
Georgia Economic Trends and Outlook December 2014

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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 2015 and Fiscal Year 2016.

The US economy fell into a deep recession in late 2007, and while the national economy has been in recovery since mid-2009, economic growth has been moderate for most of that period. Georgia’s economy has gone through a similar experience but with greater loss in employment from pre-recession peak to trough. As of October 2014, non-farm employment is short of the its peak in February 2008 by 22,000 jobs.

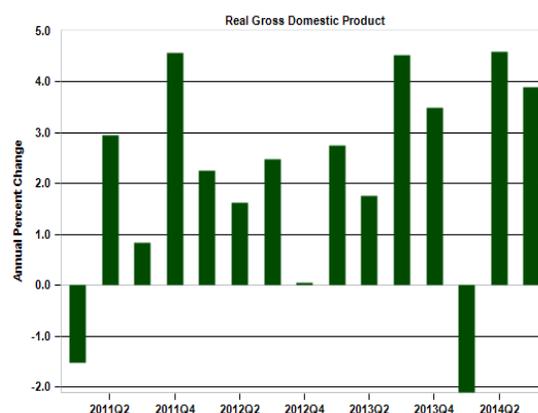
Recent economic trends have indicated stronger growth in Georgia. Non-farm employment grew by 2.4% year over year as of October 2014. Growth has been well diversified across industry sectors although there are still pockets of weakness in some of Georgia’s metro areas. Initial unemployment insurance claims have fallen to levels that are in line with pre-recession claims. Also, these claims are well-below year ago levels indicating that Georgia’s labor market continues to strengthen. These trends mirror national labor market trends.

One anomaly is Georgia’s unemployment rate which has risen sharply in recent months. This increase is inconsistent with all the other labor market indicators.

Recent Economic Trends – US and Georgia

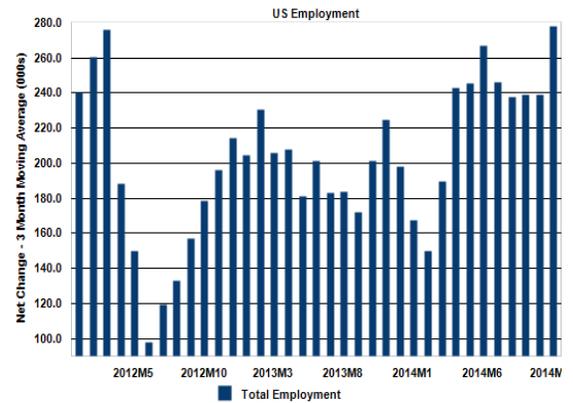
GDP

- Real GDP growth surged to 4.6% in the 2nd quarter of 2014 and followed this up with growth of 3.6% in the 3rd quarter. Growth was supported by growth in consumption, investment and government so the recovery is broad based.
- While growth is anticipated to slow from the pace of the last six months, GDP growth is expected to ramp up over the budget horizon.

