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Georgia's Economic Outlook

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Incomes still above pre-pandemic level

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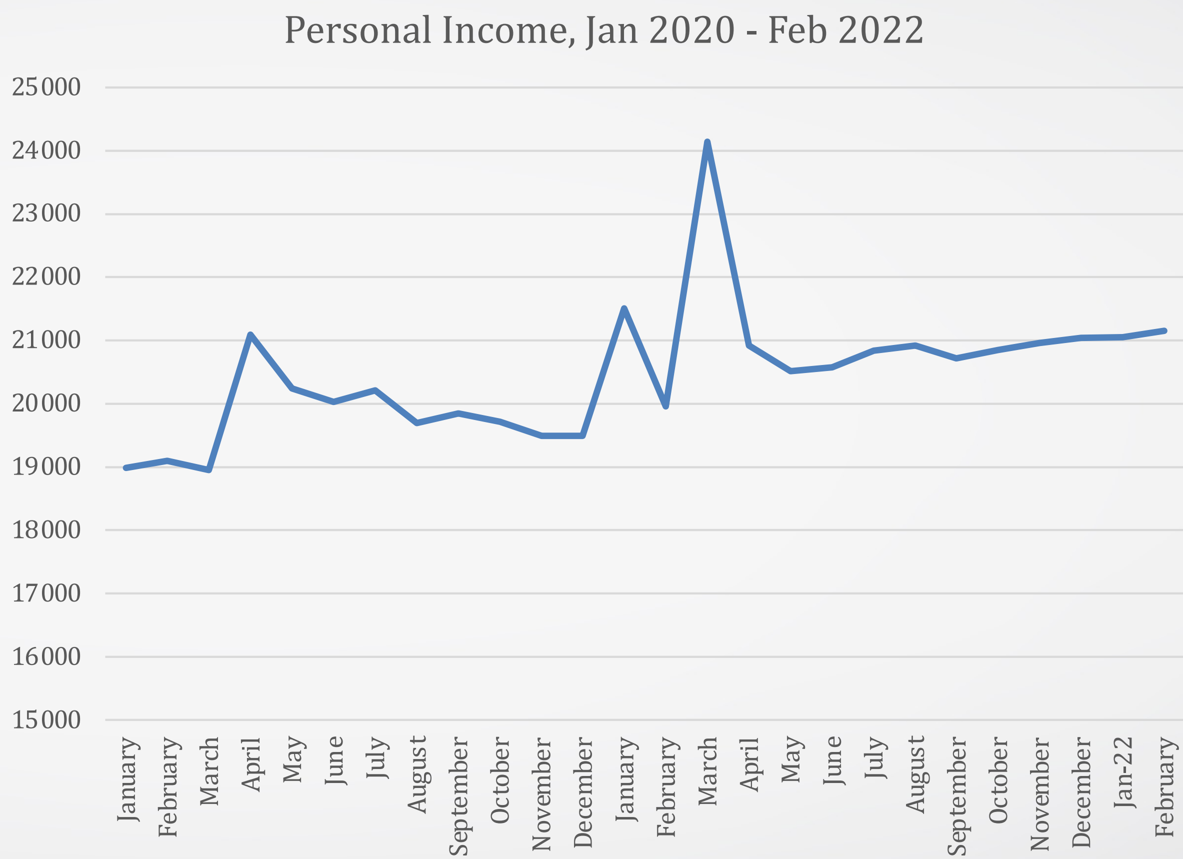
- While federal aid may be at an end, personal income is still 11% above the January 2020 level at the start of the pandemic.

