THE ECONOMIC OUTLOOK FOR THE UNITED STATES AND THE SOUTHEAST
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Once again, it is a pleasure to be invited to speak with the members of the Atlanta CFO Forum about my economic outlook for the United States and the Southeast. Last year was quite an eventful and encouraging one. Many developments have made me optimistic and upbeat because, at long last, the nation is taking major steps toward solving long-term problems. Among the promising signs, I count four areas: first, inflation, with the clear success we have had in bringing it down to a much more acceptable level than at the beginning of this decade when the CPI rose 5-1/2 percent; second, the budget deficit, with the plan passed last year to begin dealing with it; third, international trade, with the successful conclusion of the North American Free Trade Agreement (NAFTA) and the Uruguay Round of the General Agreement on Tariffs and Trade (GATT); and fourth, health care, where the debate has only just begun.

I am immensely encouraged that our nation is beginning to grapple with these issues, which it had put off during the 1980s. The reason I am so encouraged is that, if continued, these investments in our future will benefit us long beyond my time and yours. The result should be moderate and steady growth--not as heady as in much of the '80s, but certainly more sustainable.

However, just as any chief financial officer of a successful company might look for possible problem areas in the face of overwhelmingly good numbers, I have an area of concern to point out. In the midst of the positive steps we have taken as a society, I sense a deepening distrust of public policy institutions. In my talk today, I would like to discuss how this distrust, if left to fester, can hamper the great progress this nation is making on long-term issues. Before I turn to this topic, let me review current economic conditions and the outlook for 1994.

The U.S. Economy

Last year, gross domestic product (GDP) expanded by nearly 3 percent, 2.9 percent to be exact. As measured by the consumer price index, inflation averaged just below 3 percent. As for unemployment, it averaged close to 6.8 percent on an annual basis.

Looking ahead to 1994, I believe we will have another good year of moderate growth with GDP expanding a bit more than 3 percent on an annual average basis. I expect inflation, as measured by the CPI, to increase at an annual average rate of between 2-1/2 percent and 3 percent. In fact, it will probably be closer to the lower end of this range because of lower oil prices early in the year and ongoing import competition that is putting downward pressure on the prices of many goods. Unemployment should continue to improve, dropping about half a percentage point to an average of a bit less than 6-1/2 percent.

Areas of strength will change little from last year. The consumer is still leading the way, especially with spending on durable goods. I expect sales of autos, household appliances, and home furnishings to remain relatively strong. The continuation of pent-up demand for consumer goods should support continued growth in manufacturing. Residential construction will again be a solid contributor to growth in the U.S. economy, as will capital investments by businesses, especially on computers and industrial equipment. The stimulus provided by low interest rates remains a factor in all of these areas. Recent employment gains should also provide support for further healthy increases in personal income and, in turn, consumer spending.

With all these positive forces, it is fair to ask why overall growth will not be faster. Part of the answer is a factor that has been acting as a constraint for several years, namely demographics. Generally speaking, the baby boomers have been followed by smaller groups entering the labor force each year. The result is slower growth in the overall number of first-time home buyers, as well as people buying cars and household appliances for the first time. In fact, the modest rebound from the 1990-91 recession, compared with previous rebounds, serves as a testament to this point.

To be sure, there are also specific areas of weakness in the economy, which are essentially the same as last year: commercial construction, government spending, and international trade. In the area of construction, although nonresidential structures for industrial buildings and retail stores should begin to gain ground, office construction still suffers from an overhang from previous years, though one that is much reduced. In fact, I believe that we are at the trough of office building and should begin slowly to see increases. As increases in leasing and absorption have brought vacancy rates lower and led to more optimism about renewed building activity, it becomes more likely that we should start to see an upturn. Government spending overall will be weak because purchases on the federal level are being affected by defense cutbacks, although state and local purchases will grow slightly. The outlook for net exports remains poor due mainly to the weak economic conditions of many of our largest trading partners. This situation abroad is troublesome and likely to be reversed only slowly. However, the western European economies should begin to round the corner this year. Whatever growth in exports we do have will come from Mexico and other Latin American countries, as well as Canada--our largest trading partner--and Asia, excluding Japan. Computers, telecommunications, and other capital equipment should continue to be our leading exports. At the same time, imports will continue to outpace exports as growth in U.S. spending continues to outstrip that of many of our trading partners.

