cars, household appliances, and the like might not rebound as sharply as it did during other post-recession expansions in the past two decades. In fact, the modest rebound from the recession seems to confirm this analysis.

On the business side, capital spending will continue to be enhanced by the reduction in

borrowing costs. Also, businesses are focusing on purchasing efficiency-promoting equipment like computers. Demand for industrial equipment has been hurt somewhat by a sluggish manufacturing sector but is beginning to pick up. In the commercial construction area, office construction is not likely to turn around this year because it still suffers from a glut of office space on the market. Retail store construction, however, is beginning to show a healthy increase based on construction contracts, which should carry into next year.

Areas of weakness in the economy include not only office construction but also government spending and, for the first time in many years, international trade. With the new Administration and Congress having just worked out a compromise deficit reduction package, ~~(assuming the Senate passes the bill. As of 2 p.m., August 6, it had not done so.)~~ it is still somewhat risky to forecast government spending. Clearly, though, defense expenditures will decline. Therefore, on balance, I believe that in 1993, as in 1992, government spending will not add to growth.

I find more worrisome the shift in international trade from the positive to the negative side of the growth ledger. The main reason for this change is the worsening economic outlook for most of our major trading partners. This worldwide weakness is not likely to be reversed in 1993. However, the recent turmoil in the western European economies and their currencies may actually turn out to benefit U.S. net exports in 1994 and beyond. The reason is that in the wake of the turmoil, some of the European countries may aggressively lower their interest rates. If such actions result in improving their economies, the United States stands to gain on the export side. In the meantime fortunately, our largest trading partner, Canada, is recovering at a moderately healthy

pace. Also, the outlook for Mexico, our third largest trading partner, continues to show strong demand for capital goods--an area where the United States has a substantial advantage. Still, imports will continue to outpace exports as U.S. growth remains stronger than many of our trading partners until next year.

To recap, the outlook for the nation for the rest of 1993 is one of modest growth with some promise for increased consumer spending and business investment thanks in the main to lower interest rates. The proposals to reduce the deficit made by the Administration have not caused me to make any major changes in my overall economic outlook for the nation. However, they do make some areas of the outlook less certain. For instance, spending may shift among the consumer, government, and investment categories. Generally speaking, though, while the debate about new fiscal policy seems to have caused investors and consumers to hold back a bit, more significant effects probably will not be felt this year.

Southeastern Outlook

Turning to the Southeast, I am pleased to say that the outlook for 1993 continues to be brighter than it has been in several years, even though growth has slowed to a more moderate rate compared with earlier in the year. In the area of employment growth, the Southeast has been ahead of the nation and should remain so. During 1992 the region added nearly 300,000 new jobs. This figure represents more than a 2 percent growth rate, which is at least twice the national gain. On an average annual basis, the Southeast could add almost 400,000 jobs this year to the economy, which is certainly not bad. As good as that number sounds, it also shows, though, how moderate

this rebound is. During the recovery in the early 1980s, by contrast, the Southeast added around 700,000 jobs--and it did so from a smaller base.

Why is the Southeast doing better than the nation? The main reason is that this region produces the goods that people have been buying once the recession ended and the recovery began. For instance, with lower interest rates, more people have been able to purchase homes. Fortuitously, the Southeast is a major nationwide supplier of lumber and related building products used in residential construction. In addition to lumber, the large textile industry in the Southeast tends to fare well when the residential building industry is doing well since many textile products are turned into carpets, draperies, and other home furnishings. New home building also increases the demand for home appliances that are produced in several southeastern states. In addition, the rebuilding going on in south Florida and Louisiana as a result of Hurricane Andrew and in the Midwest due to flooding has temporarily boosted appliance purchases. As the stimulus from Hurricane Andrew diminishes in this half of the year as the rebuilding effort peaks, the increased demands from the Midwestern flooding should take over.

Aside from construction-related spending, the expected nationwide increase in demand for consumer durables is good news for the numerous auto and auto-related manufacturers in the Southeast. Textile mills should also gain from this development since many textile products are destined for automobiles. On balance, regional manufacturing should continue to lend strength to the economy of the Southeast, although the growth in manufacturing jobs has begun to taper off. This development could contribute to a narrowing of the gap between the rate of growth in the

Southeast and the United States.

Another sector adding strength to the regional expansion is construction, which is likely to continue the growth begun in 1991. Most building activity will be concentrated in single-family housing, as in the nation. New home sales remain strong. In fact, payroll employment figures show that the southeastern construction industry created more jobs in the first quarter than were recorded nationwide on a net basis. A good part of this activity is due to the many young home-buying people who live in or who have moved to this region of the country. While apartment and condominium building will remain weak, the long slide in multifamily and nonresidential construction appears to be over.

The good news extends even to banking and financial services employment, which is slowly edging higher. This turnaround may be attributed to the increased refinancing activity from both households and business. The level of business loans also is improving slowly and should gain momentum through the year. In addition, tourism is doing well in the Southeast, thanks in part to foreign tourism holding its own. Latin Americans now outnumber Europeans who visit the region.

There are, to be sure, certain areas of weakness. Industries that specialize in nondurable goods, most prominently apparel, will contribute less than they did during the initial recovery period, and this will have an effect on the regional economy. These producers began to experience weaker demand by the end of last year. In the longer term, apparel producers face increasing competition from countries where unskilled and semi-skilled workers are willing to work for less.

Moreover, there are other areas of potential weakness. The region is not a major capital goods producer. Thus, the expected strength in capital spending by businesses on equipment will be less of an advantage. It also remains to be seen whether the trend toward consolidation and layoffs in communication, transportation, and other professional and business services has hit bottom. This dynamic has been a blow to several large southeastern cities, just as it has been nationally.

The decline in defense spending nationally will also certainly have an adverse impact on the Southeast. For the most part, though, defense-related manufacturing is less important in this region than in areas like the Northeast and the Far West. While the region depends less on defense contracting than other parts of the nation, the Southeast does have a greater proportion of military personnel. Therefore, the proposed military base closures will affect this region through job losses.

Overall, then, the Southeast is in good shape in terms of growth, with automobiles, housing, and consumers leading the parade. Although the rate of growth is slowing a bit and the gap between the U.S. and the region is narrowing, the Southeast should continue to outperform the nation.

Georgia Outlook

Finally, let me focus on the outlook for Georgia. It has resumed its role as one of the leading performers in the region, along with Florida. The state seems to be back on a favorable track after having absorbed several significant negative economic shocks over the past four years, although it faces some drag from the shrinkage in airline payrolls. By the end of 1992, Georgia was exhibiting a well-entrenched and relatively balanced, moderate economic recovery. Entering 1993,