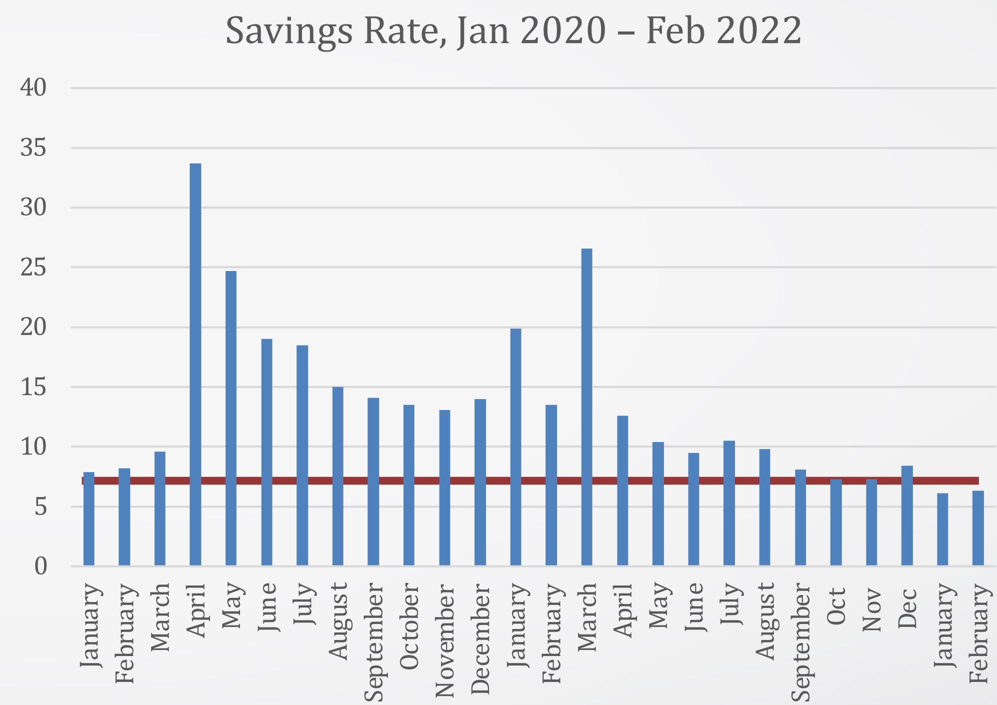
- That's just slightly ahead of inflation.



Savings rate normal, but savings HIGH

- Savings stayed elevated for 18 months until a return to normal in September 2021. Still a lot of catch-up spending to come.

- We can expect strong consumer spending to continue for a while as accumulated savings normalize ($70 billion in Georgia).



End of free money → slow down

- If federal aid ends with what has been passed *and* the economy returns roughly to normal, incomes will drop about 2%.

- This will be replaced by new federal spending and normal economic growth by mid-2022 (estimate a 6-9 month recovery period).

- Thus, state tax revenues should be fine.

Making progress in the labor market

- Why so many open jobs? People nationally report …

1. Money in the bank – 34%
2. Spouse employed – 30%
3. Care responsibilities – 25%
4. Scared of COVID – 18%

Employer side: Job churn/hiring capacity

– Georgia was #1 in job openings, #8 in separation rate, #4 for hire rate for October among all states.

