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Rocky Road to Recovery: Eurozone, China Pose Problems; Jobs Face Internal Headwind

May 26, 2010 (ATLANTA) – Random "hiccups" of nature combined with turmoil in the Eurozone leading to volatile stock markets worldwide will impact recovery from gaining a strong foothold in the U.S in 2010, says Rajeev Dhawan, director of the Economic Forecasting Center at Georgia State University's J. Mack Robinson College of Business in his quarterly *Forecast for the Nation* released today.

The "hiccups," are the Icelandic volcano and its affect on air travel, and the Gulf of Mexico oil disaster.

The bigger problem, however, lies in the Eurozone (the 16 nations using the euro currency as their sole legal tender) where, notes the forecaster, "dithering leaders, a hapless European Central Bank (ECB) and a spendthrift Southern Europe, led by Greece with its Enron-style accounting, have converted a simple debt crisis into a European liquidity crisis. As a result," Dhawan says, "not only did the ECB and the IMF have to open up their wallets but the U.S. Federal Reserve System also had to provide dollar swap facility to ECB to prevent a full-blown crisis of confidence." He adds the expectant slowdown in Europe will affect U.S. export growth in the coming quarters of this year with only moderate pickup in years to come.

Dhawan also states that China's economic prospects are posing a danger to Western recovery. According to the GSU forecaster, "China has fueled its GDP growth by building a productive capacity in advance of expectant demand from the West." The side effect has been a construction and property price bubble in the U.S. which when it bursts will immediately impact sales for all the capital goods exporters to China, most notably the United States, Germany Japan and France. Shrinking Chinese trade surpluses will reduce the nation's demand for U.S. treasury bonds (which continue to run high fiscal deficits) leading to a rise in long-term bond yields—even if the Federal Reserve stays on the sidelines in 2010. These rising interest rates dampen consumer spending (home building too) reducing growth in 2011 too.

"Apart from this global fragility" says Dhawan, "the domestic job growth engine will face other internal headwinds such as difficult credit conditions, lackluster consumer confidence and still depressed home values even as investment in equipment and software has risen with improving corporate revenues." He says that 2010 U.S. census jobs will help, but the momentum will fade quickly. He predicts a recovery of 650,000 jobs in the second quarter of 2010, fading to 200,000 jobs quarterly by year's end. This anemic job creation rate will continue in 2011 as economic growth remains weak. In 2012, the economy will create 150,000 jobs per month. Unemployment rate peaks at 10% later this year.

Highlights from the Economic Center's National Report

- Real GDP growth in 2010 will be 2.8%, dropping sharply to a 2.1% rate in 2011, then rising to an improved rate of 2.5% in 2012. Consumption growth remains below 2.5% for the forecast period.
- Inflation will be 1.6% in the second half of 2010, 1.7% in 2011, increasing slightly to 1.8% in 2012. However, rate hikes will be on hold in 2010, but the Fed will be somewhat aggressive with rate increases in 2011, quickly raising the target to 3.5% by mid-2012.
- The fiscal deficit will be 10.2% of GDP, but will shrink to a still high 6.5% of GDP in 2012. Expect the 10-year bond rate to average 3.9% in 2010, 4.9% in 2011, and then 5.5% in 2012.
- After growing by 10.0% in 2010 investment in equipment and software will decelerate to 7.8% in 2011. This category will expand by 5.9% in 2012.

Georgia Economy Threatened by Ring of Fire

Georgia's economy is being threatened by three "multi-alarm fires" over which it has little control says Rajeev Dhawan, director of the Economic Forecasting Center at Georgia State University's J. Mack

Robinson College of Business. In his forecast for Georgia and Atlanta, Dhawan says volcanic ash over Europe, the Gulf oil spill, and turmoil in the Eurozone have the potential of disrupting regional recovery.

Dhawan calls the recent Icelandic volcano a “single-alarm fire,” which would create problems if it were to affect the airline and tourist industries over a prolonged period. He says the current “three-alarm” oil leak in the Gulf of Mexico could reach “five alarms” if it shuts down the Gulf coast tourism industry and harms the wetlands and beaches for decades to come. For the beach states adjoining the Gulf of Mexico, the leisure and hospitality sector produces about $60 billion of economic activity annually. In the short run, the spill will increase bankruptcies and foreclosures that will hurt an already fragile, regional banking system. A weakened region will lead to a reduction in Georgia’s inter-commerce trade.

“But the economic fire with biggest consequences” says Dhawan “is the one burning across the pond. It started in Greece, spread to the rest of Europe and is now threatening the survival of the Eurozone as a currency union.” Dhawan said “there are two areas of potential damage for Georgia: demand for our exports via the currency (price) channel; and investment relationships with Europe.” European Union countries bought $5.1 billion or 18 percent of Georgia’s total exports in 2009.

Dhawan says Georgia is well behind the nation in job growth. While the U.S, added 583,000 jobs since last December in every category but finance and state and local government, Georgia lost almost 4,500 jobs in the first quarter of this year. The good news, according to Dhawan, is that “in 2011 and 2012 the manufacturing sector will gain 13,300 jobs—something this sector has not experienced in some time.”

Dhawan says his “tempered forecast” for the state is based on the projected performance of the construction and local and state government sectors.” Overbuilding has crippled the construction sector, while declining property tax collections will continue to have a negative impact on local government, Still, Dhawan says, after losing almost 340,000 jobs from late 2007 to late 2010, (Georgia will add about 130,000 jobs in the next two years. The Atlanta metro area will add approximately 94,000 of these jobs.)*

*information in brackets updated 6/7/2010

Highlights from the Economic Forecasting Center’s Local Report

- Georgia’s employment growth will remain negative until the end of 2010. The state will lose 16,500 jobs (9,100 premium job losses) in calendar year 2010. In the 2011 calendar year, expect a moderate recovery in employment activity. The forecast is for 56,600 new jobs during 2011 (including 16,900 premium jobs). The recovery will be decent in calendar year 2012 when 75,200 jobs will be created (with 15,600 premium job gains).
- Georgia’s unemployment rate will increase significantly to 10.6% in 2010 from 9.6% in 2009. In 2011, unemployment will slightly decrease to 10.2%. In 2012, it will decrease further to 9.7%.
- Atlanta’s employment growth will remain negative for a total loss of 12,500 jobs (including 7,000 premium job losses) in calendar year 2010. Looking forward, expect an increase in employment of 42,500 jobs (11,800 premium jobs) in calendar year 2011. The recovery will be modest again in 2012 when 51,600 jobs are created (with 13,300 premium job gains).
- Atlanta’s housing permits will increase in 2010 by a strong 35.1%, following a 66.5% decline in 2009. Permit activity will increase again in 2011 by 23.0%. Single family permit activity will increase by 21.8%, and multifamily permit activity will recover to 28.2%. Permit activity will experience a boost in 2012, posting an overall 45% increase. However, permit levels will remain around 15,000 or 22% of average levels in 2006.

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