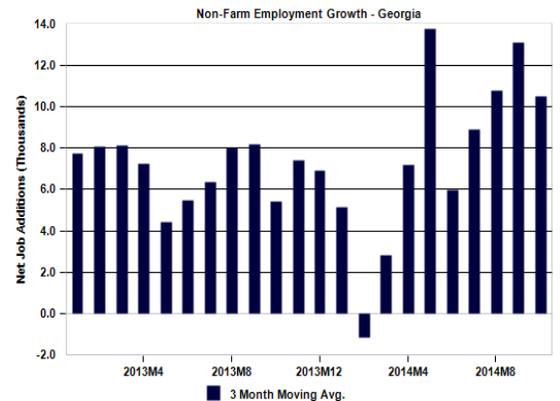


Labor Markets

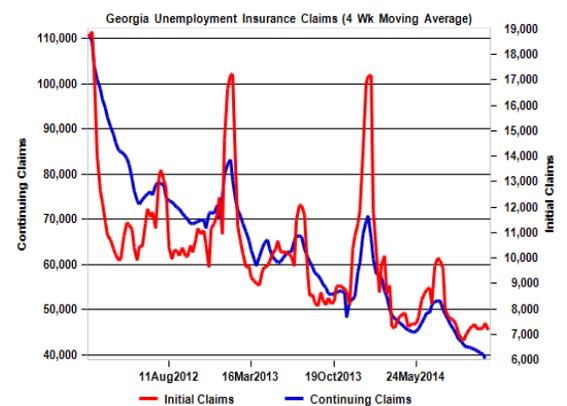
- US non-farm employment growth has been strong for much of 2014. Net job additions surged in November to bring the 3 month moving average up to 278,000 jobs.
- The US unemployment rate has declined to 5.8% in November, down from 7.0% the prior November. However, broader measures of unemployment indicate there is still slack in US labor markets.
- There are preliminary indications that wages are starting to ramp up which would boost income growth and consumer spending.



- After a weak spell at the start of 2014, non-farm employment in Georgia has ramped up quickly. Net job additions are averaging 10,500 per month as of October with net job additions well-diversified across industry sectors. Job growth equals about 2.3% on a year over year, 3 month moving average basis, which exceeds the US growth rate.

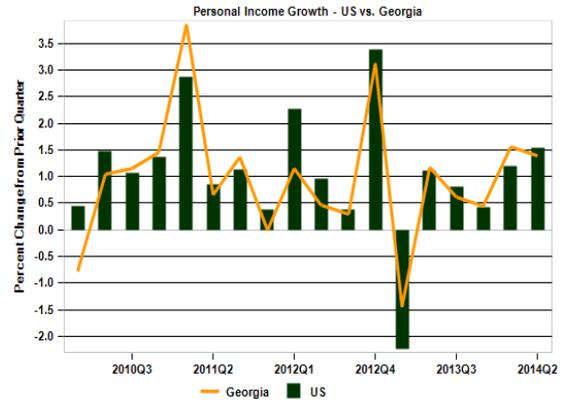


- Initial unemployment insurance claims in Georgia are running well below year ago levels. This indicates that layoffs are down and the local job market continues to strengthen. This is consistent with initial claims for the US which are also running below year ago levels.

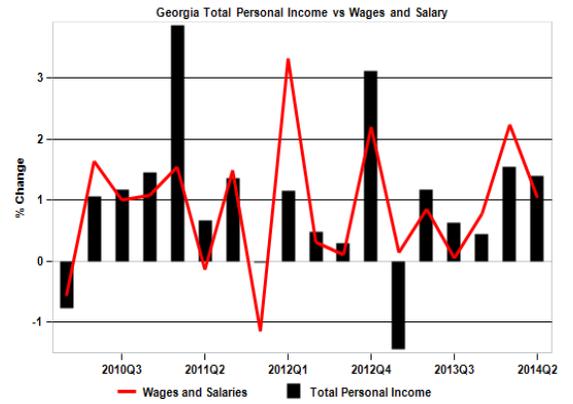


Personal Income

- Personal income growth has been modest in the US and in Georgia for much of the recovery. As shown, Georgia personal income growth tends to reflect US growth, albeit with more volatility. Personal income growth has strengthened somewhat in the last two quarters.

