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Georgia's Economic Landscape in 2020

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OVERVIEW

As we enter the first year of the new decade, we are in the eleventh year of the current economic expansion since the Great Recession ended in 2009. The last decade was one of modest real gross domestic product (GDP) growth, on average, but record job growth for the nation. Georgia outpaced the nation in employment growth every year beginning in 2012, and in real GDP growth for 2014-17, before lagging behind more recently on that measure.

National and state real GDP growth slowed beginning in late 2018, though, as trade tensions and tariffs escalated, and many economic forecasters were raising the likelihood of a recession in 2020. With inflation remaining below its target and risk of a recession rising, the Federal Reserve reversed course on interest rate increases that began in earnest in early 2017, with the Federal Open Market Committee (FOMC) voting three times in the summer and fall of 2019 to cut the Fed Funds rate.

The year ended with national unemployment at 3.5 percent and Georgia's unemployment rate even lower at 3.2 percent, a record low for the state, beating the October–December 2000 low of 3.4 percent. Consumer sentiment remains near the highs of the last decade and stock market indices are making new record highs in early January. The probability of a recession this year, according to the Wall Street Journal's (WSJ) survey of economists, has dropped from nearly 35 percent in September to 24 percent as of this writing, and the consensus for real GDP growth, though lower than 2018-19 growth, stands at about 1.9 percent for 2020.¹

Against this backdrop, the 2020 legislative session begins deliberating the budget with state revenues feeling the effects of those trade tensions, a major hurricane, and slower GDP growth locally and nationally. This brief provides a closer view of that economic landscape, highlighting recent trends and the outlook for labor markets, personal income, and GDP for the state and the nation.

LABOR MARKET TRENDS

In the last recession, Georgia suffered relatively more in terms of job losses than the nation overall and was slower in turning around, according to data from the Bureau of Labor Statistics (BLS). From 2008 to 2009, the state lost about 185,000 jobs or 4.6 percent of those employed here in 2008; the national job loss was about 5.1 million or 3.7 percent. Unemployment in the state peaked at 10.6 percent in December 2010, by which time the U.S. unemployment rate was 9.3 percent, down from a peak of 10.0 percent in October 2009.

Beginning in 2012, however, job growth in the state has outpaced the nation in every year, averaging 2.2 percent per year compared to only 1.7 percent for the nation. Since its employment low in

¹ Economic Forecasting Survey, The Wall Street Journal, online at <https://www.wsj.com/graphics/econsurvey/> (downloaded January 12, 2020).

March 2010, Georgia has added nearly 800,000 more people employed in the state while the state labor force has grown by about 459,000 people.

As a result, the gap in unemployment rates between the state and the nation disappeared in 2018 and, as of the latest figures (December 2019), Georgia's unemployment rate is 0.3 percentage points below the national rate, 3.2 versus 3.5 percent. This is at least a 44-year record for Georgia (available BLS state employment data begins 1976), surpassing the low of 3.4 percent achieved in the last three months of 2000. Georgia's current rate is also below the lowest national unemployment rate of the last 66 years, 3.4 percent for nine months in 1968-69.

Job growth and unemployment in the 28-county Atlanta metropolitan statistical area (MSA) have outperformed the state as a whole, as well as the nation. The unemployment rate in the Atlanta MSA stands at 3.0 percent as of November 2019, matching its 1999-2000 lows. Growth in total nonfarm employment for the metro area, the state, and the nation over the one, five, and ten years ended in December are shown in Table I.

