Georgia Economic Trends and Outlook
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Georgia Economic Trends and Outlook

Georgia Economic Trends and Outlook summarizes recent economic trends in the state of Georgia and for the US as a whole. In addition, it presents the forecasts of key economic indicators that underlie the Governor's Revenue Estimate submitted to the General Assembly as part of the Governor's Budget Recommendations for Amended Fiscal Year 2018 and Fiscal Year 2019.

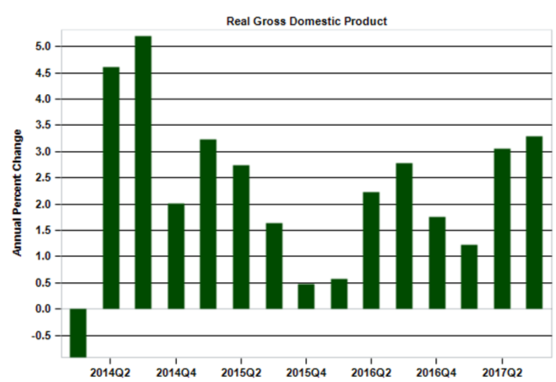
The US economy has been growing since June 2009 and the current economic cycle is the third longest of the post World War II era. Despite its length, the current cycle shows no real evidence of ending. Conditions are solid across multiple sectors of the economy. Labor markets are strong and near full employment. Consumer spending is growing at a moderate pace with solid household financial conditions supporting spending growth. Business investment in equipment has strengthened and the financial sector is stable. Georgia's economy also continues to expand. Non-farm employment grew by 87,800 jobs or 2.0% year over year as of October 2017. Unemployment is low, the labor force is expanding and initial unemployment claims are still below year ago levels. Job growth in Georgia is well diversified across sectors and metro areas. Personal income is growing faster than in the U.S. as a whole.

In sum, the US and Georgia economies continue to expand at a moderate pace. Growth is well-balanced across economic sectors and current financial conditions are benign with low interest rates and very low inflation. These conditions set the stage for moderate economic growth to remain in place for AFY 2018 and FY 2019.

Recent Economic Trends – US and Georgia

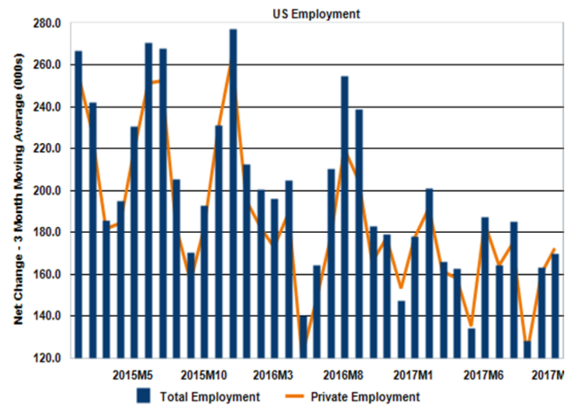
GDP

- Real GDP growth hit 3.3% in 2017 Q3. GDP growth was just 1.2% in the first quarter but has ramped up in Q2 and Q3. GDP growth in Q3 was primarily supported by consumption and investment activity. Investment was boosted by a strong build in inventories during the quarter.
- GDP growth is expected to average between 2.5% and 3.0% through FY 2018 before tailing off toward 1.5% by the final quarter of FY 2019.

