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"Irksome Geopolitical Concerns" Are Potential Curveballs to 2020 Economic Growth Prospects

ATLANTA–Having the Federal Reserve on hold for the foreseeable future, bipartisan agreement on fiscal spending and the signed phase one tariff deal with China have reduced the uncertainty that typically bedevil growth prospects, according to Rajeev Dhawan of the Economic Forecasting Center at Georgia State University's Robinson College of Business.

"The seeds for 2020 growth were sown last year," Dhawan wrote in his "Forecast of the Nation," released today (Feb. 26). "In early 2019, business investment was already waning (after the boost from the Dec. 2017 tax reforms) when it hit a few potholes."

Those potholes were the shocks of a sharp drop in oil prices and the grounding of Boeing's 737 MAX, causing a contraction in business spending by late 2019.

"The die was cast for a growth slowdown in 2020," Dhawan said.

The typical economic pullback experienced during a presidential election year began earlier than usual this cycle when election rhetoric heated up ahead of when expected.

Dhawan posits that subpar GDP growth (1.6 percent) in the first half of 2020 will be followed by a ramped-up GDP of 2.0 percent in the year's second half due to a "positive exigent circumstance" when the 737 MAX returns to the skies in mid-to-late summer – tempering the impact of the ongoing presidential cycle slowdown.

Potential curveballs could beset Dhawan's baseline forecast, the most obvious being a delayed return of the 737 MAX.

The forecaster is more concerned about what he described as "irksome geopolitical concerns" – e.g., Middle East flare-ups affecting oil production and capacity, kinks in the trade deal with China, post-Brexit uncertainty in EU-UK relations, action on past threats about German auto exports, and COVID-19, the coronavirus that first appeared in late 2019 in Hubei province, China, which Dhawan said is "the biggest threat to the 2020 forecast.

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“At present, the key issue for us the incidence of spread of the virus outside China, and the Chinese have taken steps to limit it,” Dhawan said. “But, unlike a finite event, such as a hurricane or earthquake, the coronavirus is still playing out, making it hard to assess economic impact.”

The biggest economic problem now, according to Dhawan, is that factory workers are stuck at home after the Chinese New Year holiday.

“China is a vital part of the world’s supply chain for goods ranging from toys to iPhones. For an economic impact to happen, this disruption would need to last awhile, say until mid-April. When inventories run out, what will Amazon sell here? What will Apple and Samsung do?” Dhawan asked. “This is what I worry about the most.”

Highlights from the Economic Forecasting Center’s National Report

- Overall GDP growth will be 1.8 percent in 2020, 2.0 percent in 2021 and 1.7 percent in 2022.
- Investment growth will be only 0.6 percent in 2020, 4.3 percent in 2021 and 3.6 percent in 2022. Monthly job gains will be 143,000 in 2020, drop to 104,200 in 2021 and a similar 94,400 in 2022.
- Housing starts will average 1.258 million in 2020, 1.224 million in 2021 and 1.234 million in 2022. Vehicle sales will average 16.3 million in 2020, and 16.0 million in 2021 and 2022.
- The 10-year bond rate will average 1.9 percent in 2020, 2.7 percent in 2021 and 3.0 percent in 2022.

Geopolitical Developments Are a Cause of Concern for Georgia’s Forward Momentum

ATLANTA–Georgia’s maturing business cycle and weakening job quality mean economic and geopolitical developments will have greater impact than when the growth path was accelerating between 2013 and 2017, according to Rajeev Dhawan of the Economic Forecasting Center at Georgia State University’s Robinson College of Business.

“The two most important drags to growth are, mercifully, out of the picture in 2020. No tightening is expected by the Federal Reserve and there is a bipartisan agreement on federal spending. Additionally, the threat of ever-increasing tariffs on Chinese imports is off the table with the phase one deal signed last month,” Dhawan wrote in his “Forecast of Georgia and Atlanta,” released today (Feb. 26). “But Georgia’s catalyst sectors (manufacturing, technology and large firms with global operations) face other headwinds, namely global economic malaise and geopolitical developments.”

Dhawan characterized the quality of the 70,000 jobs Georgia added last year as “a bit of a disappointment. More jobs mean more paychecks, which fuel spending, resulting in the collection of sales tax at the cash register. But the purchasing power of these new jobs was weak. Georgia’s net sales tax collection growth of 2.7 percent in 2019 was woefully lower than the 5.6 percent growth in 2018.”

This happened even as the state added 46,500 jobs in the last six months of 2019. Looking at job additions by sector, 60 percent of those jobs were in just two sectors, hospitality and healthcare, accounting for about 25 percent of the employment base. These two sectors typically pay less than the high wages of the catalyst sectors. From 2014 to 2018, when growth was balanced, hospitality and healthcare accounted for 30 percent of job growth, closer to their share of the employment base.

“The seeds of future growth are not sown in these two service sectors,” wrote Dhawan. “Growth always begins in the catalyst sectors, especially those producing high paying jobs and creating demand for downstream services in these sectors.”

One catalyst sector, manufacturing, is dealing with trade headwinds and a weakened global economy, especially stagnation in Europe – a big buyer of Georgia machinery and industrial goods. As a result, the sector has gone from 8,400 job gains in 2018 to only 1,000 in 2019. A bright area in manufacturing is announcements that small manufacturing firms are hiring or setting up new plants.

“This shows that small manufacturing concerns that deal primarily with national demand are willing to risk expansion. Gainesville, which has a big cluster of these types of firms, grew 4.1 percent in 2019,” Dhawan wrote.

The forecaster is concerned about potential geopolitical developments – Middle East flare-ups causing oil price spikes, kinks in the trade deal with China, acting on past threats of tariffs on European auto imports, and COVID-19, the coronavirus that first appeared in late 2019 in Hubei province, China, which Dhawan said is the biggest “threat to the 2020 forecast.

“At present, the key issue for us is the spread of the virus outside China,” Dhawan said. “But, unlike a finite event, such as a hurricane or earthquake, the coronavirus is still playing out, making it hard to assess the economic impact from stoppage of Chinese factory production.”

“China is a vital part of the world’s supply chain for goods ranging from toys to iPhones. For these goods to be delivered to customers they first must arrive at our ports. Less production in China means less cargo arriving at U.S. ports, and subsequently less trucking and warehousing demand. This is a potential threat that one of our main engines of growth, the Port of Savannah, faces if the virus induced shutdown in China lasts until mid-April”.

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

- Georgia will add 54,400 jobs (9,800 premium jobs) in 2020, gain 47,400 jobs (8,700 premium) in 2021 and increase by 43,300 (7,900 premium) in 2022.
- Nominal personal income will grow 4.5 percent in 2020, 4.8 percent in 2021 and 4.7 percent in 2022.
- Atlanta will add 41,700 jobs (8,300 premium positions) in 2020, moderate to 34,400 jobs (7,000 premium) in 2021 and 28,500 jobs (5,900 premium) in 2022.
- Atlanta housing permitting activity will fall 6.1 percent in 2020, decline 2.6 percent in 2021 and fall another 0.9 percent in 2022.

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