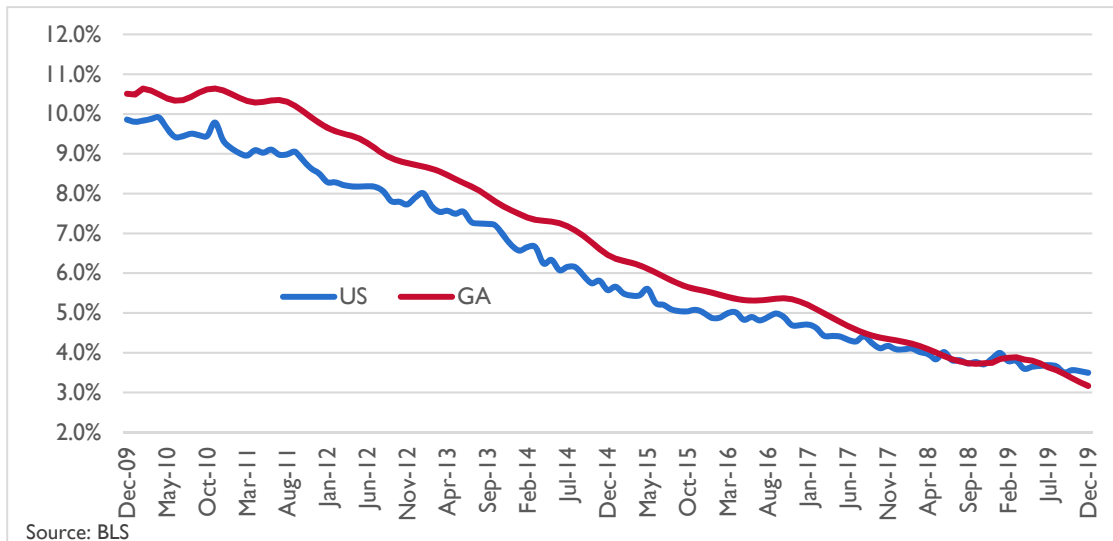
Table I. Total Nonfarm Employment Growth*

PD. ENDING DEC 2019	ATLANTA MSA	GEORGIA	U.S.
10-years	27.3%	21.0%	17.4%
5-years	12.9%	10.5%	8.5%
1-year	2.3%	1.5%	1.4%

* Cumulative

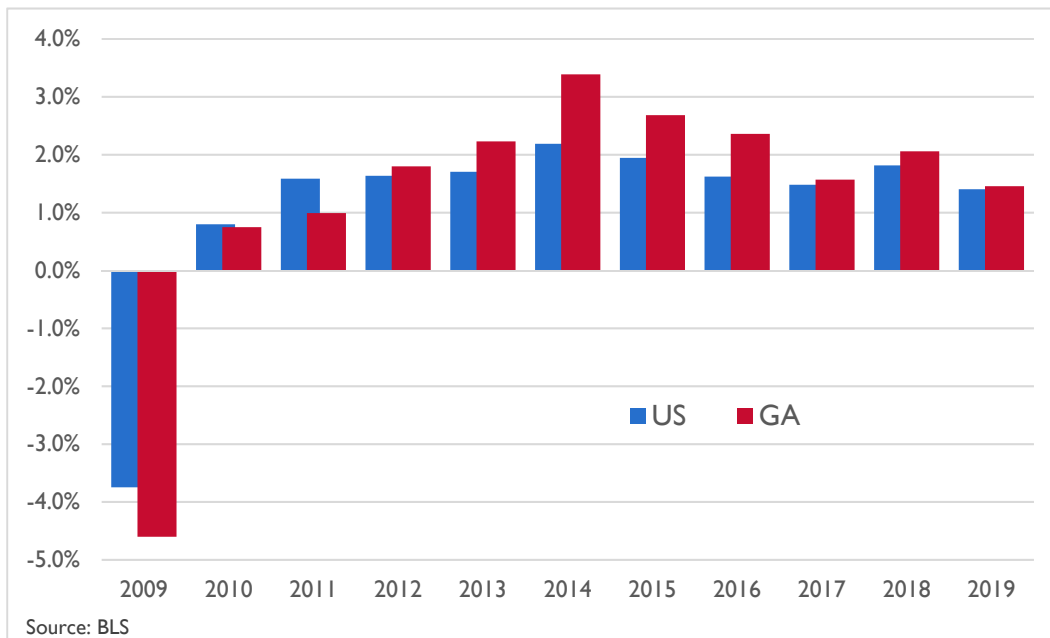
These trends, also depicted in Figures 1 and 2, reflect Georgia's status as one of the best states in the nation in which to do business, number six in the latest rankings from Forbes and CNBC, and third best for starting a business according to Wallethub.² The Georgia State University Economic Forecasting Center (GSUEFC) is projecting non-farm job growth rates in Georgia of 1.3 percent for 2020 and 1.0 percent in 2021, slower than in recent years, but ahead of their projected population growth and ahead of their forecast for national employment growth, 1.0 and 0.6 percent in 2020 and 2021 respectively. They are forecasting Metro Atlanta employment growth to continue to outpace the state and the nation, at 1.4 and 1.3 percent for 2020 and 2021, respectively.

