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Contact:
Jenifer Shockley
Robinson College of Business
O: (404) 413-7078

Rajeev Dhawan, Director
Economic Forecasting Center
M: (404) 867-2286

Midterm Results Should Ease Corporate Anxiety; Fed to Hike Rates Once in 2019

ATLANTA–The upcoming split control of Congress should somewhat assuage nervousness in the business sector, according to Rajeev Dhawan of the Economic Forecasting Center at Georgia State University's J. Mack Robinson College of Business.

"Political gridlock is usually tolerated by businesses, and they aren't expecting rollbacks of the 2017 tax cuts or imposition of new taxes or regulations in the near future," Dhawan wrote in his "Forecast of the Nation," released today (Nov.14).

With midterm elections over, Dhawan anticipates business investment should recover, but the rebound will be muted and affect the future pace of monthly job additions.

"Fall is usually prime time for corporate boards to plan new capital outlays. But sharp ups and downs in stock indices over the past few months will not be conducive to capital expenditures," Dhawan said. "The damage to CEO confidence is evident in reduced bank loan growth and nonexistent third-quarter investment growth."

The forecaster said the stock market losses of the last three months also will affect future consumer spending through psychological impacts of lower 401(k) balances.

Despite potential public pressure from the White House, Dhawan expects the Federal Reserve to hike rates in December, then hold firm.

"Money that fled the stock market over the past few months stayed on the sidelines in cash due to political uncertainty," Dhawan said. "Because it didn't come to the bond market, the spread between the two-year bond rate and the 10-year bond rate dropped from 60 points in January to only 30 basis points by early November."

As a result of the tight spread, the Fed must wait until June 2019 to raise rates following the December hike or risk an inverted yield curve, which typically signals a recession.

Dhawan pointed out two factors that could put upward pressure on Treasury yields: the rising fiscal deficit and tax amnesty for repatriating dollars held abroad by corporations.

"I expect the 10-year bond to rise just 70 basis points from today's levels, which indicates two more hikes," Dhawan said. "After the December 2018 hike, that leaves one hike in June 2019. By mid-2020 we will start to get below the Fed's 2.0 percent gross domestic product (GDP) growth rate estimate. That's why I have rate cuts in 2020, not hikes."

Highlights from the Economic Forecasting Center's National Report

- Following strong GDP growth of 3.5 percent in the third quarter of 2018, the fourth quarter also will be above par at 2.9 percent. GDP growth will moderate to below 2.5 percent by late 2019. After expanding at 2.9 percent in 2018, the economy will grow 2.7 percent in 2019 and 1.8 percent in 2020.
- Investment growth will be 6.8 percent in 2018, moderate to 5.1 percent in 2019 and to 3.5 percent in 2020. Jobs will grow at a monthly rate of 209,000 in 2018, 146,600 in 2019 and 100,400 in 2020.
- Housing starts will average 1.262 million units in 2018, fall to 1.259 in 2019 and remain around 1.257 in 2020. Expect auto sales of 17.0 million units in 2018, 16.3 in 2019 and 15.6 in 2020.
- The 10-year bond rate will average 3.0 percent in 2018, 3.7 percent in 2019 and 3.6 percent in 2020 following Fed rate cuts.

Corporate Sector Bounce-Back Leads Georgia Job Growth

ATLANTA–Georgia's job additions in the third quarter nearly equaled the entire job additions in the first half of 2018, according to Rajeev Dhawan of the Economic Forecasting Center at Georgia State University's J. Mack Robinson College of Business.

"In the first six months of 2018, the Peach State saw job gains of 35,600, just slightly above the same period last year," Dhawan wrote in his quarterly "Forecast of Georgia and Atlanta" released today (Nov. 14). "However, in the third quarter alone, employment increased by 35,900 jobs due to the return of corporate job creation."

In the first half of 2018, job creation in high-paying sectors, such as corporate, wholesale, transportation and information, moderated sharply and posted a decline of 2,300 jobs. This was in stark contrast to strong job creation in domestic demand-driven sectors, such as retail trade and hospitality (among others), which gained 38,000 jobs.

High-paying jobs, especially in corporate and information, came roaring back in the third quarter. Dhawan indicated that nearly one-third of jobs added in the third quarter were corporate, driven by a rebound in support and administrative positions which compose 50 percent of jobs in the sector.

"Georgia's fall in corporate job additions in the first half of 2018 and subsequent third-quarter recovery was not seen nationally or in neighboring states. This makes us suspect an anomaly in employment data which sometimes happens since these numbers are based on a statistical inference of a sample," Dhawan said. "We confirmed our suspicion by checking state revenue data which showed no evidence of high paying job losses. Thus, the underlying trend of the economy is healthy."

Closely linked to the corporate sector, the information sector experienced a first half decrease in jobs, followed by a sharp rebound in the third quarter. The healthcare sector also saw good gains.

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Dhawan cited healthcare facility expansions for Children's Healthcare of Atlanta in Druid Hills and Piedmont Hospital's heart and vascular center in the metro area as examples. Facility expansions elsewhere in the state include Southeast Georgia Health System in Brunswick, Habersham Medical Center in north Georgia and Tanner Health System in south Georgia.

These projects and the rebound of multifamily housing permits have led to a substantial gain in construction jobs statewide. Strong sales and property tax collections have also resulted in city and county-level job gains in the government sector.

Despite these positive trends, Dhawan does not expect job growth to continue at this pace for Georgia.

"The job creation bump in the third quarter was a rebound from job losses in the first half of the year," Dhawan wrote. "Therefore, we expect job creation going forward to revert back to its long-term moderation trend as the business cycle is maturing, evident also in the moderating business investment growth at the national level."

The forecaster said the third quarter was not all good news for Georgia. Hurricane Michael's damage to south Georgia cotton, pecan and peanut crops was an estimated $1.2 billion, with another $1 billion in destroyed timber resources.

Highlights from the Economic Forecasting Center's Report for Georgia and Atlanta

- Georgia employment will add 90,600 jobs (15,000 premium jobs) in 2018, 68,900 jobs (13,900 premium) in 2019 and 55,500 (11,500 premium) in 2020.
- Nominal personal income will increase 4.1 percent in 2018, 4.7 percent in 2019 and 5.0 percent in 2020.
- Atlanta will add 63,000 jobs (10,800 premium jobs) in 2018, 46,900 jobs (9,600 premium) in 2019 and 38,100 jobs (8,700 premium) in 2020.
- Atlanta housing permitting activity in 2018 will increase 10.8 percent, fall 3.8 percent in 2019 and increase 0.4 percent in 2020.

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