

REMARKS OF MR. ROBERT P. MAYO
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TO THE CHAMBER OF COMMERCE
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PANEL PARTICIPATION

WE ARE NOW IN THE 29TH MONTH OF AN ECONOMIC EXPANSION WHICH BY MOST MEASURES IS ONE OF THE STRONGEST ON RECORD.

- THE NATION'S OUTPUT, AS MEASURED BY CONSTANT DOLLAR GNP, IS ALMOST 15 PERCENT ABOVE THE FIRST QUARTER 1975 RECESSION LOW.
- THE TOTAL OUTPUT OF THE NATION'S GOODS AND SERVICES IS MORE THAN 7 PERCENT ABOVE THE PREVIOUS PEAK. CLEARLY, THIS MEANS THAT IN TERMS OF REAL OUTPUT, WE SHOULD NO LONGER TALK ABOUT RECOVERY; WE SHOULD TALK ABOUT REAL GROWTH, ABOUT EXPANSION.
- THE UNEMPLOYMENT RATE HAS BEEN REDUCED FROM ITS PEAK OF 9.2 PERCENT TO 6.9 PERCENT.
- WHILE THE LABOR FORCE HAS GROWN ALMOST 4 1/2 MILLION, THE NUMBER OF PEOPLE WORKING HAS INCREASED BY MORE THAN 6 MILLION.
- PROGRESS HAS ALSO BEEN MADE ON THE INFLATION FRONT. EXCEPT FOR THE TEMPORARY REPERCUSSIONS ON PRICES ARISING FROM THE SEVERE WINTER, THE DAYS OF DOUBLE DIGIT INFLATION ARE BEHIND US. THE CURRENT RATE APPEARS TO BE ABOUT 6 PERCENT OR A LITTLE LESS.

THE RECORD OF VERY GOOD ECONOMIC PERFORMANCE CONTINUES. THE STRENGTH OF THE FIRST QUARTER OF 1977 SURPRISED ALMOST EVERYONE, CONSIDERING THE VERY SEVERE WINTER OVER A LARGE PORTION OF THE COUNTRY. MANY ECONOMISTS EARLY THIS YEAR WERE FORECASTING THAT WEATHER PROBLEMS WOULD HOLD GROWTH

DURING THE FIRST QUARTER TO BELOW THE LONG-TERM RATE OF 3 1/2 TO 4 PERCENT. INSTEAD, THE MOST RECENTLY AVAILABLE DATA SHOW THAT ONCE THE WORST OF THE COLD WAS OVER THE REBOUND WAS EXTREMELY VIGOROUS. DESPITE THE PRODUCTION LOSSES IN JANUARY, THE FIRST QUARTER GROWTH RATE WAS ALMOST TWICE THE TREND RATE. THE ECONOMY'S GROWTH IN THE SECOND QUARTER, IF NOT QUITE AS STRONG AS IN THE FIRST, WAS STILL EXTREMELY GOOD.