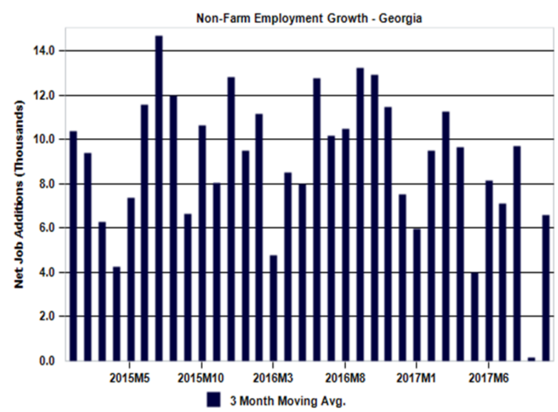


Labor Markets

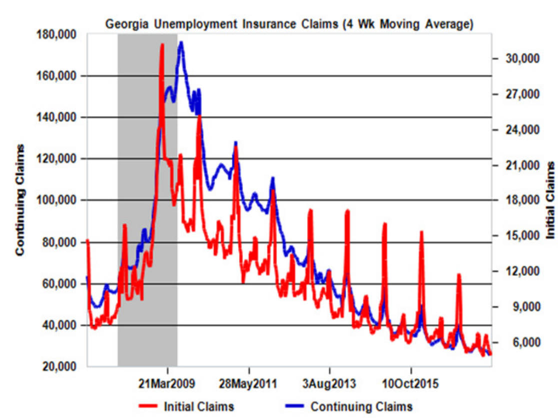
- US non-farm employment growth is growing at a strong pace with net job additions averaging over 170,000 per month as of November 2017. This is well above the rate needed to meet population based growth in the labor force. Thus, job growth is tending to bring people off the sidelines and back into the labor force.
- The US unemployment rate has declined to 4.1% in November 2017, down from 4.6% the prior November. Broader measures also show the labor market is tight, indicating that the US labor market is at or extremely close to full employment.
- This is expected to push wage escalation higher over the budget planning period.



- Non-farm employment in Georgia is growing more rapidly than for the US as a whole. As of October 2017, net job growth is averaging about 6,600 new jobs per month. Job growth is reasonably well-diversified across industry sectors and metro areas across the state. As of October, job growth equals 2.1% on a year over year 3 month moving average basis, which is well above the comparable US growth rate of 1.4%.

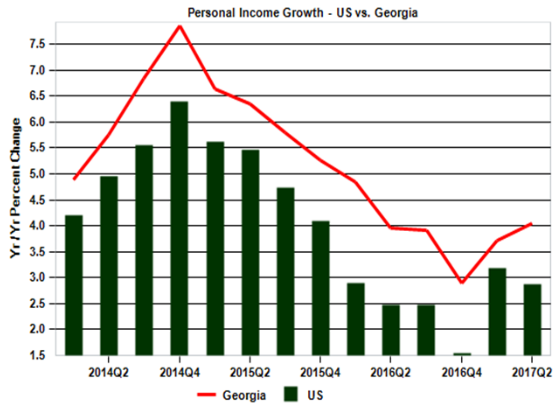


- Initial unemployment insurance claims in Georgia are consistent with a healthy, dynamic labor market. As of early December, initial claims are running at levels below those experienced prior to the Great Recession, even though current non-farm employment is higher than the pre-recession level.

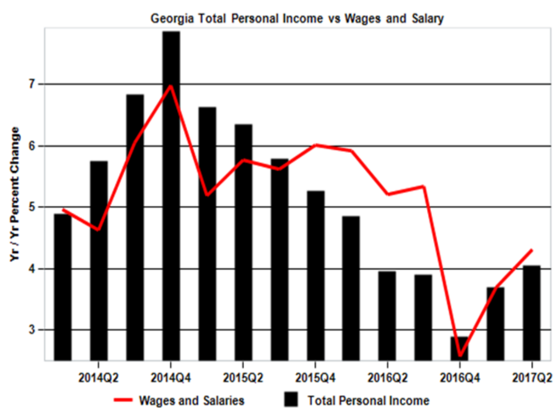


Personal Income

- US and Georgia total personal income is growing at a moderate pace as of 2017 Q2. Year over year personal income growth in Georgia has exceeded that of the US for an extended period as Georgia has benefitted from faster job growth and population growth compared to the US as a whole.

