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Economic Landscape for the 2016 Legislative Session

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OVERVIEW

This brief provides a summary of the current trends in employment, income, consumption, and revenue for the state as background for the upcoming legislative session. Reference is made to other reports and briefs published by the Fiscal Research Center and the Center for State and Local Finance, which provide more detailed data and analysis. This brief uses the most current publicly available data.

ECONOMIC LANDSCAPE

Georgia's economic landscape has strengthened considerably after the long, entrenched recession of 2007-09. Georgia's revenues suffered heavily during the Great Recession, as was the case in states across the United States.

Revenue

In absolute levels, in fiscal year (FY) 2014, state revenues finally returned to 2007 levels while remaining about 12 percent below the high of 2001 in real per capita terms (Bourdeaux, 2015). Steady gains in real per capita state revenues have been posted since 2011.

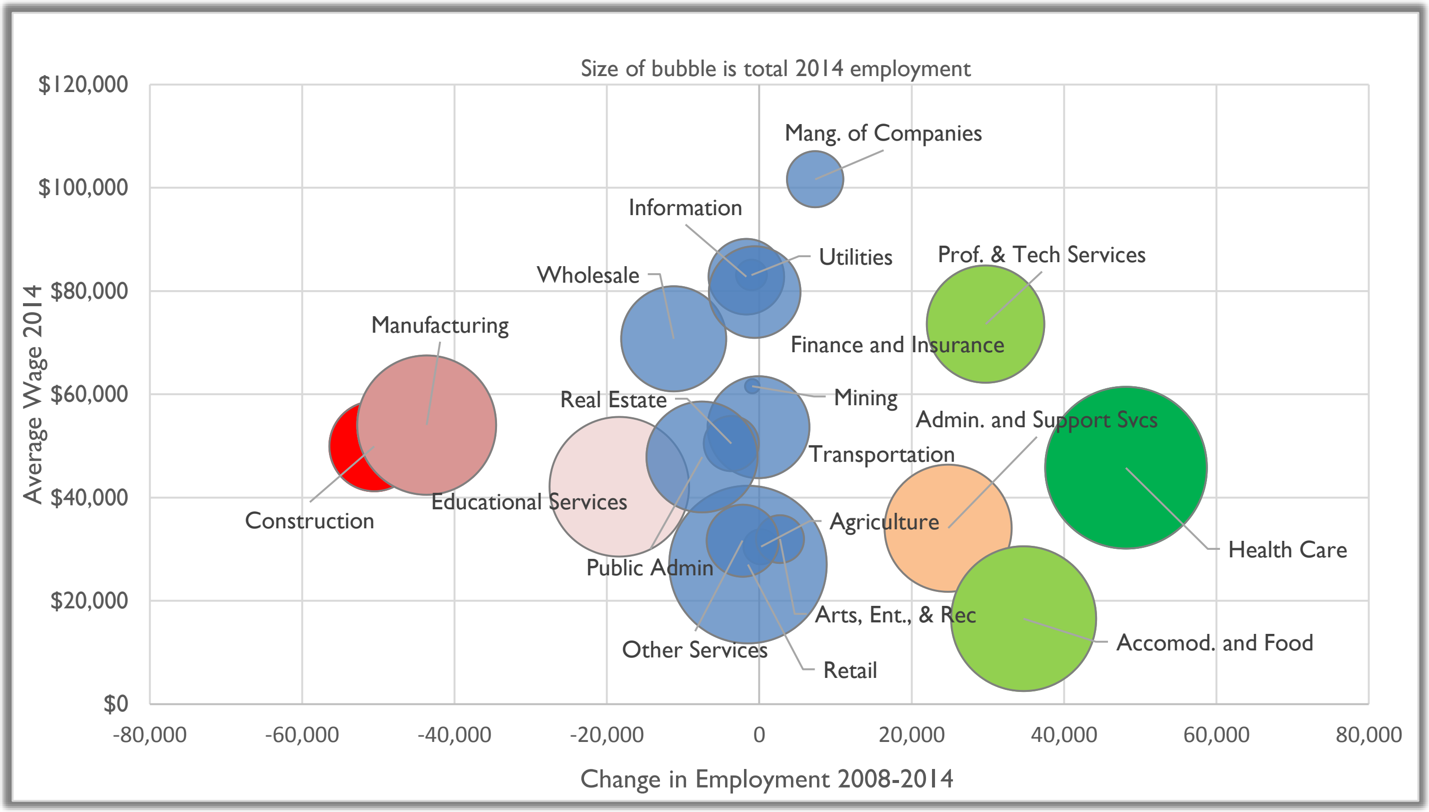
Georgia's real per capita state revenues remain among the lowest in the country. According to a ranking of FY 2013 state revenues, Georgia's real per capita state revenue was ranked 50th in the country; the individual income tax was 28th, corporate income tax was 41st, and general sales tax 41st (Bourdeaux, 2015). Adding in local revenue share increases the rank of the sales tax to 26th.