TO A LARGE EXTENT THE GROWTH FROM THE MARCH 1975 LOW HAS BEEN FUELED BY CONSUMER EXPENDITURES, SPEEDING UP AS CONSUMERS LOOSENED THEIR PURSE STRINGS, SLOWING DOWN AS THEY BECAME MORE CAUTIOUS. AT THIS TIME ABOUT A YEAR AGO, THE ECONOMY WAS BEGINNING TO SHOW SIGNS OF WHAT HAS SINCE COME TO BE KNOWN AS THE "PAUSE" IN THE RECOVERY. LOOKING BACK ON THE RELATIVELY SLOW GROWTH WHICH OCCURRED DURING THE SECOND HALF OF 1976, WE CAN NOW SEE THAT TWO THINGS OCCURRED. THE CONSUMER SLOWED HIS SPENDING FROM THE EXUBERANT PACE OF THE FIRST HALF OF THE YEAR. IN ADDITION, INVENTORY GROWTH IN THE FIRST HALF OUTPACED SALES GAINS AND SO LATER IN THE YEAR WE WENT THROUGH A MINOR INVENTORY LIQUIDATION CYCLE. BY LATE LAST FALL THERE WAS NO SHORTAGE OF DIRE PREDICTIONS THAT THE RECOVERY HAD ABORTED AND THAT WE WERE SLIPPING BACK INTO RECESSION. THERE WERE CALLS FOR A VARIETY OF DRASTIC MEASURES TO GET THE ECONOMY MOVING AGAIN. WITH THE INFALLIBLE PRECISION OF HINDSIGHT, WE CAN NOW SEE THAT THE ECONOMY WAS ACTUALLY POISED FOR VERY STRONG PROGRESS. THE ADVANCE WAS AGAIN LED BY THE CONSUMER, BOTH THROUGH HIS RETURN TO THE RETAIL SALES MARKET AND THROUGH THE ENORMOUS RESURGENCE OF THE NEW HOUSING MARKET, PARTICULARLY THE SINGLE FAMILY HOME MARKET. THE RESULT WAS STRONG GROWTH IN THE FIRST HALF OF 1977.

NOW THE SAME QUESTIONS ARE BEGINNING TO ARISE AGAIN ABOUT THE STATE OF THE ECONOMY. IF I WERE A PESSIMIST, I COULD LIST A SERIES OF STATISTICS

WHICH HAVE BEEN RELEASED DURING THE PAST MONTH OR SO TO SUGGEST THAT WE ARE ON THE VERGE OF REPEATING THE 1976 EXPERIENCE. THE INDEX OF LEADING INDICATORS, FOR EXAMPLE, DIPPED IN MAY AND WENT DOWN FURTHER IN JUNE. THE UNEMPLOYMENT RATE HAS BEEN VIRTUALLY UNCHANGED FOR THE PAST THREE MONTHS, AND NEW ORDERS FOR DURABLE GOODS HAVE BEEN WEAK FOR THE PAST TWO MONTHS. WHILE RETAIL SALES TURNED UP IN JULY, THIS WAS THE FIRST GAIN IN FOUR MONTHS. ONE COULD EASILY BUILD A CASE FOR THE VIEW THAT THE ECONOMY IS IN FOR, AT BEST, LESS THAN A SPARKLING PERFORMANCE OVER THE NEXT SEVERAL MONTHS.

NOW I CERTAINLY DON'T EXPECT THE ECONOMY TO SHOW THE SAME SHARP GROWTH RATE OF THE FIRST HALF OF 1977 THROUGH THE REMAINDER OF THIS YEAR OR INTO 1978. BUT I DO THINK THAT A STRONG CASE CAN BE MADE FOR CONTINUED ABOVE-AVERAGE GROWTH AND FURTHER DECLINES IN THE UNEMPLOYMENT RATE OVER THE NEXT FEW QUARTERS. IN FACT, I THINK A CASE CAN ALSO BE MADE THAT CONTINUED GROWTH AT THE HEADY FIRST HALF RATE WOULD BE LESS LIKELY TO LEAD TO SUSTAINED GOOD PERFORMANCE OF THE ECONOMY THAN IF WE HAVE THE MORE MODERATE GROWTH I AM INCLINED TO EXPECT.

I HAVE SEVERAL REASONS FOR THINKING THAT THE NEXT SEVERAL QUARTERS WILL SHOW GOOD GROWTH RATES THAT ARE SUSTAINABLE WITHOUT OVERHEATING THE ECONOMY.