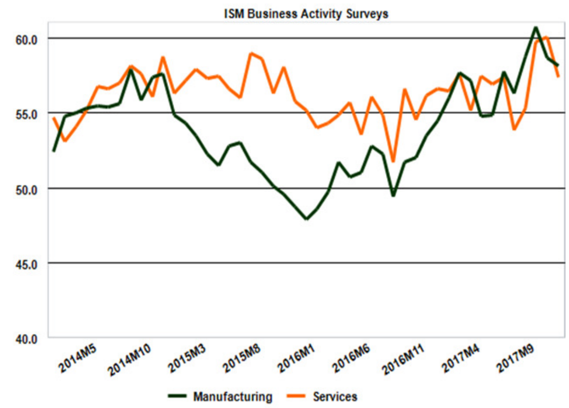


- On a year over year basis, the Wages and Salaries component of Georgia personal income has grown much more rapidly than overall personal income growth during 2015 and much of 2016. Growth in both total personal income and wage and salary income slowed sharply in 2016 Q4 but have ramped back up in the first half of 2017. Both measures of personal income are expected to grow at moderate rates during the budget period.

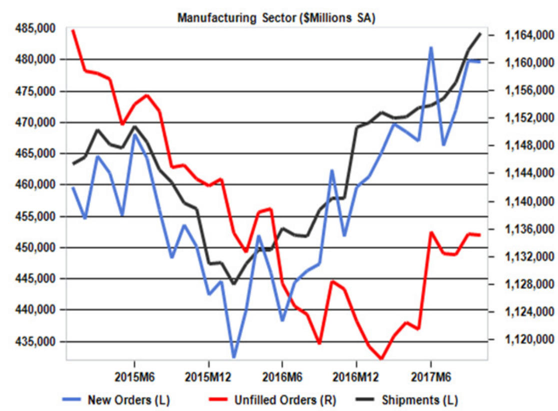


Business Conditions

- The ISM business activity indicators are both in expansionary territory. The ISM index for manufacturing is 58.2 as of November 2017. U.S. manufacturing had contracted in late 2015 but has ramped up significantly since that short period of contraction.
- The ISM services index equals 57.4 for November 2017 indicating that the sector is expanding at a solid rate.

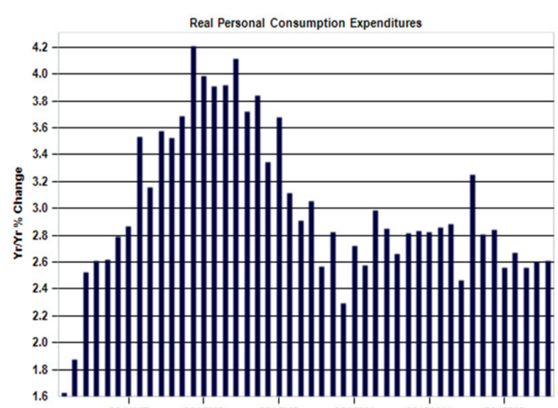


- Detailed indicators for the manufacturing sector also suggest that manufacturing has strengthened significantly.
- New orders and shipments have been moved higher and are at their highest level in recent years. The backlog of unfilled orders has also strengthened.

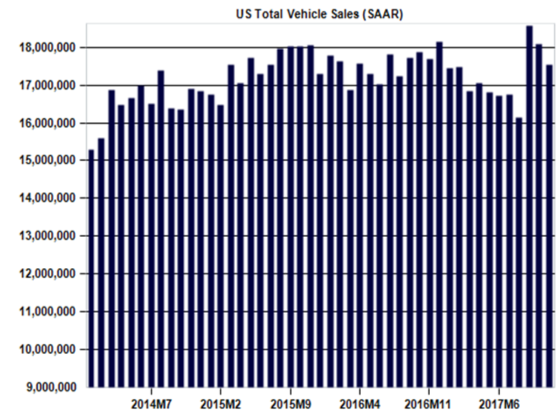


Consumers

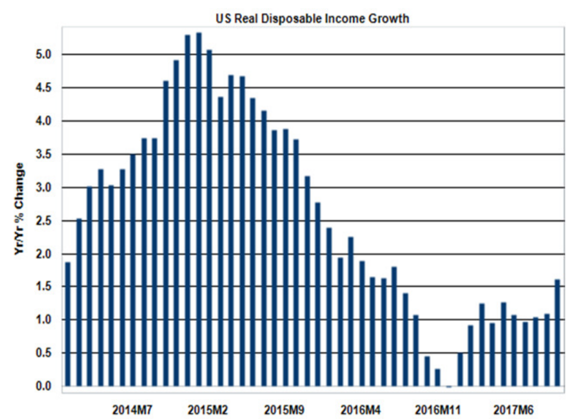
- Real consumer spending has been growing at about 2.6% year over year. Consumer spending has been supported by solid fundamentals: increasing household wealth, rising disposable income, low debt burdens and strong job growth.



