

THE ECONOMIC OUTLOOK FOR THE SOUTHEAST AND GEORGIA

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It is a pleasure to be invited to speak to the participants in this economic development course. Today, I would like to begin my remarks with a brief overview of the economic outlook for the United States to provide a context for my topic: the economic outlook for the Southeast and Georgia. Many developments from last year make me optimistic about the future because, at long last, the nation is taking major steps toward solving long-term problems, such as inflation, the budget deficit, and health care. I am very encouraged that our nation is beginning to grapple with these issues, which it had put off during the 1980s because, if continued, these investments in our future will benefit us long beyond my time and yours.

The U.S. Economy

Let me begin with a brief look at three key measures of economic performance--output, inflation, and employment. For the nation as a whole, real gross domestic product (GDP) expanded by 3 percent on an annual average basis in 1993. I believe the economy should grow at a faster pace in 1994--around 3-1/2 percent for the year or maybe higher. Inflation, as measured by the CPI, increased by 3 percent on average in 1993. I expect inflation to increase at a similar pace this year. Earlier declines in oil prices and ongoing import competition are keeping prices well behaved in the near term. I will have more to say about inflation in a few moments. Unemployment, which fell to 6.8 percent on an annual average basis in 1993, should average about

6-1/2 percent for 1994. This improvement is better than it sounds because the Labor Department changed its methodology this year, with the result that measured unemployment is about half a percentage point higher.

Areas of strength will change little from last year. Consumer spending will still be strong, especially on durable goods like autos and household appliances. Residential construction will again make a solid contribution to growth, leading to continuing strength in related areas, such as home furnishings. As the pent-up demand for consumer goods continues to be released, the resulting purchases should support continued growth in manufacturing. Finally, capital spending by businesses, especially on computers and industrial equipment, should remain vigorous. The relatively low interest rates we have had in recent years is a factor in all of these areas. Recent employment gains should also provide support for further increases in personal income and consumer spending. On another promising note, imbalances have been worked down substantially on corporate balance sheets, particularly in banking and real estate.

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. Office construction still suffers from overbuilding in previous years, but I believe that we are slowly beginning to see a modest upturn. While state and local purchases will grow, government spending overall will be weak because expenditures on the federal level are being affected by defense cutbacks and deficit reduction. Of course, I do not view this "weakness" negatively because deficit reduction is long overdue.

Another negative factor is the outlook for net exports, which 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 the United States does 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 remain the leading exports. At the same time, imports will continue to outpace exports in growth as the increase in U.S. spending still outstrips that of many of our trading partners.

Fighting Inflation

Before moving on to my regional and state outlook, I would like to say a few more words about inflation. It may seem to many people that the Fed spends too much time worrying about inflation, particularly since the economy is healthy now and inflation seems to be quiescent. However, the important points to remember are that resisting inflation is one primary role of the Fed and that, as monetary policymakers, we need to focus on the long term. We do so because it takes a very long time for inflation to surface. Inflation, for example, peaked in 1982, long after the early 1980's recession had begun. Similarly, it takes time, often a long time, for monetary policy to have its full effects. In the earlier period I spoke of, policy first tightened in 1979. Now I do not want to make comparisons with 1979 to 1982 since, in that situation, inflationary pressures had been allowed to build for some time. I believe our recent tightening actions were a preemptive strike. Because the economy began growing very rapidly, it was not a good idea to wait for capacity constraints and bottlenecks to develop. Rather it was important to anticipate this. Because

we have been doing this for some time, we have seen inflation moderate and have helped to lay the groundwork for the positive outlook I outlined at the beginning of my remarks.

At the same time, to achieve this goal, we have not pursued a single-minded effort to reduce inflation without regard to transition costs and social preferences. While inflation undermines and distorts economic growth, I am not so single-minded as to believe that we must achieve zero inflation or that we necessarily have to reduce inflation quickly. As I see it, there are always tradeoffs to be made when trying to bring inflation down. Businesses and consumers must be given time to adjust their financial behavior in light of changing economic policy. Too quick an adjustment can cause too much pain, and I personally believe policymakers must be attuned to these social costs, and at times take a slower path toward lower inflation.

Outlook for the Southeast

Now, let me turn to the economic outlook for the southeastern region, which is quite bright. Since the recession, the Southeast has been outperforming the nation in terms of job growth by about 1-1/2 percentage points. In 1994, that advantage will likely diminish--not because the Southeast will decelerate, but rather because the U.S. rate should accelerate. The good news is that on both the regional and national level, the pace of job growth will step up. Individual states will vary in performance, but even the weakest states in the region should see at least modest growth.