Employment

Unemployment in the state currently stands at 5.6 percent while the U.S. unemployment rate stands at 5.0 percent (Georgia Department of Labor, dol.georgia.gov). Georgia's employment situation has strengthened substantially since the Great Recession's high unemployment rate of 10.5 percent in December 2010.

The recovery of employment in Georgia, as in many states, is a mixed story. Some trends are noteworthy across the United States. For many years, Georgia and the United States have seen a decline in manufacturing, and the construction industry was hit hard during the recession. While the number of employed Georgians has increased to an estimated 4,467,376 (Georgia Department of Labor, October 2015) from a low of 4,187,159 (March 2010), there has been a decidedly different mix of employment by industry post-recession. The data in Figure 1 provide some insight regarding the significant changes in employment by sector that were witnessed after the Great Recession. The figure shows the change in employment from 2008 to 2014 along the horizontal axis and the average annual wage (in 2014 dollars) for each industry represented. The size of the bubbles represents the relative size of employment in the industry in 2014.

Figure 1. Georgia Employment Growth and Wages by Sector, 2014

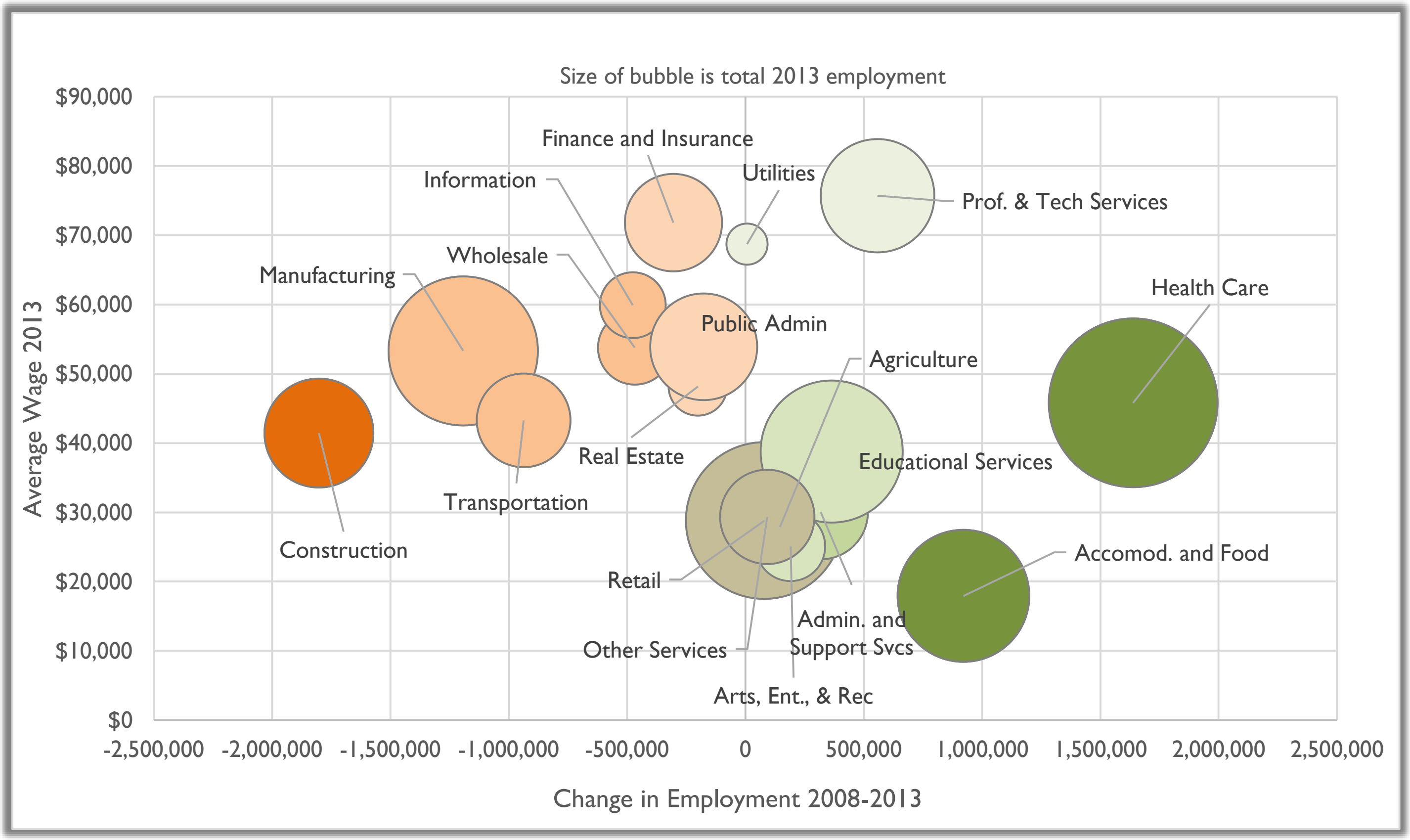


Source: American Community Survey

The largest increases in employment were in the health care sector, which is an average to lower-than-average wage industry. The next largest employment growth was in the accommodation and food industry, followed by administrative services, both of which are relatively low-average wage sectors. On the higher wage end, professional and technical services and management of companies have shown growth in employment post-recession. Continued growth of these higher-wage sectors could bolster the potential for tax revenues. Currently, these high-income industries represent a smaller share of employment than health care, administrative services and the accommodation/food industries.

