February 25, 2021

Contact:
Jenifer Shockley
Robinson College of Business
O: (404) 413-7078
jshockley@gsu.edu

Rajeev Dhawan
Economic Forecasting Center
M: (404) 867-2286
rdhawan@gsu.edu

Georgia State Forecaster Says "Proper" Recovery Will Happen Only After Full Vaccine Dissemination

ATLANTA–With vaccine rollout underway and picking up steam concurrent to emerging virus variants, Rajeev Dhawan of the Economic Forecasting Center at Georgia State University's Robinson College of Business said that recovery remains "an economic tango led by the virus. Reaching a sustained recovery by early 2022 is contingent on the speed and efficacy of vaccinations by mid-2021."

"There is light at the end of the tunnel but it will take time, with 'proper' benefits to come as more people are vaccinated successfully," Dhawan said. "We must relearn to walk before we can run again after this major biological shock rattled economic foundations."

Assessing the past impact of stimulus payments, the forecaster pointed out that consumers spent them "rationally."

"Those who had to spend the checks last spring and this winter (the most vulnerable) did so, while some who could afford to save banked the funds or better played with timing of their purchases and spent with savvy, smoking out retailer incentives spurred by Covid-19 sales slump that we saw in November and December even in online sales."

Consumer spending is beginning to return, with away-from-home food purchases up 4.4 percent, and sales of used cars and trucks up 10 percent year-over-year. Also up: sales of watches and jewelry, which had dropped 50 percent during the first two months of the pandemic. Today, watch and jewelry sales are up 20 percent over what they were this time last year.

"Who's buying all these watches and jewelry? We don't know. But couples who have been confined together at home and perhaps postponed weddings, may be spending money they saved on peace offerings," said Dhawan.

Proposed federal-level fiscal spending, immaterial of amount, will boost consumer spending for only a short while. The ubiquitous reversion to the mean will follow in subsequent quarters when the stimulus runs out.

“The real recovery depends on people feeling comfortable in interacting with each other – eating out, attending meetings, going to movies and concerts, and sightseeing,” said Dhawan.

Georgia and Atlanta did not take as hard a hit as the nation overall in terms of job losses when the coronavirus shut down the economy last spring. U.S. employment plunged 14 percent, compared to a 11 percent drop in Georgia. Correspondingly, the area’s recovery also has been faster, which Dhawan attributed to Georgia’s relatively brief shutdown compared to the rest of the nation (notably California and Northeastern states).

“Today, the U.S. economy is down six percent by the employment metric, compared to only two percent in Georgia,” Dhawan said. “That sounds good until one takes a closer look at the performance of the state’s catalyst sectors of well-paying jobs where job growth starts and the multiplier effect fuels downstream activity.”

The forecaster explained that those crucial sectors – corporate jobs, information technology, business services, manufacturing, and transportation – experienced the same sharp eight percent drop in jobs in Georgia as seen in the nation. But when it came to recovery, Georgia did not outpace the nation in this critical income-generating category.

“Net-net, the overall job recovery deficit may be only 20 percent, but for high paying jobs it is close to 50 percent. Quality of jobs is a metric by which recovery still lags in the state,” said Dhawan.

One area where economic forces seem to be immaterial at the moment is the buying of homes, with more purchasers opting to buy single family homes further out instead of high-rise condominiums in the city’s core. How long this change in preference, or demand shock, will last is unknown.

“But what is clear is that the rocket recovery of the stock market last spring that has continued into 2021 has helped the consumers with their ability to purchase homes in conjunction with sharply falling mortgage rates,” said Dhawan.

The Federal Reserve dropped its benchmark rate to near zero last March and with subsequent quantitative measures to help shore up the mortgage market, making clear that they will not raise rates until the recovery fully takes hold.

“This means the Fed is holding pat at least until 2023, or even later. But mortgage rates will start rising rise this year as the long-bond yield is expected to climb in the coming quarters. This is not just due to mild inflationary conditions expected from the consumer binge due to additional fiscal stimulus,” said Dhawan.

The reason for bond yields to rise is the classic demand and supply of investable funds when looked at from a global perspective. As we recover, and so does the rest of the world, the rising demand for capital expenditures/investment spending by corporations that is a precursor to job growth will put upward pressure on mortgage interest rates.

“Whether or not the housing boom continues and outlasts the coronavirus crisis hinges on stock market performance, which is a random factor in this recovery story,” said Dhawan.

Highlights from Rajeev Dhawan's Economic Forecast

Nation

- Overall GDP growth will be 4.9 percent in 2021, 3.9 percent in 2022 and 2.9 percent in 2023.
- Investment growth will be only 7.2 percent in 2021, 5.4 percent in 2022 and 6.1 percent in 2023. Monthly job gains will be 298,000 in 2021, rise to 414,000 in 2022 and moderate to 202,900 in 2023.
- Housing starts will average 1.474 million in 2021, 1.339 million in 2022 and 1.272 million in 2023. Vehicle sales will average 16.7 million in 2021, 17.0 million in 2022 and 17.4 million in 2023.
- CPI inflation will be 2.3 percent in 2021, rise to 2.6 percent in 2022, and then moderate a bit to 2.4 percent in 2023. The 10-year bond rate will average 1.6 percent in 2021, 2.2 percent in 2022 and 2.6 percent in 2023.

Georgia and Atlanta

- Georgia will add 68,900 jobs (13,200 premium jobs) in 2021, gain a better 100,000 jobs (33,700 premium) in 2022 and increase by 77,100 (19,700 premium) in 2023.
- Nominal personal income will grow 4.0 percent in 2021, moderate to 0.6 percent in 2022 and rise 4.2 percent in 2023.
- Atlanta will add 54,000 jobs (11,900 premium positions) in 2021, grow by 86,600 jobs (29,400 premium) in 2022 and a further 64,900 jobs (17,000 premium) in 2023.
- Atlanta housing permitting activity will increase by 5.8 percent in 2021, decline mildly by 0.6 percent in 2022, then rise by 3.0 percent in 2023.

# # #