

# DEPARTMENTAL MEMO



TO Distribution

DATE November 8, 1982

FROM Ed Dodson

SUBJECT Chamber of Commerce Annual Economic Forecasting Conference

This memorandum summarizes the projections made by various industry and government economists as presented November 5th at the above conference attended by me on behalf of the bank.

HOWARD R. HOWE, Vice President & Director, Wharton Econometrics

Absent external political or economic shocks during the remainder of the decade, Wharton predicts a rather cyclical growth pattern. Their data indicates no growth has been experienced between 1979 and the present; and, although a backlog of demand pressures indicate a mild recovery stimulated by government deficits, and absence of confidence in government fiscal and monetary policies will keep interest rates at historically high levels.

Unemployment. Despite recovery, unemployment tends to be "sticky downward" and will continue to rise through 1983. An unemployment rate of 8-10% may last throughout the decade as efforts to improve the deficit act as a brake on growth.

Inflation. Could fall below 6% during 1983, rise above 6.3% in 1984 and drop to approximately 4.8% by the end of the decade. Two areas anticipated to impact inflation are the decontrol of natural gas (+ .2%) and wage contracts scheduled for renegotiation in 1985.

Fixed Investment By Business. As a percentage of GNP, business investment in plant and equipment has fallen from a 1965 high of 18% to a projected negative 5-6% for 1983. An 8-10% increase over 1983 is projected for 1984. The primary reasons for the fall off are:

- o Continued high real interest rates
- o Uncertainty
- o Poor Liquidity of most businesses due to heavy borrowing
- o Investment plans are being geared toward increasing productivity and reducing labor costs (with even worse prospects on the unemployment picture).

Government Deficit. Lower inflation will further reduce government tax receipts, pushing the deficit up to \$154 billion in 1983. Assuming a combination of increased taxes and budget costs (as well as reduced interest rates on federal debt) the 1984 deficit will be around \$128 billion.

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Interest Rates. Long term rates are predicted to be down to 10.4% by 1984.

WILLIAM HOPPE, Economist, Bethlehem Steel Corp.

Mr. Hoppe advised that domestic steel production is the lowest since the 1958 recession and consumption, even counting imports, is below 1962 levels. Recovery will require several consecutive years of capital spending by domestic industry -- the U.S. is producing at 40% capacity, elsewhere worldwide is 60% of capacity. Further layoffs are forecasted for 1984.

On the subject of the dollar, Mr. Hoppe expressed concern over the dollar's strength particularly in relation to the Yen and French Franc. On the one hand, capital inflows should drop back as interest rates fall; however, the world financial crisis has made the dollar a haven for foreign capital.

DUANE A. PAUL, Economist, Sun Company

A combination of weak demand, conservation, shift in sources of supply and substitution produced a 15% worldwide and 21% domestic drop in consumer per unit of economic activity. An additional 2% drop in demand is projected for 1983.

RICHARD A. STUCKEY, Economist, E.I. DuPont

A strong dollar and heavy debt being carried by developing countries will contribute to further declines in exports and hurt the recovery. DuPont (and industry) are producing at a record low 68% of capacity and is in a state of major contraction.

GEOFFREY STENGEL, JR., Secretary of Commerce, Commonwealth of Pennsylvania

Representing the Thornburg administration, Mr. Stengel highlighted programs undertaken to improve the business climate in the commonwealth. Highlights were:

- o Growth in state spending cut to  $\frac{1}{2}$  inflation.
- o Welfare reform (state had 5% of nation's population and 20% of welfare cases).
- o Through 79-81 Pennsylvania was forth in formation of new corporations and third in foreign investment.

He pointed out there are approximately 400 vacant plants in Pennsylvania; the state is attempting to attract foreign business to take some of them over. Not surprisingly, heavy industry and manufacturing are being deemphasized in favor of high technology and service industries.

SUMMARY

The overall assumptions made are appropriately described as "cautiously optimistic". There was a concenses that the recession had reached bottom but that recovery could easily be stalled by external political/economic shocks or by a failure on the part of the administration and the FED to generate confidence in their respective policies.



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Ed Dodson

EJD/ah

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