- New auto sales have tailed off as the pent up demand for new vehicles has largely been satisfied. After averaging over 17 million units annualized for much of 2016, sales had slowed to about 16 million units annualized by mid-2017.
- Vehicles sales picked up in the last three months but this strengthening primarily reflects the need to replace vehicles damaged during recent hurricanes in Texas and Florida. Vehicle sales are expected to return to lower levels once this temporary demand is satisfied.

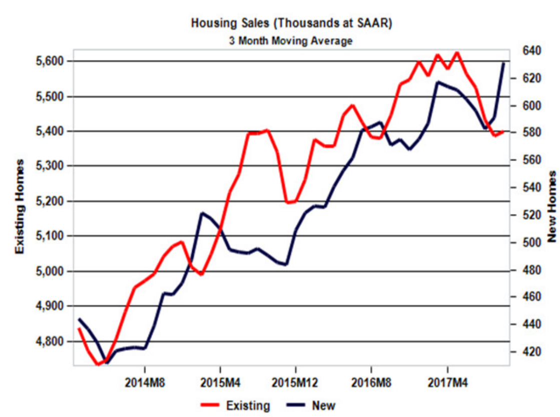


- A key driver of consumption growth is real disposable income growth.
- The growth rate of real disposable income has been modest over the last year. Growth has been running at about 1.0% year over year although it picked up to 1.6% in October. This suggests that real consumer spending growth will be moderate.

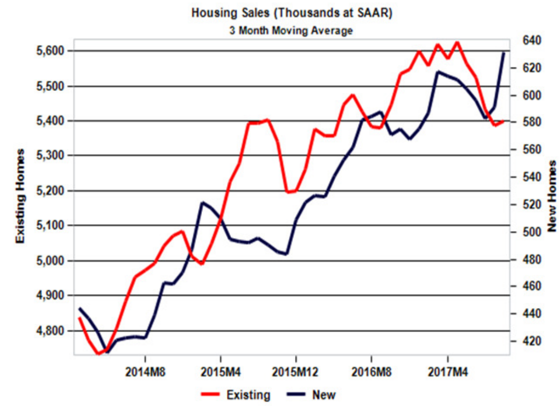


Housing

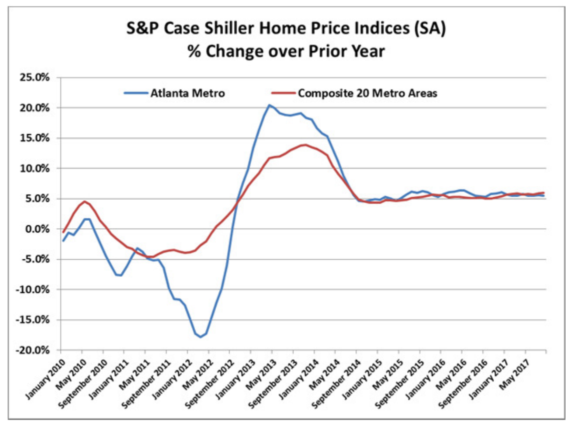
- The recovery in housing activity continues at a modest pace. Home sales, while volatile on a monthly basis, are trending up. However, current sales levels remain far below pre-recession levels.
- Demographic trends and job and wage growth should continue to support improvement in the housing market.
- One risk factor is rising interest rates as markets react as the Federal Reserve continues to move toward normalization of its policy position.



- Housing starts are also trending up, despite taking a short down-turn in mid-2016. Given on-going growth in jobs and income, housing starts are also expected to increase during the budget period.

