

K.C. Chamber of Commerce
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current

IT IS A PLEASURE ^{for me} TO JOIN YOU THIS MORNING TO ^{review} CONSIDER ~~THE~~ THE ECONOMIC AND FINANCIAL SITUATION-BOTH ^{the} DOMESTIC AND INTERNATIONAL-AND TO ASSESS ^{AND PERHAPS ADD SOME PROSPECTIVE TO} THE PERIOD AHEAD. MEETINGS SUCH AS THIS ARE IMPORTANT IN BRINGING ABOUT THE EXCHANGE OF IDEAS AND OPINIONS ABOUT ^{current} ECONOMIC DEVELOPMENTS TO PLACE EVENTS IN THEIR PROPER PERSPECTIVES ^{AS BUSINESSMEN AND COMMUNITY LEADERS} SO THAT YOU CAN MAKE YOUR BUSINESS DECISIONS IN AN ATMOSPHERE OF UNDERSTANDING. THE CHAMBER OF COMMERCE IS TO BE COMMENDED FOR PROVIDING SUCH A USEFUL FORUM.

AS YOU KNOW, THE U.S. ECONOMY IS RECOVERING STRONGLY FROM THE DEEPEST AND MOST ^{severe} ~~RECENT~~ RECESSION SINCE THE GREAT DEPRESSION OF THE 1930'S. OUR OWN TROUBLES ARE LARGELY A PART OF ^a ~~THE~~ WORLD-WIDE ECONOMIC RECESSION. MOST OF THE MAJOR TRADING NATIONS ^{OF THE WORLD} HAVE SUFFERED ALONG WITH US THE SIMULTANEOUS ILLS OF SERIOUS UNEMPLOYMENT AND THE RAVAGES OF INFLATION. ECONOMIC ACTIVITY IN EUROPE SAGGED ^{IN 1974 & 1975} AND THE EXTREMELY SERIOUS NATURE OF THE WORLD-WIDE INFLATION PROBLEM DURING THIS PERIOD IS ILLUSTRATED IN THE CASE OF WEST GERMANY, WHERE EVEN THAT STRONG ECONOMY EXPERIENCED A PEAK INFLATION RATE OF ABOUT 10 PER CENT AT ONE POINT. INFLATION IN FRANCE ROSE TO A RATE ABOVE 15 PER CENT AND PRICE INCREASES IN GREAT BRITAIN AND IN JAPAN REACHED ANNUAL RATES OF 35 PER CENT AT TIMES DURING THE WORST OF THE INFLATIONARY PERIOD. IN A REAL SENSE, THEN, THE PROBLEMS OF THE U.S. ECONOMY WHICH WE ^{have} WRESTLED WITH ^{being} WERE EXPERIENCED IN NATIONS ALL OVER THE WORLD.

A RELATED INTERNATIONAL SITUATION IMPORTANT TO ALL OF US ^{WHETHER OR NOT WE} DEAL DIRECTLY IN INTERNATIONAL MARKETS ^{WE HAVE EXPERIENCED} IS THE HIGH DEGREE OF FLUCTUATION ^{FACTORS THAT HAVE CONTRIBUTED TO} IN THE VALUE OF THE DOLLAR. AMONG THE SIGNIFICANT ~~FACTORS~~ THE DOLLAR'S VARIABILITY ARE THESE.

1. ^{THE} WORLD-WIDE ECONOMIC PROBLEMS ^{and} PARTICULARLY THE STUBBORN INFLATION EXPERIENCED BY MOST OF THE MAJOR INDUSTRIAL NATIONS.
2. THE GENERALLY UNFAVORABLE BALANCE IN THE UNITED STATES' INTERNATIONAL PAYMENTS.
3. TWO DEVALUATIONS OF THE DOLLAR ^{ONE IN 1971 AN ANOTHER IN 1973}.
4. ^{the ultimate} FAILURE OF THE SYSTEM OF FIXED EXCHANGE RATES WHICH HAD BEEN MAINTAINED ^{by Agreement Among Central Banks} THROUGHOUT MOST OF THE POST-WORLD WAR II PERIOD ^{UP} UNTIL THE EARLY 1970'S, WHEN ^{a system of} FLOATING EXCHANGE RATES REPLACED ~~THEM~~ ^{the fixed exchange rate system}.

