



FEDERAL RESERVE BANK OF SAN FRANCISCO  
Office of the President

# **THE DOLLAR, MONETARY POLICY AND THE ECONOMIC OUTLOOK**

**Remarks of  
John J. Balles, President  
Federal Reserve Bank of San Francisco**

**Meeting With  
Salt Lake City, Utah  
Community Leaders**

**Salt Lake City, Utah  
December 5, 1985**

THE DOLLAR, MONETARY POLICY  
AND THE ECONOMIC OUTLOOK

REMARKS OF  
JOHN J. BALLE, PRESIDENT  
FEDERAL RESERVE BANK OF SAN FRANCISCO

MEETING WITH  
SALT LAKE CITY, UTAH  
COMMUNITY LEADERS

SALT LAKE CITY, UTAH  
DECEMBER 5, 1985

## INTRODUCTION

LAST MONTH MARKED THE END OF THE THIRD YEAR OF THE CURRENT BUSINESS CYCLE EXPANSION. IN MANY WAYS, THERE ARE FAVORABLE DEVELOPMENTS TO NOTE. OVER THESE THREE YEARS ALMOST 9 MILLION NEW JOBS WERE CREATED AND THE TOTAL VOLUME OF GOODS AND SERVICES PRODUCED BY THE U.S. ECONOMY, AS MEASURED BY INFLATION-ADJUSTED, OR REAL GNP, INCREASED TO A LEVEL MORE THAN TEN PERCENT ABOVE ITS PREVIOUS PEAK IN 1981. AT THE SAME TIME, THE UNEMPLOYMENT RATE WAS BROUGHT DOWN FROM 10.7 PERCENT TO 7.1 PERCENT. ALTHOUGH THIS RATE REMAINS UNCOMFORTABLY HIGH RELATIVE TO HISTORICAL EXPERIENCE, IT IS ALSO TRUE THAT A RECORD NUMBER OF AMERICANS ARE AT WORK, WITH APPROXIMATELY 60 PERCENT OF THE ADULT POPULATION WORKING IN OCTOBER -- THE HIGHEST RATE IN THE POST-WAR PERIOD.

MOREOVER, THIS BUSINESS EXPANSION HAS BEEN ACCOMPANIED BY SUBSTANTIAL IMPROVEMENT ON THE INFLATION FRONT. AT THE PEAK OF INFLATION IN 1980, THE TWELVE-MONTH RATE OF CHANGE IN THE CONSUMER PRICE INDEX REGISTERED AN ALARMING 14.7 PERCENT ANNUAL RATE. BY CONTRAST, OVER THE LAST TWELVE MONTHS THE INDEX HAS RISEN ONLY 3.2 PERCENT, AND SO FAR IS SHOWING NO SIGNS OF ACCELERATION. GRANTED, WE ARE NOT AT

PRICE STABILITY YET, BUT WE HAVE MADE IMPRESSIVE STRIDES OVER THE LAST FIVE YEARS TOWARDS ULTIMATELY ERADICATING INFLATION.

THERE HAS BEEN A DARKER SIDE, HOWEVER, TO THE GOOD NEWS I HAVE JUST REVIEWED. IN THE LAST EIGHTEEN MONTHS WE HAVE SEEN A MARKED SLOWING IN THE RECOVERY. RELATED TO THIS HAS BEEN THE MARKEDLY UNEVEN COMPOSITION OF THE EXPANSION, WITH SOME SECTORS CONSPICUOUSLY FAILING TO SHARE IN THE OVERALL PROSPERITY --NOTABLY AGRICULTURE, FORESTRY, MINING AND SOME MANUFACTURING INDUSTRIES. THIS UNEVENNESS HAS SHOWED UP, AMONG OTHER WAYS, IN THE UNCOMFORTABLY LARGE DIFFERENCES IN STATE UNEMPLOYMENT RATES WITHIN THE TWELFTH DISTRICT.

SOME DECLINE IN THE RATE OF ECONOMIC GROWTH IS NORMAL AS AN EXPANSION MATURES. INDEED, SOME FORECASTERS HAVE BEGUN TO RAISE THE POSSIBILITY OF A RECESSION NEXT YEAR. ALTHOUGH THIS POSSIBILITY CANNOT BE RULED OUT COMPLETELY, OUR RESEARCH STAFF AT THE BANK BELIEVES AT THIS POINT THAT A CONTINUATION OF THE ECONOMIC EXPANSION THROUGH 1986 IS STILL THE MOST LIKELY PROSPECT.