THE CAPITAL GOODS INDUSTRY HAS BEEN A LAGGARD THROUGHOUT THE PRESENT RECOVERY. HOWEVER, CAPACITY UTILIZATION HAS BEEN INCREASING STEADILY, AND PRESSURE IS BEGINNING TO BUILD IN MANY COMPANIES TO START MOVING IN THE DIRECTION OF NEW PLANT CONSTRUCTION. THIS PRESSURE IS ALREADY EVIDENT IN THE STRONG INCREASE IN ORDERS FOR NON-DEFENSE CAPITAL GOODS, UP ABOUT 5 PERCENT IN JUNE, THE FOURTH CONSECUTIVE MONTHLY INCREASE. IN ADDITION, A SIGNIFICANTLY HIGHER LEVEL OF DEFENSE PROCUREMENT HAS

BEEN AUTHORIZED FOR FISCAL 1978 (WHICH STARTS OCTOBER 1), AND THIS WILL BE MAKING AN IMPACT ON ORDERS FOR DEFENSE CAPITAL GOODS LATER IN THE YEAR. BACKLOGS OF MACHINE TOOL MANUFACTURERS ARE RISING STEADILY. HOUSING STARTS REMAIN STRONG AND PERMIT LEVELS SUGGEST THIS STRENGTH WILL CONTINUE. THERE ARE SIGNS OF RECOVERY EVEN IN THE MULTIFAMILY SECTOR, WHICH HAS BEEN VERY DEPRESSED. INVENTORIES SEEM UNDER CONTROL AND, AS OTHER CAPITAL SPENDING GROWS, WILL ALSO BE MAKING A CONTRIBUTION TO GROWTH. ALL IN ALL, THE ENTIRE CAPITAL GOODS AREA APPEARS READY TO CONTRIBUTE ITS FULL SHARE TO SUSTAINED GROWTH. BUT WE ARE UNLIKELY TO SEE A CAPITAL SPENDING BOOM IN THE IMMEDIATE FUTURE.

SECOND, THE GOVERNMENT SECTOR, WHICH HAD, IN CONSTANT DOLLAR TERMS, BEEN ESSENTIALLY STAGNANT THROUGHOUT ALL OF 1976 AND THE FIRST QUARTER OF 1977, SEEMS POISED FOR RAPID INCREASE. FEDERAL PURCHASES OF GOODS AND SERVICES MOVED UP SHARPLY IN THE SECOND QUARTER. THERE ARE INDICATIONS THAT STATE AND LOCAL SPENDING ARE ALSO BEGINNING TO HEAD UP. THE NEWLY AUTHORIZED FEDERAL FUNDS FOR PUBLIC SERVICE JOBS AND PUBLIC WORKS ARE BEGINNING TO FLOW INTO STATE AND LOCAL COFFERS AND SHOULD BE SHOWING UP IN THE ECONOMY IN THE SECOND HALF. IN ADDITION, DESPITE A FEW REAL HEADACHES LIKE NEW YORK CITY, STATE AND LOCAL GOVERNMENTS ARE BEGINNING TO ACCUMULATE SUBSTANTIAL SURPLUSES AS TAX RECEIPTS REFLECT THE GENERAL IMPROVEMENT IN THE ECONOMY. AS THESE SURPLUSES MOUNT, IT SEEMS LIKELY TO ME THAT THE AUSTERITY WHICH REIGNED AT ALL LEVELS FROM STATE HOUSES TO VILLAGE HALLS WILL RELAX, FOR BETTER OR FOR WORSE, AND THESE SURPLUSES WILL FURTHER ADD TO ECONOMIC GROWTH. LET US HOPE THE SPENDING REINS WON'T BE RELAXED TOO FAR.

FINALLY, I DO NOT DISCOUNT THE CONSUMER. WHILE WORRIES HAVE BEEN EXPRESSED ABOUT THE RECENT RAPID GROWTH IN CONSUMER CREDIT AND THE LOW

