

**THE ECONOMIC OUTLOOK FOR THE UNITED STATES AND THE SOUTHEAST**  
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It is a pleasure to be here to speak with you today. Since I have spoken to your club before, I do not know if I owe this return visit more to Bill Nash or to one of your directors who is also the program chairman, Bernie Carter. Be that as it may, I hope to give you some insights into the outlook for the national economy and our regional economy. I will try to keep my remarks somewhat on the brief side in order to allow as much time as possible for questions.

Before beginning, if I may take a moment to say just a few words about Bernie Carter, who is going to take early retirement this year from the Jacksonville Branch of the Federal Reserve Bank of Atlanta:

I am aware that those of you who belong to the Meninak Club believe strongly in the credo that "service to youth is insurance for the preservation of democracy." Last year, Bernie gave nearly 80 speeches about the role of the Federal Reserve and over the years, he has spoken to thousands of college students, high school students, and grammar school children in the Jacksonville area. It strikes me that the children of Jacksonville may be the best informed in the nation about how the central bank works, all thanks to this singular man. Let me wish you the best in your retirement, Bernie, and also thank you for the tireless effort you have put forth on behalf of the Jacksonville Branch and the Meninak Club in serving the young people of this area.

## The U.S. Economy

Now let me turn first to the U.S. economy: Growth in output last year was 4 percent, and this year also looks like another good year, but with a more moderate growth rate of about 3 percent on an annual average basis. Considering that the expansion has been going on for four years, a slower rate of growth this year is absolutely appropriate and necessary. In fact, we welcome this development since we would like to ensure that current pressures on prices will prove to be a temporary and cyclical phenomenon. With growth decelerating, it is unlikely that the unemployment rate will decline much further. My best guess is that it will be close to 5-1/2 percent, but it could run above this level at times. Inflation may rise to somewhat above 3 percent, since price pressures tend to increase as the economy operates at capacity over time.

As has been true the past few years, the main areas of strengths and weaknesses in the U.S. economy will not change much in 1995. Certain components of gross domestic product that have been growing strongly through 1994, such as personal consumption, capital spending, and construction, will still be growing--but at a slower rate. Healthy demand for automobiles and other durable consumer goods accounted for much of the acceleration in personal consumption last year. Sales of automobiles and other durables will be good again in 1995, but they will be distinctly slower than last year. That deceleration is the result of increases in interest rates and the fact that pent-up demand has largely been met. Consumption of nondurable goods like clothing will continue to grow, but not enough to offset the expected slowing in demand for consumer durables to a pace that is more sustainable.

The same theme holds true in the area of investment by businesses in productive capital, such as plant and equipment. Capital spending has been growing in the double-digit range for two years now. Although this investment will be decelerating, it is a retreat from a very high pace. I would like to add that this aspect of growth is quite significant. That is because it expands the capacity of the economy, a matter which is quite vital at this time when we seem to be very near our capacity--whether measured in terms of the unemployment rate or factory use. This rapid addition to productive capacity helps to temper price pressures from strong demand.

Another type of investment spending, construction of single-family homes, has contributed strongly to economic growth in the United States over the past few years. This boom in building activity has now peaked. Although multifamily and commercial construction should be increasing in 1995, these anticipated increases will not offset the decline in single-family construction.

Government spending is likely to be flat after shrinking somewhat last year. Ongoing pressure to reduce the federal budget deficit should help to keep government spending down. Of course, it is hard enough to make economic forecasts. I am certainly not going to attempt a U.S. political forecast, especially this year. Still, any changes that the new Congress might enact are not likely to affect economic activity directly in 1995, although they could indirectly affect expectations as reflected in financial markets. Let me emphasize also that, although government spending will not add to GDP, any progress toward reducing the deficit will be good for the long-term prospects for economic growth.

In the area of foreign trade, a number of issues should affect U.S. exports and imports. With U.S. economic growth decelerating, demand from domestic sectors for all goods--imported goods as well as those produced in the United States--should slow. Many European economies are on a moderate growth path now, while the dollar is lower than it was last year at this time. These circumstances should help our net export position.

On the negative side, the Mexican peso depreciated considerably in the early part of 1995. The currencies of some other Latin American countries have also been under pressure at times. This development, along with more restrictive economic policies in that country and possibly others in Latin America, will probably restrain demand for U.S. exports from those areas. However, I should point out that although this situation will have a negative effect on trade, it should not be a huge negative effect because exports to Latin America are a relatively small part of U.S. trade. In broader terms, I can say that the gap between exports and imports should not get much bigger during this year and may actually begin to narrow toward the end of the year.