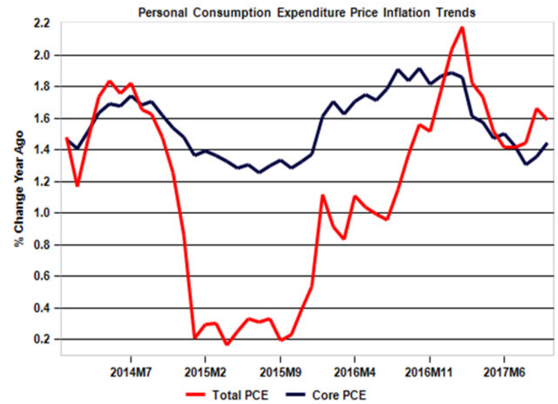


- Home prices continue to increase, although the pace of growth on a year over year basis has moderated. Atlanta metro prices are up 5.5% as of August 2017 over the prior August. This is slightly below the percent change in the composite index for 20 metro areas over the same period of 6.0%.

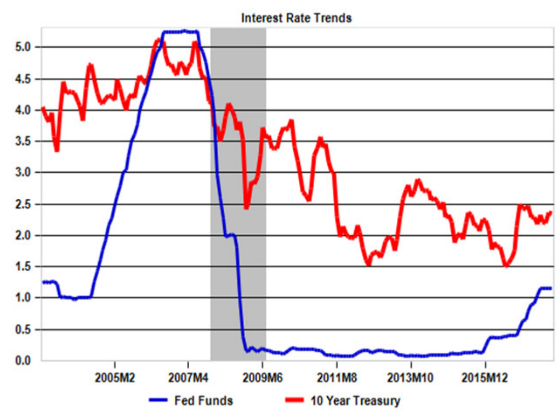


Inflation and Finance

- The Fed's key measure of prices, the core personal consumption expenditures deflator, shows that inflation is low at just 1.45% as of October 2017, below the inflation target of 2.0%. Core PCE excludes the volatile food and energy components.
- The overall PCE deflator is running at just 1.6% so no clear evidence of inflation is presenting itself in the economy.
- Despite the low inflation environment, the Fed has signaled that it expects to raise its policy rate in December 2017 and to implement additional step increases in the rate during 2018.



- As shown, the fed funds rate, the primary policy tool of the Fed has risen over the last two years as the Fed has slowly reduced its policy accommodation. Despite this, the 10 year Treasury rate has been trending flat in recent months.
- The result has been a flattening of the yield curve.

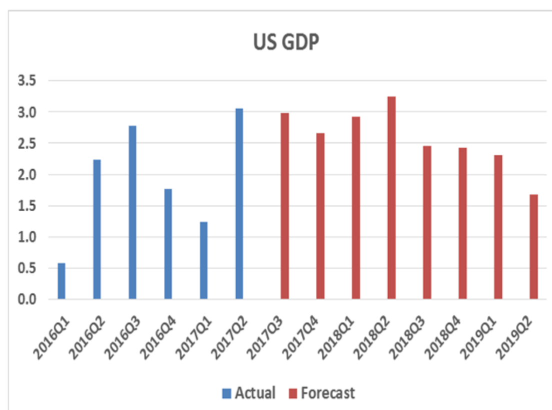


Georgia Economic Forecast – Key Principles and Overview

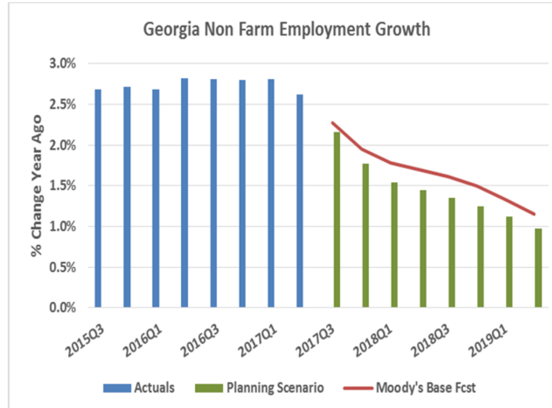
- U.S. and Georgia forecasts are derived from forecasts prepared by Moody's Analytics. For revenue estimation purposes, the forecast of Georgia economic indicators such as personal income and employment are adjusted to provide a conservative growth scenario.
- Georgia's economic growth is closely linked to that of the U.S. economy. Moody's current forecast for U.S. GDP is for growth to continue around its most recent pace near 3.0% (seasonally adjusted annual rate) through the middle of 2018. Thereafter, growth is expected to moderate reaching a little over 1.5% by the end of the budget period. Thus, the Moody's base case forecast of the US economy leads to continued growth in employment and personal income in Georgia over the budget cycle.
- The adopted economic forecast scenario results in moderate revenue growth. Through November 2017, fiscal year-to-date tax collections reported by the Department of Revenue grew 2.7% over the prior fiscal year. Revenue growth was negatively effected by the payment of a large backlog of refunds from prior years. Adjusting for this one time effect YTD revenue growth is running about 3.8% year over year.
- There are numerous uncertainties in the planning environment. Federal tax policy could undergo a massive overhaul with US House and Senate conference committee members negotiating changes to recently passed tax bills. Trade policies have also been the target of potential significant changes. In addition, the Fed is expected to continue to ramp up its policy rate which could unsettle financial markets.