Figure 1. U.S. and Georgia Unemployment Rates



² "Best States For Business," Forbes, December 2019, online at <https://www.forbes.com/best-states-for-business/list/#tab:overall>; "America's Top States for Business in 2019," CNBC, July 10, 2019, online at <https://www.cnbc.com/2019/07/10/americas-top-states-for-business-2019.html>; "Best & Worst States to Start a Business," Adam McCann, WalletHub, July 8, 2019, online at <https://wallethub.com/edu/best-states-to-start-a-business/36934/>.

Figure 2. U.S. and Georgia Nonfarm Employment Growth



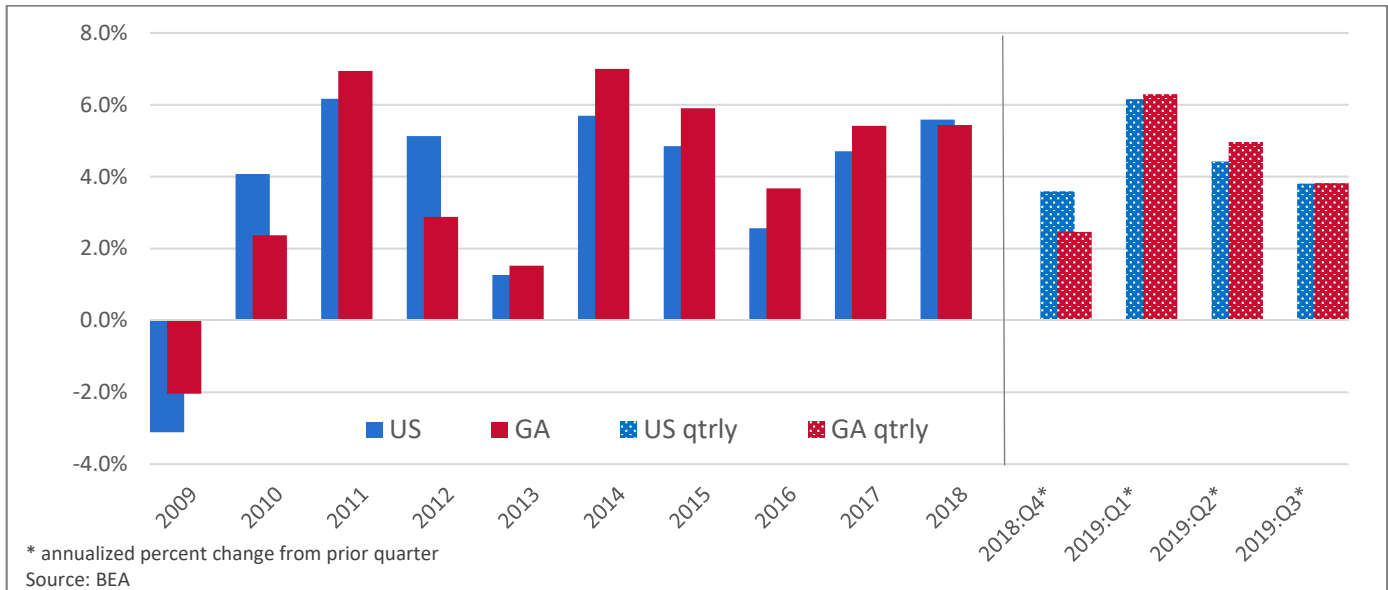
PERSONAL INCOME TRENDS

Since the end of the Great Recession in 2009, personal income in Georgia has grown slightly faster than for the nation, averaging 4.5 percent annually compared to 4.4 percent for the nation, according to U.S. Bureau of Economic Analysis (BEA) data. However, adjusting for faster population growth in Georgia, 1.0 percent annually for Georgia and 0.7 percent for the nation, per capita income growth for the state lagged the nation at 3.5 percent versus 3.7 percent annually.

