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Return to Normalcy in 2022 Comes at the Cost of Dealing with Pre-Pandemic Era's Economic Concerns

ATLANTA – Economic optimism about emerging from the pandemic's shadow is progressing in a two-steps-forward, one-step-back manner, according to Rajeev Dhawan of the Economic Forecasting Center at Georgia State University's J. Mack Robinson College of Business.

"Case in point: 2021 was a tale of two halves. The U.S. economy grew by 6.5 percent in the first half of the year, powered by the Covid vaccination campaign and a third federal stimulus program. Consumers began returning to restaurants, scheduling elective procedures and resuming personal travel," Dhawan said today (Feb. 23) when he delivered his economic forecast for 2022 and beyond.

By contrast, the forecaster noted, "the second half of 2021 was marked by moderation. The Covid-19 delta variant slowed restaurant and hospitality sales, the end of extended unemployment insurance payments dented consumer purchasing power, and gasoline prices surged to $3.40. The tailwinds that boosted consumption in early 2021 turned into headwinds by the fall of the year."

Economic progress in 2022 hinges on multiple variables, according to the forecaster. "People are welcoming a return to normalcy and everything that comes with it. The usual issues that were in the background for the past two years are returning to the forefront, and they can and will affect consumption. These include potentially excessive interest rate increases by the Federal Reserve (policy mistakes), the end of federal stimulus programs (fiscal tightening), oil price sensitivity to Russia-Ukraine tensions (geopolitics), and the much-awaited return to the workforce of individuals who dropped out during the pandemic (reduced potential growth)."

Supply chain issues continue to bedevil economic recovery, with CPI index-based inflation running above 7.5 percent in Jan. 2022 (more than triple the 2.4 percent CPI rate in late 2020).

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"Surveys that assess consumer areas of concern indicate people are not as worked up about inflation as the financial press is. The number one concern among consumers is dysfunction in Congress, followed by the coronavirus, with inflation further down the list. That said, consumer confidence has steadily declined since fall 2021 when inflation began to pick up," Dhawan said. "To paraphrase former Fed chief Alan Greenspan, 'It's not what the consumer says but what the consumer does that matters.'"

Dhawan noted that "there is a great deal of chatter in the financial press about how many times the Fed will hike rates this year and how aggressive an approach it will take to balance sheet reduction, with speculation ranging from three to seven rate hikes in 2022."

The forecaster thinks the Fed will hike rates three times between March and July for a total of 75 basis points. Dhawan anticipates another rate hike in September unless supply chain snarls begin to normalize, thus alleviating inflation, and if earlier rate hikes have not already cooled down interest-rate-sensitive spending.

"The stock market volatility of the past two months has made certain indexes flirt with a bear market. The resulting negative wealth effect not only will weaken demand for big-ticket items (such as cars, appliances, electronics, etc.) but also may pump the brakes on rapid home price appreciation," Dhawan posited. "If the economy moderates sufficiently by July or August, the Fed may skip the September rate hike and hold back until December."

Whichever scenario emerges as the nation moves back to normalcy, Dhawan anticipates "wobbles" if another coronavirus variant occurs. "Not even epidemiologists can predict when the next variant will emerge or how severe it will be – which would be potentially bad news for the ongoing recovery of the hospitality industry and other human-contact-based activities."

Highlights from Rajeev Dhawan's National Economic Forecast

- GDP growth will be 3.4 percent in 2022, 2.3 percent in 2023 and 2.5 percent in 2024.
- CPI inflation will be 5.9 percent in 2022, moderate to 2.7 percent in 2023 and 2.1 percent in 2024.
- The 10-year bond rate will average 2.5 percent in 2022, 3.2 percent in 2023 and 3.4 percent in 2024.
- Housing starts will average 1.428 million in 2022, 1.207 million in 2023 and 1.209 million in 2024.
- Vehicle sales will average 15.0 million in 2022, 16.2 million in 2023, and 16.7 million in 2024.

