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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

Forecaster Says Virus Variant Will Delay but Not Diminish Economic Growth Prospects

ATLANTA-The impact of COVID-19's delta variant will delay but not diminish growth prospects, and a current surge in inflation will recede in 2022, according to Rajeev Dhawan of the Economic Forecasting Center at Georgia State University's J. Mack Robinson College of Business.

"The pause in growth is due to a decrease in consumption of contact-heavy service-sector products, such as hospitality, travel and elective healthcare because of the current surge in coronavirus illnesses and hospitalizations," Dhawan said. "Once public health measures arrest the surge, consumer sentiment will improve, the service sector will reignite and growth will resume."

The forecaster posited that three temporary factors are fueling inflation: the reopening of the hospitality and retail trade sectors, idiosyncratic supply chain disruptions and "super-sized stock market gains" leading to "spectacular home price growth."

Dhawan said, "Hotel room rates have spiked, with a 10 percent increase in each quarter of 2021, as occupancy rose sharply after a long period of inactivity. And this was mostly leisure travel (meeting friends and family and taking summer vacations), which shows up in data as a rise in the consumer price index (CPI). But this is temporary. Another round of double-digit price increases would only happen if people began taking vacations not only in the summer, but also in the fall, and then again in winter – an absurdity, as it violates social calendar norms."

Anomalous supply chain events (accidents at chip production plants in Taiwan) roiled U.S. car sales when chip shortages reduced new vehicle inventory and led to upward pressure on used-car prices.

"This was a one-time price increase that is already leveling off," Dhawan said.

Dhawan acknowledged the seeming paradox of falling interest rates for 10-year treasury bonds given the high fiscal deficit and rising inflation.

"Why has the 10-year bond yield fallen for the last three months after peaking at 1.6 percent in March? And does this drop signal diminished growth prospects in 2022?" Dhawan asked. "Let me start by answering the second question. Growth prospects are undiminished but will be delayed."

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Dhawan attributed the drop in 10-year yields to an influx of funds triggered by the arrival of delta variant cases of COVID-19 and an uptick in geopolitical worries.

“Companies pause capital expenditures (investments) during times of uncertainty and park their money in the safest assets in the world – U.S. treasury bonds,” he said.

The forecaster asserted the flight to safety would be temporary, pointing to the widely held perception of statements by Federal Reserve Chair Jerome Powell as credible.

Dhawan’s final inflation factor is the heated residential real estate market, spurred by “dramatic” stock market performance since the lows of March 2020, which has fueled “spectacular” home price gains over the last 12 months.

“The pandemic triggered a demand shock – a change in housing taste and location preference – that has not abated during subsequent waves of the virus,” he said. “People are moving from crowded in-town areas to single-family homes farther out or farther away.”

The hot market for residential real estate will ultimately normalize, Dhawan said.

“Once everyone has moved, the demand shock will abate. Affordability depends on price and interest rates. Although the Fed will not raise rates until well into 2023 (as tapering of bond purchases won’t begin until mid-2022),” he said. “Sustained high domestic fiscal deficits and eventual global recovery will push up long-bond yields, causing mortgage rates to reach 4.0 percent by late 2022.”

Dhawan said 2021 has averaged 617,000 new jobs per month from January to July, with almost 50 percent growth in the hospitality and retail trade sectors. The corporate sector, home to premium jobs, is not producing consistent job growth.

“Corporate job growth is at 52,000 new positions per month,” Dhawan said. “That’s only 8 percent of total job growth for a sector whose share of jobs is 14 percent. Further boosts for this sector will hinge on the global economy, which still hasn’t picked up speed because of vaccine scarcity.”

Highlights from Rajeev Dhawan’s National Economic Forecast

- Gross domestic product (GDP) growth will be 5.0 percent in the third quarter of 2021, moderate to less than 3.0 percent in the subsequent two quarters before rebounding to 4.9 percent in the second quarter of 2022 and will be 4.2 percent in the third quarter of 2022.
- Overall GDP growth will be 5.7 percent in 2021, 3.9 percent in 2022 and 2.7 percent in 2023.
- Housing starts will average 1.560 million in 2021, 1.433 million in 2022 and 1.363 million in 2023. Vehicle sales will average 16.3 million in 2021, 16.9 million in 2022 and 18.1 million in 2023.
- CPI inflation will be 4.3 percent in 2021, moderate to 3.1 percent in 2022 and further moderate to 2.4 percent in 2023. The 10-year bond rate will average 1.4 percent in 2021, 2.1 percent in 2022 and 2.5 percent in 2023.

Georgia’s Recovery Outpaces U.S. But Not Immune to Global Supply Chain Disruptions

ATLANTA – Georgia’s recovery from the 2020 pandemic shutdown remains ahead of the nation’s, but further disruptions of the global supply chain could be felt from the port of Savannah to the boardrooms of Atlanta, according to Rajeev Dhawan of the Economic Forecasting Center at Georgia State University’s J. Mack Robinson College of Business.

“Although the Peach State outpaces the U.S. in economic recovery metrics, including running a lower job deficit (2 percent in Georgia vs. 4 percent nationally),” Dhawan said, “we contend with the same challenges, including inflation and uncertainty about the trajectory of the COVID-19 delta variant.”

Dhawan describes a hypothetical order of an electronics product in high demand among U.S. consumers. The product is assembled in China of components sourced from throughout the Asia-Pacific region (including perhaps Indonesia, Japan, Malaysia, South Korea, Thailand, Taiwan and Vietnam). The assembled products ship from a Chinese seaport, perhaps Shenzhen, to an American port – perhaps Savannah, the nation’s third-busiest seaport. After customs, orders ship to retailers for fulfillment.

“Under normal circumstances, the logistics process is seamless. But any interruption along the way – such as a delta variant outbreak at the assembly factory or the outbound seaport–adds to an already overwhelming backlog,” Dhawan said. “And this supply scarcity contributes to inflation and lower activity at Georgia’s signature port.”

Between continuing pandemic concerns, global supply chain snarls and geopolitical worries, Dhawan anticipates Georgia’s corporate sector will “keep pushing the pause button on hiring or making capital expenditures until uncertainty begins to subside in 2022.”

By contrast, Dhawan said, Atlanta-area residential and commercial real estate developers are pivoting to changes in market demand. “Pre-pandemic, developers were building spectacular high-rise office buildings in town and equally spectacular high-density residential towers nearby,” he said. “Today we see a shift to small, low-density office complexes in suburban locations with nearby apartment clusters. Now is not the time to gamble on building a trophy tower.”

Dhawan said one need look no further than the proliferation of 18x24-inch yellow placards lashed to roadside signs to know that active film productions have returned in force to the #1 movie-making city in America. “Georgia’s film industry is doing very well,” he said, “with plans for a symbiotic complex of studio sound stages, housing and commerce at the former General Motors plant in Doraville.”

Highlights from Rajeev Dhawan’s Economic Forecast for Atlanta and Georgia

- Georgia will add 157,500 jobs (33,200 premium jobs) in 2021, gain a respectable 109,500 jobs (30,700 premium) in 2022 and increase by 85,700 (25,500 premium) in 2023.
- Nominal personal income will grow 8.0 percent in 2021, pull back to only 0.3 percent growth in 2022 and rise 4.0 percent in 2023.
- Atlanta will add 114,100 jobs (25,300 premium positions) in 2021, grow by 70,900 jobs (22,100 premium) in 2022 and add 66,100 jobs (19,900 premium) in 2023.
- Atlanta housing permitting activity will increase by 31.1 percent in 2021, decline by 4.7 percent in 2022 and drop by 1.6 percent in 2023.

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