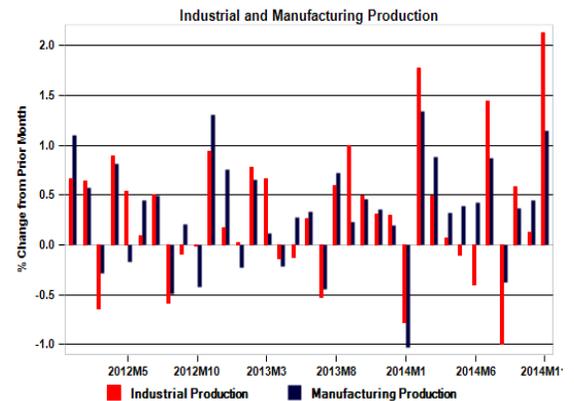
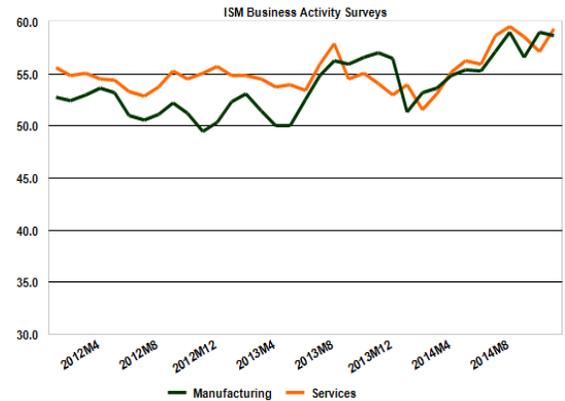


- The Wages and Salaries component of Georgia personal income has grown more rapidly than overall personal income growth in two of the last three quarters for which data is available. In addition, average hourly earnings for private workers in Georgia have been growing strongly in recent months, nearly twice as fast as the comparable data for the US.



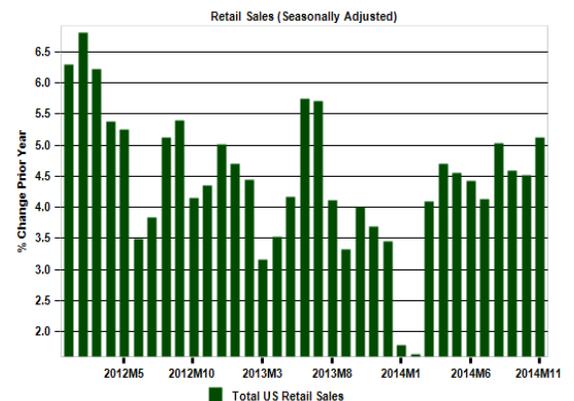
Business Conditions

- The ISM business activity indicators are consistent with strong economic growth with both indices running just below 60. A reading over 50 indicates the sector is expanding.
 - The ISM manufacturing index decreased slightly from 59.0 in October to 58.7 in November, still consistent with strong growth in manufacturing activity.
 - The Georgia PMI increased 2.0 points in November to reach 56.5 indicative of solid expansion in Georgia's manufacturing sector.
 - The ISM index for services increased 2.2 points in November to hit to 59.3.
 - Overall, these indices suggest the economy is growing quickly.
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- Industrial production surged in November continuing its expansion. Overall industrial production increased by 2.1% over October with manufacturing output increasing by 1.2%.
 - This data is consistent with the ISM manufacturing index and shows that manufacturing activity is holding up despite headwinds from weak global growth and the strengthening dollar.