Sources: Indeed, Sept. 2021. State JOLTS for October 2021

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Job growth by industry

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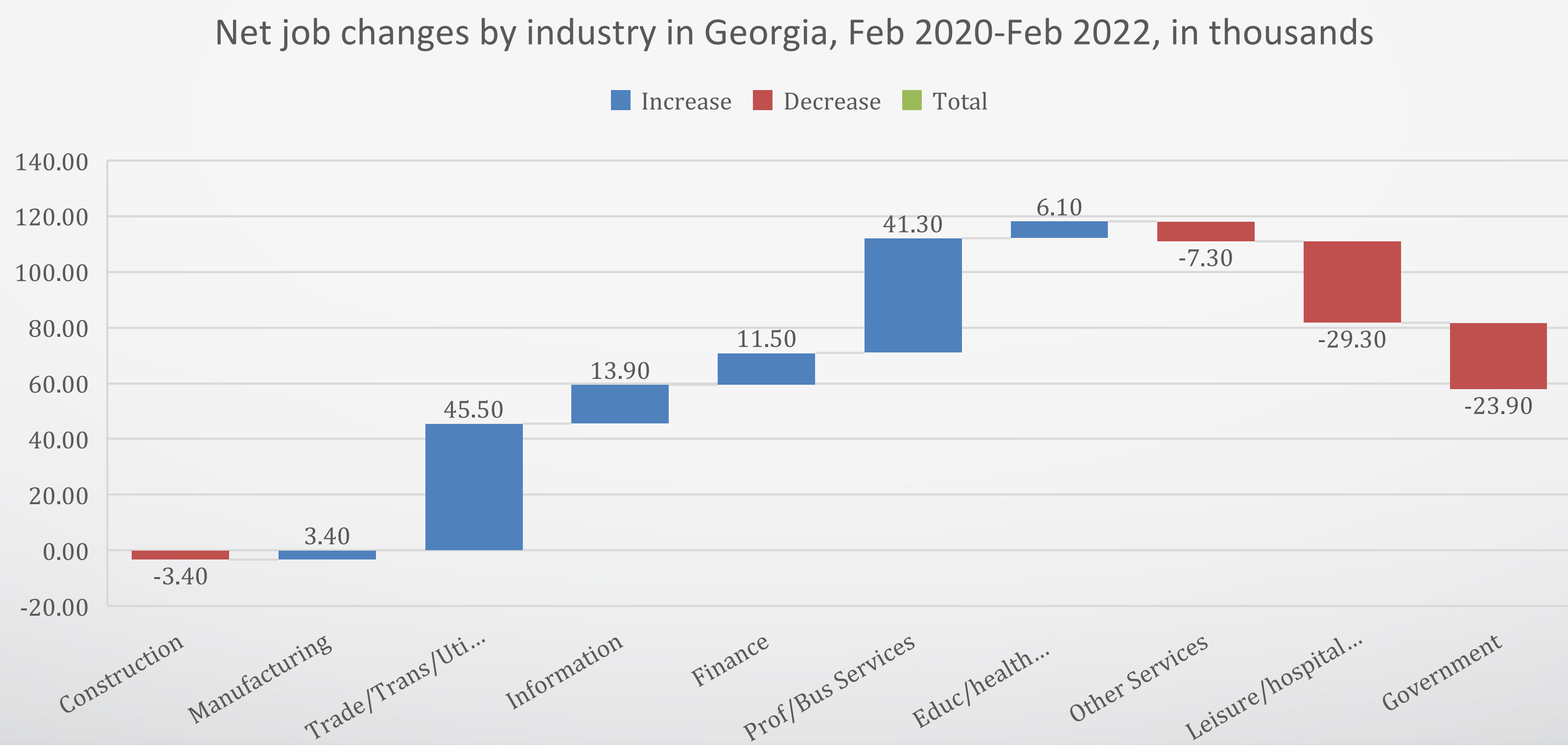
- Labor market recovery is complete in total jobs (+58,000 jobs), but industry composition has shifted in favor of higher wage jobs.

- This is showing up in our PIT withholding collections, which were up 14.4% from Jan. 2020 to Jan. 2022.



Supply chain problems overstated

- Reorienting the entire world supply chain in a few months did not work perfectly – *but it is handling ~10% more volume than ever before*.
- Overall, this is not all bad because it is spreading out spending from free federal money and helping avoid a recession from the withdrawal of that income boost.
- Unlikely the supply chain will be working normally before March 2023 and it could take longer than that.

Key indicators for 2022

- Key thing to watch: the goods/service split in spending
  - Since 2019, adjusted for inflation
    - Personal consumption expenditures: +4.6%
    - Goods purchases: +16.8%
    - Services purchases: -0.8%
    - The gap is closing, but it's still a big shift.

Key indicators for 2022

- Key thing to watch: consumer debt levels
  - Based on NY Fed data:

	2019Q3	2021Q3
Student Loans	$1.50T	$1.58T
Credit Cards	0.88	0.80
Auto Loans	1.31	1.44

  - Consumer debt up only $130B in last two years versus a trend gain of ~ $350B.

