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Several participants went further to suggest that there really exists no broad-based, societal consensus for achieving price stability. Rather, there may be a consensus for inflation rate "predictability." As to whether there are differential effects on separate sectors of the economy resulting from anti-inflation policies, one participant noted that there are always changes in relative prices in the economy. Even a constant 4½ percent inflation rate implies that prices in some sectors of the economy will rise faster, and prices in other sectors slower, than the overall inflation rate. Moreover, manufacturing industries perform well in the low-inflation economies of West Germany and Japan.

Many participants felt that the most important goal for the Federal Reserve was to gain credibility by committing itself to policies that will gradually result in reduced inflation accompanied by steady growth. Some called for legislation that specifies a zero target for inflation. Others believe credibility is achieved when the Federal Reserve takes actions that are perceived as being anti-inflationary.

Several also noted the need for the federal government to commit to price stability. "Other parts of the government have a vested interest in higher inflation," pointed out one economist, who noted that it is easier to pay off debt in cheaper dollars. Other types of pressure on prices result from government actions as well: prices are pushed up in health and agriculture, for example, by government policies.

**Conclusion**

Is the economy on a soft landing path? Only partially. Obviously, economic output has slowed and is expected to slow even further, though avoiding a recession, at least until mid-1990.

Consistent with a soft landing, inflation moderated last quarter, indeed more than widely expected, although a one-quarter improvement is scant evidence that the underlying inflation rate has improved. According to the Roundtable group, the nation will not have to face the problem of accelerating inflation again until 1991, when economic growth will have strengthened.

In the interim, growth-rate declines in some sectors are still possible. Representatives of goods-producing firms painfully recall the 1984-1986 period, when their industries experienced intense foreign competition and limited ability to increase prices. They clearly do not relish reliving that experience, despite the fact that, overall, GNP grew at a healthy pace.

The Fourth District Economists’ Roundtable showed little current agreement on the desirability of legislated solutions to the problem of inflation, nor on the characteristics of a transition period that would lead to zero inflation. There was, however, strong support for the general concept of price stability and its ultimately beneficial effects on the economy.

**How Soft a Landing?**

*by Paul J. Nickels and John J. Erceg*

If the economic expansion that has guided the U.S. economy since the conclusion of the recession of 1981-1982 were a party, the band is now on a break and refreshments are running a little low. No one is certain about what might happen after the break, but the band just may be saving its best material for the next set, and must feel that things will pick up rather nicely later in the evening—in the case of the economy, late in 1990, heading into 1991.

This scenario roughly conveys the combined perspective of a group of nearly 30 economists who gathered at the Federal Reserve Bank of Cleveland on October 20 for the fall 1989 version of the Bank’s periodic Fourth District Economists’ Roundtable.

The group was a diverse one, representing manufacturing, trade, and financial industries. Its outlook calls for a slowdown in growth heading into 1990, concentrated in the manufacturing sector; continued slow growth in real GNP, continued, though slightly moderating inflation in the range of 4 to 4½ percent, and continued economic growth in the services sector; and an apparent end to the capital spending boom.

Additionally, according to some of the participants, an end to the improvement in the trade deficit is in store, the value of the dollar in foreign exchange markets will likely move irregularly downward for the next few years, and pressure will grow on the Federal Reserve to gradually shift away from its stated goal of price stability toward suspending the expansion.

**The Pause That Refreshes**

Nearly all assembled were in agreement that the economy, relative to the rapid pace of 1987 and 1988, is clearly in a cooling-off period. Generally, most of the Roundtable economists predicted slow growth in output for the remainder of 1989 and through the second quarter of 1990, with a pickup beginning late in 1990 and continuing into 1991 (see figure 1). Although fewer expected a recession to occur than at the Roundtable meeting held in June, the range of forecasts was wider, and the group believed that the margin for error had shifted toward the possibility of a weaker-than-expected expansion.

Representatives from the manufacturing industries—automotive, heavy equipment, and electronics—irrevocably reported softening in capital spending, high but easing capacity utilization rates, scattered layoffs, and caution management of inventories. Manufacturing output has shown little or no growth at all since last spring, manufacturing employment has been declining, and construction is sluggish.

One auto economist noted that the auto industry is generally gathering up for a period of declining sales in the 1990s. The industry itself is paying very close attention to inventories, as are its supplying industries, particularly steel. He noted that auto sales incentives "...will be around forever," stating that the various incentive programs in place during 1989 were responsible for as many as 800,000 units of total industry sales, after contributing 500,000 units in both 1988 and 1987. The incentives are not, however, leading to a particularly noticeable net increase in floor traffic or sales closures; rather, they seem to have become expected by consumers, who merely wait for the incentives before making their purchase.

One factor in the automotive market leading to a slightly optimistic long-run outlook is the relatively high age of the car fleet. Demand is expected to pick up when those who have finally achieved some equity after paying off most of the new-standard five-year loans begin to trade in for new cars.

The auto economist warned that the competition is going to remain fierce. There are now no less than 38 car manufacturers competing in the world.
Growth rates in new orders for and production of communications equipment peaked in early 1988 and 1989, respectively, and not much improvement is expected in 1990.

Major markets for electronic components, especially semiconductors, have cut back their demand from peak rates in late 1988, with the result that order growth has softened. Continued declines for electronics equipment are expected into 1990.

Industrial machinery orders have been on a downward path because of declines in corporate cash flow and in commercial and industrial construction. Although orders from domestic buyers have fallen, export orders remain strong.

Heavy-duty truck orders and production have declined substantially from the near-record rates in late 1988 and early 1989, when anticipated price increases and extended deliveries contributed to a bulge in orders. The order decline is apparently near a trough. The level of orders in September was a little above its six-month average, and cancellations have receded.

Notwithstanding reports of a slowdown in those capital-goods industries, most of the Roundtable forecasters expect a small increase in nonresidential fixed investment over the next four quarters—about 1.5 percent. Consequently, should that expectation be borne out, neither manufacturing nor overall economic growth will be supported by business fixed investment, as was the case in 1987 and 1988.

The Dollar and Deficits

The slow growth rate in output that is widely expected for 1990 is also associated with little further improvement in net exports. Many forecasters attribute the slowdown in net exports to a bulge in orders. The order cancellations have receded. Industrial machinery orders have been on a downward path because of declines in corporate cash flow and in commercial and industrial construction. Although orders from domestic buyers have fallen, export orders remain strong.

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