Economic Forecast

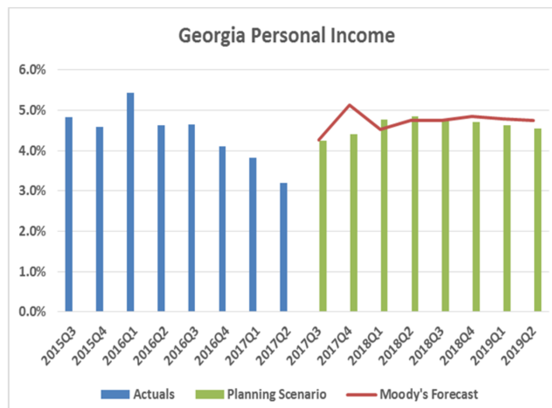
- The starting point for a forecast of Georgia's economy is a forecast of US economic growth. This sets the environment in which Georgia's economy will operate.
- As shown, Moody's Analytics anticipates that real GDP growth will remain around its most recent growth rate for the remainder of FY 2018 before gradually slowing during FY 2019.



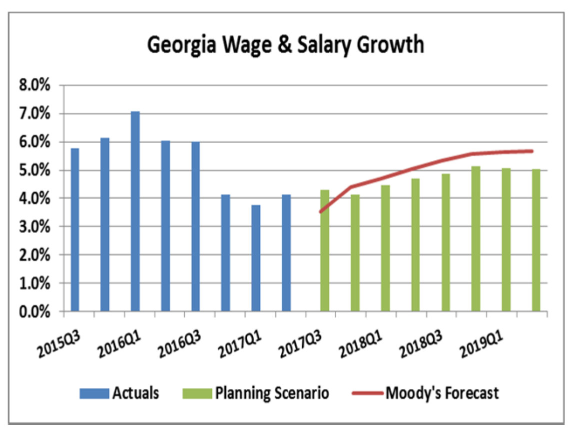
- Georgia's labor market grew quickly during FY 2016 but growth began to ease a bit during FY 2017.
- As shown, Moody's Analytics anticipates that labor market growth will continue to slow over the budget planning period but still exceed 1.5% year over year. This reflects that the labor market is nearing full employment and it will be harder to generate new jobs than during the late stage economic expansion.
- The planning scenario adopts a growth path in which employment growth runs slightly slower than the Moody's scenario.



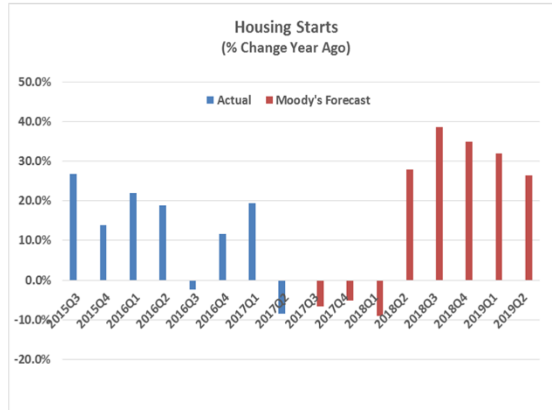
- Moody's forecast of Georgia's personal income anticipates a sharp upturn in growth over the first two quarters of the forecast period before growth then stabilizes over the remainder of the budget period.
- The planning scenario assumes a smoother growth path to its high point and is then below the Moody's forecast over the remainder of the budget period.