LEVELS OF THE SAVINGS RATE DURING THE FIRST HALF, I DON'T THINK CONDITIONS ARE COMPARABLE TO THE SECOND HALF OF LAST YEAR. THEN CONSUMER INCOME, ADJUSTED FOR INFLATION, WAS GROWING VERY SLOWLY. IN THE SECOND QUARTER OF THIS YEAR, THE GROWTH WAS AT AN ANNUAL RATE OF OVER 8 PERCENT. THIS WAS THREE TIMES AS FAST AS THE GROWTH RATE AT THE SAME TIME LAST YEAR. FURTHERMORE, THE DECREASE IN WITHHOLDING TAXES WHICH OCCURRED IN JUNE, WAS SMALLER THAN THE AMOUNT NEEDED TO ADJUST FOR THE 1977 TAX CHANGE. REFUNDS NEXT SPRING ARE LIKELY TO GROW BY MORE THAN THE NORMAL AMOUNT. THE INCREASE IN SOCIAL SECURITY PAYMENTS BEGUN WITH THIS JULY'S PAYMENT, COMING INCREASES IN FEDERAL PAY SCALES, AND GENERALLY RISING PAY LEVELS WILL ALL CONTRIBUTE TO A CONTINUING STRONG INCREASE IN REAL DISPOSABLE INCOME OVER THE NEXT SEVERAL MONTHS. WHILE I DO NOT THINK THIS WILL LEAD TO A BOOM IN CONSUMER SPENDING, I DO EXPECT THAT THE CONSUMER WILL BE MAKING A POSITIVE CONTRIBUTION TO ECONOMIC GROWTH.

IN SUMMARY THEN, I THINK THAT THE NEXT FEW QUARTERS WILL BRING US GOOD ECONOMIC NEWS--GROWTH FAST ENOUGH TO SEE GRADUAL FURTHER REDUCTION IN THE UNEMPLOYMENT RATE--YET NOT A BOOM WHICH QUICKLY LEADS TO SEVERE PRICE PRESSURES AS SHORTAGES DEVELOP.

WHAT DOES THIS OUTLOOK MEAN FOR THE MIDWEST ECONOMY? LET'S FOCUS FIRST ON THE SEVENTH FEDERAL RESERVE DISTRICT, WHICH AS YOU KNOW, INCLUDES MOST OF INDIANA, ILLINOIS, MICHIGAN, AND WISCONSIN, PLUS ALL OF IOWA. THE RECENT REPORTS WE GET AND CONVERSATIONS WITH BUSINESS LEADERS AND ECONOMISTS IN PRIVATE INDUSTRY SUGGEST THAT, AS A WHOLE, CONDITIONS IN THE REGION AND THE OUTLOOK FOR THE FUTURE ARE AT LEAST AS STRONG, OR MAYBE STRONGER, THAN FOR THE NATION AS A WHOLE. RETAILERS HEAD-QUARTERED HERE IN THE MIDWEST SEEM TO BE PLEASED WITH SALES LEVELS BOTH IN THE AREA AND NATIONALLY AND ARE BEGINNING TO WORRY THAT THEIR

INVENTORIES ARE ON THE LOW SIDE. UNTIL RECENTLY SOME OF THE CAPITAL GOODS PRODUCERS HAD EXPRESSED DISAPPOINTMENT WITH ORDER RATES, BUT ORDERS APPEAR TO HAVE ACCELERATED IN LATE JULY AND EARLY AUGUST. AMONG THE AREAS SHOWING MARKED IMPROVEMENT ARE CAPITAL GOODS COMPONENTS AND FREIGHT CARS. TRUCKS, TRAILERS, AND AUTOS HAVE CONTINUED STRONG. THE LOW PRICES FOR WHEAT AND FEED GRAINS, DESPITE EXCELLENT CROPS, HAVE PUT PRESSURE ON FARM EQUIPMENT SALES AND CREATED VERY HIGH DEMAND FOR AGRICULTURAL LOANS. VIEWING THE REGION'S TOTAL ECONOMY, PARTICULARLY CONSIDERING THE DISTORTIONS PRODUCED BY THE JULY-AUGUST VACATION SHUT-DOWNS, THE DISTRICT'S INDUSTRIAL ECONOMY LOOKS VERY GOOD, BUT REDUCED FARM INCOMES KEEP THE PICTURE FROM BEING COMPLETELY ROSY.