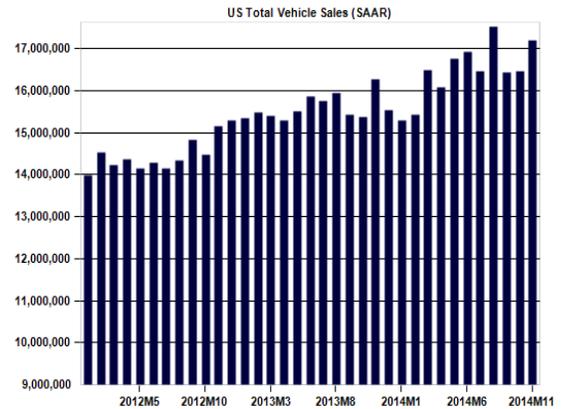


Consumers

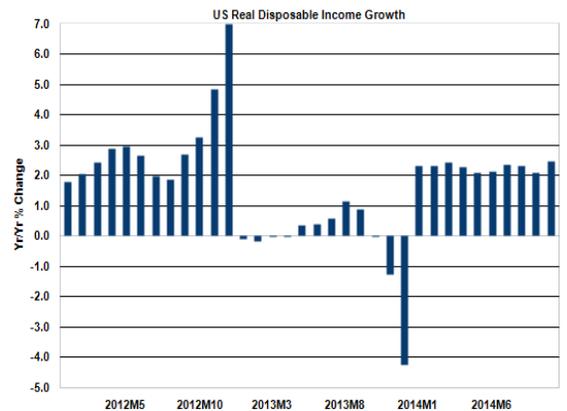
- Consumer spending growth has been moderate; held back by modest growth in real disposable income. However, retail sales have begun to show some signs of strengthening compared to early 2014.
- Consumer spending and retail sales growth are expected to continue to strengthen, boosted by jobs growth and wage growth.



- New auto sales have been a source of strength for consumer spending. New auto sales have exceeded 16 million units annualized for each of the last seven months.

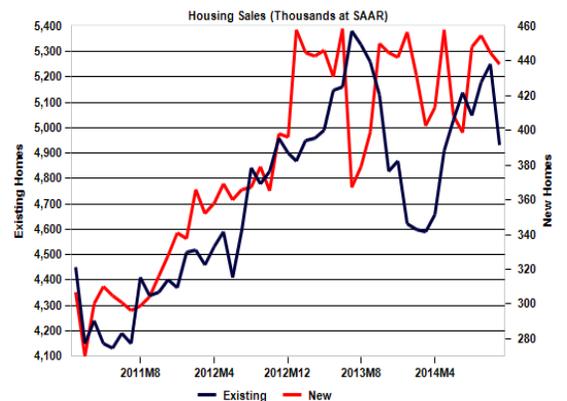


- The key headwind facing consumption growth has been weak income growth due to low wage growth and modest employment growth.
- As shown, real disposable income growth started off 2014 with very weak performance but year over year growth has run between 2.0% and 2.5% for much of the year. Stronger growth in this indicator will be vital for stronger consumer spending growth going forward.
- Stronger growth will come from continued strong job growth and the return of real wage growth, of which early signs are starting to appear.



Housing

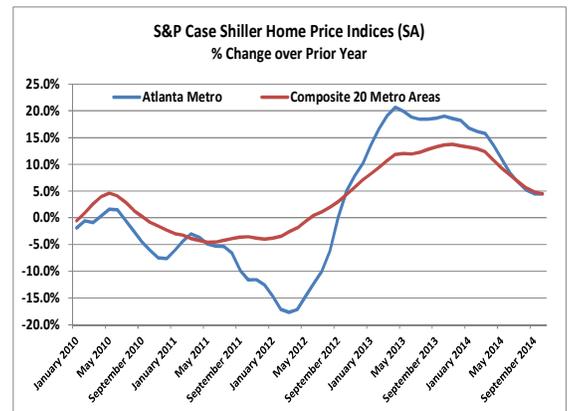
- The recovery in housing activity has been weak in recent months. New home sales, while volatile from month to month, have trended flat for much of 2014. Existing home sales had been trending up but declined in November.



- In Georgia, the number of housing permits issued has fallen from the recent peak but are now running ahead of year ago levels by about 7.5%.
- Permits for both single family and multi-family units are running ahead of year ago levels.

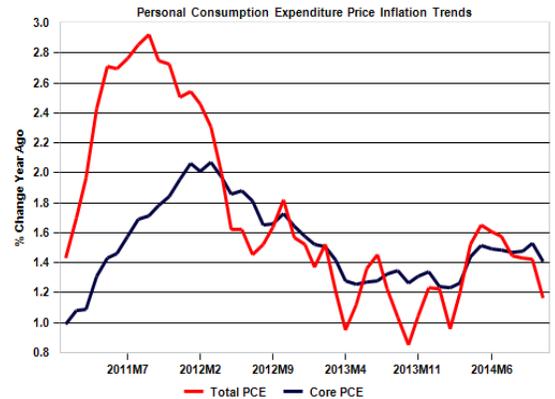


- Home prices continue to increase but the pace of growth on a year over year basis has moderated. Atlanta metro prices are up 4.5% as of October 2014 over the prior October. This matches the percent change in the composite index for 20 metro areas over the same period.