Innovations Drive Georgia's Return to Normalcy, Wild Cards Notwithstanding

ATLANTA – Seventy percent of Georgia's employment and income are generated in the Atlanta metro area, which "took a huge hit from the 2020 Covid-19 shutdown by devastating the bread and butter of the city's economy: its convention and meetings business," said Rajeev Dhawan of the Economic Forecasting Center at Georgia State University's Robinson College of Business.

According to the forecaster, "two decent months of job growth will bring the Peach State back to pre-pandemic (Feb. 2020) employment levels. Eighty percent of the economy, representing all but two sectors, has essentially recovered, with corporate jobs running 32,000 above Feb. 2020 levels. But the two lagging sectors (leisure and hospitality, along with state and local government) that make up 20 percent of the state's employment base are currently 75,000 jobs below pre-pandemic levels."

Although corporate job growth has rebounded, Dhawan noted that office occupancy has not. "Workers are still not back in the offices due to high-rise hesitancy. News reports and leasing actions by employers point to a future of workspaces that are low-rise, low-density complexes near housing that is appealing to their workforce," Dhawan said. "We're seeing this increasingly in suburban locations, such as Alpharetta and other cities in North Fulton bordering Forsyth and Cherokee counties. This dovetails with the trend of technology companies moving to suburban locations and low-slung office developments along the BeltLine to be near their employees."

The state's film and television industry continues to expand in the greater Atlanta area. Electric Owl Studios announced plans to build the "greenest movie studio on earth" near MARTA's Indian Creek station. Cinelease Studios announced it will expand its Georgia operations with new sound-stage and office space in Covington. And in Doraville, Gray Television is building out a large portion of the land once occupied by a General Motors (GM) plant for a massive mixed-use operation comprising film production, housing, and retail businesses.

"This is an innovative use of the former GM property. The sellers had struggled to strike a deal for traditional redevelopment, and now it can become a blueprint for converting industrial properties for modern use," Dhawan said.

At least seven companies have announced investments or expansions in North Georgia over the past year, bringing jobs to Banks (PNK Group), Floyd (Integrated Fiber Solutions), Hall (Cottrell), Hart (Titan Steel Door), Jackson (5K Innovation, Duckyang), and Walker (Roper Corporation) counties.

Manufacturing is moving beyond its traditional strongholds in Southwest and Northeast Georgia to counties that abut the metro Atlanta core to offer high-tech services, distribution and warehousing, and electric vehicle (EV) technology.

"Two wild cards loom. First is the possibility of Russia entering Ukraine, which would send oil prices from around $90 per barrel to north of $100 per barrel," said Dhawan. "Russia produces 10 percent of the world's oil, and any sanctions would mean rising gas prices. Pain at the pump would be accompanied by drops in retail sales, dining out, personal travel, and more. Atlanta's largest employer, Delta Air Lines, would also take a hit."

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The other wild card, according to Dhawan, remains the potential for new Covid-19 variants. “Georgia’s hospitality sector still needs to recover 53,000 jobs to be at 2020 levels. Based on experience with the past variant waves, this sector had to take a step back. We can expect a setback to progress if a severe variant presents again.”

Highlights from Rajeev Dhawan’s Economic Forecast for Atlanta and Georgia

- Georgia will add 107,500 jobs (29,500 premium jobs) in 2022, gain a respectable 81,600 jobs (21,900 premium) in 2023 and increase by 71,700 (19,100 premium) in 2022.
- Nominal personal income will grow 7.8 percent in 2021, pull back to only 1.3 percent growth in 2022 and rise 5.3 percent in 2023.
- Atlanta will add 77,900 jobs (22,100 premium positions) in 2022, grow by 58,100 jobs (15,900 premium) in 2023 and add 54,400 jobs (14,800 premium) in 2024.
- Atlanta housing permitting activity will decrease by 3.4 percent in 2022, decline again by 5.5 percent in 2023 and drop by 2.7 percent in 2024.

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