IN BRIEF, THE IMBALANCE THAT DEVELOPED UNDER THE FIXED EXCHANGE SYSTEM-
CAPPED BY THE ENERGY CRISES ^{OF 1973-74} AGGRAVATED THE PROBLEM OF U.S. BALANCE OF PAYMENTS
DEFICITS WHICH HAD BEEN OCCURRING SINCE THE EARLY 1950'S. IN THE MID-1960'S,
EVEN THE TRADITIONAL ^{U.S.} MERCHANDISE TRADE SURPLUS BEGAN TO DWINDLE UNTIL IT VANISHED
INTO DEFICIT IN 1971. FOREIGN EXCHANGE CRISES AND ASSAULTS ON U.S. GOLD RESERVES
FOLLOWED LEADING TO A U.S. DECISION TO NO LONGER EXCHANGE GOLD FOR DOLLARS AT
ANY PRICE, AND TO THE COLLAPSE OF THE EXISTING FIXED EXCHANGE RATE SYSTEM. THE
FIRST DEVALUATION FOLLOWED LATE IN 1971, BUT BECAUSE THE BASIC ECONOMIC FORCES
WERE NOT PERMITTED TO CORRECT ^{the} PREVAILING IMBALANCES, ANOTHER DEVALUATION FOLLOWED
IN 1973. FROM ALL THIS TURMOIL, FLEXIBILITY IN EXCHANGE RATES EMERGED ~~BECAUSE~~
~~THE PROVISIONS CREATED BY ECONOMIC FINANCIAL TIGHTENING THROUGH CURRENT~~
which permits the dollar to float and seek its own level
against all other currencies.

WITH THESE ADJUSTMENTS, THE STAGE WAS SET FOR THE DOLLAR TO ^{truly} REFLECT THE PER-
FORMANCE OF ~~OUR~~ ^{OUR} DOMESTIC ECONOMY. THE DOLLAR, IN ADDITION TO ACCOMMODATING THE
^{domestic} STRONG ECONOMIC RECOVERY OF THE PAST YEAR, ALSO HAS ~~STRENGTHENED~~ STRENGTHENED AGAINST
ALL FOREIGN CURRENCIES IN THE AGGREGATE. IN FACT, DURING THE PAST YEAR, THE DOLLAR
HAS INCREASED ROUGHLY 14 PER CENT IN RELATION TO ^{ALL OTHER} FOREIGN CURRENCIES, THEREBY RE-
COVERING MUCH OF ITS EARLIER LOSSES ~~AGAINST THESE CURRENCIES~~. FURTHERMORE, A
SUBSTANTIAL REDUCTION IN THE RATE OF DOMESTIC INFLATION HAS BEEN ACHIEVED. AS A
RESULT, THE DOLLAR AGAIN IS A HIGHLY RESPECTED CURRENCY BOTH INTERNATIONALLY AND
DOMESTICALLY.

