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 (AFY) 2019 and Fiscal Year (FY) 2020.

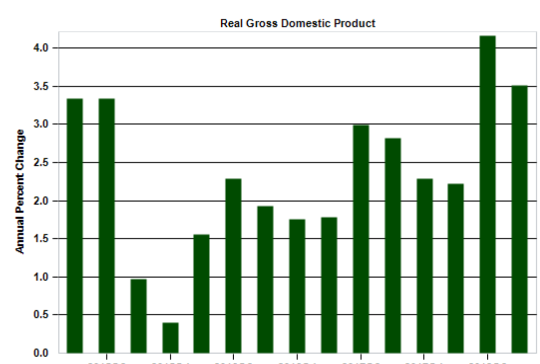
The US economy has been growing since June 2009 and the current economic cycle is approaching the longest of the post World War II era. Despite its length, the current cycle shows no real evidence of ending. Conditions are solid across multiple sectors of the economy. Labor markets are strong and near full employment. Consumer spending is growing at a moderate pace with solid household financial conditions supporting continued spending growth. Business investment in equipment is growing and the financial sector is sound with low interest rates and inflation. Georgia's economy also continues to expand. Non-farm employment grew by 93,600 jobs or 2.1% year over year as of October 2018. Unemployment is low, the labor force is expanding and initial unemployment claims are below year ago levels. Job growth in Georgia is well diversified across sectors and metro areas. Personal income growth is in line with that of the US as a whole.

In sum, the US and Georgia economies continue to expand with growth expected to moderate from recent highs. Growth is reasonably well-balanced across economic sectors and, despite recent volatility in equity markets, overall financial conditions are benign with slowly rising but still low interest rates and low inflation. These conditions set the stage for moderate economic growth to remain in place for AFY 2019 and FY 2020.

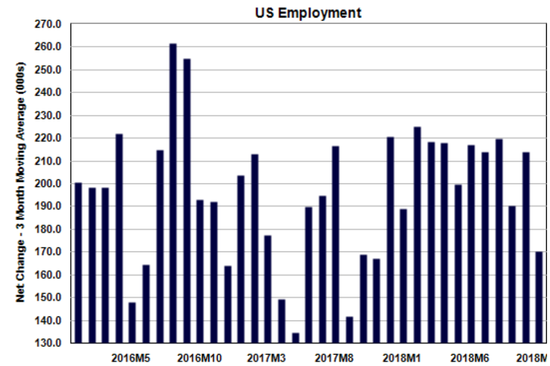
Recent Economic Trends – US and Georgia

Gross Domestic Product

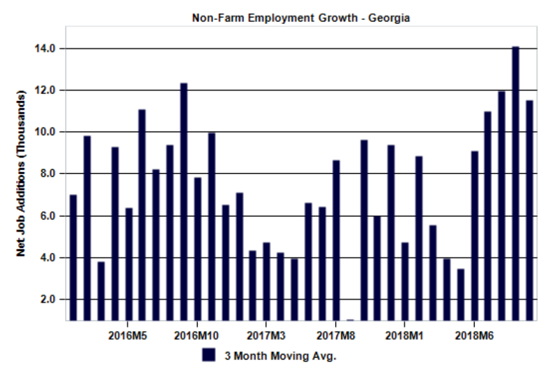
- US real GDP growth hit 4.2% in 2018 Q2 followed by 3.5% in 2018 Q3. This surge was driven in part by stimulus from the Tax Cut and Jobs Act. GDP growth in Q3 was primarily supported by consumption and investment activity. Investment was boosted by a strong build in inventories during the quarter.
- Going forward, GDP growth is expected to moderate from the recent highs. Fiscal stimulus is expected to weaken over time but consumers are well positioned to maintain spending. Recent stock market volatility is not expected to derail the expansion.