Southeastern Economic Outlook

Now, let me turn to the economic outlook for the southeastern region. As you may know, since the recession, the Southeast has been outperforming the nation in terms of job growth by about 1 percentage point. In 1994, that advantage will likely diminish, but for the right reason: job growth in the nation should accelerate. The good news is that both on the regional and national level, the pace of job growth will step up somewhat.

Three sectors in the Southeast will continue to outshine national growth: service industries, manufacturing, and construction. For several years, the service sector has been the main source of job growth for both the region and the nation. Specifically, the Southeast should get most of its gain from business services employment. Nonetheless, the unique manufacturing structure in the Southeast--a combination of furniture, textiles, appliances, and construction products--should benefit from the strength in new-home construction across the nation even as the region loses jobs in the apparel industry. This help from the rest of the nation should allow the manufacturing sector at least to hold its own. Finally, construction in our own region is likely to outperform the nation this year thanks to the strength of the southeastern economy and to the fact that more people are again moving into the region.

If we were to look at the economy of each state, the clear winner in terms of 1994 growth would be Georgia. The state should lead the region with strength coming from many sources, including business services, home-building, and the manufacture of building-related products like lumber and textiles for home furnishings. Also, as we are all quite aware, Atlanta is beginning to build toward the 1996 Olympics. Retailers and tourist-oriented businesses that are thinking ahead will probably expand into the Atlanta market prior to 1996 to take advantage of the Games. However, you may probably be able to divine what I am going to point out next--that, following the Olympics, there is likely to be an economic letdown in the Atlanta area during 1997 and 1998 for purely technical reasons as the temporary employment burns out after the Olympic flame has been doused.

Longer-Term Outlook Update

Since I often preach the virtues of looking at the long run, I would like to briefly review a few of the strides we have made as a nation in laying the groundwork for steady, long-term growth in the United States. First, inflation is noticeably lower. Through a judicious use of monetary policy, the Federal Reserve has managed to engineer the lowest inflation in many, many years. I do not have to explain to this audience how important low inflation is to the world of commerce and trade. Another promising factor for continued economic growth is a more highly productive work force. We have reached this level of high productivity not without a good deal of pain, but I am convinced that the investments businesses are making today will create greater opportunities for growth in the future. During the recession and recovery, many consumers and businesses have worked hard to successfully reduce their leverage, and this bodes well for the future. Businesses also slimmed down cost structures and made significant commitments to realizing gains from automation.

Not only the private sector but the public sector as well has become more mindful of debt levels. In 1993, we finally saw some movement toward containing the size of the federal budget deficit, thanks to the fact that the Administration and Congress agreed on a deficit-reduction plan. I have been speaking about the need to deal with budget deficits for nearly the decade that I have been addressing this group. Perhaps this proves that it pays to keep talking about long-term issues. I would now like to encourage continuing vigilance in this area, because the job is not yet done.

Finally, on the subject of international trade, you will recall that this will be a source of weakness for the U.S. economy in the year ahead. For the long term, however, we have had the good news that NAFTA made it through Congress and that the compromise on the Uruguay Round of GATT was finally struck. Looking even further into the future, I fervently hope that these two achievements will not be seen as final steps, but rather as steps in the right direction toward global free trade as it is being promulgated in GATT.

To sum up so far, then, the economic expansion is continuing, with growth that is moderate but sustainable, and we have begun the process of addressing a number of long-term problems.