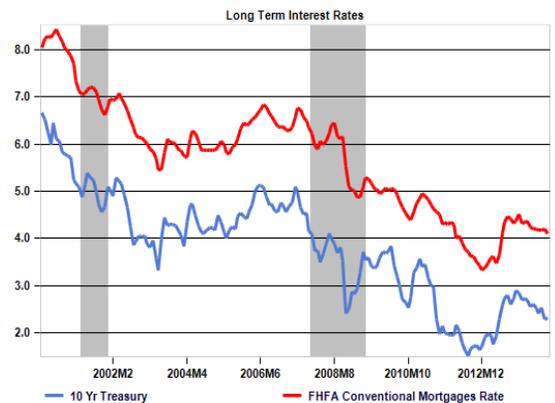


Inflation and Finance

- The Fed's key measure of price levels 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 just over 1.2% as of November compared to the prior November; inflation, as measured by the core PCE which excludes food and energy, equals 1.4% , well below its 2% target.



- The Fed has ended its policy of quantitative easing, the purchase of a block of long-term assets each month. A key issue is the extent to which long-term interest rates respond to this policy change.
- As shown, the 10 year Treasury rate and the conventional mortgage rate have both trended down through 2014 with the Treasury rate experiencing a greater decline.
- However, broader financial markets have been in a bit of turmoil with oil prices falling sharply, some currencies such as the Russian ruble in freefall, and stock market values highly volatile.

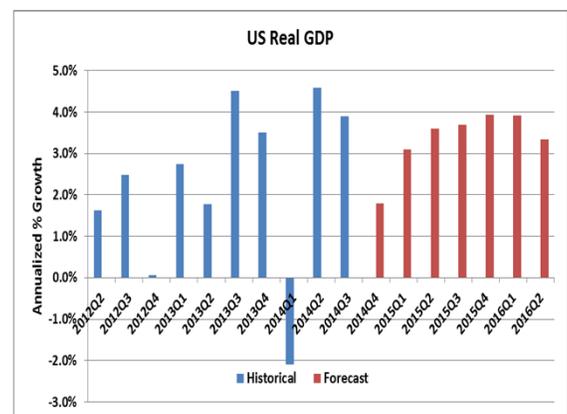


Georgia Economic Forecast – Key Principles and Overview

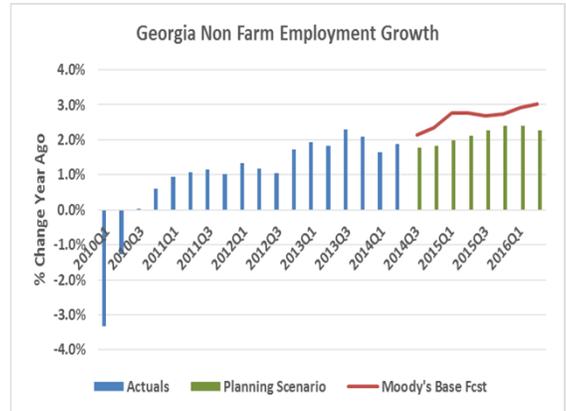
- US and Georgia forecasts are derived from forecasts prepared by Moody’s Analytics. For revenue estimation purposes, the forecast of Georgia economic indicators such as personal income and employment are adjusted to provide a more conservative growth scenario.
- Georgia’s economic growth is closely linked to that of the US. The current forecast for US GDP is for higher growth than experienced for much of the recovery during the rest of FY 2015 and into FY 2016. Thus, the Moody’s base case forecast anticipates relatively high growth in employment and personal income in Georgia over the budget cycle.
- The adopted forecast results in moderate revenue growth the State. Through December 2014, fiscal year-to-date tax collections reported by the Department of Revenue grew 5.7% over the prior fiscal year. The adopted revenue forecast for AFY 2015 projects tax revenue growth well 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.