AT PRESENT, WE ARE IN THE FORTUNATE POSITION OF HAVING HAD RELATIVELY STABLE FINANCIAL MARKETS AND A MORE STABLE DOLLAR FOR SEVERAL MONTHS. THERE HAS ~~APPARENTLY~~ BEEN ENOUGH LIQUIDITY IN THE ECONOMY TO FINANCE THE HEAVY DEMANDS OF THE TREASURY DURING THE PAST YEAR AND ^{at the same time} TO FINANCE THE RECOVERY IN OTHER SECTORS OF THE ECONOMY. THIS LIQUIDITY HAS BEEN MAINTAINED, DESPITE CONSIDERABLE CONTRACTION ^{Just} [UNTIL RECENTLY] IN THE GROWTH RATES OF THE MONEY SUPPLY AS MEASURED BY CURRENCY AND DEMAND DEPOSITS - WHICH WE CALL M_1 . ^{However} ^{m^2 (m^1 plus} IF MEASURED BY ^{time} AND SAVINGS DEPOSITS, EXCLUSIVE OF LARGE CD'S, ^{the} MONEY SUPPLY GROWTH RATES HAVE BEEN RELATIVELY HIGH FOR SOME TIME.

THERE ARE SEVERAL REASONS WHY THE RECOVERY HAS BEEN FINANCED SO WELL, DESPITE THE CONTRACTION IN THE GROWTH RATES OF ^{The money supply as measured by m^1} ~~CURRENCY AND DEMAND DEPOSITS~~. FIRST, IT SHOULD BE POINTED OUT THAT DEMAND FOR BUSINESS LOANS HAS BEEN QUITE WEAK THROUGHOUT THE RECOVERY TO DATE. THUS, MANY OF THE FUNDS THAT NORMALLY WOULD HAVE BEEN USED FOR FINANCING BUSINESS ^{AS} IN PREVIOUS RECOVERIES ^{were} AVAILABLE DURING THIS RECOVERY FOR FINANCING OTHER NEEDS SUCH AS TREASURY BORROWINGS. SECOND, WITH THE INCREASING ^{new or expanded} USE OF ~~such~~ PAYMENT DEVICES ^{such} AS NOW ACCOUNTS, TELEPHONE TRANSFERS, OVERDRAFT PRIVILEGES, ^{Electronic Funds Transfers} EFTS AND CREDIT CARDS, ^{now} DEMAND DEPOSIT ACCOUNTS ARE ^{AS} USED MUCH MORE INTENSIVELY - MEANING THAT THE VELOCITY OF CIRCULATION OF MONEY ^{AS} DEFINED IN THIS CONTEXT ^{A higher level of economic} INCREASES. IN SHORT, FEWER DOLLARS CAN FINANCE ~~more~~ ACTIVITY.

IN THIS ENVIRONMENT OF DIMINISHED INFLATION AND ^{the} STRONG ECONOMIC RECOVERY IN
PROGRESS DOMESTICALLY, THE UNITED STATES ^{is} ~~SEEMS TO BE~~ IN AN EXCELLENT POSITION TO
BENEFIT IN THE YEAR AHEAD FROM BOTH OUR STRENGTHENED INTERNATIONAL POSITION AND
FROM THE POSSIBLY FORTUITOUS TIMING OF THE DEVELOPING WORLD-WIDE ECONOMIC
RECOVERY. EXPORT DEMAND FOR THE AGRICULTURAL PRODUCTS OF OUR AREA SHOULD REMAIN
REASONABLY STRONG, ABSENT ANY ADDITIONAL GOVERNMENTAL INTERVENTION-AND COULD
STRENGTHEN IF PRESENT RESTRICTIONS ARE REDUCED ^{OR REMOVED}. RESURGENT WORLD ECONOMIC ACTIVITY
WILL UNDOUBTEDLY OPEN OR REOPEN MARKETS FOR CERTAIN CAPITAL GOODS ^{such as} FARM EQUIPMENT
AND AIRCRAFT, FOR EXAMPLE, IN WHICH WE ARE INTERESTED IN THIS AREA.

In Substance then/

~~THE VALUE OF ANY CURRENCY DEPENDS ON WHAT IT WILL BUY~~
IN ITS HOME COUNTRY. ITS PURCHASING POWER IS ^{directly} RELATED TO THE PRODUCTIVE CAPACITY AND EFFICIENCY OF THAT NATION AND TO THE RELATIVE PRICE LEVEL OF GOODS AND SERVICES THERE. THUS, THE RATE OF PRICE INFLATION-THE RATE AT WHICH THE CURRENCY LOSES ITS REAL VALUE-PLAYS A KEY ROLE IN DETERMINING THE STABILITY OF ~~THE~~ ^a CURRENCY IN INTERNATIONAL TRADE.

