

INVESTMENT CONFERENCE
COLORADO BANKERS ASSOCIATION
DENVER

I. Introduction

II. Comments (Review the economy and share some concerns about the period ahead.) Specifically —

- A. Local and regional economy
- B. National economy
- C. Direction of monetary policy in period ahead.

III. National Economy

- A. Strong recovery from the severe winter and the prolonged coal strike.
- B. Shortfall of the first quarter is to be made up in the second quarter.
- C. Measured for the year as a whole — 1978 looks to be a good year for business activity.

1. Real gross national product – expand 4 to 5% – less than 1977 but above 3% trend.
2. Retail sales to remain strong, including auto sales — residential construction off.
3. Employment to continue to expand — unemployment rate below 6%.

IV. Local Economy (district)

- A. Drought conditions – low prices for livestock and most feed grains and severe winter.
- B. Recovery attributed to:
 1. Ample moisture supply
 2. Modest increase in cattle and grain prices
 3. Springtime.
- C. Current conditions —
 1. Business activity is strong throughout our district.
 2. Cattle prices have improved.

3. Grain prices have improved and grain is beginning to move.
4. Unemployment in the non-farm sector at about 5% - 4% in Oklahoma.
5. Rural banks still under considerable pressure due in large part to the usual seasonal demands and cattle related credit.
6. Trouble area remains the farm machinery sales sector.

V. Economics as the dismal science — good news — bad news — problems not hard to find.

VI. Problems

- A. Dollar - embattled state in the foreign exchange markets.
- B. Large deficits in our balance of trade accounts.
- C. Unemployment - 35 to 40% for teenage blacks.
- D. Federal deficit of \$60B in 4th year of a peace-time expansion.
- E. Inflation rate of 6.5 to 7%.

VII. Inflation - Number one problem and only one that can be directly addressed by monetary policy.

VIII. Set the Stage

- A. Fourth year of the recovery-expansion cycle.
- B. Employment at high level - 93 million.
- C. No constraints or bottlenecks on the supply side.
- D. No significant pressures on the demand side —
 - 1. Plant and equipment capacity utilization rate 82 to 83%.
 - 2. Plant and equipment investment rate at acceptable pace of 6%.

IX. Cost Push Inflation - analysis of major factors contributing to an accelerating rate from 5.8 to 7%.

- A. Federal legislation —
 - 1. Minimum wage
 - 2. Social security tax
 - 3. Unemployment tax
 - 4. 1 to 1-1/2% impact on prices.

Cost push inflation, cont.

- B. Devaluation of the dollar
 - 1. High price of imported goods
 - 2. Higher prices for domestic goods
 - 3. 3/4 to 1% impact on prices

(Factors above contribute 2% or more.)

- X. Dilemma for Monetary Policy (causes of inflation outside the influence of the Federal Reserve)
 - A. Tradition tools - restrict money growth
 - 1. Higher cost of money
 - 2. Reduce aggregate demand
 - 3. Chance recession.

 - B. Accommodate that part of inflation induced by things that are not influenced by monetary policy.

- XI. Federal Reserve -FOMC- has announced its objective of gradually reducing rate of price inflation.

- A. Set long run growth rate for money supply of 4 to 5%.
- B. Consistent with the objectives.
- C. Federal Reserve will do its job without over-reacting to short run disturbances.

XII. We need help - but the price will be very high-the Fed should not be asked to do the job alone.

- A. Need energy policy
 - 1. To reduce dependence on foreign oil.
 - 2. To reduce trade deficit and relieve pressure on the dollar.
 - 3. To deregulate price of domestic oil coupled with an excess earnings tax with increased incentive to discover and develop new domestic supplies.
- B. Need meaningful anti-inflationary policy that starts with a reduction in the level of the Federal deficit.

- C. Revised tax package.
 - 1. More modest than the \$25B proposed.
 - 2. Emphasis on encouraging greater investment in fixed plant and equipment.
- D. Unemployment programs that attack the structural unemployment problems, which cannot be treated by the conventional economic process.

XIII. Conclusion

- A. 1978 a good year for business activity.
- B. Federal Reserve will perform its assigned task without over-reacting to shortrun disturbances in the economy.
- C. Federal Reserve needs help to curb inflation and insure a soft landing with continual prosperity into 1979 and beyond.

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