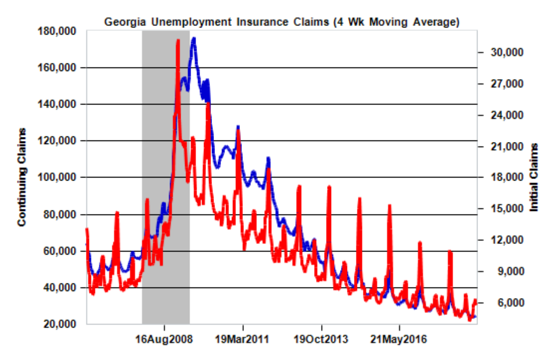
Labor Markets



- US non-farm employment is growing with net job additions averaging over 170,000 per month as of the three months ending November 2018. This exceeds the rate needed to meet population-based growth in the labor force. Thus, job growth is enticing people off the sidelines and back into the labor force.
- The US unemployment rate has declined to 3.7% in November 2018, down from 4.1% the prior November. Broader measures of unemployment also show the labor market is tight, indicating the US labor market is at or extremely close to full employment.
- The tight labor market is expected to push wage escalation higher over the budget planning period.



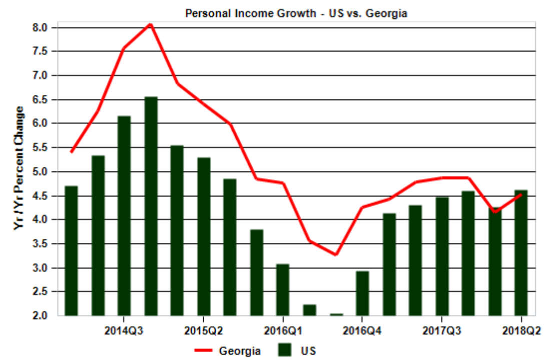
- Non-farm employment in Georgia is growing more rapidly than for the US as a whole. Averaged over three months ending October 2018, net job growth equals 11,500 new jobs per month. Job growth is reasonably well-diversified across industry sectors and metro areas across the state. As of October, job growth equals 2.2% on a year over year 3 month moving average basis, which is above the comparable US growth rate of 1.7%.



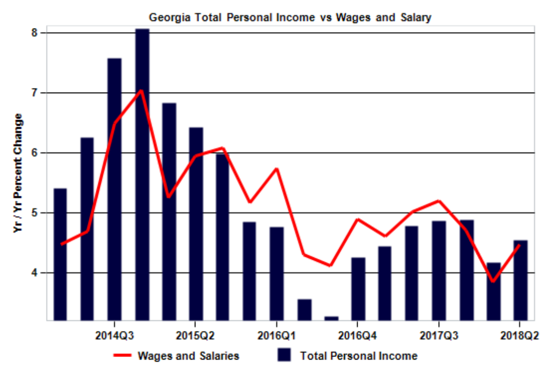
- Initial unemployment insurance claims in Georgia are consistent with a healthy, dynamic labor market. As of early December, initial claims are running at levels below those experienced prior to the Great Recession, even though current non-farm employment is higher than the pre-recession level.
- In addition, Georgia's labor force is expanding as job and wage growth encourages those not currently in the labor force to begin to seek employment and in-migration to the state continues which also adds to those seeking work. Declining unemployment and growing labor force are key characteristics of a healthy, dynamic labor market.

Personal Income

- US and Georgia total personal income is growing at a moderate pace as of 2018 Q2. Year over year personal income growth in Georgia has exceeded that of the US for an extended period but for the two most recent quarters is growing in line with US growth.

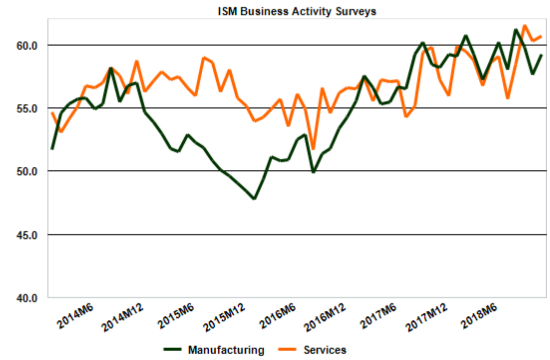


- On a year over year basis, the wages and salaries component of Georgia personal income have been growing on a consistent basis during the current growth phase of the business cycle. Total personal income and wages and salaries income are expected to grow at moderate rates during the budget period.
- This growth is consistent with moderate growth in Georgia tax revenues.

