It is a pleasure to be here today to discuss the economic outlook for the nation and the Southeast. Before I turn to that outlook, let me first say that 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 initially to this uncertainty. Debate over reform of the health care system may also sustain the uncertain mood. In addition, as Congress takes up the debate over the North American Free Trade Agreement, there are sure to be some questions on the part of businesses and workers most directly affected, even though I strongly believe that free trade is a basic underpinning for any healthy economy. I will have a few more thoughts on this subject as it relates to the textile industry at the end of my remarks.

The upshot, then, is that 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 about the same as it did last year. The gross domestic product number for 1992 was recently revised upward by the Department of Commerce from nearly 2 percent to around 2-1/2 percent. Around 2-1/2 percent is where I believe economic growth is likely to end up on an annual average basis in 1993 also.

Inflation still remains under control. Despite a brief run-up in prices earlier this year, the consumer price index should rise about 3 percent, on an annual average basis—close to the rate of 2.9 percent last year. The unemployment rate has moved down from 7.1 percent at the beginning of the year to 6.7 percent in August. Nonetheless, with still-sluggish job growth, I expect this number to average out about where it currently is at a little under 7 percent for the year.

The main sources of strength underlying the U.S. economy will continue to 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. Thus, 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. Although the Administration and Congress succeeded in working out a compromise deficit reduction package, it is still somewhat risky to forecast government spending. Clearly, though, defense expenditures will decline. On balance, then, 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 worsened economic conditions most of our major trading partners are experiencing. This worldwide weakness is not likely to be reversed in the immediate future, but the western European economies should begin to round the
corner in 1994. In turn, 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, and many other Latin American countries remains bright. Demand for capital goods—an area in which the United States has a substantial advantage—is especially strong. Overall, however, imports will continue to outpace exports as U.S. growth remains stronger than that of 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 made by the Administration to reduce the deficit 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 with Florida, Georgia, and Tennessee leading the Southeast in the second quarter. 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 since the recession ended and the recovery began. Those in the textile manufacturing industry know this better than anyone else. 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, as you know, tends to fare well when the residential building industry is doing well since many textile products are turned into 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 these purchases. As the rebuilding effort from Hurricane Andrew peaks and diminishes, the increased demands from the midwestern flooding should take over for another nine months.

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 some 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 is contributing 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. 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 the flourishing of foreign tourism.

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.
That competition will be unrelenting as time goes on.

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, defense-related manufacturing is less important in this region than in
areas like the Northeast and the Far West. Nonetheless, 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 reasonably 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 United States and the region is narrowing, the Southeast should
continue to outperform the nation.
Outlook for Georgia and the Textile Industry

Now let me focus on the outlook for Georgia. The state has resumed its role as one of the leading performers in the region, along with Florida. Georgia 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, it boasted the best-performing economy in the region. Recently revised employment data suggest that the state has added 100,000 jobs since early 1992, with three-fourths of them in Atlanta.

Earlier I observed that the current vitality of the southeastern economy is based largely on building-related industries. This comment applies even more strongly to Georgia. As major industries in the state, textiles and lumber generally do well when home building is on the upswing, whether in response to pent-up demand after a recession or in the wake of natural disasters such as Hurricane Andrew and the flooding in the Midwest. Overall, the textile industry is the largest manufacturing employer in Georgia, accounting for about 20 percent of the manufacturing workforce. This number compares with an average of less than 4 percent nationally. Those who have been in the business for more than 20 years, though, know that employment levels are off nearly 20 percent from the peak employment levels of 1973 and 1974. Fortunately, that decline has been accompanied by the positive news of increasing productivity in the industry, spurred by increasing competition from other countries. As developing countries in Asia have expanded their textile manufacturing, particularly of textile products destined for use in the apparel industry, Georgia textile manufacturers have joined other U.S. manufacturers in investing in new capital equipment
to try to remain competitive. Although these times are difficult for the industry, the steady increases in national demand, as I have outlined, should help through 1993 at least. For the long term, the trend toward fewer firms employing smaller numbers of workers should continue, but I think we need to keep in the forefront of our minds the bright side of this picture, namely, that productivity performance in the industry is quite strong.

At the beginning of my remarks, I alluded to NAFTA. Let me say a few more words about what I believe will be the effects of NAFTA on the textile industry. Low wages are a concern for those in textile-related industries—especially apparel manufacturing. However, the lowest wages are not in Mexico, but in Haiti and China and Thailand. Thus, textile manufacturers may find that NAFTA will not unduly affect their businesses. In fact, in the longer term, NAFTA should actually help to break down some trade barriers that already exist, resulting in larger markets for textile manufacturers. In addition, Mexico, which has one of the fastest-growing economies in the world now, is a prodigious consumer of textiles, such as carpets, and not all of its demand is being met domestically. This situation would seem to present excellent opportunities for Georgia textile manufacturers. Basically, the message is that, for those textile producers that survive the trend toward industry consolidation, eventual reductions in trade barriers should permit them to compete more freely in expanding textile markets throughout the world.

Conclusion

In conclusion, the national economy is likely to grow modestly in 1993, and the Southeast will do better than the United States. Georgia is on solid ground with its recovery and is outshining
the nation in terms of job growth. The textile industry has begun to meet the challenge of foreign competition with more capital investment where possible. Now that the deficit reduction package has been passed and as soon as the health care program takes shape, I believe that businesses and consumers will conquer their concerns about an uncertain future and turn to investing in the long-term growth of this state and this nation.