BEFORE I TURN TO SOME PARTICULARS OF THIS FORECAST, I WOULD LIKE TO GIVE YOU A LITTLE BACKGROUND ABOUT THE FEDERAL BUDGET AND TRADE DEFICITS, THE RECENT BEHAVIOR OF THE DOLLAR, AND THE PROBLEMS THESE DEVELOPMENTS HAVE POSED FOR MONETARY POLICY.

## THE BUDGET AND TRADE DEFICITS

FOR CALENDAR YEAR 1985, THE FEDERAL GOVERNMENT BUDGET DEFICIT IS PROJECTED TO BE A MIND-BOGGLING \$193 BILLION. BETWEEN 1981 AND 1983 THE DEFICIT RELATIVE TO GNP ALMOST TRIPLED TO ABOUT 5 PERCENT OF GNP, AND HAS REMAINED IN THAT NEIGHBORHOOD EVER SINCE. THERE IS NO PRECEDENT IN OUR PEACE-TIME HISTORY FOR NUMBERS OF THIS MAGNITUDE. GIVEN THE DEADLOCK THAT HAS PREVAILED IN CONGRESS FOR THE LAST SEVERAL YEARS OVER ATTEMPTS TO COME TO GRIPS WITH THE BUDGET IMBALANCE, I AM NOT OPTIMISTIC THAT THE DEFICIT WILL BE CUT SIGNIFICANTLY IN THE FORESEEABLE FUTURE. THE PROTRACTED DEBATE, FOR EXAMPLE, IN RECENT WEEKS OVER LEGISLATION TO CUT THE DEFICIT IN CONNECTION WITH RAISING THE FEDERAL DEBT CEILING HAS ONLY SERVED TO CONFIRM THIS VIEW IN MY MIND.

THE FEDERAL DEFICIT REPRESENTS A SUBSTANTIAL CLAIM ON OUR NATION'S SAVINGS, CURRENTLY ABSORBING BETWEEN 45 TO 50 PERCENT OF THE NET SAVINGS MADE BY HOUSEHOLDS, BUSINESSES AND STATE AND LOCAL GOVERNMENTS. THIS HAS RESULTED IN SOME OF THE TRADITIONAL "CROWDING OUT," AS IT IS CALLED, OF HOUSING AND BUSINESS CAPITAL OUTLAYS THAT OCCUR WHEN DEFICITS PUT UPWARD PRESSURE ON INTEREST RATES. IN THIS EXPANSION, HOWEVER, THE BURDEN OF FINANCING THE BUDGET DEFICIT HAS FALLEN TO A SIGNIFICANT EXTENT ON THE FOREIGN SECTOR OF THE ECONOMY -- IN OTHER WORDS, ON INDUSTRIES WITH IMPORTANT EXPORT MARKETS OR THAT FACE HEAVY COMPETITION FROM FOREIGN IMPORTS.

I'M SURE YOU'RE ALL FAMILIAR BY NOW WITH THE STORY OF HOW THE GROWING BUDGET DEFICIT ULTIMATELY TRANSLATED INTO A DEPRESSED FOREIGN SECTOR OF THE ECONOMY. THE MASSIVE CAPITAL INFLOW FROM ABROAD PROMPTED BY HIGH INTEREST RATES HERE BID UP THE VALUE OF THE DOLLAR BY APPROXIMATELY 50 PERCENT BETWEEN MID-1980 AND EARLY 1985. THE EFFECT WAS TO MAKE OUR EXPORTS EXPENSIVE IN TERMS OF FOREIGN CURRENCIES, WHILE THE DOLLAR PRICE OF IMPORTS TO THE U.S. FELL. AS A RESULT, OUR BALANCE ON OUR INTERNATIONAL ACCOUNT DETERIORATED ALARMINGLY AS EXPORTS GREW SLUGGISHLY, AND IN SOME SECTORS DECLINED, WHILE IMPORTS SURGED. IT NOW APPEARS THAT OUR DEFICIT IN TRADE IN GOODS AND SERVICES PLUS INVESTMENT INCOME FOR 1985 WILL REACH A RECORD OF \$140 -\$150 BILLION, AN UNPRECEDENTED FIGURE.