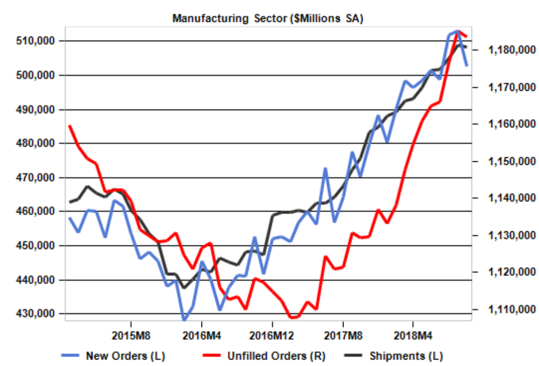


Business Conditions

- The Institute for Supply Management (ISM) business activity indicators are both in expansionary territory and far above the neutral level of 50. They are consistent with broad and strong economic growth. The ISM index for manufacturing is 59.3 as of November 2018. US manufacturing had contracted in late 2015 but has ramped up significantly since that short period of contraction.
- The ISM services index equals 60.7 for November 2018 indicating the sector is expanding at a strong rate.

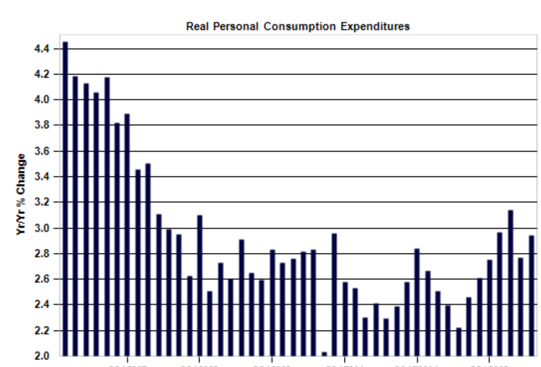


- Detailed indicators for the manufacturing sector also show manufacturing has strengthened significantly although data was weaker in the most recent month.
- New orders, shipments and the backlog of unfilled orders are trending higher and are near their post-recession peak.

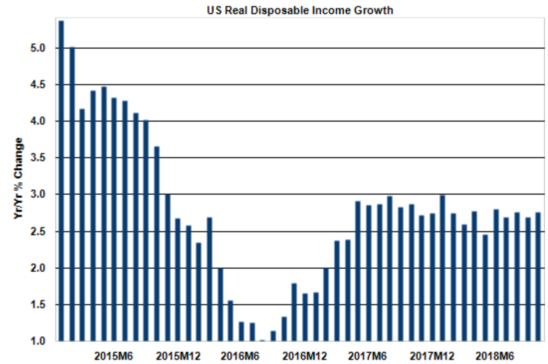


Consumers

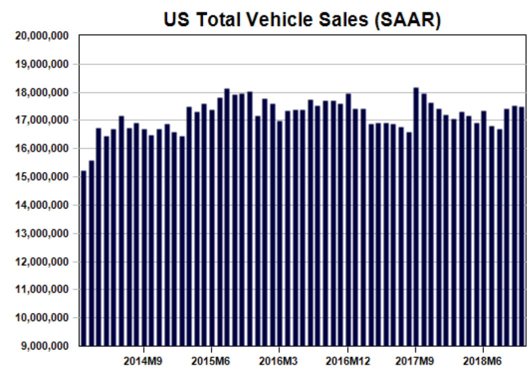
- Real consumer spending growth has been running between 2.6% and 3.2% year over year over the last six months. Consumer spending has been supported by solid fundamentals: increasing household wealth, rising disposable income, low debt burdens and strong job growth.
- The outlook for consumer spending is boosted by personal income and job growth, sustainable debt burdens and high household sector wealth.



