

**FEDERAL RESERVE BANK  
OF SAN FRANCISCO**

**OFFICE OF  
THE PRESIDENT**

**WELCOMING REMARKS  
ECONOMIC OUTLOOK**

**ROBERT T. PARRY  
President  
Federal Reserve Bank of San Francisco**

**NATIONAL ASSOCIATION OF AFFORDABLE HOUSING LENDERS  
San Francisco**

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I. Good morning. I'd like to extend to you a personal welcome from the Federal Reserve Bank of San Francisco.

A. We are pleased to co-sponsor this conference.

B. As I look over your agenda, I see that you have two very full days ahead of you, and I'll be interested in what develops from your meetings and seminars.

C. In my remarks today, I'd like to brief you on my outlook for the economy, and then discuss what it implies for financing affordable housing.

II. Let me begin with where we stand today.

A. Nationally, the economy has been slowing down since 1989.

1. In the last quarter of 1990, the slowdown turned into an outright contraction.

2. And in the first quarter of this year, output appears to have fallen sharply.

B. Regionally, many western states have shown some growth, though California has slipped along with the nation.

1. California's employment has fallen half a percent since July.

2. And in March the state's unemployment rate hit 7-3/4 percent, nearly a full point above the national rate.

3. The hardest hit sectors in California are the same as those in the nation: consumer durables and construction.

III. How did the slowdown turn into a recession?

A. Clearly, the oil price shock and the Gulf crisis played a significant role.

B. But two other factors--a credit crunch and plummeting consumer confidence--also have received a lot of attention, and I'll say a few words about each.

C. First, the credit crunch.

1. Depository institutions, as you well know, have had over a year of turmoil--the S&L crisis, problem loans, squeezed earnings, and stiffer capital

requirements.

- a. These problems no doubt have put a crimp in certain kinds of lending, especially commercial real estate.
2. Frankly, I doubt that these constraints were enough to send us tumbling into a recession.
3. A broader look at credit availability suggests that:
  - a. Households have channeled more money directly to the credit markets through increased holdings of government and private securities.
  - b. And nonbank intermediaries, like insurance companies and mutual funds, have supplied more credit.
4. So, though credit constraint seems to be affecting certain segments of the economy, I don't think it's the main culprit.

D. Second, consumer confidence.

1. A major survey recorded that consumer sentiment declined beginning in early 1990--after the invasion of Kuwait, it plummeted.
2. It's not surprising to find that consumers were wary of purchasing big-ticket items and that businesses were nervous about making major investments.
  - a. Besides the war, the oil supply, and the turmoil in the financial and real estate industries, there was a climbing unemployment rate and a national budget deficit to worry about.
3. Once the war was over, the survey reported consumer confidence on the upswing, though still below '89 levels.

IV. At the same time, other factors in the economy have remained fairly positive, and should help smooth the path to recovery.

- A. The dollar is still about 13 percent below its peak in mid-89, which makes our exports more attractive and should improve our trade balance.

- B. Second, inventories have been at relatively low levels, even in the face of last quarter's weak overall demand.
- C. And last, Fed policy responded to the signs of the downturn promptly and decisively.
  - 1. Since July, short-term rates have dropped more than 2 percentage points, partly in response to a series of easing moves by the Federal Reserve.
  - 2. And since mid-December, we reduced the discount rate a full percentage point.
- D. These factors, together with lower oil prices and a rebound in consumer confidence, seem to set the stage for a modest recovery beginning in the second half of this year.
  - 1. I must admit, though, that the March employment report was disappointing.
    - a. Unfortunately, we could see more of the same in the next few months--even as the economy begins to turn around--because employment tends to lag in a recovery.
- V. What does this forecast mean for affordable housing?
  - A. For one thing, the combination of the recession and lower interest rates has reduced the costs of housing.
    - 1. In California the median price of existing homes was actually slightly lower in 1990 than in 1989.
    - 2. But let me put that in a broader perspective: The price for 1990 is over a third higher than it was in 1987!
    - 3. Clearly, the need for affordable housing in this state and in many others, is enormous and growing.
    - 4. The recession and modest pace I expect for the recovery simply add urgency to an already dire situation.
- VI. Arguments in favor of bold action on this front are easy to make.
  - A. We risk economic stagnation in our metropolitan areas.
    - 1. The Bay Area Economic Forum projects that in 15 years the lack of affordable housing could cost

this area almost half a million new jobs.

B. We risk social ruptures--between the haves and the have-nots, between races, between cultures.

1. While housing prices rocketed up in the 80s, the (real) income of the bottom 40 percent of the population declined.

2. Many of those in the bottom 40 percent are low-skilled immigrants--from South and Central America, the Pacific Rim nations, and most recently, the Soviet Union.

a. Failure to provide affordable housing and economic opportunity could increase their isolation from our society and tension among ethnic groups.

C. Although affordable housing isn't by itself the whole solution to these problems, it's a critical and necessary element.

VII. Let me conclude by saying that, serious though this issue is, I am encouraged.

A. The California Community Reinvestment Corporation has proven that banks, working in concert with nonprofit intermediaries, can successfully pool resources and share risks to provide an effective program to finance affordable housing.

1. In its first year of operation, CCRC has extended \$10 million in loans.

B. And that success, I'm pleased to say, is contagious.

1. Programs modeled on CCRC are about to begin in Hawaii, Nevada, and Washington.

C. Finally, I am greatly impressed by the "can-do" attitude that pervades this conference.

1. As you know, sponsoring conferences like this is just a part of the San Francisco Fed's commitment to affordable housing.

2. I expect it will be a very fruitful part.

a. The ambitious agenda you've set yourselves should generate innovations and insights that can make real headway on this problem.

3. That is precisely what these conferences are for.  
That is precisely what this state, what this  
region, what this country, needs.