A slowdown doesn't mean recession

- Will we have a recession?
  - The odds are very low of a recession in 2022.
  - There is about a 1/3 chance of a mild recession in late 2023 or 2024.
  - An economic slowdown is the most likely scenario, but that will be more a return to trend in consumer spending and personal income.
  - Producers will slow down less than consumers because supply chain issues mean inventories need to be built up or maintained. (Plus, they don't want to fire workers …)

Inflation

- Inflation is at a 40-year high and will take time to return to normal.
- Likely to be 4-5% by end of 2022 and 3% by end of 2023.

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Inflation causes

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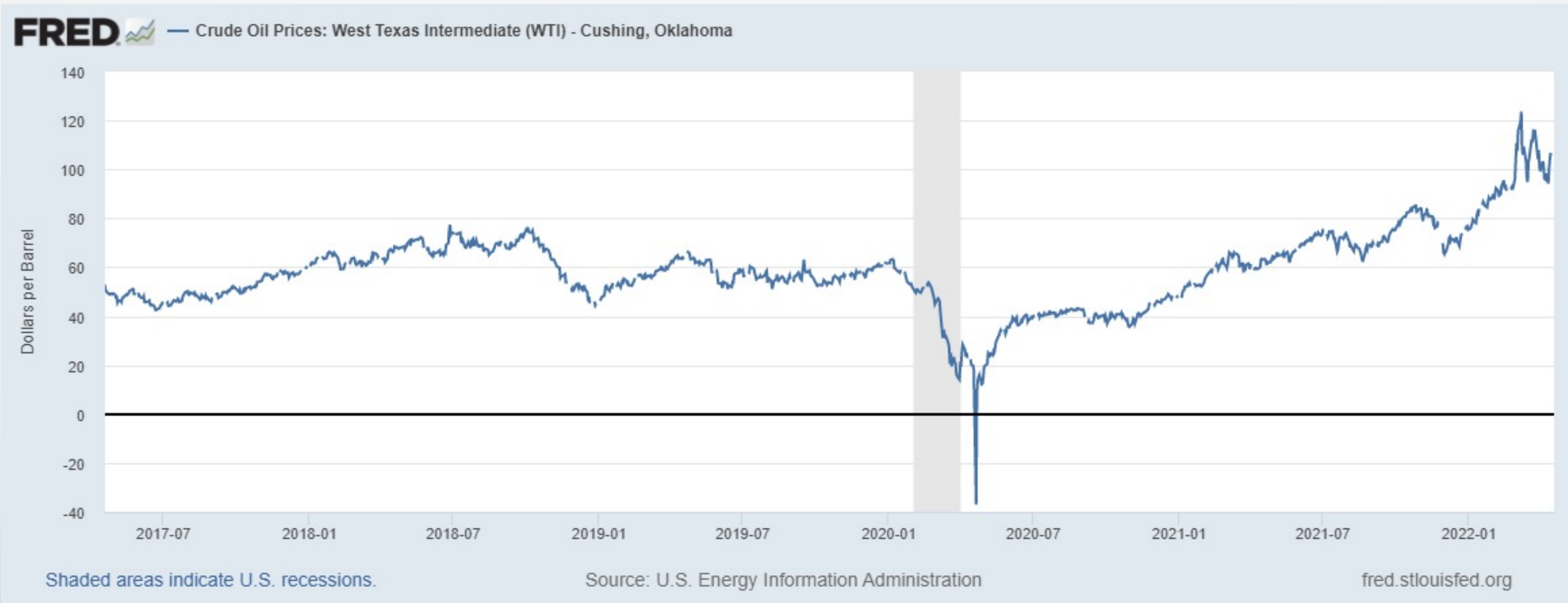
- Inflation is being caused by:
  - Oil prices [2.4% on its own]
  - Food prices (which is mostly about oil prices) [1.2%]
  - Shelter (rent, housing prices) [1.4%]
  - Wages (because # job openings >> # unemployed people)