- A key driver of consumption growth is real disposable income growth.
- The growth rate of real disposable income has been relatively steady over the last year. Growth has been running between 2.5% and 3.0% year over year suggesting that consumer spending growth will remain near current levels.

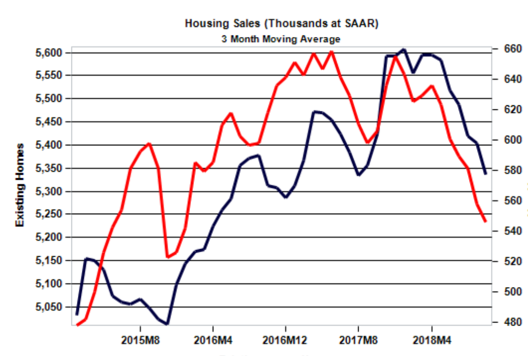


- New auto sales in recent months have been slightly higher than levels achieved in mid-2017. Note that vehicle sales improved in late 2017 due to the need for consumers to replace vehicles damaged during severe hurricane related flooding.
- Vehicles sales are expect to continue around 17 million units annualized for the forecast period. Sales levels are not expected to return to the 17.5 to 18.0 million units that were sold earlier in the business cycle. However, 17 million units of sales is quite healthy for the industry.

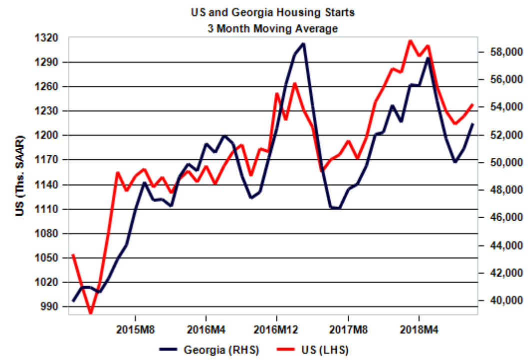


Housing

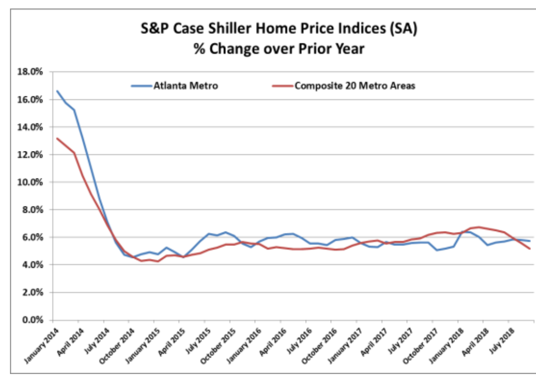
- Housing activity has taken a step back in recent months. Home sales, while volatile on a monthly basis, are down off their cyclical highs and remain below pre-recession levels.
- Demographic trends and job and wage growth are positives for the housing outlook. However, rising interest rates and price appreciation are making homes less affordable. There also are anecdotal reports that builders are encountering labor shortages which make construction more expensive.
- Housing is expected to continue to face rising interest rates as the Federal Reserve slowly removes monetary accommodation from the financial system.



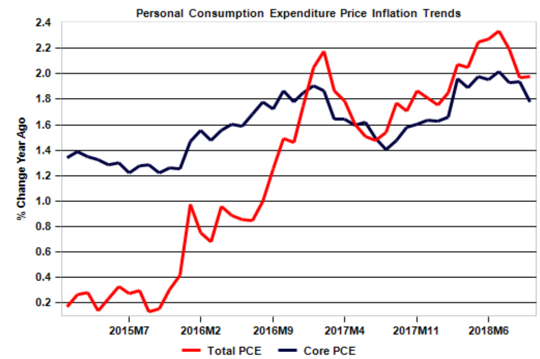
- Housing starts are down from recent highs. Given on-going growth in jobs and income, housing starts are expected to stabilize and grow slowly during the budget period.