WHAT, THEN, HAS HAPPENED TO CAUSE THE DOLLAR'S RESURGENCE IN INTERNATIONAL FINANCIAL MARKETS? *In my judgment, the improvement in the dollar is due primarily to* ~~TWO MAJOR DEVELOPMENTS:~~ TWO MAJOR DEVELOPMENTS:

First. - THE ECONOMIC RECOVERY IN THIS COUNTRY IS WELL UNDER WAY AND, IN FACT, IS FURTHER ADVANCED IN THE RECOVERY CYCLE THAN ^{as the recovery in most} ~~IN MANY~~ OTHER NATIONS.

Second ^{and} ~~A~~ PERHAPS MORE IMPORTANTLY, THE U.S. INFLATION RATE HAS MODERATED SIGNIFICANTLY IN COMPARISON WITH THE RATES IN SOME OF OUR INTERNATIONAL TRADING PARTNERS-PARTICULARLY BRITAIN, FRANCE, ITALY, AND JAPAN-ALTHOUGH ^{our} ~~THE~~ DOMESTIC INFLATION RATE STILL IS UNACCEPTABLY HIGH.

the improvements in
now let us take a closer look at ~~what has happened in~~

~~GIVEN THESE DEVELOPMENTS, WHAT HAS HAPPENED IN THE DOMESTIC ECONOMY?~~

On the worst recession since the 1930's

LITTLE MORE THAN A YEAR AGO, OUR ECONOMY WAS BOTTOMING OUT, ~~AS WE NOW KNOW,~~
PRODUCTION OF GOODS AND SERVICES-AS MEASURED BY REAL AND NOMINAL GNP-WAS DECLINING.
UNEMPLOYMENT HAD REACHED A LEVEL OF NEARLY 9 PER CENT. INFLATION RATES REMAINED
UNUSUALLY HIGH, DESPITE THE SHARP RECESSION. INTEREST RATES, ALTHOUGH DOWN
FROM THE VERY HIGH LEVELS OF 1974, REMAINED HIGH/PARTICULARLY FOR LONG-TERM
FINANCING.

THE ECONOMY TURNED AROUND SHARPLY DURING THE SECOND QUARTER OF LAST YEAR-1975/

A REVERSAL WHICH HAS CONTINUED UNABATED. THIS IS CONFIRMED BY ^{the most} RECENT FIRST
QUARTER GNP DATA-SHOWING GROWTH AT A ^{8.5} ~~7.5~~ PER CENT ANNUAL RATE-AS WELL AS BY A
NUMBER OF OTHER SPECIFIC INDICATORS OF ECONOMIC ACTIVITY. FOR EXAMPLE, INDUSTRY
PRODUCTION HAS RISEN FOR 12 CONSECUTIVE MONTHS AND, AS YOU ^{may} KNOW FROM DATA RELEASED
LAST WEEK, WAS 11 PER CENT ABOVE THE APRIL 1975 LOW POINT. HOUSING STARTS IN
THE FIRST QUARTER ROSE SHARPLY, AND, AT AN ANNUAL RATE OF 1.4 MILLION UNITS,
WERE ABOUT 50 PER CENT ABOVE THE EXTREMELY DEPRESSED LEVELS OF A YEAR EARLIER.