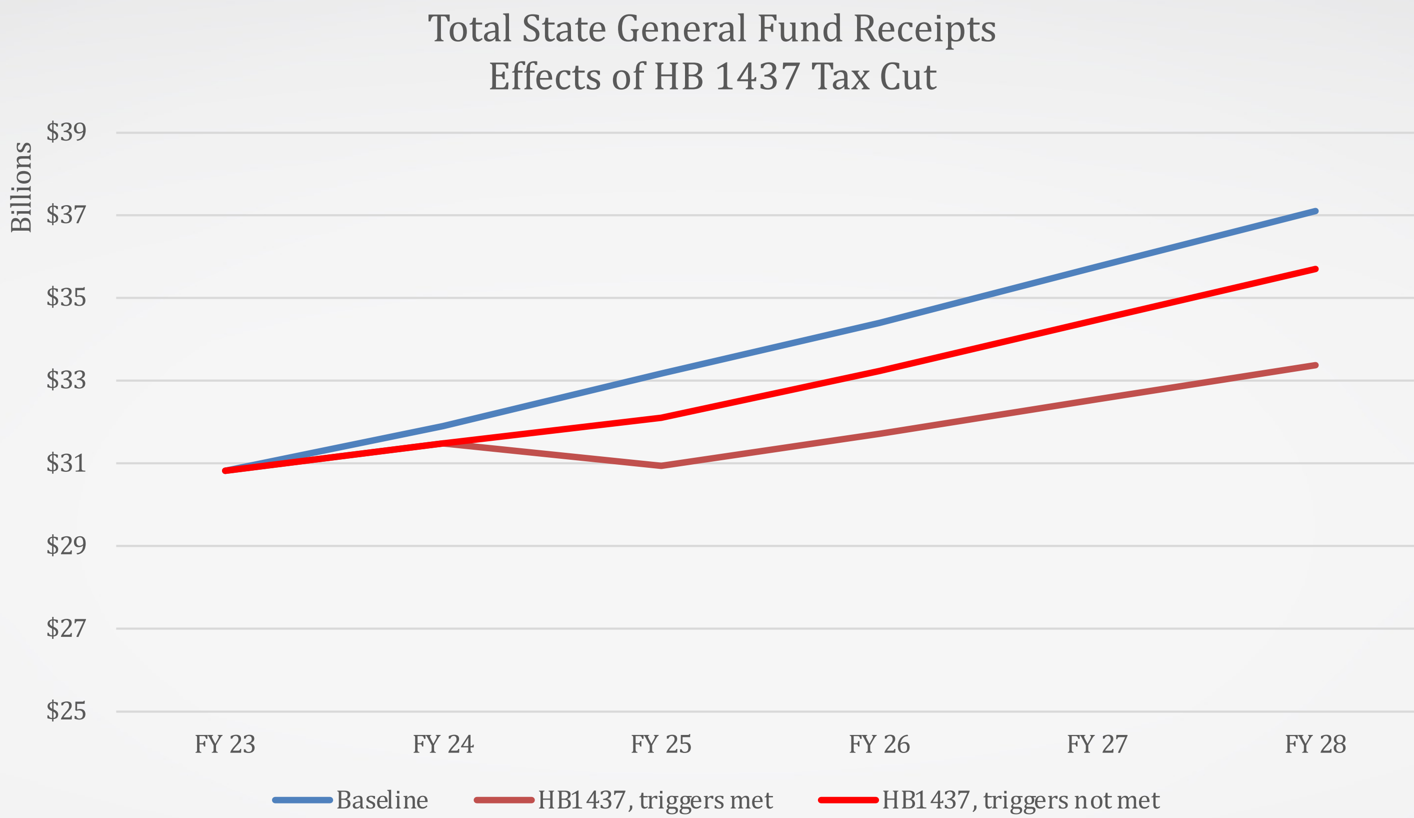
State budget is healthy

- State budget is in the middle of three years of little growth, but high revenues.

- Beginning with FY 2024, anticipation was a return to “regular” growth of $1-1.25 billion per year.

- Now have to account for HB 1437 tax reform, but triggers and time to plan should make it manageable.

Revenue projections with HB 1437



Growth is expected to remain strong in personal income tax (PIT), sales tax (ST), and total state general fund (TSGFR) collections after a likely slowdown in growth in FY 2023. Corporate tax (CIT) and motor fuel taxes (MF) are likely to grow more slowly.

Thanks for listening!

Questions?