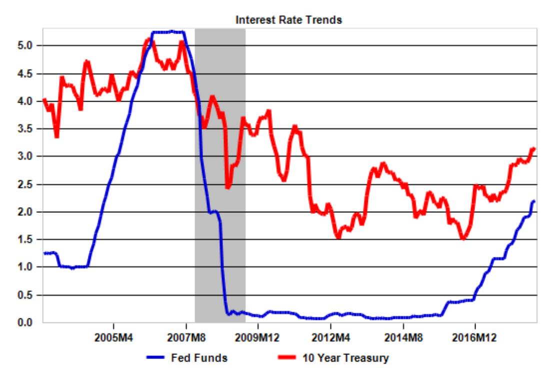
- Home prices continue to increase, although the pace of growth on a year over year basis has moderated. Atlanta metro prices are up 5.7% as of August 2018 over the prior August. This is slightly above the percent change in the composite index for 20 metro areas over the same period of 5.2%.



Inflation and Finance



- The Fed's key measure of prices, the core personal consumption expenditures (PCE) deflator, shows inflation is low at just 1.8% as of October 2018, below the inflation target of 2.0%. Core PCE excludes the volatile food and energy components.
- The overall PCE deflator is running right at 2.0% so no clear evidence of accelerating inflation is presenting itself in the economy.
- Despite the low inflation environment, the Fed raised its policy rate and additional .25% in December but has reduced the number of rate hikes expected in 2019 to two. This cautious approach to raising interest rates in 2019 reflects concerns regarding global growth, trade policy, housing market softness and recent stock market volatility.



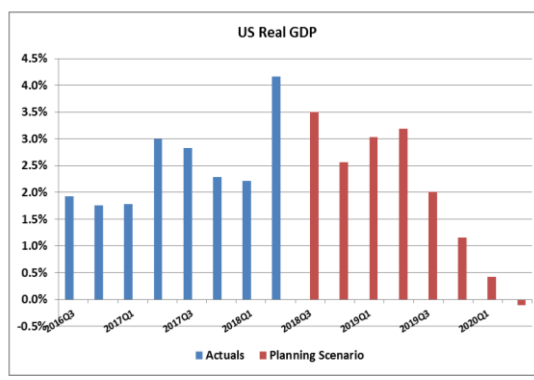
- As shown, the fed funds rate, the primary policy tool of the Fed, has risen over the last two years as the Fed has slowly reduced its policy accommodation. The 10 year Treasury rate also has been moving higher but at a slower pace than shorter term rates.
- The result has been a flattening of the yield curve, which can be associated with slower economic growth and recession.

Georgia Economic Forecast – Overview

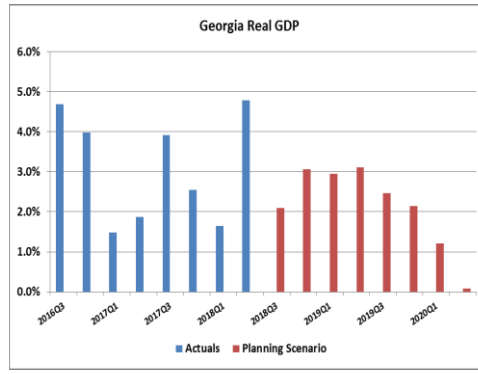
- US and Georgia forecasts are derived from forecasts prepared by Moody's Analytics.
- Georgia's economic growth is closely linked to that of the US economy. Moody's current forecast for US GDP is for growth to continue around its most recent pace near 3.0% (seasonally adjusted annual rate) through 2019 before slowing as stimulus from the Tax Cut and Jobs Act weakens. 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 economic forecast scenario results in moderate revenue growth. Through November 2018, fiscal year-to-date tax collections reported by the Department of Revenue grew 6.9% over the prior fiscal year.
- Revenue growth will be affected by two legislative actions passed in the FY 2018 session. HB 918 implements a 3-step tax reform plan to adapt Georgia's tax code to changes made in the federal tax code. This plan is expected to enhance revenues in FY 2019 and FY 2020 before reducing tax revenues beginning in FY 2021. HB 61 expands taxation of internet sales and is expected to add to revenue growth when this law takes effect January 1, 2019. Because the timing and size of the revenue impacts from these legislative changes are difficult to forecast with any certainty, conservative estimates of the revenue impacts are included in the revenue estimate.
- There are two key uncertainties in the planning environment. The Fed is expected to continue raising interest rates but the pace and market impacts are uncertain. Second, trade negotiations have unsettled markets and the ultimate outcome and impact on trade, jobs is unknown.

