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 2016 and Fiscal Year 2017.

The US economy fell into a deep recession in late 2007, and while the national economy has been in recovery since mid-2009, the pace of economic growth has been moderate for most of that period. The national economy still has not reached full employment. Georgia’s economy has gone through a similar, but more extreme, experience with greater loss in employment from pre-recession peak to trough. However, non-farm employment has recovered and has expanded to a level above its pre-recession peak. As of November 2015, non-farm employment exceeded its pre-recession peak in February 2008 by over 131,000 jobs.

Recent economic trends have indicated continued strong economic growth in Georgia. Non-farm employment grew by 2.2% year over year as of November 2015. Growth has been well diversified across industry sectors although there are still pockets of weakness in some of Georgia’s metro areas. Initial unemployment insurance claims have fallen to levels that are in line with pre-recession claims. These trends mirror national labor market trends.

Recent Economic Trends – US and Georgia

GDP

- Real GDP growth hit 3.9% in 2015 Q2 but dipped to 2.1% growth in 2015 Q3. GDP growth in Q3 was supported by consumption and government activity but investment was a drag on growth due to a pullback in inventory investment.
- GDP growth is expected to continue to average between 2.5% and 3.0% over the budget planning horizon, although inventory activity is likely to drag on growth in 2015 Q4 and possibly 2016 Q1.
Labor Markets

• US non-farm employment growth had been exceptionally strong reaching over 300,000 jobs per month at year end 2014. Job growth has moderated in 2015; however, net job additions still averaging near 220,000 jobs per month as of November.
• The US unemployment rate has declined to 5.0% in November, down from 5.8% the prior November. Broader measures of unemployment still show slack in the labor market, but these measures are also tightening. This indicates that the US labor market is heading back toward full employment.
• This is expected to push wage escalation higher over the budget planning period.

• Job growth in Georgia was robust during 2014. It hit a lull in mid-2015, but ramped up quickly in the fall. Job growth is averaging over 16,000 jobs per month as of November. Job growth is well-diversified across industry sectors, but with pockets of weakness in several smaller metro areas. Job growth equals 2.2% on a year over year 3 month moving average basis, which exceeds the US growth rate.

• Initial unemployment insurance claims in Georgia are consistent with a reasonably healthy, dynamic labor market. As of late November, initial claims are running at levels seen prior to the Great Recession, even though current non-farm employment is higher than the pre-recession level.
Personal Income

• Total personal income is growing at a moderate pace as of 2015 Q3. Year over year personal income growth in Georgia has exceeded that of the US over the last five quarters and exceeded 5.0% year over year growth in each of those quarters.

• On a year over year basis, the Wages and Salaries component of Georgia personal income has grown more rapidly than overall personal income growth for most of the last three years. This reflects the healthy growth in jobs in Georgia during much of this period.
Business Conditions

• The ISM business activity indicators are sending mixed signals. The ISM index for manufacturing is 48.6 as of November. A reading below 50 indicates the sector is contracting; thus, the ISM manufacturing index is consistent with mild contraction of the US manufacturing sector.
• The ISM services index equals 55.9 for November indicating that the sector is expanding at a solid rate.
• The Georgia PMI equaled 55.0 in November. This indicates that Georgia’s manufacturing sector is outperforming the US sector and is expanding.

• Detailed indicators for the manufacturing sector confirm the weakness summarized in the ISM index.
• New orders, shipments, and the backlog of unfilled orders are all trending down. This weakness is tied to headwinds from weak global growth, the strengthening dollar and the sharp pullback in oil field exploration activity due to declining in energy prices.

Consumers

• Real consumer spending has been growing at about 3.0% 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 been a source of strength for consumer spending. New auto sales have exceeded 18 million units annualized for each of the last three months.
• Strong sales reflect pent up demand as consumers cut back on new car purchases during the recession. It is likely that new auto sales have topped out.

• A key driver of consumption growth is real disposable income growth.
• Real disposable income is trending up and running just under 4.0% on a year over year basis. This indicates that there is room for an increase in consumer spending growth.