Notably, this slight underperformance is attributable to relatively weaker income growth in the early recovery years. Since 2012, the state has outperformed on both total personal income (5.0 percent to 4.3 percent annually) and per capita income (3.9 percent to 3.6 percent). Income growth slowed considerably in the December quarter of 2018, but rebounded in the first quarter of 2019 and is averaging 5.0 percent annualized growth year-to-date for the state and 4.8 percent for the nation. Figure 3 shows annual state and national personal income growth for 2009-18 as well as annualized quarterly growth for the latest four quarters.

The outlook for state personal income, according to the GSUEFC, is for growth of 4.9 percent in 2020 and 4.7 percent in 2021. With continuing population growth, per capita income in Georgia is expected to grow by about 3.8 percent per year through 2021. Given the state's reliance on personal income and retail sales taxes for around 77 percent of total tax revenues, continuing healthy income growth bodes well for state revenues, all else the same.

Figure 3. Personal Income Growth

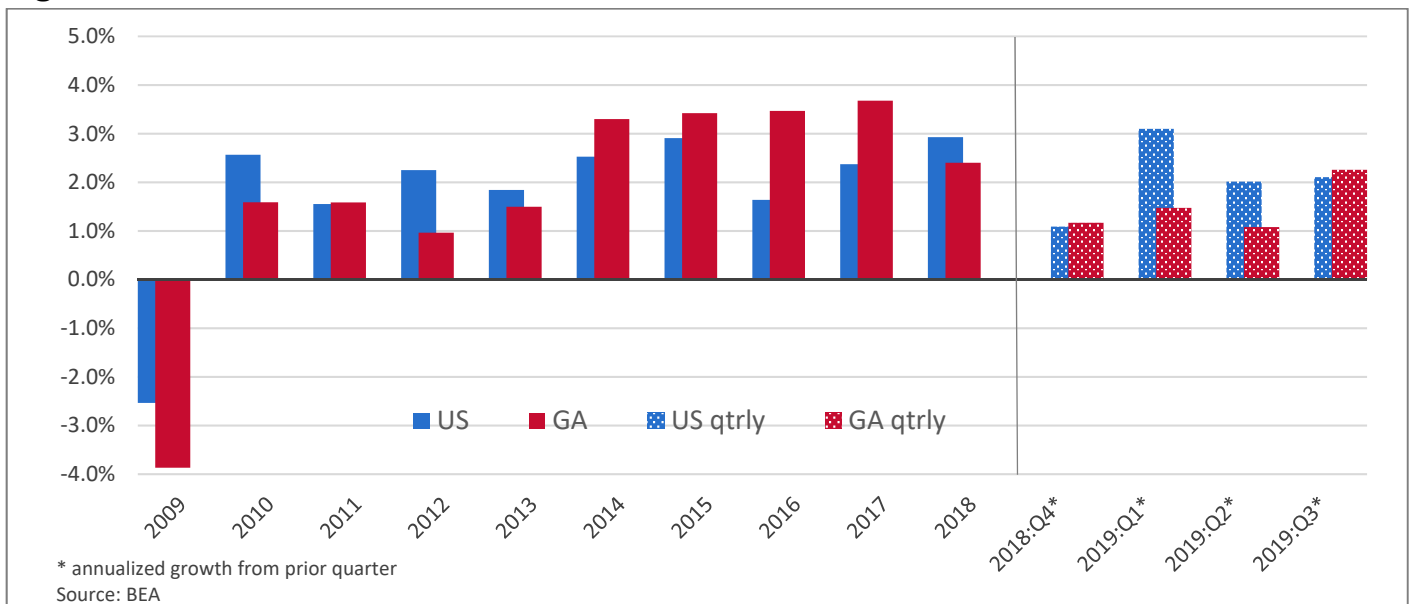


REAL OUTPUT TRENDS

Georgia also outperformed the nation in real GDP growth for 2014-17, with 3.3 to 3.7 percent growth per year compared to national growth no better than 2.9 percent (in 2015) and a slowdown in 2016 to only 1.6 percent growth (see Figure 4). Real output growth slowed in Georgia in 2018 to 2.4 percent, lagging national growth of 2.9 percent.