Economic Forecast

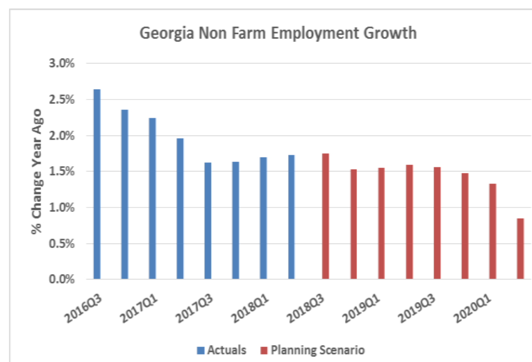
- The starting point for a forecast of Georgia's economy is a forecast of US economic growth. This sets the environment in which Georgia's economy will operate.
- As shown, Moody's Analytics anticipates that real GDP growth will remain strong during the remainder of FY 2019 but will weaken during the latter part of FY 2020. This is consistent with other macro-economic forecasts, many of which are adopting the view that the risk of recession occurring in mid-2020 is moving higher.



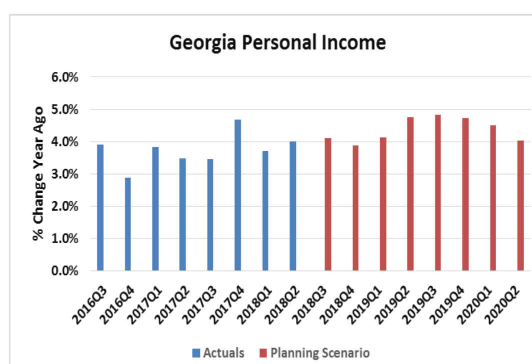
- Moody's forecast of Georgia's real GDP follows a similar track as that of US GDP.
- As shown, Moody's Analytics anticipates that real GDP growth will remain strong during the remainder of FY 2019 but will weaken significantly during FY 2020.
- This scenario indicates that economic growth will continue in Georgia and that key economic drivers of Georgia's tax revenue will continue to grow as well.



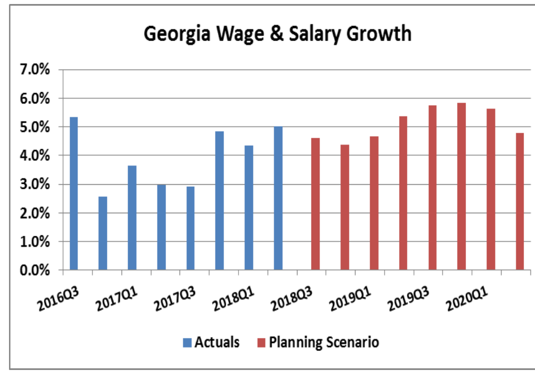
- Georgia's labor market grew quickly during FY 2018 but at a slightly lower pace than during FY 2017.
- As shown, Moody's Analytics anticipates that labor market growth will run near 1.5% through 2019 before slowing in the first half of 2020.
- Thus, the economic scenario projects continued growth in employment during the budget period. This will contribute to growth in income tax withholding revenue during the budget period. Withholding revenue is the largest of Georgia's tax revenue components.



- Moody's forecast of Georgia's personal income anticipates continued growth at current levels through 2018 with growth strengthening through 2019. Personal income growth then begins to decline through the end of the budget period.
- Growth in personal income is a driver for spending and sales tax revenue and is correlated with withholding revenue growth.

