2024 Georgia AG FORECAST

STRATEGIC INSIGHTS FOR GEORGIA'S #1 INDUSTRY

UNIVERSITY OF GEORGIA EXTENSION

2024 Overall U.S. and Georgia Economic Outlook

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Main Takeaways

- The 2024 economic forecast for Georgia calls for an economic slowdown but not a recession. We estimate the probability of recession at 33% for Georgia compared to just under 50% for the United States.
- Georgia's lower risk of recession reflects recent economic development success and stronger demographics.
- The resilient labor market and the strong financial position of households are two reasons why we expect continued economic expansion.
- Inflation will continue to ease but will not fall to levels experienced before the pandemic.
- The main downside risks to growth are missteps by the Federal Reserve, a financial crisis, and an energy-price shock. Each of these risks alone could trigger a recession.

Table 1. United States Baseline Forecast 2023-2024.

United States	2019	2020	2021	2022	2023	2024
Gross domestic product (billions of 2012$)	19,036.10	18,509.10	19,609.80	20,014.10	20,434.40	20,597.90
Percent change	2.3	-2.8	5.9	2.1	2.1	0.8
Nonfarm employment (millions)	150.9	142.2	146.3	152.6	155.6	156.1
Percent change	1.3	-5.8	2.9	4.3	2	0.3
Personal income (billions of $)	18,575.50	19,812.20	21,288.70	21,804.80	22,960.40	23,878.90
Percent change	5.1	6.7	7.5	2.4	5.3	4
Civilian unemployment rate (percent)	3.7	8.1	5.3	3.6	3.6	4.2
CPI-U, annual percent change	1.8	1.2	4.7	8	4.1	2.7
Source: The Selig Center for Economic Growth, University of Georgia Terry College of Business.						

Table 2. Georgia Baseline Forecast, 2023-2024.

Georgia	2019	2020	2021	2022	2023	2024
Gross domestic product (in billions of 2012$)	557.4	537.6	575.3	591.3	609	615.7
Percent change	3.5	-3.5	7	2.8	3	1.1
Nonfarm employment (thousands)	4,632.30	4,425.10	4,595.40	4,797.70	4,908.40	4,942.80
Percent change	1.9	-4.5	3.8	4.4	2.3	0.7
Personal income (billions of $)	522.4	557.6	602.5	623.4	662.1	690.6
Percent change	5.9	6.7	8	3.5	6.2	4.3
Housing permits, total	53,823	55,827	67,223	77,222	70,906	63,773
Percent change	-9.3	3.7	20.4	14.9	-8.2	-10.1
Unemployment rate (percent)	3.6	6.5	3.9	3	3.4	4
Source: The Selig Center for Economic Growth, University of Georgia Terry College of Business.						

U.S. and Georgia Outlook

The 2024 economic forecast for Georgia calls for an economic slowdown, but not a recession. We estimate the probability of a 2024 recession at 33% for Georgia compared to just under 50% for the U.S. Georgia's lower risk of recession mostly reflects recent economic development successes and stronger demographics.

The resilient labor market and the strong financial positions of households are two reasons why we expect the post-pandemic economic expansion to continue. In addition, inflation will continue to ease. We expect no additional interest rate hikes by the Federal Reserve, but inflation-adjusted interest rates will rise as inflation declines. This "passive" tightening and other stresses in the financial system will slow growth, but the economy will not bust.

Despite slower GDP growth, we expect the labor market to remain strong enough to stave off an actual recession, but the economy will be vulnerable if something else goes wrong. The forecast calls for Georgia's inflation-adjusted GDP to increase by 1.1%, which is much slower than the 3% GDP growth estimated for 2023. We estimate that U.S. GDP will increase by only 0.8% in 2024 compared to over 2% in 2023. We expect Georgia's job growth to slow sharply but not come to a full stop. The number of jobs will rise by 0.7% in 2024, which is slow compared to the 2.3% gain estimated for Georgia in 2023. On an annual average basis, the U.S. will see only 0.3% job growth in 2024.

We expect the unemployment rate to rise but not by much. Georgia's unemployment rate will average 4% in 2024 compared to 3.4% in 2023. The U.S. unemployment rate will rise to 4.2% in 2024 or slightly above the full-employment unemployment rate of 4%. That means there will be less traction for wage-push inflation. Inflation will slow to about 2.5% in the second half of 2024.

A Soft Landing Rather Than a Hard Landing

There are five main reasons why a "soft landing" is more likely than a "hard landing":

1. the resilient labor market,
2. the strong financial position of households,
3. less inflation,
4. improved and more secure supply chains, and
5. higher spending by government.

Let us examine each of these positives.

Resilient Labor Market

Despite aggressive rate hikes and a relatively higher risk of recession, employers have continued to hire. How do we account for this resilience and what does it imply for 2024? In the wake of the pandemic, employers struggled to reload their workforces. At times, there were more than two job openings for every unemployed worker. These hiring difficulties and widespread recognition that the labor market will be tight over the next decade have caused many employers to keep hiring even as interest rates soared and sales slowed. These same realities will limit layoffs in 2024. Employers know that, on the other side of the economic slowdown, it will be difficult to refill their workforce if they fire their current workers. In 2024, we expect employers to hold onto workers more tenaciously than during past economic slowdowns or recessions. Instead, the emphasis will be on slowing hiring, reducing hours worked, and reshuffling job duties rather than layoffs. This behavior will help ensure that a recession is avoided.

