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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

Economic Forecaster Says the U.S. is About to Enter an Era of "Bearflation"

ATLANTA – Curing inflation will be a year and a half process, according to Rajeev Dhawan of the Economic Forecasting Center at Georgia State University's J. Mack Robinson College of Business, because a "very determined" Federal Reserve will "eliminate excess demand by hiking interest rates sufficiently."

In his economic forecast for the nation, released today (Aug. 31), Dhawan described the current economic condition as "bearflation," which he defined as "a combination of hot inflation, accompanied by sharp stock market declines at near full-employment, in the face of an energy crisis that is eroding consumer confidence, thereby making corporations hesitant to invest in capital expenditures (CapEx) – which will turn the current stall in income growth into an NBER (National Bureau of Economic Research) style recession as the Fed remains resolute with interest rate hikes."

Although prices at the pump have declined, natural gas prices remain high. "In the U.S., natural gas costs three times what it did two years ago. In Europe, it's 7-10 times higher over the same period. This energy shock reverberating through the European economy, a critical U.S. trading partner, will translate into a nasty slowdown for the continent this coming winter," said Dhawan.

The energy-price-hike-induced inflation has cratered domestic consumer confidence, signaling less spending in the coming months. As a result, corporate suite confidence is low, translating into weak capital expenditures in the last six months.

"An important bellwether of future growth is technology-based investments by corporations," Dhawan said, "with CFO (chief financial officer) confidence plummeting, expect to see even less spending on technology equipment and software (aka CapEx), which is the lifeblood of job growth. CapEx spending done today generates job growth six to nine months down the road. CapEx spending will cool even further, and so will job growth, in 2023."

Dhawan said the U.S. is not facing a repeat of the multi-year inflation it endured in the 1970s.

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"Fed Chair Jerome Powell signaled his *firm* commitment to quashing inflation this past Friday (Aug. 26) in his remarks at the Kansas City Fed's annual conference in Jackson, Wyoming," Dhawan said, adding, "I anticipate three more rate hikes totaling 125 basis points at upcoming Federal Reserve meetings in 2022, and with quantitative tightening ramping up in September, it will be enough of a monetary tightening to cure the inflation problem."

As for when the Fed will stop raising rates, Dhawan said, "when the Fed has seen the whites of the eyes of the recession, meaning job growth has become decidedly negative, rate cuts will begin, around the fall of 2023."

Highlights from Rajeev Dhawan's National Economic Forecast

- **GDP growth** will be 1.5 percent in 2022, negative 0.4 percent in 2023, and 1.4 percent in 2024.
- **Job growth** will moderate sharply from its 496,000-monthly pace in the first half of 2022 to 165,000 monthly losses by mid-2023. Job growth will turn a positive 150,000 monthly rate in late 2024.
- **CPI inflation** will be 8.2 percent in 2022, moderate to 4.3 percent in 2023, and 2.0 percent in 2024.
- **The 10-year bond rate** will average 2.8 percent in 2022, 3.2 percent in 2023, and 3.1 percent in 2024.
- **Housing starts** will average 1.574 million in 2022, 1.280 million in 2023, and 1.266 million in 2024.
- **Vehicle sales** will average 14.2 million in 2022 and be 14.1 million in both 2023 and 2024.

Georgia's Economy Will Continue to Outperform the U.S. Economy

ATLANTA – Georgia has experienced "superb" job growth, adding 137,400 jobs in the past seven months with unemployment below three percent, according to Rajeev Dhawan of the Economic Forecasting Center at Georgia State University's J. Mack Robinson College of Business. Dhawan released his economic forecast for Atlanta and the state of Georgia today (Aug. 31).

Approximately one-third of jobs gained (47,000) are in hospitality and retail. "Combined, the two sectors represent 20 percent of the economy by employment share, but they produced 35 percent of new job growth," Dhawan said. "The biggest stumbling block for growth in hospitality and retail will not be rising interest rates, but a shortage of workers to meet the two sectors' blistering growth rate."

The information sector, which spans jobs in fintech, technology, software, and film, "has punched above its weight" in job gains, according to the forecaster. Although the sector comprises just three percent of the economy, it has created more than 10,000 jobs this year and over 35,000 since the recovery began in mid-2020.

As the stock market has hit the skids and consumer confidence has plunged, tech companies have said they will not hire as aggressively nationally. Some Georgia tech firms have even recently announced layoffs, appearing to cloud future growth in the sector. However, a positive for this sector is technical jobs in the state's booming film production business. "We had a banner year in the number of productions, which will continue in 2023 and offset technical job losses in other areas," Dhawan said.

"Another star performer has been manufacturing, gaining 44,000 jobs in the last two years," Dhawan said. "Contributing factors to growth in this high-paying sector include onshoring, battery manufacturers choosing to locate plants in the Peach State, and proximity to the Port of Savannah and its transportation network."

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The pace of job gains in manufacturing during 2021-2022 will be challenging to sustain moving forward. “The dark clouds on the horizon for this sector are a stronger dollar and the elevated cost of energy, which will dampen manufacturing job growth despite onshoring’s benefits,” Dhawan said

Savannah’s ability to accommodate consumer demand has contributed to growth in the transportation sector. The sector, comprising trucking, warehousing, railroads, and port jobs, has gained 9,300 jobs this year and produced 42,000 jobs since the post-pandemic recovery began. As global growth hits a roadblock due to high energy prices caused by Russia’s invasion of Ukraine, the growth rate of tonnage at the Port is expected to slow. “Still, the trend of shippers rerouting cargo from the congested West Coast to Savannah will be a positive factor for tonnage growth going forward,” Dhawan said.

The corporate sector has created 40,000 jobs in the last seven months, which is 30 percent of job growth during the period. “These high-paying jobs are the lifeblood of housing demand and downstream purchases, but as skittish consumers spend less, lack of confidence in the C-suite expands, energy prices remain high, and Fed hikes slow demand, global companies based in Georgia will have less incentive to hire as they feel blowback from slower global growth,” said Dhawan. “Corporate sector growth sector will slow sharply in the coming quarters.”

“An important factor in Georgia’s job recovery has been net domestic migration to the state in 2021,” Dhawan said. “We are gaining people who are leaving West Coast states in droves. To produce jobs, you need to have people, which we do.”

Although Georgia’s economic outlook is brighter than the nation’s, the Peach State can’t escape the global slowdown and the impact of Fed rate hikes unscathed. The state will gain considerably fewer jobs in 2023 (52,200) than in 2022 (176,200). However, due to strong net domestic migration, Georgia will be showing positive growth, unlike the nation.

“The continued influx of people will provide the personnel needed for transportation, hospitality, retail, and other sectors,” said Dhawan.

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

- **Georgia jobs:** The state will add 176,200 jobs (44,500 premium jobs) in 2022, gain a more moderate 52,200 jobs (8,700 premium) in 2023 and increase by 101,100 (23,200 premium) in 2022.
- **Nominal personal income** will grow 7.8 percent in 2021, pull back to only 2.2 percent growth in 2022, rise by 5.2 percent in 2023, and by 6.3 percent in 2024.
- **Atlanta jobs:** The metro area will add 130,200 jobs (33,400 premium positions) in 2022, grow by 36,500 jobs (5,900 premium) in 2023, and add 74,600 jobs (18,100 premium) in 2024.
- **Atlanta housing permitting activity** will increase by 2.1 percent in 2022; single-family permits will fall by 14.8 percent, and multi-family permits will rise sharply by 70.2 percent. Permit numbers will fall by double digits in both categories in 2023 for an overall decline of 14.7 percent and then drop again by 5.0 percent in 2024.

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