Over the most recent four quarters, both U.S. and Georgia finished 2018 weaker with annualized real growth of 1.1 and 1.2 percent, respectively, before national growth rebounded somewhat in 2019. However, Georgia continued this slow growth through the first half of the year, with average growth of 1.3 percent, before rebounding to 2.3 percent annualized for the third quarter.

Figure 4. Real GDP Growth



Weaker sectors for Georgia in 2019's first three quarters were transportation and warehousing (down 10.1 percent annualized), wholesale trade (down 4.5 percent) and agriculture (down 15 percent), according to BEA data. The strongest sectors so far in 2019 are professional, scientific and technical services (up 6.5 percent annualized), health care (up 5.3 percent), retail trade (up 4.5 percent) and management companies (up 13.9 percent). Accounting for the relative sizes of these sectors, their contributions to statewide real GDP growth through three quarters of 2019 are as shown in Table 2, which reveals transportation and warehousing to be the largest detractors from growth and professional, scientific and technical services to be the largest positive contributors.

Table 2. Contributions to State Real GDP Growth, YTD through Sept 2019

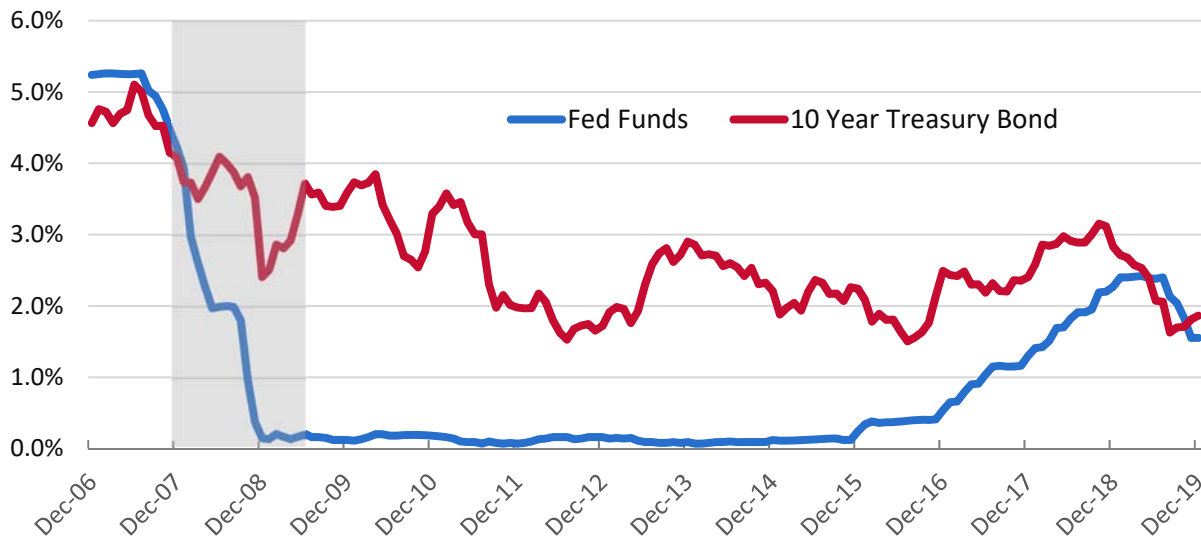
SECTOR	Q4 2018 SHARE OF GDP	ANNUALIZED REAL GROWTH	CONTRIBUTION TO STATEWIDE REAL GROWTH
Transportation and warehousing	3.9%	-10.1%	-0.40%
Wholesale trade	8.1%	-4.5%	-0.37%
Agriculture, forestry, fishing and hunting	1.0%	-15.1%	-0.16%
Professional, scientific and technical services	7.1%	6.5%	0.46%
Health care and social assistance	6.7%	5.3%	0.36%
Retail trade	5.8%	5.7%	0.33%
Management of companies and enterprises	2.4%	13.9%	0.33%
All other private sector	53.8%	1.5%	0.83%
Government	11.1%	1.9%	0.21%
All industry total	100%	1.60%	1.60%