LET ME NOTE PARENTHETICALLY THAT I RECOGNIZE THAT THE BUDGET DEFICIT IS NOT THE ONLY FACTOR ACCOUNTING FOR THE HIGH DOLLAR AND THE IMPACT ON OUR FOREIGN TRADE. OUR POLITICAL STABILITY, LOW INFLATION, VIGOROUS ECONOMY, AND DIVERSIFIED RANGE OF INVESTMENT OPPORTUNITIES ALL HAVE MADE THE DOLLAR A PARTICULARLY ATTRACTIVE INVESTMENT VEHICLE IN RECENT YEARS. HOWEVER, IN MY OPINION, THE BUDGET DEFICIT HAS BEEN THE SINGLE MOST IMPORTANT FACTOR PRODUCING THE SHARP RUN-UP IN THE DOLLAR'S VALUE SINCE 1980.

### UNEVEN ECONOMY

AS WE'VE ALL BEEN MADE AWARE BY NOW, THE STRONG DOLLAR'S IMPACT ON U.S. COMPETITIVENESS HAS LED TO A DUAL ECONOMY. ON ONE HAND, FROM THE STANDPOINT OF U.S. CONSUMERS AND TOURISTS, THE STRONG DOLLAR HAS BEEN A BONANZA. ON THE OTHER HAND, U.S. FIRMS COMPETING WITH OVERSEAS BUSINESSES HAVE BEEN PUT AT A SEVERE COST DISADVANTAGE. OF THE 9 MILLION NEW JOBS CREATED SINCE 1982, ALMOST 7½ MILLION HAVE BEEN IN THE SERVICE AND TRADE SECTORS WHICH ARE FAIRLY WELL INSULATED FROM IMPORT COMPETITION. IN CONTRAST, THERE HAS BEEN LITTLE GROWTH IN MANUFACTURING EMPLOYMENT, AND AN ACTUAL LOSS OF ALMOST A HALF MILLION JOBS IN AGRICULTURE.

THIS UNEVEN DEVELOPMENT HAS LED TO INCREASING DEMANDS FOR PROTECTION FOR A WIDE RANGE OF U.S. INDUSTRIES INCLUDING AGRICULTURE, STEEL, AND TEXTILES. IN MY OPINION, PROTECTIONISM IS NOT THE ANSWER, IT DOES NOT ADDRESS THE FUNDAMENTAL PROBLEM THAT WE AS A NATION ARE NOT SAVING ENOUGH TO FINANCE OUR EXPENDITURES FOR HOUSING AND PLANT AND EQUIPMENT, COVER THE FEDERAL DEFICIT, AND BE IN BALANCE ON OUR INTERNATIONAL ACCOUNT. PROTECTIONISM WOULD ONLY SHIFT THE BURDEN OF THE BUDGET DEFICIT TO SOME OTHER SECTOR, NOT ELIMINATE IT.

### RELIEF FOR THE DOLLAR

EARLY THIS YEAR, THE EMERGENCE OF LESS OPTIMISTIC PROSPECTS FOR THE U.S. ECONOMY, SUBSEQUENT DECLINES IN

INTEREST RATES, AND SUBSTANTIAL FOREIGN EXCHANGE INTERVENTION ON THE ORDER OF \$10 BILLION BY THE U.S. AND OTHER CENTRAL BANKS IN LATE FEBRUARY HELPED TO PUSH THE DOLLAR DOWN APPROXIMATELY 8 PERCENT BETWEEN FEBRUARY AND SEPTEMBER.

THESE DEVELOPMENTS WERE FOLLOWED BY THE SEPTEMBER AGREEMENT BY THE GROUP OF 5, WHICH CONSISTS OF THE U.S., JAPAN, THE UNITED KINGDOM, FRANCE AND GERMANY, TO COORDINATE THEIR OVERALL ECONOMIC POLICIES TO ENCOURAGE FURTHER ORDERLY DEPRECIATION OF THE DOLLAR AND TO SUPPORT SUCH COORDINATION WITH FOREIGN-EXCHANGE MARKET INTERVENTION WHERE APPROPRIATE. SINCE THE AGREEMENT, THE DOLLAR HAS DECLINED A FURTHER 7 PERCENT AGAINST OTHER CURRENCIES AS A WHOLE. THUS, SINCE FEBRUARY THERE HAS BEEN A TOTAL DROP OF 15 PERCENT IN THE TRADE WEIGHTED VALUE OF THE DOLLAR.

