

The Georgia Outlook for 2018 (Draft Date 01/14/2018)

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At this late stage of the economic expansion, the economic outlook for Georgia is surprisingly good. The main factors that contributed to growth over the last few years will continue to do so. For example, economic development knowhow, a revival of population growth, the housing upturn, and a relatively available supply of skilled labor will cause Georgia's economy to grow faster than the nation's economy for the third-straight year. Collectively, these forces will be slightly stronger in 2018 than in 2017. The main economic headwinds also will intensify, but not too much. On balance, the pace of economic growth will be steady in 2018. However, as one might expect at this stage of economic expansion, the risk of recession continues to rise. The risk of recession is higher this year because excesses in asset, credit, and labor markets have increased. Tax reform is also a small positive factor for 2018.

My forecast for 2018 indicates that the pace of Georgia's GDP and personal income growth will be similar to 2017, but tighter labor markets and prospects for steady rather than accelerating top-line growth will cause job growth to slow. The slowdown in job growth will be more modest in Georgia than in nation as a whole. The 2018 job gains will provide good opportunities for almost everyone who is actively looking for work. For example, all of Georgia's metropolitan areas and all of Georgia's major industries will add jobs in 2018.

More precisely, I expect Georgia's GDP to grow by 3.2 percent in 2018 - the same as 2017, but 0.7 percentage points higher than the 2.5 percent growth expected for US GDP.

Georgia's employment will rise by 2 percent in 2018. That is smaller than the 2.5 percent gain in 2017, but almost double the 1.1 percent gain expected for the nation in 2018.

The fastest job growth will occur in construction, followed by professional and business services, leisure and hospitality, education and health services, and wholesale trade. Solid, but below average job growth will occur in manufacturing, financial activities, and transportation. Positive, but slow job growth will occur in utilities, information, and government.

In 2017, Georgia's monthly unemployment rate averaged about 5 percent and it will be slightly below 5 percent in 2018. That is very close to full employment. Strong in-migration of workers from other states and increases in labor force participation will add significantly to the supply of workers. Labor force growth will prevent Georgia's unemployment rate from coming down so much that we are no longer attractive to companies looking to expand or relocate. In contrast, the US unemployment rate will drop to less than 4 percent in 2018, which is beyond full employment. The low unemployment rate will be a speed bump for the US economy because it will be difficult to fill open positions.

The tighter US labor supply will work to Georgia's advantage. Economic development projects that might have gone to other states that have very low unemployment rates may go instead to

low cost, business friendly states with available workers to accommodate new development like Georgia.

In 2018, I believe Georgia will be one of the most successful states when it comes to landing economic development projects. Our state will have available workers and our workforce development programs rank as the best in the nation. Georgia fields an extremely competitive team of economic development professionals and is a place where there is a good working relationship between government and other major players. Georgia's government is extremely responsive to the needs of businesses, ranking very high in terms of its regulatory environment and speed of permitting. Many companies will move to Georgia to cut costs. Georgia's business incentives programs, shovel ready sites program, and corporate tax environment rank among the top in the nation. Those factors plus Georgia's major transportation and logistical advantages will keep the economic development pipeline full.

Another factor that will pay off in 2018 and beyond is the state's emphasis on targeted workforce training. Georgia is building highly specialized workforce training centers designed to increase the supply of skilled workers, which, in turn will attract businesses in targeted industries. The recently opened BioScience Training Center in Stanton Springs and the Georgia Cyber Training and Innovation Center under construction here in Augusta – will be very effective in attracting and retaining businesses that require workers with highly specialized skills. The state also established 17 HOPE Career Grant areas of study to better align college students fields of study with companies workforce needs. Over time this emphasis on skilled workforce training will boost the proportion of high-paying jobs, raise Georgia's productivity, and increase per capita incomes.

For these and other reasons, site consultants ranked Georgia the top state in which to do business for the fifth straight year.

In 2018, there will be many economic development projects in play, with some types of projects becoming more common and others less common. More professional and business services companies will be looking to expand or relocate. In contrast, fewer corporate headquarters will be looking to relocate, but Amazon is on the hunt for a new headquarters location. Based on the criteria that Amazon laid out, Moody's Analytics ranked Atlanta and Austin at the top of their list of best fits for HQ2.

Within manufacturing, producers of capital goods and basic consumer goods will expand faster than producers of luxury goods or highly discretionary products. Biotechnology and other growth industries less impacted by economic cycles also will be searching for new locations.

In 2018, providers of professional services and business services will favor sites in Georgia. The good business climate, logistical advantages in terms of serving distant clients, and the available professional workforce are factors that will attract professional and business services firms to Georgia. The outlook for consultants is positive due to continuing economic expansion, growth in corporate profits, business expansions and relocations, and higher revenue collections by state and local governments. The Boston Consulting Group's 2017 decision to create a new regional

support center in Atlanta reflects the ease of using Georgia as a hub to serve clients throughout the Southeast.

Georgia's transportation and logistics industry will do very well in 2018. More consumer spending, increased industrial production, a weaker dollar, Georgia's expanding role as a logistics and distribution center, and larger shipments via Georgia's ports will cause total statewide cargo volumes to outpace state- and US-GDP growth in 2018. Due to a weaker dollar and faster foreign growth, exports will grow faster in 2018 than in 2017, which boosts prospects for transportation and logistics firms. Transportation and logistics will gain from the continuing recovery of construction because construction is one of the most transportation-intensive sectors of the economy. Georgia's manufacturing activity will upshift in 2018, providing yet another tailwind to transportation and logistics firms.