Economic Forecast

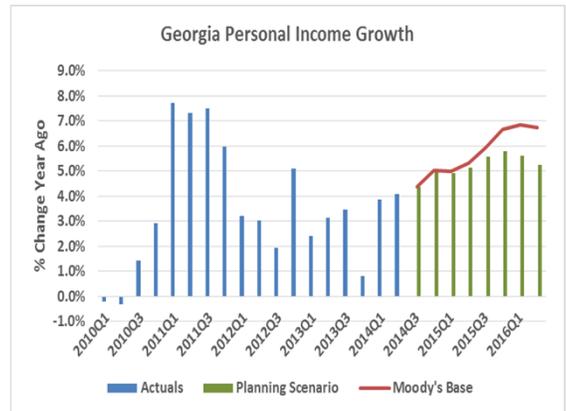
- The starting point for a forecast of Georgia’s economy is a forecast of US economic growth. This sets the environment in which Georgia’s economy will operate.
- As shown, Moody’s Analytics anticipates that growth will slow from elevated levels in the 4th quarter of 2014 but accelerate for the rest of the budget period through mid-2016. Moody’s anticipates GDP growth in excess of 3.0% on a seasonally adjusted annualized basis for each quarter after 2014’s 4th quarter.
- This sets up an environment in which Georgia’s economic indicators should grow more quickly on a sustained basis than experienced during the recovery to date.



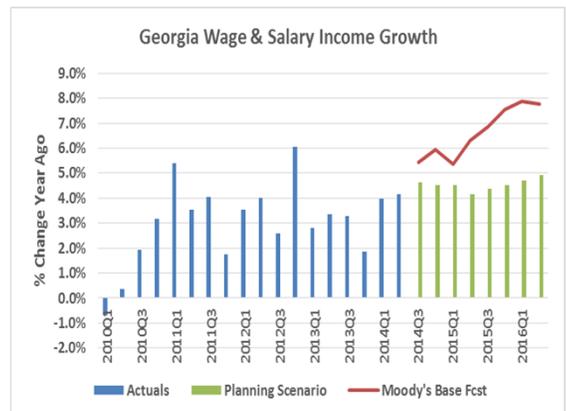
- Georgia’s labor market has strengthened during 2014. Non-farm employment growth was running over 10,000 per month as of October.
- As shown, Moody’s Analytics anticipates that growth will continue to accelerate through the budget period.
- The planning scenario adopts a more modest growth path with employment growth capped below 2.5% year over year for each quarter.



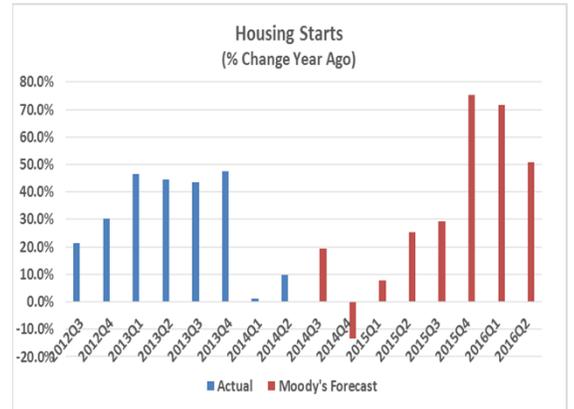
- The forecast of Georgia’s personal income anticipates a ramp up in income growth compared to the growth experienced in much of 2013 and 2014. The basis for this growth is stronger job growth and the return of wage growth as labor market slack is reduced
- The planning scenario is slightly below the Moody’s forecast for FY 2015 and significantly below the forecast for FY 2016.