Summing up the outlook for the United States this year: GDP should grow by about 3 percent, with inflation rising to somewhat above 3 percent, and unemployment averaging about 5-1/2 percent. Overall, then, the national economy should be healthy, although it is true that some areas will not be growing as quickly as before.

### **Regional Economic Outlook**

Now let me move on to the regional economy and go into a bit more detail for the

Southeast. Its recent economic performance during and after the recession has been nothing short of spectacular. After three years of leading the nation in job growth, the region will see a leveling off of employment creation through the rest of 1995. However, this development is nothing to be alarmed about because the Southeast should still enjoy healthy job growth this year. Gains in southeastern employment have slowed from a peak of 3-1/2 percent in 1993 to around 3 percent annually last year. Payroll expansion may continue to decelerate modestly to a rate of about 2-1/2 percent to 3 percent during this year. Although the nation had been lagging behind the Southeast, it has now almost caught up.

Since the recession, the Southeast has shown strength because it is home to a concentration of industries that grow quickly when the national economy emerges from recession. One of these areas is durable goods purchased by consumers. Building-related industries, such as wood products, furniture, and appliances as well as textiles used for carpets, draperies, and the like, have benefited from the growth in residential construction, both in the Southeast and across the nation.

Although construction and manufacturing of consumer durables helped the Southeast to outpace the country early in the recovery, it is still wise to remember the cyclical nature of these major industries. Fortunately, the Southeast can depend on a strong underlying, or long-term, growth trend thanks to some demographic factors, such as the continued in-migration of people and businesses from other regions of the country, as well as a diversified economy and dynamic industries, including the service sector. Health care, business services (such as temporary

agencies), and tourism account for the bulk of these new service jobs. Employment in these services stopped accelerating in 1994 but has maintained a strong growth rate of about 6 percent. These service jobs should continue to grow at a faster rate than manufacturing in 1995.

The two states in the Southeast that have the brightest outlook this year are Florida and Georgia. Florida has created the second highest number of jobs in the nation since the recession. (Texas is first, Florida second, and Georgia third in the nation.) Payroll employment continues to grow at 4 percent annually, a rate that tracks the rest of the Southeast. Although tourism took a hit in 1994, following several years of economic weakness abroad, it has begun to recover this year. Construction will also remain healthy, with strong commercial activity. In addition, continued in-migration of people from other states is propelling residential development, which will contribute to overall growth in construction.

As for Jacksonville, your service economy is booming at a rate of 8 percent (year over year). This compares with about a 5 percent rate for the state as a whole. This area is experiencing a good deal of corporate relocations on a par with Orlando. Employment growth is not as strong as the rest of the state or region, but to give you some perspective, your employment growth is better than the state of Alabama.

In Georgia, the upcoming Centennial Olympic Games, which will be held in Atlanta next summer, are spurring a great deal of construction, ranging from housing for athletes to the Olympic stadium--not to mention the ancillary construction for retail, vendors, and tourism that

will expand because of the Games. Although this construction is an obvious sign of economic growth, it will account directly for only a small portion of the overall growth in the state.

The other states in our region should continue to expand moderately although not at the pace that Florida and Georgia will. In Alabama, the apparel industry continues to downsize, but construction related to the Mercedes plant is beginning to spur stronger job growth in the northern portion of the state. Tennessee, which has become the center of the new southern auto industry, should find that auto parts and components-related production will continue to push the state forward. However, Tennessee is experiencing labor shortages, partially because it has traditionally not attracted the kind of in-migration Florida does. The economy in Mississippi is slowing from a spurt of growth that is attributable to gambling-related industries, although overall levels of income and employment remain high. Finally, in Louisiana payroll employment growth remains strong at nearly 2 percent for the first quarter.

## **Conclusion**

In conclusion, the U.S. economy is slowing to a sustainable rate of growth, and that is exactly what is necessary to keep inflation in check. The Southeast has done particularly well following the recession and has a good future thanks to its diversified economy and the continuing in-migration of people and businesses. Although some of the short-term economic news may be negative, I believe that in the long run, the data will prove that the Federal Reserve has taken the correct steps to put the national economy on the path toward moderate and yet sustainable growth.