The entire United States witnessed a change in the structure of employment by sector from pre- to post-recession. Figure 2 provides data on the change in employment by sector from 2008 to 2013 using the same conventions as Figure 1. As seen in Figure 2, growth sectors across the United States were accommodation/food, health care and educational services, while manufacturing, construction and transportation sectors declined.

Figure 2. U.S. Employment Growth and Wages, 2013



Source: American Community Survey

The Georgia Department of Labor projects that the highest employment growth over the next year will occur in the subindustries of food service/drinking places, administrative and support services, and professional, scientific and technical services. These projections reflect a continuation of the change in the mix of employment by sector that is reflected in Figure 1. The U.S. Bureau of Labor Statistics projects that across the United States, growth industries from 2014 to 2024 will include health care and social assistance, professional and business services, and leisure and hospitality — quite similar to the short-term projections for Georgia.

Income

Personal income growth (comprised of wage and salary income, interest, dividends, proprietor's income, employee contribution to pension plans, and transfer payments) is an important factor in determining the growth of tax revenues. In 2014, Georgia's personal income per capita was ranked 40th in the country reflecting the impacts of the Great Recession on general economic activity in the state. The growth in per capita income was 3.7 percent from 2013 to 2014, the 22nd fastest growing per capita income in the country for 2013-14, while the national average growth was 3.6 percent (de Zeeuw and Serrano-Franklin, forthcoming). Continued strong growth in personal income provides a stronger base for all forms of taxation.