Growing Distrust of Public Policy Institutions

Ironically, in the midst of so much optimism about gains the nation has made lies the embryo of cynicism and mistrust. I have heard it most clearly in the voices of those who ask me, "If the economy is doing as well as you say, then why don't I feel better?" I do not have a ready answer for each individual circumstance--and I do understand that the transitions our economy has been going through have been traumatic for many people and businesses.

But going beyond individual traumas, I see an even more troublesome effect on a societal level. The election year of 1992 and the rancorous debates in Congress in 1993 about the deficit and NAFTA have pointed up that many Americans seem to greatly distrust their public policy institutions. This distrust goes beyond the "anti-incumbent" attitude that permeated recent elections. People seem to feel disenfranchised from the government overall. The irony is that the American people may actually be better represented than ever before in terms of having more women and minorities serving in Congress as well as at the state and local levels. However, whether or not government has begun to "look more like America," many Americans still do not seem to trust the way it and other public policy institutions operate.

I am concerned about this issue, because public distrust could have a number of adverse effects. First and foremost, it could hamstring the process already begun of taking a longer-term perspective to problems in America. Rather than trying to wade through the debate on difficult issues such as health care, for example, some people could decide that so long as they have health care coverage, why should they care about somebody else's problem? Needless to say, this kind of attitude cannot serve us well when it comes to solving problems on a societal level.

Distrust among the public could also prevent the United States from keeping its leadership role in the global economy, because inward-turning Americans might not be interested in helping other nations less well off than ours, such as the former Soviet Union.

Finally, distrust on the societal level can infect the atmosphere and cause one public policy institution to turn on another. Perhaps I am more personally aware of this effect because the Fed seems to be taking a number of hits in this regard. Congress has been more interested than usual in reining in the independence of the Fed. The chairman of the House Banking Committee is sponsoring legislation to videotape monetary policy deliberations, while, more recently, the Administration put forth a proposal to remove the Fed from its bank regulatory and supervisory function in order to create a simplified regulatory system.

While I will refrain from entering into a spirited defense of the Fed, I would like to say that the deliberative and thoughtful approach we take to monetary policy would be seriously undermined by politicizing the central bank. I will also add, without going into detail, that since the central bank is the organization charged with maintaining the health and stability of our complex financial system, our ability to deal with systemic risk would be lessened by removing us from hands-on responsibilities for supervising at least a part of the banking industry.

What Policymakers Should Do to Counteract Distrust

I believe it is important for policymakers to face up to the public sentiment against their institutions and begin to counteract the distrust I have described. Otherwise, we will not be able to carry forward on the even more difficult changes yet to be made. As I see it, the best way for the federal government and other public policy institutions like the Fed to win back the confidence of the American people is through policies that will hold inflation down, create more jobs in a dynamic economy, and continue to control the federal budget deficit. I liken this course of action to taking an antibiotic: we must finish the whole course of treatment, or else the illness can come back much worse.

At the same time, all policy institutions must do a better job of explaining the tradeoffs in the policymaking process. The Fed is often portrayed by our critics as trying to slow growth for the supposedly elitist purpose of containing inflation. Perhaps we have not been vocal enough in making the point that our anti-inflationary actions have in fact helped to create sustainable growth that is benefiting the entire nation. To achieve this goal, we have not pursued a single-minded effort to reduce inflation without regard to transition costs and social preferences. In fact, the accommodative policy stance we have pursued over the past several years helped to soften the recession and foster the ensuing recovery and expansion.

Conclusion

In conclusion, I must reiterate how important it is for policymakers and Americans to take advantage of this changing time to carry out policies that may not, at first blush, be popular, but will indeed redound to the benefit of all in the long run. The 1990s have become a time of readjustment for Americans, both consumers and business owners. Adjusting to new rules--in this case, moderate but steady growth--always makes people feel uncomfortable. However, we have a sterling chance to come through this period of unease with the strongest economic grounding this nation has had in a long time. I believe that the American spirit will prove to be large enough to understand what it takes to achieve such great gains.