In 2017, Georgia landed many economic development projects involving distribution and logistics. Georgia will also benefit from many new logistical/distribution centers for both online and bricks and mortar retailers, including Amazon, Dollar General, and Sports Warehouse.

In 2018, new high tech industries ranging from healthcare IT, to cyber security, to the development of software and mobile apps will underpin Georgia's economic growth. IT companies that announced major projects in 2017, include Switch, Sysnet Global Solutions, Global Technology, Better Cloud, athenahealth, and OneTrust.

The relocation of manufacturers to Georgia contributes to the positive outlook for 2018. Manufacturers of basic consumer goods will be actively looking for new sites. In fact, food processors dominated the list of economic development projects announced in 2017 and will continue to do so in 2018.

High-tech and advanced manufacturing projects also will be a force powering Georgia's industrial sector in 2018.

Georgia's film industry will make a substantial contribution to economic growth in 2018. Georgia's film industry ranks number one globally in the production of the top grossing feature films, followed by the United Kingdom, Canada, and California. State incentives assure that nearly all studio space will be booked in 2018.

Housing and real estate development will be a powerful driver of Georgia's economy in 2018. Increased demand for housing will come mostly from job and population growth. Those new jobs, and slightly bigger paychecks – plus appreciating home values – will give more people the wherewithal, and the confidence, to buy homes. Listings will remain scarce, with extremely limited supplies of mid-priced homes. The scarcity of listings and increased demand for housing will cause the number of single-family home starts for new construction to rise by 16% in 2018. Existing single-family home prices will rise by 4% in Georgia in 2018. The home price increase will be even greater if homebuilders do not quickly ramp up the production of new homes.

On average, Georgia's home prices have fully recovered. The average price of an existing home is 5 percent higher than its pre-recession peak. But, the degree of home price recovery varies

widely within the state. For example, the average price of an existing home in the Atlanta MSA is 10 percent higher than its pre-recession peak. In Athens, home prices exceed their pre-recession peak by 7 percent. Augusta, Savannah, Rome and Gainesville are at or close to full price recovery. In contrast, home prices in Brunswick, Columbus, Dalton, Hinesville, and Warner Robins are still 4 to 10 percent below their pre-recession peak.

The home price recoveries in Albany, Macon, and Valdosta are lagging further, with existing home prices more than 10 percent below their pre-recession peak. Home price appreciation will continue in 2018, but home prices will rise more slowly than in 2012-2017.

Demographic forces are another factor behind our improving economic performance. Corporate relocations, sustained job growth, the housing recovery, and retiree migration are bringing more people to Georgia. Georgia's population will grow at a pace that's double the national average in 2018 – 1.5 percent for Georgia versus 0.8 percent for the US.

Georgia's population will grow the fastest in Athens, Atlanta, Augusta, Gainesville, Savannah, and Warner Robins, which boosts the prospects for homebuilders and B-to-C companies operating in those parts of our state.

As always, there will be some headwinds. Here are five: (1) The Federal Reserve will hike interest rates and reduce the size of its balance sheet, which will increase borrowing costs. (2) Multifamily homebuilding will trend lower due to the recent high delivery of new units, tight credit for new apartment development, and an uptick in households opting to buy their own homes instead of renting. (3) Auto loan delinquencies are rising quickly, especially for subprime loans. Lenders will tighten credit for auto loans in 2018. (4) Uncertainty regarding healthcare policy and the lack of administrative support regarding the Affordable Care Act will limit growth of the healthcare industry. (5) Low productivity growth will limit increases in wages and salaries, which in turn limits growth in consumer spending. Sub-par productivity growth reflects several factors, including population aging, low levels of business investment, less foreign immigration, remaining high government regulation, and the repercussions of many years of mediocre gains in educational achievement.

Even though I expect economic growth for Georgia, the economy is operating in either the late-middle or late stage of the current economic expansion. That alone does not mean a recession is imminent. After all, Australia has avoided a recession for over 25 years. Still, I believe that excesses are developing in both the financial markets and the labor markets, which makes the overall economy increasingly vulnerable to the unexpected shock or policy mistake.

The main risks to growth are (1) massive shifts in asset prices, (2) contagion from financial turmoil in China, which has its own asset price and investment bubbles, (3) mistakes in US fiscal or monetary policy, and (4) geopolitical tensions. The primary risks likely to trigger a new recession are all external to Georgia. But, because Georgia's economy is strongly linked to the national economy, Georgia's economy will not escape a US-led downturn.

What does this forecast mean for you? The main takeaway is that it's not too late to take advantage of the economic expansion, but it's also definitely time to prepare for the next

recession. Still, I think the next downturn is much more likely to begin in late 2019 or 2020 than in 2018.

Of course, some developments could cause the economy to do much better than I expect. Possible developments that provide upside potential to both the short-term and the long-term performance of Georgia's economy include: (1) more aggressive deregulation, especially if deregulation were to catch on at all levels of government, (2) a large infrastructure package targeted towards projects that increase productivity, and (3) immigration reform that substantially increases the number and proportion of highly skilled immigrants.

I am pleased to report that the economic outlook is good. You can expect Georgia to once again outperform the nation in 2018. GA's prospects for growth reflect an available supply of workers, a pipeline that's full of economic development projects, the housing recovery, and faster population growth.

Thank you for your attention!