HOWEVER, THE DEPRECIATION AGAINST INDIVIDUAL CURRENCIES HAS VARIED A GREAT DEAL. SINCE THE G-5 AGREEMENT, THE DOLLAR ESSENTIALLY HAS REMAINED UNCHANGED AGAINST THE CANADIAN DOLLAR, HAS DEPRECIATED APPROXIMATELY 15.9 PERCENT AGAINST THE JAPANESE YEN, AND HAS DECLINED 6.8 PERCENT AGAINST THE MAJOR EUROPEAN CURRENCIES.

THE DECLINE IN THE DOLLAR'S VALUE SINCE FEBRUARY HAS BEEN HEARTENING, BUT NEVERTHELESS THE DOLLAR'S VALUE STILL REMAINS APPROXIMATELY 35 PERCENT ABOVE ITS 1980 BASE. IN MY OPINION, FURTHER SIGNIFICANT PROGRESS IN BRINGING THE DOLLAR



DOWN WILL DEPEND UPON, AMONG OTHER THINGS, MEANINGFUL REDUCTIONS IN THE U.S. FEDERAL BUDGET DEFICIT, FOR THE REASONS I HAVE ALREADY DESCRIBED TO YOU. I ALSO HAVE DESCRIBED TO YOU MY VIEWS ABOUT THE LIKELIHOOD OF THAT HAPPENING IN THE FORESEEABLE FUTURE.

IN THIS CONTEXT, IT IS INTERESTING TO NOTE THAT JAPAN, WHOSE CURRENCY HAS MOVED THE MOST AGAINST THE DOLLAR, HAS SUPPORTED ITS FOREIGN EXCHANGE INTERVENTION WITH A RANGE OF DOMESTIC POLICY INITIATIVES. SINCE THE SEPTEMBER MEETING, SHORT-TERM INTEREST RATES HAVE RISEN SIGNIFICANTLY IN JAPAN. IN ADDITION, THE JAPANESE HAVE ANNOUNCED FISCAL INITIATIVES, SUCH AS LOW-INTEREST HOUSING PROGRAMS, TO STIMULATE DOMESTIC DEMANDS, AS WELL AS VARIOUS TECHNICAL CHANGES THAT WILL OPEN UP JAPAN TO FOREIGN PHARMACEUTICAL AND TELECOMMUNICATIONS FIRMS.

### MONETARY POLICY

OVER THE LAST YEAR-AND-A-HALF, THE MOST PRESSING CONCERN OF MONETARY POLICY HAS BEEN TO FACILITATE THE TRANSITION OF THE ECONOMY TO MORE MODERATE BUT SUSTAINABLE RATES OF GROWTH AS THE NEGATIVE EFFECTS OF THE BUDGET DEFICIT BEGAN TO MAKE THEMSELVES FELT ON THE TRADE ACCOUNT.

THIS GOAL HELPS EXPLAIN THE FED'S CONCERN ABOUT HOW TO RESPOND TO THE RAPID GROWTH OVER THE LAST 12 MONTHS OF 11.5 PERCENT IN THE M1 MONETARY AGGREGATE, WHICH CONSISTS OF CURRENCY AND ALL CHECKABLE DEPOSITS. THIS GROWTH HAS PUT M1

WELL ABOVE THE ORIGINAL 4 TO 7 PERCENT M1 TARGET FOR 1985 ADOPTED LAST YEAR, AND EVEN SIGNIFICANTLY ABOVE THE NEW, HIGHER TARGETS FOR THE SECOND HALF OF THE YEAR ADOPTED LAST JULY.