The outlook for national and state real GDP growth is positive, though with some of the recent slowdown in growth continuing. The WSJ survey of economists finds January 2020 consensus estimates of 2.1 percent annualized U.S. real GDP growth in the fourth quarter of 2019, bringing full-year 2019 growth to 2.3 percent, 1.9 percent real growth for 2020, and 2.0 percent for 2021. The consensus estimate for the last quarter of 2019 has risen since the December survey by about a quarter point, but annual estimates for 2019-21 are up only about a tenth of a point. The survey's assessment of recession risk, which stood at almost 35 percent last September, has fallen to about 24 percent as of the January survey.

With slower growth, no apparent pick-up in inflation pressures and an inverted yield curve (which is often seen as a predictor of recession), the Federal Reserve cut its target Fed Funds rate three times in the summer and fall of 2019, from a target range of 2.25-2.5 percent last June to one of 1.5-1.75 percent now (see Figure 5). The WSJ survey finds consensus inflation (Consumer Price Index) forecasts of 2.0 to 2.2 through 2022 and no expected increase in the Fed Funds rate until 2022, though the FOMC reports the majority of Federal Reserve Board members and regional Fed bank presidents predicting, as of its December meeting, one or more increases in the Fed Funds rate in 2021.³

³ FOMC Chair's press conference, projection materials, December 11, 2019, available online at <https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20191211.pdf>.

Figure 5. Interest Rate Trends



Source: Federal Reserve Board

Georgia real GDP, according to the GSUEFC, is expected to outperform that of the national economy, with growth of 2.1 and 2.2 percent, respectively, in 2020 and 2021. With inflation, the center is forecasting nominal growth of 4.3 and 4.5 percent, respectively, for the same periods, somewhat less than their forecast for personal income.

STATE REVENUE TRENDS AND OUTLOOK

State collections of its three largest revenue sources – personal income, sales and corporate income taxes – and the total of all taxes for the last three and a half fiscal years are presented in Table 3.

Table 3. State Collections of Three Primary Taxes, FY 2017 – 1st Half FY 2020

(\$ MILLIONS)	FY 2017	FY 2018	FY 2019	1 ST HALF FY 2019	2 ND HALF FY 2019	1 ST HALF FY 2020
Personal income	\$10,977.7	\$11,643.8	\$12,176.4	\$6,121.3	\$6,055.1	\$6,091.2
% change	5.2%	6.1%	4.6%	3.9%*	5.2%*	-0.5%*
Sales and use	\$5,730.0	\$5,938.5	\$6,252.3	\$3,096.1	\$3,156.2	3,150.8
% change	4.6%	3.6%	5.3%	7.0%*	3.7%*	1.8%*
Corporate income**	\$902.9	\$938.6	\$1,192.7	\$496.9	\$695.8	\$550.7
% change	-1.1%	3.9%	27.1%	19.1%*	33.5%*	10.8%*
All taxes	\$21,194.0	\$22,136.3	\$23,227.0	\$11,515.3	\$11,711.7	\$11,525.5
% change	4.4%	4.4%	4.9%	4.7%*	5.2%*	0.1%*

* change from year earlier period; ** excludes corporate net worth and financial institutions taxes

Source: Georgia Department of Revenue

As the table clearly shows, revenue growth slowed considerably in the first half of FY 2020 for all three of the largest taxes and overall, though corporate income taxes maintained double-digit growth over the same period of FY 2019. Some slowdown in personal income taxes (PIT) was forecasted, of course, as a result of the tax changes passed in 2018’s HB 918, which among other things cut corporate and personal tax rates, but not to the extent reflected in Table 3. The slowdown in sales tax revenue growth, along with slower state GDP growth as discussed above, suggests there is more to the flat income tax revenue than just the expected effects of HB 918.