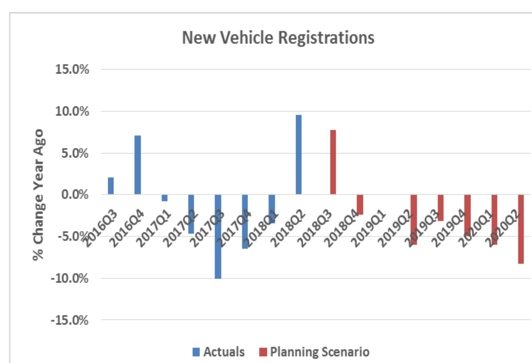


- The Moody's forecast of Georgia's personal wage and salary growth anticipates an acceleration in growth through 2019 before slowing slightly in 2020; the growth track is similar to total personal income growth but at higher growth rates.
- With unemployment so low, the forecast anticipates that increases in average wages will push wage and salary income growth up more quickly than overall personal income growth.
- In turn, this will support withholding growth during 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 through the end of CY 2018. Growth is then expected to pick up through 2019 Q3 before slowly declining over the remainder of the budget period.

- The high level of new vehicle sales after the Great Recession reflected, in part, pent up demand as consumers held onto their vehicles rather than replacing them during the recession and immediately thereafter. This pent up demand led to extremely high sales volumes for several years. However that pent up demand now has been satisfied and new vehicle sales have topped out.
- The forecast is that sales will decline on a year over year basis starting in 2018 Q4 and continuing negative through the budget period. However, sales levels are still relatively high.
- This will impact TAVT revenues during the budget period although used car sales can offset some of the weakness in new vehicle sales.



Forecast Summary

AFY 2019 and FY 2020 - Economic Scenario for Revenue Estmation

	Historical Values		Economic Scenario							
	2018Q1	2018Q2	2018Q3	2018Q4	2019Q1	2019Q2	2019Q3	2019Q4	2020Q1	2020Q2
US Real GDP - (Billions $2008, SAAR)	18,324	18,512	18,671	18,790	18,931	19,081	19,176	19,231	19,252	19,246
Annualized Growth Rate	2.2%	4.2%	3.5%	2.6%	3.0%	3.2%	2.0%	1.2%	0.4%	-0.1%
Georgia Real GDP (Billions $2009, SAAR)	486	492	494	498	502	506	509	511	513	513
Annualized Growth Rate	1.6%	4.8%	2.1%	3.1%	3.0%	3.1%	2.5%	2.1%	1.2%	0.1%
Georgia Personal Income ($M, SAAR)	463,346	465,968	470,900	476,589	482,447	488,155	493,649	499,072	504,234	507,796
% Change Year Ago	3.7%	4.0%	4.1%	3.9%	4.1%	4.8%	4.8%	4.7%	4.5%	4.0%
Georgia Wage & Salary Income ($M, SAAR)	250,764	252,761	255,419	258,778	262,483	266,308	270,093	273,843	277,280	279,065
% Change Year Ago	4.3%	5.0%	4.6%	4.4%	4.7%	5.4%	5.7%	5.8%	5.6%	4.8%
Georgia Non-farm Employment (Thousands)	4,503	4,520	4,537	4,553	4,573	4,591	4,608	4,620	4,634	4,631
% Change Year Ago	1.7%	1.7%	1.8%	1.5%	1.6%	1.6%	1.6%	1.5%	1.3%	0.9%
Georgia Housing Starts (Annual Rate)	78,057	78,504	78,940	79,778	80,627	81,329	81,953	82,423	82,926	83,330
% Change Year Ago	3.8%	3.4%	3.7%	2.9%	3.3%	3.6%	3.8%	3.3%	2.9%	2.5%
Georgia New Vehicle Registration (Annual Rate)	504,001	532,538	509,300	506,969	504,179	500,479	493,496	481,933	473,986	459,208
% Change Year Ago	-3.4%	9.6%	7.8%	-2.4%	0.0%	-6.0%	-3.1%	-4.9%	-6.0%	-8.2%