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. New-home construction across the nation brings special benefits to the Southeast because of its traditional manufacturing concentration--a combination of furniture, textiles, appliances, and construction products. This help from the rest of the nation should allow the manufacturing sector at least to hold its own as the region loses jobs in the apparel industry to international competition. Finally, construction in the Southeast itself is likely to outperform the nation this year thanks to the strength of the regional economy and to the fact that more people are again moving into the region. Available jobs should encourage further migration to the area. Consequently, residential construction permits should continue to grow in 1994.

Although we are seeing some wage pressure in construction and some price pressure in building goods, there has been no evidence of price pressures at the retail level. Furthermore, except for energy-dependent Louisiana, the region is still benefitting from the break in oil prices. Tourism and convention activity have been strong in most areas of the region. Mardi Gras, for example, set a record this year. Also, unemployment has been tracking at or below the national level. Taking all these factors into account, the Southeast is likely to enjoy moderate growth throughout 1994.

Looking at each state, the clear winner in terms of 1994 growth is Georgia. The state should lead the region with strength coming from many sources, including services, home-building, and building-related products. I will come back to the outlook for Georgia in just a moment.

Mississippi can thank casino gambling for providing a short-term economic stimulus that is sparking activity in several sectors. Above-average growth is expected to continue through 1994, though it might diminish as the boom subsides and Mississippi gets competition from next-door neighbor Louisiana for gaming dollars. Strong national housing activity will benefit the lumber and furniture industries in the state, and the relatively large food-processing sector should continue to do well.

Florida is likely to post moderate growth this year, and employment should continue to grow thanks mainly to tourism and construction of single-family homes and luxury condominiums. The factors tending to retard growth, which were masked in 1993 by the stimulus from rebuilding after Hurricane Andrew, will temper the overall expansion. I refer in this case to the lower interest income retirees have earned in recent years and the loss of defense-related jobs.

Tennessee will continue to perform relatively well in 1994. The service sector should account for the majority of job gains, and automobile-related production in the Nashville area is likely to lead a growing manufacturing sector. For the state as a whole, the strongest source of growth will be residential construction. The state has experienced two consecutive record-breaking years of growth in single-family construction. Although this expansion will slow a bit in 1994, it will remain strong, especially in Nashville.

Alabama and Louisiana are the two states that are likely to grow more slowly than the region in 1994. Alabama suffered through a languid 1993, with some basic industries experiencing

trouble and overall employment growing only weakly at the end of the year. Winning the Mercedes auto plant was a bright spot that should contribute some high-wage jobs this year as the plant is built and lead to a pick-up by year-end though at considerable cost in terms of state revenues forgone. Alabama may also introduce casino gambling, which could provide a boost to the economy. However, the main problem is the continuing weakness in apparel manufacturing, which is the largest manufacturing employer in the state. I might add that this situation has nothing to do with the North American Free Trade Agreement (NAFTA).

Louisiana should experience some modest growth after a mini-recession in mid-'93. It too grew more slowly than the national economy last year and lagged behind the region. Reasons for the improved outlook include an energy sector that will not be dragging down the entire economy of the state this year and economic stimulus from riverboat and casino gambling that will be introduced this year.

Outlook for Georgia

Now let me return to the economic outlook for Georgia. Since the end of the 1990-91 recession, Georgia has reestablished itself as a growth leader in the Southeast. The most significant single source of growth in 1994 should be home building. A resurgence in single-family construction across the nation after catastrophes like the earthquake in California and the floods in the Midwest should spark increased demand for building-related products. Textiles and wood products are relatively concentrated in the state, and so Georgia will benefit from disasters in other states. Corporate relocations of both domestic and international companies should also continue to

increase demand directly and in the construction and service sector. Similar to the region, business services will contribute to growth. About the only negative to be noted in the outlook for Georgia is the recent announced cutback by Lockheed of 2,000 employees over two years.

Turning to our immediate environs, I can tell you that as I drove through the Georgia Tech campus on my way to this classroom, I was reminded of its role in the upcoming 1996 Olympics. The Olympic games will have an effect not only on this campus, which will be housing athletes and hosting events, but also on all of the Atlanta metropolitan area. Retailers and tourist-oriented businesses that are thinking ahead are expanding into the Atlanta market 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 for purely technical reasons as the temporary employment burns out after the Olympic flame has been doused. The question is, how serious will this let down be and how long will it last?

Conclusion

In conclusion, the economic expansion in the nation promises to be quite strong in 1994 yet at a contained rate of growth; the southeastern region is outperforming the nation; and Georgia is doing the best of all the states in the region. We still have many problems to face, such as the continuing trade imbalances with other nations that are experiencing their own recessions now and competition from international companies for jobs in the region's apparel industry. On the whole, however, the state, the region, and the nation should remain on solid ground in 1994.