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Business

GUEST COLUMN: Recovery won't hit hot pace this year: Some glimmers of hope despite headwinds faced in state, globally.

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The winter chill is long gone, but headwinds --- both global and within Georgia itself --- will cool the economic recovery for the remainder of this year and into 2012.

Still there is good news for the state: Exports, the manufacturing sector and state tax-revenue collections have all performed well.

Georgia's exports, which grew by 20.9 percent last year to almost $29 billion, are growing at an 18 percent clip this year. The Savannah area stands to benefit as port activity grows there.

On the manufacturing front, the state has benefited from last fall's opening of the Kia Plant in West Point and the announced expansion plans for Gulfstream. Companies that are export-oriented in their product mix, and are related to manufacturing, are poised to grow in the coming years. They all can thank a weaker dollar for their success, too.

While these are good signs, they will be offset by high oil prices, Georgia's moribund banking sector, which is impairing small-business growth, and a crippled construction industry, which will cause our prime driver of growth --- residential and commercial building --- to languish in the coming years.

Furthermore, fallen home values in Georgia have also caused a shortfall in city and county budgets resulting in municipal layoffs for the first time in recent memory. Construction and government employment makes up almost 20 percent of the employment base. No wonder we have had almost no job growth in the last six months --- a sharp contrast to job growth nationwide.

Why is the banking sector in a bad shape? The obvious reason is the glut of bad loans related to real estate. That happened because in the years leading up to the Great Recession, the juiciest activity for banks was to lend money to builders to put up houses, condos, apartments and office buildings. That was a good bet as long as home prices were rising and buyers thought that they would keep on rising forever. But once that belief bubble was broken, this sure bet turned into a sucker punch.

Why can't banks now make new loans to businesses not related to construction and that are hungry for credit to grow?

Bad banks or banks with impaired balance sheets either have no capital to lend, or they have explicit orders to refrain from lending to conserve precious capital. The good banks are saving their capital or cash to buy the bad ones when the FDIC shuts down the bad banks on a given Friday.

Rather than make a loan for an apartment complex (or even a hospital with guaranteed cash flows), the healthy bank would prefer to buy distressed assets on that lucky Friday bank sale and make handsome returns for their shareholders.

That is why I have advocated that cleaning up distressed debt in the banking system, which is ultimately "toxic" for lending, is key before any recovery can gain momentum. Lack of available credit --- not high interest rates --- is the constant headwind we face. This argument is even more applicable to small- and medium-sized businesses that rely on bank credit for daily cash flow and planned expansions.

The headwind that is global in making is the elevated price of gas. High gas prices first affect the retail sector as people feed the gas tank from cutbacks in discretionary spending. This effect has been muted so far because last December's 2 percent payroll tax cut put extra dollars in everyone's pocket. However, putting dollars in the tank keeps them from being spent in the retail sector. Still, this substitution effect is minor compared to the pass-through costs of the trucking and food service industries to customers.

A specific example of how the global headwind of an elevated oil price will affect a local company can be seen in Delta Air Lines, Atlanta's largest corporate employer and a linchpin for its tourism and convention business. Delta's increased fuel spending is being passed to the consumer, which will lessen the demand for air travel. They have already announced cutbacks in their schedule and taken other measures to reduce costs. Under these circumstances I cannot envision new hiring in the aviation and hospitality sector.

In the meantime, we can take comfort knowing that job growth will happen in Georgia, although it will be a bit weak in calendar year 2011.

The recovery will be significant for 2012, when Georgia's economy will add 76,600 jobs. That looks good but it's almost one-half of what was seen in the go-go '90s when we were firing on all cylinders.

Finally, inflation due to pass-through of high energy prices can become a headwind for a very different reason.

The Federal Reserve has promised to keep rates at almost zero for a prolonged period. Although I don't expect the Fed to start raising rates until early 2012, the elevated headline inflation numbers may panic them to start the rate hikes sooner. They might even be aggressive in their actions. This monetary policy mistake then has the potential to snuff the recovery prematurely.

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