AS I LOOK OVER THE FORT WAYNE ECONOMY, I SEE THE NATION'S ECONOMY IN MINIATURE, PERHAPS WEIGHTED TOWARD THE CAPITAL GOODS INDUSTRIES, BUT WITH A FAIRLY BROAD MIX OF PRODUCT AREAS. I WOULD EXPECT, THEREFORE, THAT YOUR LOCAL ECONOMIC SCENE IS GOING TO RESPOND IN MUCH THE SAME WAY AS THE NATIONAL ECONOMY OVER THE NEXT SEVERAL MONTHS. FORT WAYNE MAY EVEN BENEFIT TO THE EXTENT THAT THE PROPORTION OF CAPITAL GOODS PRODUCERS HERE EXCEEDS THE PROPORTION FOR THE WHOLE COUNTRY.

STATISTICS WHICH ARE INDICATIVE OF WHAT IS GOING ON IN ANY PARTICULAR METROPOLITAN AREA ARE HARD TO COME BY AND USUALLY NOWHERE NEAR AS RELIABLE AS THE NATIONAL DATA. I AM SURE THAT YOU WHO WORK AND LIVE HERE HAVE A MUCH BETTER FEEL FOR LOCAL CONDITIONS THAN I DO AND I WAS MOST INTERESTED IN THE REMARKS OF DR. BULLION AND DR. GUTHRIE. I HAVE, HOWEVER, LOOKED AT TWO SERIES OF DATA--WAGE AND SALARY EMPLOYMENT, AND RESIDENTIAL CONSTRUCTION CONTRACTS--TO COMPARE YOUR LOCAL PERFORMANCE WITH NATIONAL LEVELS. FROM JUNE 1976 TO JUNE 1977, LOCAL WAGE AND SALARY EMPLOYMENT HAD GROWN MORE IN FORT WAYNE THAN IT HAD NATIONALLY.

THE JANUARY-FEBRUARY DIP WAS SLIGHTLY MORE SEVERE IN FT. WAYNE THAN NATIONALLY BUT OTHERWISE THE EMPLOYMENT GROWTH IN THE LOCAL AREA OUTPACED THE NATIONAL RESULTS THROUGHOUT THE 12-MONTH PERIOD. THE PICTURE FOR RESIDENTIAL CONSTRUCTION IS QUITE DIFFERENT. GENERALLY FROM JUNE 1976 THROUGH LAST MARCH, THE RELATIVE LEVEL OF RESIDENTIAL CONSTRUCTION IN FT. WAYNE TENDED TO LAG BEHIND THE NATIONAL AVERAGE, AND, AS WOULD BE EXPECTED IN OUR MORE NORTHERN AREAS, THE WINTER DECLINE WAS MUCH SHARPER HERE THAN NATIONALLY. HOWEVER, BY JUNE 1977, FT. WAYNE SHOWED MORE THAN A 60 PERCENT IMPROVEMENT OVER A YEAR AGO AS COMPARED TO A NATIONAL FIGURE OF ABOUT 30 PERCENT--CERTAINLY A STRONG VOTE OF CONFIDENCE IN YOUR ECONOMIC OUTLOOK.

SO FAR I HAVE SUGGESTED A REASONABLY FAVORABLE PICTURE OF THE MONTHS AHEAD. BUT, OF COURSE, WE HAVE NO GUARANTEES. FUTURE EXTERNAL SHOCKS LIKE THE 1974 OIL EMBARGO OR THE SEVERE JANUARY WEATHER COULD ADVERSELY AFFECT THE OUTLOOK EVEN THOUGH THE BASIC CONDITIONS FOR SUSTAINED GROWTH ARE PRESENT. AND I DO NOT FORESEE A FUTURE WITHOUT PROBLEMS. BOTH THE UNEMPLOYMENT RATE AND THE INFLATION RATE ARE UNCOMFORTABLY HIGH. FURTHER PROGRESS ON THESE TWO FRONTS IS GOING TO BE DIFFICULT AND SLOW. PARTICULARLY WITH UNEMPLOYMENT, WE HAVE A PROBLEM WHICH IS NOT LIKELY TO YIELD TO FURTHER FISCAL OR MONETARY POLICY ACTION TO ANY MAJOR DEGREE. THE MASSIVE MOVEMENT OF WOMEN AND TEEN-AGERS INTO THE LABOR FORCE OVER THE PAST FEW YEARS HAS PROBABLY RAISED THE LEVEL OF WHAT CAN BE CONSIDERED THE FULL-EMPLOYMENT RATE FROM AROUND 4 PERCENT TO MORE THAN 5 PERCENT. MANY OF THE POTENTIAL NEW EMPLOYEES HAVE LESS EXPERIENCE AND TRAINING THAN THE REST OF THE LABOR FORCE. THEY ARE GOING TO HAVE A HARDER TIME FINDING AND HOLDING JOBS THAN MOST WORKERS DO, NO MATTER HOW RAPIDLY THE ECONOMY GROWS. THIS PROBLEM CANNOT BE SOLVED BY GROWTH

