

Georgia State forecaster says hold tight: Recession is imminent



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The economy is headed into recession, but it should be relatively brief and shallow, according to the director of the Georgia State Economic Forecasting Center.

The Federal Reserve's aggressive campaign to raise interest rates as a weapon against inflation is destined to slow growth, dampen consumer spending and spur layoffs in 2023, said Rajeev Dhawan, citing this week's comments by Fed Chairman Jerome Powell.

"When a Fed chairman says there will be 'some softening in employment' you can take it to the bank," Dhawan said. "It's going to be a recession."

Dhawan said next year will see several very weak quarters, but Georgia will still add about 52,200 jobs by the end of 2023. He said he expects that Georgia will finish 2022 with

about 176,200 more jobs than last year. Dhawan said.

He said he expects the state's job growth to rebound in 2024 because he thinks the Fed is anxious to avoid a deep downturn. That means he expects the Fed to stop raising rates as soon as inflation cools off.

In the meantime, higher rates makes borrowing more costly, which chastens both companies and consumers, he said.

"You want to cure inflation, you have to destroy demand," Dhawan said. "We will now do less Christmas spending and we will travel less. When investment pulls back and job growth pulls back, inflation will pull back."

Prices in July were on average 8.5% higher than a year earlier, but the average had not increased in the previous month, according to the Bureau of Labor Statistics.

Unlike some persistent and painful waves of inflation, this time the problem has not had years to fester, getting "baked in" to consumer expectations and wage increases, Dhawan said. "This is not the 1970s. It is more like 1948-49."

In those years, production couldn't keep up with a surge of post-World War II demand, and prices spiked. Inflation peaked at more than 20%, but because the causes were short-term, it wasn't that hard to unwind, he said. "Two years after that, it was below zero."

Dhawan sees inflation tapering off through 2023, with the Fed paying close attention, he said. "They will cut rates very quickly once they see evidence of job losses."

The biggest wild card in the deck is the price of energy. Fuel is behind much of the inflation, especially the price of food and other goods that must be moved by truck, Dhawan said. A settlement of Russia's war against Ukraine would go a long way toward removing fears of another spike in prices, he added.

Atlanta and Georgia are better insulated against recession than many areas, he said.

Construction on a number of huge new projects are under way, trade through the Port of Savannah has benefitted from shifts away from West Coast ports and the state continues

to draw new residents from around the country.

However, the economic struggles of European and Asian economies — where inflation is often much higher than in the United States — have made the dollar more attractive to investors. The rising dollar makes U.S. products more expensive overseas and that is a headwind for Georgia factories, Dhawan said.

“Manufacturing is getting hurt by the high dollar.” he said.