UNDER ORDINARY CIRCUMSTANCES, THE INFLATIONARY DANGERS OF SUCH A RAPID RATE OF M1 GROWTH WOULD HAVE BEEN CAUSE FOR CONCERN. BUT, AS CHAIRMAN VOLCKER EMPHASIZED RECENTLY IN HIS LETTER TO CONGRESSMAN WALTER FAUNTROY, CHAIRMAN OF THE HOUSE SUBCOMMITTEE ON DOMESTIC MONETARY POLICY, CIRCUMSTANCES HAVE NOT BEEN ORDINARY. M1'S RAPID GROWTH HAS BEEN ACCOMPANIED BY A SHARP DECLINE IN ITS VELOCITY -- THE RATE AT WHICH IT CIRCULATES IN THE ECONOMY.

THIS DECLINE IS REMINISCENT OF THE DECLINE IN VELOCITY IN 1982-83 WHICH, IN RETROSPECT, APPEARS TO HAVE REFLECTED GREATER BUSINESS AND HOUSEHOLD WILLINGNESS TO KEEP LARGER AMOUNTS OF CURRENCY AND CHECKABLE DEPOSITS ON HAND AS INTEREST RATES DECLINED. ALTHOUGH THE PARALLELS ARE NOT PERFECT, PART OF THE CURRENT DECLINE IN VELOCITY AND ACCOMPANYING SURGE IN M1 APPEARS TO BE THE SAME PHENOMENON -- A RESPONSE TO THE GENERAL DECLINE IN INTEREST RATES THAT HAS OCCURRED SINCE MID-1984. ADDITIONALLY, THERE HAS BEEN THE EFFECT OF DEREGULATION OF INTEREST RATES PAYABLE ON CHECKABLE DEPOSITS.

BECAUSE OF THE UNCERTAINTY ABOUT M1'S BEHAVIOR, AS WELL AS THE CONCERN TO PREVENT THE EXPANSION FROM BEING DERAILED

BY THE ECONOMY'S ADJUSTMENTS TO THE BUDGET AND TRADE IMBALANCES, CHAIRMAN VOLCKER INDICATED IN HIS LETTER TO CONGRESSMAN FAUNTROY THAT THE FEDERAL OPEN MARKET COMMITTEE, OR FOMC, DECIDED THAT M1 GROWTH ABOVE THE REVISED 3 TO 8 PERCENT TARGETS WOULD BE ACCEPTABLE. MEANWHILE, THE OTHER MONETARY AND CREDIT AGGREGATES USED AS TARGETS BY THE FED ARE GENERALLY WITHIN THE GROWTH RANGES SET FOR THE YEAR. UNDER THESE CIRCUMSTANCES, IN THE SETTING OF MONETARY POLICY, PARTICULAR ATTENTION IS BEING GIVEN TO ON-GOING DEVELOPMENTS IN THE ECONOMY, IN DOMESTIC CREDIT MARKETS, AND IN FOREIGN EXCHANGE MARKETS.

### ECONOMIC OUTLOOK

LET ME CONCLUDE BY SAYING A FEW WORDS ABOUT THE ECONOMIC OUTLOOK FOR THE U.S. ECONOMY, AND FOR UTAH. OUR STAFF AT THE BANK IS PREDICTING A 3.3 PERCENT EXPANSION IN THE NATIONAL ECONOMY, AS MEASURED BY THE GROWTH IN REAL GNP BETWEEN THIS QUARTER AND THE FOURTH QUARTER OF 1986. THIS IS SOMEWHAT HIGHER THAN THE 2 PERCENT GAIN EXPECTED THIS YEAR, WHICH REPRESENTED A SLUGGISH FIRST HALF BUT A STRONGER SECOND HALF.

WE EXPECT THAT CONSUMER SPENDING WILL CONTINUE TO GROW THROUGH 1986 BUT SIGNIFICANTLY BELOW THE RELATIVELY ROBUST RATES FOR THE FIRST THREE QUARTERS OF THIS YEAR, AS HOUSEHOLDS IN 1986 BUILD UP THEIR DEPLETED SAVINGS. AT THE SAME TIME, A RELATIVELY LOW OPERATING RATE FOR FACTORIES AND