**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.
• Home prices continue to increase, although the pace of growth on a year over year basis has moderated. Atlanta metro prices are up 6.1% as of September 2015 over the prior September. This exceeds the percent change in the composite index for 20 metro areas over the same period of 5.5%.
Inflation and Finance

- The Fed’s key measure of prices, the core personal consumption expenditures deflator, shows that inflation is tame. It is likely that the Fed views current inflation as too low and would like to see slightly faster inflation.
- Inflation, as measured by the overall personal consumption expenditure deflator, is running at just 0.2% as of October compared to the prior October; inflation, as measured by the core PCE which excludes food and energy, equals 1.3%, well below its 2% target.

- Despite low inflation, the Fed has initiated increases in its policy interest rate. The Fed announced on December 16 that the target range for the Fed Funds rate was increased to 0.25% - 0.50%, up from a range of 0.0% - 0.25%.
- As shown, the 10 year Treasury rate and the conventional mortgage rate remain low compared to historical levels.
- The response of the real economy to the initiation of rate increases is a key uncertainty facing the future outlook.
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 more conservative growth scenario.

- Georgia’s economic growth is closely linked to that of the U.S. Moody’s current forecast for U.S. GDP is for higher growth than experienced for much of the recovery during the rest of FY 2016 and into FY 2017. Thus, the Moody’s base case forecast anticipates relatively high growth in employment and personal income in Georgia over the budget cycle.

- The adopted economic forecast scenario results in moderate revenue growth. Through November 2015, fiscal year-to-date tax collections reported by the Department of Revenue grew 9.1% over the prior fiscal year. This growth rate is boosted by enhanced revenue growth from tax law changes implemented in HB 170. The adopted revenue forecast for AFY 2016 projects tax revenue growth below YTD growth.

- There are numerous risks to the outlook. On the downside, key risks are centered on global conditions. These include slow growth or outright recessions in global economies, the threat of deflation, financial market turmoil associated with the fall of oil prices and high levels of geopolitical risk. Domestically, key risks are centered on the weakness in manufacturing and the reaction of the economy to the initiation of increases in interest rates.

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 2.0% (seasonally adjusted annual rate) for Q4 2015, but then pick up to around 3.0% for each of the remaining quarters in the budget forecasting horizon.

- This sets up a planning environment in which Georgia’s economic indicators should grow more quickly on a sustained basis than experienced during the recovery to date.
• Georgia’s labor market growth rate peaked in 2014 Q4 and has slowed slightly from that high.
• As shown, Moody’s Analytics anticipates that the growth rate will slow through 2016 Q1 and then accelerate until the last quarter of the budget period.
• The planning scenario adopts a more modest growth path with employment growth capped below 2.5% year over year for each quarter.

• The forecast of Georgia’s personal income anticipates a ramp up in income growth compared to the growth experienced in much of 2014 and the first half of 2015. The basis for this growth is stronger job growth and the return of wage growth as labor market slack is reduced.
• The planning scenario is below the Moody’s forecast for FY 2016 and FY 2017.

• The Moody’s forecast of Georgia’s personal wage and salary growth anticipates a sharp ramp up in growth starting in the 2015 Q3 and plateauing at a high growth rate in 2016 Q3. The planning scenario anticipates a more measured increase in wage and salary growth from the levels experienced in the first two quarters of 2015. Thus, the planning scenario adopts lower growth in wage and salary income over the budget cycle.
• 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 growth rates in housing starts recently. Growth in housing starts is expected to continue at more moderate, but still relatively high rates, as housing recovers back toward pre-recession levels of activity.

• New car sales have ramped up sharply in the US and Georgia reflecting pent up demand built up during the Great Recession. The current forecast is that sales will remain elevated but, starting in 2016 Q1, will decline from recent peaks.
### Georgia Personal Income ($M, SAAR)

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<tbody>
<tr>
<td>Income</td>
<td>407,048</td>
<td>410,830</td>
<td>416,376</td>
<td>422,413</td>
<td>428,749</td>
<td>434,752</td>
<td>440,404</td>
<td>446,129</td>
<td>451,929</td>
<td>457,578</td>
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<tr>
<td>Change</td>
<td>5.1%</td>
<td>4.7%</td>
<td>4.7%</td>
<td>5.0%</td>
<td>5.3%</td>
<td>5.8%</td>
<td>5.8%</td>
<td>5.6%</td>
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### Georgia Wage & Salary Income ($M, SAAR)