Like the story of employment, the composition of income in Georgia and nationally has changed and has affected the trends in revenues. The U.S. Bureau of Economic Analysis provides detailed data on the composition of income. The trend seen in Georgia and in the United States is a decline in the percentage of income in the form of wage and salary income and an increase in transfer payments. In 2000, 60.6 percent of personal income in Georgia was made up of wages, and 10.8 percent was in the form of transfer payments; in 2015, wages were 54 percent of personal income and transfer payments were 17.9 percent. Across the United States, the trend is the same — wages as a share of personal income fell from 56.3 to 51 percent from 2000 to 2015, and transfer payments increased from 12.5 to 17.4 percent of personal income. Given the demographics of an aging population in Georgia and in the United States, we expect that the pension portion of transfer payments (including social security) will continue to increase relative to wages. Many transfer payments are not captured in income tax bases and will therefore lead to a potential erosion of the income tax base.

Consumption

For the past two to three decades, the spending behavior of individuals and households across the United States has moved toward more intensive consumption of services. Services are often exempted from sales taxes, which leads to a natural erosion of the sales tax base. Georgia's sales and use tax revenues lagged the growth of general revenues over the past 15 years. Buschman (2015) analyzed the factors that contributed to the reduction in Georgia's sales tax revenues, and he found that the changing consumption patterns and growth of online sales had a larger impact on the decline in the sales tax than legislated changes (other than the change of replacing the sales tax on motor vehicles with the title ad valorem tax). The narrowing of the sales tax base is a decades-old nationwide phenomenon and has been documented by others including The Institute on Taxation and Policy (2011), Wong and Hernandez (2006), Center for Budget and Policy Priorities (2003), and Stark (2003).

CONCLUSION

This brief overview of the economic trends in Georgia demonstrates that the state has shown signs of recovery in terms of employment, income, and revenue growth. However, given the changes in the composition of income and consumption, the natural growth in the income and sales taxes will be challenged as is expected in many states across the country.

RECENT RELATED REPORTS

Bourdeaux, Carolyn, "A Briefing on Georgia's Budget: The Big Picture," Center for State and Local Finance, November 6, 2015. Accessed from: cslf.gsu.edu/files/2015/11/Georgias-Budget-The-Big-Picture-Presentation_November-2015.pdf.

Buschman, Robert, "Georgia's Incredible Shrinking Sales Tax Base," Fiscal Research Center, October 6, 2015. Accessed from: frc.gsu.edu/files/2015/10/Georgias-Incredible-Shrinking-Sales-Tax-Base_October-2015.pdf.

Center for Budget and Policy Priorities, "Expanding Sales Taxation of Services: Options and Issues," June 19, 2003. Accessed from www.cbpp.org/archives/3-24-03sfp.htm.

Institute on Taxation and Economic Policy, "Should Sales Taxes Apply to Services?" July 1, 2011. Accessed from: www.itep.org/pdf/pb3serv.pdf.

Stark, Kirk J., "The Uneasy Case for Extending Sales Tax to Services," Florida State University Law Review, 2003. Accessed from: diginole.lib.fsu.edu/cgi/viewcontent.cgi?article=1583&context=fsulr.

Wong, John D. and Nickolaus Hernandez, "Sales Tax Erosion in Kansas." Kansas Public Finance Center, Wichita State University, December 2006. Accessed from: webs.wichita.edu/depttools/depttoolsmemberfiles/hugowall/Documents%20Library/Sales%20Tax%20Erosion%20in%20Kansas.pdf.

de Zeeuw, Mels, and William Serrano-Franklin, "Georgia's Rankings Among the States: Budget, Taxes and Other Indicators: 2016 Edition," Fiscal Research Center, forthcoming.

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