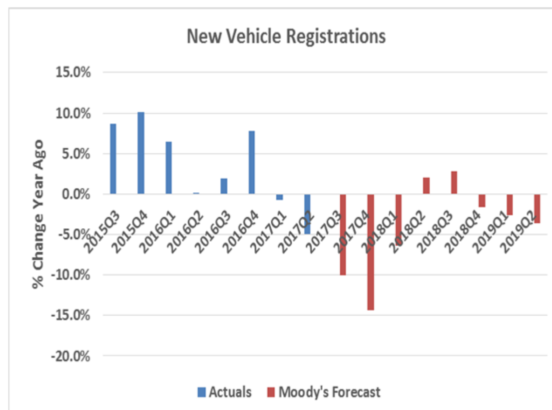
- The Moody's forecast of Georgia's personal wage and salary growth anticipates a slowdown in growth starting in 2017 Q3 with growth strengthening thereafter.
- Current BLS data suggests that current wage growth in Georgia is significantly stronger than the Moody's forecast. Thus, the planning scenario uses stronger growth in 2017 Q3 compared to the Moody's forecast before resuming a growth track lower than Moody's ramp up in growth over the remainder of the budget period.



- Housing construction has been a key driver of Georgia's economic growth. High levels of new home construction boosted growth in many of the years prior to the Great Recession. The sharp drop in construction contributed to the decline in employment and growth during the recession.
- Georgia has experienced high but volatile growth in housing starts recently. Moody's anticipates a slight pull back in housing over the first three quarters of FY 2018 before sharp acceleration in 2018 Q2 and all of FY 2019.



- New car sales ramped up sharply in the US and Georgia following the end of the Great Recession as pent up demand was released. Currently, that demand has been met and vehicle sales growth has eased. The Moody's forecast anticipates a sharp pull back over the first three quarters of FY 2018 before a shallow recovery.
- Registrations are then expected to weaken again in FY 2019.



Forecast Summary

	Historical Values		Econonomic Scenario							
	2017Q1	2017Q2	2017Q3	2017Q4	2018Q1	2018Q2	2018Q3	2018Q4	2019Q1	2019Q2
US Real GDP ($2008, SAAR)	16,903	17,031	17,170	17,287	17,398	17,534	17,648	17,760	17,865	17,942
Annualized Growth Rate	1.2	3.1	3.0	2.7	2.9	3.3	2.5	2.4	2.3	1.7
Georgia Personal Income ($M, SAAR)	441,702	446,663	452,113	457,312	462,800	468,307	473,552	478,856	484,219	489,642
% Change Year Ago	3.8%	4.3%	4.2%	4.4%	4.8%	4.8%	4.7%	4.7%	4.6%	4.6%
Georgia Wage & Salary Income ($M, SAAR)	244,447	246,891	249,607	252,103	255,355	258,471	261,779	265,077	268,258	271,477
% Change Year Ago	4.5%	4.9%	4.3%	4.1%	4.5%	4.7%	4.9%	5.1%	5.1%	5.0%
Georgia Non-Farm Employment (Ths)	4,454	4,474	4,492	4,507	4,523	4,539	4,552	4,564	4,574	4,583
% Change Year Ago	2.8%	2.5%	2.2%	1.8%	1.5%	1.5%	1.3%	1.3%	1.1%	1.0%
Georgia Housing Starts (Annual Rate)	59,255	45,684	44,914	50,343	53,888	58,410	62,215	67,901	71,131	73,875
% Change Year Ago	19.4%	-8.6%	-6.7%	-5.2%	-9.1%	27.9%	38.5%	34.9%	32.0%	26.5%
Georgia New Vehicle Registrations (Annual Rate)	520,019	479,348	471,139	486,005	486,569	488,928	484,240	478,018	473,574	471,116
% Change Year Ago	-0.8%	-4.9%	-10.0%	-14.4%	-6.4%	2.0%	2.8%	-1.6%	-2.7%	-3.6%