REFLECTING THE CONTINUED STRENGTH FROM THE CONSUMER SECTOR, RETAIL SALES IN THE FIRST QUARTER AGAIN ROSE STRONGLY, WITH AUTO SALES SHOWING ESPECIALLY GOOD GAINS. THE EMPLOYMENT PICTURE IN APRIL SHOWED A LEVELING IN THE UNEMPLOYMENT RATE-AT 7.5 PER CENT-BUT TOTAL EMPLOYMENT CONTINUED TO REGISTER ALL-TIME HIGHS. EMPLOYMENT ^{actually} ROSE NEARLY 1.2 MILLION PERSONS IN THE FIRST QUARTER. ^{of this year} DURING THE SAME PERIOD, BOTH THE CONSUMER PRICE INDEX AND WHOLESALE PRICE INDEX HAVE CONTINUED TO REFLECT THE MODERATING PACE OF PRICE INFLATION.

That is: more people are ~~employed~~
employed today than at any time in our
nation's history

IN MANY RESPECTS, THE GOOD ECONOMIC NEWS FROM THROUGHOUT THE NATION IN RECENT MONTHS HAS BEEN EQUALED OR EXCEEDED IN OUR OWN TENTH FEDERAL RESERVE DISTRICT. THE AREA SERVED BY THE KANSAS CITY FEDERAL RESERVE BANK STRETCHES FROM WESTERN MISSOURI THROUGH KANSAS, NEBRASKA, OKLAHOMA, COLORADO, WYOMING, AND NEW MEXICO. THIS REGION IS A VAST, DIVERSE, AND PRODUCTIVE AREA WHICH ^{Successfully} AVOIDED MANY OF THE ~~most~~ ^{more} SEVERE EFFECTS OF THE RECENT RECESSION. IT IS AN AREA WHICH IS POSITIONED NOW TO TAKE FULL ADVANTAGE OF THE ECONOMIC RECOVERY. FOR EXAMPLE, EMPLOYMENT DATA FROM STATES IN OUR DISTRICT CONTINUE TO BE BETTER THAN FOR THE NATION AS A WHOLE. CONSTRUCTION CONTRACTS AND HOUSING PERMITS IN THIS REGION ARE UP SHARPLY OVER 1975, AND DISTRICT GROWTH IN BOTH CATEGORIES IS MUCH BETTER THAN IN THE NATION AS A WHOLE. ~~It~~ SHOULD ALSO POINT OUT THAT PERSONAL INCOME IN DISTRICT STATES INCREASED AT A 12 PER CENT RATE DURING 1975, EXCEEDING THE 6.8 PER CENT INCREASE IN THE CONSUMER PRICE INDEX. BUT MORE IMPORTANT THAN THESE SHORT-TERM DEVELOPMENT, I BELIEVE, IS THE FACT THAT THIS HEARTLAND OF OUR NATION WILL BENEFIT IN THE FUTURE FROM INCREASING DEMAND FOR THE AGRICULTURAL PRODUCTION AND ENERGY RESOURCES ^{which} WE HAVE IN SUCH ABUNDANCE. I AM CONFIDENT THAT THE PRODUCTS AND RESOURCES OF OUR REGION, COMBINED WITH THE KNOWLEDGE AND ENERGY OF OUR PEOPLE, ARE GOING TO BE IN THE CENTER OF THE NATION'S FUTURE ECONOMIC PROGRESS.

therefore personal disposal income of people employed in the 10th district - actually increased.

DESPITE THESE GOOD ECONOMIC PROSPECTS, I AM STILL CONCERNED ABOUT THE NATIONAL ECONOMY. UNEMPLOYMENT REMAINS TOO HIGH. AND, WITHOUT SOME EVIDENCE OF FURTHER STRENGTH FROM EITHER INVENTORY INVESTMENT, CAPITAL OUTLAYS, OR MULTI-FAMILY HOUSING IN THE MONTHS AHEAD, SIGNIFICANT ADDITIONAL REDUCTIONS IN UNEMPLOYMENT WILL BE HARD TO COME BY. ADDITIONALLY, THE FAVORABLE PERFORMANCE OF THE PRICE INDEXES HAS RESULTED LARGELY FROM DECLINES IN FOOD AND ENERGY PRICES, DECLINES NOT LIKELY TO CONTINUE. IN FACT, UPWARD ADJUSTMENTS IN WHOLESALE FARM PRICES ALREADY HAVE BEEN NOTED, AND ^{there} IS ^{some evidence} ~~IS~~ THAT CAPACITY LIMITS IN ^{some} BASIC MATERIALS ^{such as steel} MAY SOON IMPACT PRICES OF ^{those} ~~SUCH~~ COMMODITIES.