HB 918 conformed the state income tax code to federal changes in the recently passed federal Tax Cut and Jobs Act (TCJA), increased the state standard deduction, and reduced corporate and personal tax rates. At the time that it was under consideration, state budget projections had PIT revenues growing 5.3 percent in FY 2019, to \$12.03 billion, before accounting for the changes passed in that bill. After adjusting for estimated gains from TCJA and reductions

from HB 918, PIT revenues would have been expected to grow to \$12.28 billion in FY 2019, so actual collections fell only about 0.8 percent short of that target.⁴

Notably, a stock market correction in December 2018, with the S&P 500 down 15.7 percent from December 3 through Christmas Eve, likely had a significant impact on fourth quarter estimated and final tax payments for tax year 2018, usually paid in the second half of FY 2019. At the same time, both personal income and real GDP growth slowed sharply late in calendar 2018 and early 2019, also likely impacting tax payments in FY 2019. Going into the 2018 legislative session, the GSUEFC was predicting state real GDP growth in calendar 2018 and 2019 of 2.7 and 2.4 percent, respectively, and personal income growth of 5.3 and 5.4 percent. Again, actual real GDP growth was 2.4 percent in 2018 and 2019 is running only 1.6 percent annualized through three quarters, 0.3 and 0.8 percent below the GSUEFC's forecasted rates of two years ago. Similarly, personal income growth came in at 5.4 percent for 2018 and 5.0 percent through three quarters of 2019, 0.3 and 0.4 percent below the earlier forecasted rates.

Before the economic slowdown was evident, but after adjusting for TCJA and HB 918, the baseline PIT projection for FY 2020 called for growth of about 2.8 percent over FY 2019. As of January 2020, reflecting the slowdown in calendar 2019, budget projections forecast PIT revenues for the full FY 2020 to be up 1.0 percent from FY 2019, despite the small decline in the first half. A few factors that may justify expecting second half improvement over the first half results include better GDP growth later in 2019 and the continuing bull market in stocks, which should positively affect estimated and final tax payments in the second half of FY 2020. In addition, because the cut in the top PIT rate under HB 918 was effective January 2019, new withholding tables were issued, causing an immediate drop in tax withholding from paychecks for all of calendar 2019. With no further rate reduction for tax year 2020, year-to-year comparisons become easier; collections in the second half of FY 2020 will reflect increases in wage and salary income with no offsetting reduction in withholding rates.

Budget projections also call for a modest uptick in growth of sales tax revenues in the second half of FY 2020, full year growth of about 3.2 percent versus 1.8 percent for the first half. This, too, is consistent with a slight improvement in state GDP growth, continuing income growth trends, and strong labor markets, which reportedly are pushing wages higher. Full-year FY 2020 budget projections for corporate income taxes, meanwhile, call only for maintaining the growth rate for the first half of the year, around 10.8 percent.

CONCLUDING COMMENTS

Overall, Georgia's economy remains strong going into 2020, with state unemployment at a record low and an uptick in GDP growth after a few quarters of slower growth in late 2018 and the first half of 2019. Continuing growth amid tight labor markets suggests income growth will also remain strong, improving the outlook for state revenues.

In the record eleventh year of the current economic expansion, we are reminded of the comment from Janet Yellen, "I don't think expansions just die of old age," to which Ben Bernanke quipped, "I like to say they get murdered."⁵ While we shouldn't think it inevitable that a recession is just around the corner, the positive outlook is not without risks. Among the global and domestic factors that could dampen growth over the near term are:

- unresolved trade tensions,
- slowing growth of the Chinese economy,
- growing U.S. government deficits and debt,
- election-year political and policy uncertainty, and
- the coronavirus outbreak.

Cautious optimism seems to be the order of the day.

⁴ Georgia Department of Audits and Accounts, fiscal note for HB 918, available online at <https://opb.georgia.gov/budget-information/fiscal-notes>.

⁵ Federal Reserve Chairs: Joint Interview. American Economic Association Annual Meeting. Atlanta, Georgia, January 4, 2019. Available online at <https://www.aeaweb.org/conference/2019/preliminary/1090>.

ABOUT THE AUTHOR



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