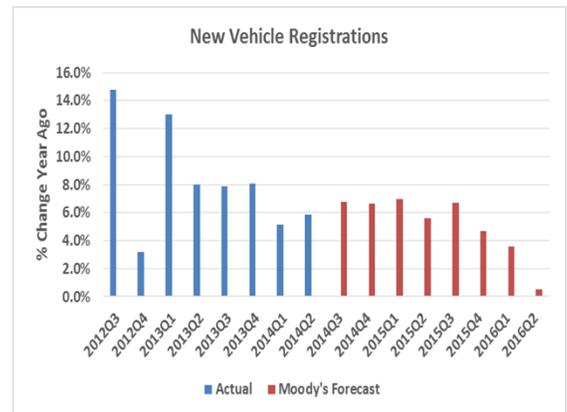
- The forecast of Georgia’s personal wage and salary growth anticipates a sharp ramp up in growth starting in the 3rd quarter 2014. The planning scenario anticipates a more measured increase in wage and salary growth from the levels experienced in the first two quarters of 2014. Thus, the planning scenario adopts much 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 construction boosted growth in many of the years prior to the Great Recession. The sharp drop in construction was a major contributor to the decline in employment and growth during the recession.
- Housing activity has picked up and the Moody’s forecast of housing starts anticipates high growth rates, especially in FY 2016.



- Historically, new vehicle sales have been a key driver of sales tax revenues. The title ad valorem tax has replaced the sales tax on vehicle transactions but new car sales are still a key driver of economic growth.
- New car sales have ramped up sharply in the US and Georgia. The current forecast is that sales will continue to grow but the growth rate will moderate over the budget period.



Forecast Summary

AFY 2015 and FY 2016 Economic Planning Scenario for Revenue Estimation

	Historical Values				Forecast Values							
	2014Q1		2015Q4		2016Q1		2016Q2		2016Q3		2016Q4	
US Real GDP (2009\$B, SAAR)	15,832	16,010	16,164	16,236	16,360	16,506	16,656	16,817	16,980	17,120		
Annualized Growth Rate	-2.11%	4.59%	3.90%	1.79%	3.10%	3.60%	3.68%	3.94%	3.92%	3.34%		
Georgia Personal Income (\$M)	387,630	393,044	396,581	400,944	406,757	413,266	418,638	424,164	429,593	434,963		
% Change Year Ago	3.9%	4.1%	4.4%	5.0%	4.9%	5.1%	5.6%	5.8%	5.6%	5.3%		
Georgia Wage & Salary Income (\$M)	206,966	209,781	211,879	214,103	216,298	218,515	221,137	223,791	226,476	229,307		
% Change Year Ago	3.2%	3.8%	4.6%	4.5%	4.5%	4.2%	4.4%	4.5%	4.7%	4.9%		
Georgia Non-farm Employment (Thousands)	4,062	4,083	4,102	4,120	4,143	4,170	4,195	4,219	4,242	4,264		
% Change Year Ago	1.4%	1.5%	1.8%	1.8%	2.0%	2.1%	2.3%	2.4%	2.4%	2.3%		
Georgia New Vehicle Registrations (Annual Rate)	449,372	461,589	464,193	476,278	480,606	487,540	495,311	498,529	497,754	490,081		
% Change Year Ago	5.1%	5.9%	6.8%	6.7%	7.0%	5.6%	6.7%	4.7%	3.6%	0.5%		
Georgia Housing Starts (Annual Rate)	33,551	34,439	37,925	32,612	36,135	43,166	49,096	57,145	62,085	65,146		
% Change Year Ago	1.2%	9.9%	19.3%	-13.5%	7.7%	25.3%	29.5%	75.2%	71.8%	50.9%		