THUS, THE DANGER OF INFLATION IS STILL WITH US, AS SERVICE AND INDUSTRIAL COSTS CONTINUE TO INCREASE AT RATHER SHARP RATES. THE ECONOMIC PROBLEM FOR POLICYMAKERS ^{including the Federal Reserve} CONTINUES TO BE THAT OF SUSTAINING THE RECOVERY IN ORDER TO PUT RESOURCES BACK TO WORK, WHILE AVOIDING A REKINDLING OF INFLATIONARY PRESSURES.

WE IN THE FEDERAL RESERVE ARE DEDICATED TO THE TASK OF PROMOTING THE ECONOMIC RECOVERY NOW UNDER WAY. OUR POLICY OBJECTIVE/IN THE PERIOD AHEAD/IS TO PROVIDE ^{adequate through} RESERVES ~~IN~~ THE BANKING SYSTEM IN SUCH A WAY AS TO STIMULATE BUSINESS ACTIVITY WITHOUT REKINDLING INFLATION. MORE SPECIFICALLY, WE HAVE BEEN SEEKING TO ACHIEVE MODERATE GROWTH RATES IN VARIOUS MEASURES OF THE MONEY SUPPLY, SUCH AS M1 AND M2. HOWEVER, IT IS APPARENT THAT AS WE MOVE THROUGH THE RECOVERY CYCLE AND EXPERIENCE THE ~~expected~~ ^{expected} INCREASE IN THE DEMANDS FOR FUNDS, ONE COULD ^{reasonably} EXPECT INTEREST RATES ^{and other market rates} TO INCREASE IN THE PERIOD AHEAD.

IN SUMMARY, I AM OPTIMISTIC ABOUT THE FUTURE. THE ECONOMY IS HEADED IN THE RIGHT DIRECTION, AND ALL INDICATIONS POINT TOWARD CONTINUED IMPROVEMENT IN ECONOMIC ACTIVITY. THE MAJOR DANGER NOW IS THE REEMERGENCE OF ACCELERATING INFLATION RATES. MANY COSTS AGAIN ARE INCREASING MORE RAPIDLY THAN PRODUCTIVITY, AND IT IS ^{not} UNLIKELY THAT FOOD AND ENERGY PRICES WILL CONTINUE TO MODERATE THE SHARP RATES OF PRICE INCREASE SHOWING UP ^{come} IN OTHER SECTORS OF THE PRICE INDEXES.

IT IS DIFFICULT FOR MONETARY POLICY ALONE TO COPE WITH ^{these} THIS KIND OF ^{problems} INFLATION WITHOUT COOPERATIVE FISCAL POLICIES ~~that is: responsible governmental spending and taxing programs.~~ CERTAINLY THE EXPERIENCE OF GREAT BRITAIN AND ITALY SHOULD PROVIDE ALL OF US WITH A STRONG INCENTIVE FOR ACHIEVING STABILITY OF BOTH THE PRICE LEVEL AND THE DOLLAR. IT IS NOT POSSIBLE TO HAVE A RESPECTABLE AND STABLE DOLLAR DOMESTICALLY ^{or} ~~OR~~ INTERNATIONALLY WITHOUT A FULLY EMPLOYED, EFFICIENT, AND NONINFLATIONARY DOMESTIC ECONOMY.

In summary, I think we are ### on the right track but
However, if I am correct about the ~~future~~ nations economic future
for the year ahead - then Kansas City outlook should be bright.