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<tr>
<td>Income</td>
<td>218,295</td>
<td>219,545</td>
<td>222,618</td>
<td>225,735</td>
<td>228,783</td>
<td>231,871</td>
<td>234,769</td>
<td>238,076</td>
<td>241,443</td>
<td>244,861</td>
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<tr>
<td>Change</td>
<td>5.4%</td>
<td>5.1%</td>
<td>4.9%</td>
<td>4.6%</td>
<td>4.8%</td>
<td>5.6%</td>
<td>5.5%</td>
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### Georgia Non-farm Employment (Thousands)

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<tr>
<td>Employment</td>
<td>4,236</td>
<td>4,249</td>
<td>4,275</td>
<td>4,300</td>
<td>4,323</td>
<td>4,346</td>
<td>4,372</td>
<td>4,398</td>
<td>4,422</td>
<td>4,442</td>
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<tr>
<td>Change</td>
<td>3.4%</td>
<td>2.7%</td>
<td>2.4%</td>
<td>2.0%</td>
<td>2.1%</td>
<td>2.3%</td>
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### Georgia Housing Starts (Annual Rate)

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<tr>
<td>Starts</td>
<td>40,298</td>
<td>43,136</td>
<td>43,887</td>
<td>43,428</td>
<td>45,705</td>
<td>46,705</td>
<td>47,813</td>
<td>48,695</td>
<td>51,863</td>
<td>55,623</td>
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<tr>
<td>Change</td>
<td>17.1%</td>
<td>22.5%</td>
<td>13.0%</td>
<td>8.3%</td>
<td>13.4%</td>
<td>8.3%</td>
<td>8.9%</td>
<td>12.1%</td>
<td>13.5%</td>
<td>19.1%</td>
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### Georgia New Vehicle Registration (annual rate)

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<tr>
<td>Registrations</td>
<td>502,125</td>
<td>494,524</td>
<td>491,543</td>
<td>490,042</td>
<td>487,980</td>
<td>488,467</td>
<td>491,579</td>
<td>494,042</td>
<td>497,980</td>
<td>499,524</td>
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<tr>
<td>Change</td>
<td>12.9%</td>
<td>7.1%</td>
<td>6.8%</td>
<td>6.4%</td>
<td>6.0%</td>
<td>5.9%</td>
<td>5.7%</td>
<td>5.5%</td>
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### Historical Values

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<tr>
<td>Real GDP (2009 = 100)</td>
<td>480.651</td>
<td>480.176</td>
<td>481.764</td>
<td>482.539</td>
<td>482.980</td>
<td>481.456</td>
<td>480.790</td>
<td>482.900</td>
<td>484.579</td>
<td>484.254</td>
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<tr>
<td>Change</td>
<td>0.4%</td>
<td>0.5%</td>
<td>1.9%</td>
<td>2.0%</td>
<td>2.2%</td>
<td>1.9%</td>
<td>2.2%</td>
<td>2.4%</td>
<td>2.6%</td>
<td>2.5%</td>
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### Forecast Summary

- **US Real GDP (2008, SAAR)**
  - 2015Q1: 16,177
  - 2015Q2: 16,334
  - 2015Q3: 16,418
  - 2015Q4: 16,499
  - 2016Q1: 16,625
  - 2016Q2: 16,760
  - 2016Q3: 16,887
  - 2016Q4: 17,005
  - 2017Q1: 17,135
  - 2017Q2: 17,260

- **Annualized Growth Rate**
  - 2015Q1: 0.6%
  - 2015Q2: 3.9%
  - 2015Q3: 2.1%
  - 2015Q4: 2.0%
  - 2016Q1: 3.1%
  - 2016Q2: 3.3%
  - 2016Q3: 3.1%
  - 2016Q4: 2.8%
  - 2017Q1: 3.1%
  - 2017Q2: 2.9%

- **Recent Economic Indicators**
  - Georgia New Vehicle Registration (annual rate)
  - Georgia Housing Starts (Annual Rate)
  - Georgia Wage & Salary Income ($M, SAAR)
  - Georgia Personal Income ($M, SAAR)
  - Georgia Non-farm Employment (Thousands)

### Economic Scenarios

- **AFY 2015 and FY 2017 - Economic Scenarios for Revenue Estimation**