WIDESPREAD VACANCIES IN OFFICE SPACE SUGGEST THAT BUSINESS'S EXPENDITURES ON EQUIPMENT AND CONSTRUCTION WILL BE SLUGGISH. A RECENT MCGRAW HILL SURVEY OF BUSINESS CAPITAL SPENDING INTENTIONS SHOWED SLIGHTLY LOWER DOLLAR OUTLAYS NEXT YEAR COMPARED TO THIS. EVEN AFTER TAKING INTO ACCOUNT THAT SURVEY'S CHRONIC TENDENCY TO BE PESSIMISTIC, AND MAKING SOME REASONABLE ESTIMATES OF PRICE INCREASES FOR CAPITAL GOODS, IT STILL APPEARS THAT WE COULD END UP WITH BUSINESS CAPITAL SPENDING (IN INFLATION-ADJUSTED TERMS) GROWING MORE SLOWLY NEXT YEAR THAN THIS.

HOWEVER, BY THE SECOND HALF OF NEXT YEAR, THE EFFECTS OF THIS YEAR'S DEPRECIATION OF THE DOLLAR WILL BEGIN TO GIVE A BOOST TO THE ECONOMY AS OUR EXPORTS BECOME MORE COMPETITIVE ABROAD AND DOMESTIC PRODUCERS ARE BETTER ABLE TO COMPETE WITH IMPORTS. OUR STAFF ESTIMATES THAT THE DECLINE TO DATE IN THE DOLLAR'S VALUE WOULD BE SUFFICIENT TO BOOST GNP GROWTH IN THE SECOND HALF OF 1986 RELATIVE TO ITS SLUGGISH PACE IN THE FIRST HALF OF THE YEAR. AT THE SAME TIME, HOWEVER, THE RESULTING RISE IN THE PRICE OF IMPORTS FROM A DEPRECIATING DOLLAR IS EXPECTED TO RESULT IN A SLIGHT UPTICK IN INFLATION FROM THIS YEAR'S EXPECTED RISE OF ABOUT  $3\frac{1}{2}$  PERCENT. FINALLY, IT APPEARS THAT THERE WILL BE LITTLE CHANGE IN THE OVERALL UNEMPLOYMENT RATE IN THE ECONOMY, RECENTLY AT A RATE OF A LITTLE OVER 7 PERCENT.

## UTAH SCENE

LET ME NOW TURN TO A BRIEF DISCUSSION OF THE UTAH ECONOMY, A TASK WHICH I UNDERTAKE CAUTIOUSLY AS SOMEONE FROM OUTSIDE YOUR STATE. AT OUR BANK, WE DO ATTEMPT TO MONITOR KEY ECONOMIC DEVELOPMENTS IN OUR NINE-STATE AREA. THUS, I WILL GIVE YOU A VIEW OF THE UTAH OUTLOOK AS IT APPEARS TO OUR RESEARCH STAFF.

IN RECENT MONTHS, UTAH, LIKE THE NATION, HAS SEEN A SLOWDOWN IN EMPLOYMENT GROWTH. HOWEVER, UNEMPLOYMENT IN UTAH REMAINS LOW, AND IN SEPTEMBER STOOD AT 5.9 PERCENT, LOWER THAN BOTH THE UTAH RATE THIS TIME LAST YEAR, WHICH WAS 6.5 PERCENT, AND THE NATIONAL RATE OF 7.1 PERCENT.

THE TRADE AND SERVICE SECTORS IN UTAH ARE DOING VERY WELL. TOGETHER THESE TWO SECTORS MAKE UP CLOSE TO 45 PERCENT OF UTAH'S NONAGRICULTURAL EMPLOYMENT BASE, AND IN THE PAST YEAR EMPLOYMENT IN THESE SECTORS HAS GROWN MUCH FASTER THAN HAS TOTAL STATE EMPLOYMENT. THIS GROWTH REFLECTS STRONG CONSUMER SPENDING, AS WELL AS A GROWING TOURIST INDUSTRY IN UTAH.

AS YOU KNOW, FEDERAL, STATE, AND LOCAL GOVERNMENTS TOGETHER ACCOUNT FOR 20 PERCENT OF THE STATE'S JOBS. LOCAL GOVERNMENT, THE MOST IMPORTANT JOB SOURCE, HAS GROWN ESPECIALLY RAPIDLY, PARTLY DUE TO THE CONTINUING NEED FOR ADDITIONAL SCHOOLS TO EDUCATE UTAH'S GROWING POPULATION. FEDERAL GOVERNMENT EMPLOYMENT HAS RECEIVED A BOOST IN RECENT

YEARS FROM DEFENSE SPENDING, WHICH PROVIDES ALMOST 60 PERCENT OF UTAH'S FEDERAL GOVERNMENT EMPLOYMENT.