ALONE. IT MUST BE ATTACKED BY PROVIDING TRAINING, BY SIMPLIFYING JOBS, AND BY SIMILAR APPROACHES WHICH ATTACK THE STRUCTURAL PROBLEMS. NEVERTHELESS THERE IS SURE TO BE STRONG POLITICAL PRESSURE TO TRY TO ABSORB THESE PEOPLE INTO THE RANKS OF THE EMPLOYED BY OVERALL GOVERNMENT STIMULATION OF THE ECONOMY. THIS PRESSURE MUST BE RESISTED. THE EASY WAY OUT DOESN'T WORK FOR THIS KIND OF UNEMPLOYMENT. WORSE THAN JUST NOT WORKING, IT MAKES OUR OTHER ECONOMIC PROBLEM, INFLATION, WORSE.

THE CURRENT INFLATIONARY WAVE ALSO HAS STRUCTURAL ASPECTS TO IT THAT ARE NOT READILY ATTACKED BY THE CONVENTIONAL MOVES OF MONETARY AND FISCAL POLICY. THE RAPID EXTENSION OF COST-OF-LIVING INCOME ADJUSTMENTS AT RATES EQUAL TO OR EXCEEDING THE ACTUAL INFLATION RATE TENDS TO EMBED RISING COSTS INTO THE WHOLE ECONOMY. HEALTH CARE DELIVERY, WHERE PRICES ARE RISING AT THE HIGHEST RATES OF ANY SECTOR OF THE ECONOMY, MUST BE RESTRUCTURED TO BRING CONSTANTLY HIGHER LEVELS OF SERVICE TO THE PUBLIC WHILE ENDING THE RAPID COST ESCALATION. THE AREAS WHERE STRUCTURAL RATHER THAN ECONOMIC SOLUTIONS MUST BE FOUND TO SLOW INFLATION ARE FOUND IN ALMOST EVERY ASPECT OF OUR ECONOMY, FROM RIGID, ANTI-COMPETITIVE REGULATION IN SOME INDUSTRIES TO THE EXTREMELY SLOW PACE AT WHICH ANTITRUST LITIGATION MOVES. EVEN IF THE STANDARD CURE FOR INFLATION--AN EXTREMELY TIGHT MONETARY POLICY--WERE DESIRABLE FOR OTHER REASONS, IT WOULD NOT HAVE MUCH IMPACT ON THESE STRUCTURAL PROBLEMS. THE BROAD ECONOMIC AGGREGATE TOOLS. MONETARY AND FISCAL POLICY, STILL HAVE A MAJOR ROLE TO PLAY IN OUR NATIONAL PROGRESS. BUT THE MAJOR CHALLENGE FOR SOCIAL SCIENTISTS, FOR POLITICAL LEADERS, FOR BUSINESS, FOR LABOR OVER THE NEXT SEVERAL YEARS IS GOING TO BE HOW TO ATTACK THE STRUCTURAL FORCES THAT IMPEDE EMPLOYMENT GROWTH AND ACCELERATE PRICE INCREASES.