

February 26, 2014: [EMBARGOED until 10 a.m. EST](#)

Economic Forecaster Says Odds Are Against 2014 Being a Breakout Year

ATLANTA – Although 2013 had enough positive data points (unemployment drop, strong auto sales, housing reflation and a surging stock market) for optimists to make a case for a boffo 2014, a critical factor is missing from its prospects to be a breakout year, according to Rajeev Dhawan of the Economic Forecasting Center at Georgia State University's J. Mack Robinson College of Business.

"One factor makes me less than sanguine about strong growth in 2014: anemic capital expenditures in 2013," Dhawan writes in his *Forecast of the Nation*, released today. With capital investment growing only 2.6% last year, "Overall investment numbers for 2014 are looking less rosy than I would like."

Corporations, especially in manufacturing, are still hesitant to invest due to dynamics including stalling manufacturing in China (which has induced a slowdown in emerging markets and suppliers in developed countries), ongoing financing constraints faced by small businesses, and the ding to corporate confidence caused by a muted jingle at the cash register. "For the 30 companies in the Dow Jones Index that I track, revenue growth has become weaker and weaker over the past two years," says the forecaster.

A continuing concern for Dhawan is the quality of job growth, which he points to as the reason behind weak income growth. "In 2013 the economy created jobs at a 194,000 monthly pace. On paper, this performance seems great. But, one-third of the jobs created were in retail trade and hospitality, sectors that consist mostly of low-paying jobs," which is not the sort of job growth that will produce income growth.

Dhawan anticipates the monthly job creation rate in 2014 to average only 147,000 due to a continuation of weak investment, global malaise and stock market volatility. "The easiest path to job growth would be another superior performance from the stock market this year. But can the market deliver?"

"The year did not start well for stocks due to concerns about growth at home and abroad, and the direction of our own monetary policy (the fate of QE3 and the change in leadership at the Fed)," but, Dhawan notes, the market has performed very well since new Fed chair Janet Yellen testified before Congress in mid-February. "But the basic movement of the needle is still controlled by underlying job growth, which produces the needed income growth," Dhawan says. "Jobs originate by hard actions, which are the risky investment bets made by businesses."

Highlights from the Economic Forecasting Center's National Report

- Real GDP grew 1.9% in 2013, will grow 2.4% in 2014 and at a brisker rate of 2.6% in 2015. Look for a 3.3% growth rate in 2016, thanks to strong investment made the year before.
- Business fixed investment will grow 4.0% in 2014, 5.6% in 2015, then a strong 7.8% in 2016. The economy created almost 2.3 million jobs in 2013 at a monthly rate of 194,000, but job growth will average only 147,000 in 2014. In 2015, the economy will add 188,000 jobs per month, then 205,000 per month in 2016. Unemployment will come down to 6.0% by mid-2016.
- Housing starts will average 1.032 million units in 2014, increase sharply to 1.228 million units in 2015, then rise further to 1.301 million units in 2016. Auto sales will be 15.2 million units in 2014, increase slightly to 15.4 million units in 2015, and further to 15.7 million in 2016.
- The 10-year bond rate will hit 3.8% in 2014, but won't cross the 4% threshold until early 2016.

Peach State Cautiously Optimistic About 2014

After an excellent 2013 in which Georgia's unemployment rate dropped by a percentage point and added 89,200 jobs, a 40% increase over 2012, the state should expect a slight moderation in 2014 largely due to international headwinds and unease over stock market gains, according to Rajeev Dhawan of the Economic Forecasting Center at Georgia State University's J. Mack Robinson College of Business.

"All this news is pretty good when considered in terms of averages for the year," Dhawan writes in his *Forecast of Georgia and Atlanta*, released today. "However, the halo loses some of its aura when parsed in terms of a timeline of events and the factors behind that performance."

The timeline includes job growth and income numbers for 2013 that are masked by averages. "Georgia's job creation pace was accelerating steadily in the first half of 2013," Dhawan says, "But after peaking in early fall, it started to decelerate." Dhawan attributes this slowdown to global headwinds, most notably manufacturing in China, and government drama regarding the debt ceiling. The effects of these issues will play out through the beginning of 2014.

Despite these statewide concerns, certain sectors are thriving. "If it wasn't for the good growth performance of the retail and hospitality sectors, job growth in the second half of 2013 would have been abysmal," Dhawan writes. Jobs were also added in the manufacturing sector in the second half of 2013, which will continue to add jobs in this year.

Dhawan also believes that multi-family housing permits will continue to be issued at an impressive clip causing construction employment gains for 2014.

An event to watch out for will be the growth of Atlanta as the gateway for transportation of goods in the Southeast. Dhawan believes that the increase of goods travelling through the Port of Savannah will lead to growth in Atlanta's transportation sector. "We still get the majority of basic goods from abroad, which must be transported from ports via the trucking industry."

Ultimately, 2014 will be a wait-and-see year for the state, according to Dhawan. "Stock market volatility, which is going to be a regular feature this year, will keep consumers more cautious than they have been." As a result, growth and investment from the corporate sector will moderate. "That demand will be justified only when the global economy, including China, is firing on full cylinders to benefit Fortune 500 companies located in Atlanta. That normalcy is still quite a while away."

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

- Georgia employment grew by 89,200 jobs in calendar year 2013, and will slow slightly in calendar 2014 with 85,100 new jobs, including 16,900 premium jobs. It will improve in 2015 with 96,600 jobs (20,200 premium jobs), and further in 2016 with 103,900 jobs (21,900 premium jobs).
- State unemployment will average 7.3% in 2014, drop further to 6.7% in 2015 and to 6.2% in 2016. Nominal personal income will rise 4.7% in 2014, 5.1% in 2015 and 5.7% in 2016.
- In calendar year 2014, Atlanta will add 57,500 jobs, including 12,000 premium jobs. In 2015, it will add 64,600 jobs (15,300 premium jobs), and in 2016, another 69,800 jobs (16,400 premium jobs).
- Atlanta housing permits will increase by only 0.4% to 24,168 in 2014. Permitting activity will grow by a better 6.7% in 2015 as single-family permits grow by 9.3%, and will pick up in 2016 to 15.4% for a total of 29,750 permits – higher than the level experienced in 2008.

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