OTHER SECTORS, HOWEVER, PRESENT A LESS ROSY PICTURE. ALTHOUGH NONRESIDENTIAL CONSTRUCTION REMAINS ROBUST, RESIDENTIAL CONSTRUCTION ACTIVITY HAS BEEN SLUGGISH, DESPITE LOWER MORTGAGE INTEREST RATES. THE MOST RECENT DATA SUGGEST, HOWEVER, THAT WHILE MULTIFAMILY CONSTRUCTION MAY BE WEAKENING FURTHER, SINGLE-FAMILY CONSTRUCTION IS PICKING UP SLIGHTLY.

MANUFACTURING ACTIVITY IN UTAH HAS BEEN SLUGGISH, AS IT HAS THROUGHOUT THE NATION. THIS TREND PROBABLY WILL CONTINUE SO LONG AS THE DOLLAR REMAINS STRONG. BEYOND RESIDENTIAL CONSTRUCTION AND MANUFACTURING, UTAH'S MAJOR PROBLEM LIES IN THE MINING SECTOR. DEPRESSED WORLD PRICES HAVE HIT COPPER PRODUCTS PARTICULARLY HARD, AS THE CLOSING OF KENNECOTT'S UTAH OPERATIONS ILLUSTRATES. LARGELY REFLECTING THE KENNECOTT CLOSURE, EMPLOYMENT IN MINING INDUSTRIES FELL A WHOPPING 22 PERCENT OVER THE PAST YEAR, AND PRESENTLY THERE IS NO RELIEF IN SIGHT. THE OUTLOOK FOR OUR MINING INDUSTRIES WILL CONTINUE TO BE IMPACTED ADVERSELY BY THE STRONG DOLLAR AND BY WORLDWIDE DISINFLATION.

UTAH'S ECONOMY IS REDUCING ITS RELIANCE ON THE WEAK MINING AND MANUFACTURING INDUSTRIES AND, LIKE THE NATION, EVOLVING INTO A MORE SERVICE ORIENTED ECONOMY. IF CONSUMER SPENDING REMAINS STRONG, THE CHANGES IN UTAH'S ECONOMIC BASE

SHOULD PROVIDE A SOUND BASIS FOR CONTINUED ECONOMIC GROWTH. THE LOW UNEMPLOYMENT RATE IN THE STATE IS AN ESPECIALLY ENCOURAGING SIGN.

**CONCLUDING REMARKS**

IN SUMMARY, WE SEE THE ECONOMIC EXPANSION CONTINUING AT A MODERATE PACE THROUGH 1986. SOME UPTICK IN INFLATION ALSO IS LIKELY, ALTHOUGH THE RATE STILL WILL BE SUBSTANTIALLY BELOW THE DOUBLE DIGIT RATES THAT BATTERED THE ECONOMY AS RECENTLY AS FOUR YEARS AGO.

ADMITTEDLY THE UNEVEN TONE AS BETWEEN DIFFERENT SECTORS OF THE ECONOMY IS LIKELY TO CONTINUE, UNLESS OR UNTIL THE MASSIVE IMBALANCE IN THE FEDERAL DEFICIT IS REDUCED, WITH A CONSEQUENT FURTHER LOWERING OF BOTH INTEREST RATES AND THE INTERNATIONAL VALUE OF THE DOLLAR. SOLUTIONS TO THESE PROBLEMS ARE BEYOND THE ABILITY OF MONETARY POLICY ALONE TO REMEDY. NEVERTHELESS, I BELIEVE THAT THE FEDERAL RESERVE CAN TAKE CONSIDERABLE SATISFACTION FROM ITS KEY ROLE IN CURBING INFLATION SINCE 1980, WHILE AT THE SAME TIME SEEING THE ECONOMY AS A WHOLE ENJOY ONE OF THE STRONGER EXPANSIONS OF THE POST-WAR PERIOD.