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Forecaster says decisive year ahead for Federal Reserve

ATLANTA–Look for new Federal Reserve Chair Jay Powell, who succeeded Janet Yellen at the end of January, to set forth multiple Federal Reserve rate hikes this year, according to Rajeev Dhawan of the Economic Forecasting Center at Georgia State University's J. Mack Robinson College of Business.

"Three is a safe bet based on my projections for growth," Dhawan wrote in his "Forecast of the Nation," released today (Feb. 28). "But this first one, expected in March, may get delayed if financial markets are in turmoil."

Dhawan points out that the markets had a near correction in February and the 10-year bond rate spiked 50 basis points since early January. Financial markets are fearful about inflation. The forecaster notes that they seem to be heading toward a correction due to these inflation fears.

"The seed of this inflation fear was planted with the release of the Jan. 26 gross domestic product (GDP) report showing 2.6 percent growth for the fourth quarter, a drop from 3.2 percent growth in the third quarter," said Dhawan. "The reason for this slowdown was that hurricane rebuilding efforts lifted third-quarter GDP growth somewhat and faded by the fourth quarter."

The personal consumption expenditure (PCE) deflator, which measures prices paid by consumers for goods and services, also reached a four-year high and came in near the Fed's 2.0 percent target inflation rate, causing a late January sell-off.

"What really ignited the fire," Dhawan said, "was the employment report released in early February, which showed not only a solid gain of 200,000 new jobs, but, more importantly, a jump of 2.9 percent in wage growth." The markets were already skittish, this bump up in wage inflation just fueled the fire and resulted in a 1,200-point drop in the Dow index.

"The recent volatility in markets is of concern, mainly due to exaggerated fears of inflation materializing rather than reality," Dhawan said.

Despite the fear of a stock market correction, most consumers should have something to look forward to in 2018.

"Personal income tax cuts will put more money in most people's pockets," Dhawan wrote. "Additionally, tightening in the labor market produces wage inflation."

The additional consumer spend due to these gains will stimulate business demand and allow for GDP growth near 3.0 percent in the first half of 2018. Dhawan points to business investment to keep the ball rolling through the rest of the year.

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“The tech investment rate is the best predictor of future job and income growth. It should go up to 8.5 percent in 2018, and, along with an increase in the equipment investment rate, we should see 3.1 percent GDP growth in 2018,” said Dhawan.

This growth estimate led Dhawan to forecast the last two rate hikes of 2018. He predicts a moderation in GDP growth for 2019 and 2020. Dhawan also predicts the 10-year bond rate, which averaged 2.3 percent in 2017, will rise to 3.2 percent in 2018.

“Housing starts will average 1.25 million over the next three years, unable to push higher due to rising mortgage rates and skittish, millennial first-time buyers,” Dhawan said.

Without housing starts moving to the 1.5 million mark due to the above factors, the economy will be unable to sustain a 3.0 percent-plus growth rate.

“Another way to try to push GDP higher is through vehicle sales. But, if you have used every financing trick of financing to give subprime borrowers a vehicle in the last five years, you can’t milk this avenue anymore as rates rise,” Dhawan said.

Highlights from the Economic Forecasting Center’s National Report

- Following GDP growth of 2.3 percent in 2017, the economy will expand at 3.1 percent in 2018, 2.5 percent in 2019 and 2.0 percent in 2020.
- Business investment grew 4.7 percent in 2017. Expect growth to settle at 6.5 percent in 2018, 5.4 percent in 2019 and 4.3 percent in 2019. Jobs will grow by a monthly rate of 191,200 in 2018, 177,200 in 2019 and 134,000 in 2020.
- Housing starts will average 1.253 million units in 2018, fall slightly to 1.238 in 2019 and rise again to 1.274 in 2020. Expect auto sales of 17.1 million units in 2018, 16.4 in 2019 and 16.1 in 2020.
- The 10-year bond rate will average 3.2 percent in 2018, 3.8 percent in 2019 and 4.1 percent in 2020.

Positive Developments Arrest Georgia’s Job Growth Moderation Trend

ATLANTA–Georgia’s employment grew by 85,500 jobs in calendar year 2017 (January to December), a sharp moderation from the gain of 120,600 jobs in calendar 2016.

“The question going forward is will this moderation continue, or will the positive national and international developments arrest this moderation trend?” according to Rajeev Dhawan of the Economic Forecasting Center at Georgia State University’s J. Mack Robinson College of Business.

“Compared to the nation, there are more peaks and valleys in monthly job numbers, but a clear downward trend can be seen since the state’s job growth rate peaked in the first quarter of 2015. This trend also is evident in neighboring and competitive states like Tennessee, Florida and North Carolina,” Dhawan wrote in his quarterly “Forecast of Georgia and Atlanta,” released today (Feb. 28).

Georgia’s employment growth in the fourth quarter of 2017 was better than the national number.

In 2017, small businesses were buoyed by good consumer spending, while large corporations benefitted from strong stock market gains of almost 20 percent in the Standard & Poor’s 500 index. Going forward, recent tax cuts (reforms) also benefit both consumers and businesses alike. Specifically, small business and domestically-demand driven sectors in the state will remained buoyed by better consumer spending.

“Global growth recovery is evident in Georgia’s exports, which rose in 2017,” Dhawan said. “Exports to Canada, Mexico and China, the state’s largest trading partners, improved substantially last year.”

Increased trade at the state’s largest port in Savannah led to increased job growth in Savannah itself. Augusta and Athens also saw substantial increases in job growth.

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Back in metro Atlanta, the construction sector saw a sharp moderation in job growth, which Dhawan attributed to the combination of a slowdown in multifamily activity and the completion of SunTrust Park and Mercedes-Benz Stadium.

“Residential housing permits trended lower in 2017 due to a 38.4 percent drop in multifamily housing permits, a trend we expect to continue until 2019,” Dhawan said.

Moderation in the catalyst sector of manufacturing, due to the strong dollar and global economic weakness with trading partners in the Middle East, Latin America and China, has had a trickle-down effect on other sectors, such as hospitality and retail trade, hitting Dalton and Columbus particularly hard.

Dhawan predicts manufacturing will improve in 2018 as the dollar is predicted to weaken this year.

The sustained stock market bull run and corporate tax reforms will continue to support growth in the metro region and Georgia’s large corporate and financial activities sector. Dhawan believes capital spending, aka investment rate, will improve in these sectors, helping create jobs.

“These positive factors, domestic and international in scope, will help mitigate the moderating rate of growth in job creation we saw in the last 18 months,” said Dhawan. “We predict a weakening of this moderating trend in job growth, which is the best we can hope for this late in the business cycle.”

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

- Georgia employment will add 76,200 jobs (17,600 premium jobs) in 2018, 64,200 jobs (15,100 premium) in 2019 and 58,900 (13,600 premium) in 2020.
- Nominal personal income will grow 4.1 percent in 2018, 5.3 percent in 2019 and 5.6 percent in 2020.
- Atlanta will add 58,100 jobs (13,100 premium jobs) in 2018, 48,900 jobs (11,700 premium) in 2019 and 43,600 jobs (10,100 premium) in 2020.
- Atlanta permitting activity in 2018 will increase 1.2 percent, increase 2.1 percent in 2019 and 4.0 percent in 2020.

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