Strong Financial Position of Households

The strong financial position of households is the second most important reason we expect a "soft landing." Households took on more debt in 2022 and 2023, but household debt burdens are still low. For example, the ratio of debt service payments to households' after-tax income rose to only 10% in 2023, up from 9% in 2022. That ratio was 13% before the Great Recession. In addition to low levels of debt, many households have locked in historically low mortgage rates, which means that consumer spending will be less sensitive to higher interest rates than in previous economic cycles.

A big positive for consumer spending is that households have saved a lot. Their holdings of currency, checking account balances, and savings account balances soared during the pandemic and remain elevated. Consumers still have about $1.8 trillion of the $2.6 trillion in excess savings accumulated during the pandemic. So about two-thirds of their excess savings remain. This "dry power" will help households keep on spending even as job growth slows. This financial cushion means consumer spending is unlikely to decline in 2024. The savings cushion is especially prominent for older, high-income, high-net-worth households, but households at all income levels still have significant excess savings.

Of course, as the economy slows, late payments and bankruptcies will increase, but only to levels considered normal prior to the pandemic. Most households are well positioned to take on and service additional credit. In anticipation of the 2023 recession that never arrived, lenders tightened credit to consumers and businesses, so we do not expect much additional tightening in 2024. We do expect consumer credit outstanding to grow, which will help ensure the current economic expansion lives on.

Less Inflation

A major reason we are hopeful about the prospects for 2024 is lower inflation. Inflation declined from 8% in 2022 to 4% in 2023. We expect inflation to decline to about 2.5% by the final quarter of 2024. Inflation was cut in half in 2023 because most of the supply-side and demand-side causes of inflation improved. On the supply side, energy prices retreated from highs experienced in the wake of Russia's invasion of Ukraine, most supply chain problems were fully or partially resolved, production and productivity increased, and quantitative tightening caused the money supply to shrink.

Demand-side drivers of inflation responded to higher interest rates. For example, single-family housing was in recession for most of 2022–2023, investment spending cooled, especially for commercial real estate, and federal stimulus to households ran its course. Put it all together, and inflation was cut in half without causing a recession. However, inflation did not and probably will not fall to the low levels experienced prior to the pandemic recession. That is because several drivers of inflation have not improved. Large federal budget deficits, more government regulation, relatively low foreign immigration, and the retreat from globalization are here to stay.

Improved and More Secure Supply Chains

Another reason for optimism is that supply chain problems have diminished. Less stress on supply chains helps contain inflation and improves prospects for GDP growth. For example, assuming labor disputes do not persist, new vehicles will be more available in 2024, which will lead to higher vehicle sales. Reshoring production has helped make supply chains more secure. Reshoring is especially important to industries favored by recent shifts in U.S. industrial policies. For example, electric vehicle manufacturers are building large facilities in Georgia. More emphasis on near sourcing and friend sourcing will help reduce supply chain stress and improve the prospects for the growth of Georgia's large transportation and logistics industry.

Higher Spending by Government

Assuming a sequester is avoided, higher spending by federal, state, and local governments will contribute to GDP growth. In Georgia, local government revenue collections will increase very strongly because of the lagged effects of the recent housing boom on property tax digests. Assessed residential property values typically lag market values by a year or more. Over the past 3 years, people spent heavily on major home improvement projects that will add to property tax digests. One negative, especially for the core of the metro Atlanta area, will be declines in commercial real estate prices. Remote and hybrid work are here to stay, which has reduced demand for office space even as deliveries of new space have soared.

Georgia's Economic Advantages

Georgia is well-positioned to weather an economic slowdown or even a mild recession and will outperform the U.S. economy in 2024. Our main advantage is the **substantial number of economic development projects in the pipeline**. Georgia's economic developers broke records for the 3rd year in a row, landing 426 projects in fiscal year 2023 compared to the record-setting 358 projects announced in 2022. International investment has been especially strong. Georgia currently ranks seventh among the states in total foreign direct investment project dollars, putting Georgia behind only Florida's much larger economy in the Southeast. Our economic development prowess reflects many factors that make Georgia a great place to do business. In 2023, site selection professionals ranked Georgia as the No. 1 state for business for the 10th consecutive year, a distinction no other state can claim.

Demographic forces are another important factor behind Georgia's comparatively good prospects. Census data show that **Georgia's population surged in 2022**, growing by 1%, or about three times faster than the U.S. population. The surge was because of changes brought by the pandemic, such as more remote work and a desire to live in less densely settled places. We do not have the Census estimates for 2023, but we are confident that above-average population growth will be sustained. We expect Georgia's population to continue to grow at a pace that is at least double the national average. It will help that Georgia's population gains will be focused on prime age workers rather than retirees. This will be a powerful economic driver because a growing supply of workers is more important in economic development than ever before. Above-average population growth will support above-average labor force growth and economic growth higher than that of the nation.

Georgia's **expanding role as a regional and national logistics and distribution center** is a third factor that favors economic growth in 2024. Recent capacity additions by the Georgia Ports Authority will enable Georgia's transportation and logistics providers to take market share from providers in other states. Activity in this industry is cyclical, and growth may slow, but gains in market share, as well as the build out of projects in the economic development pipeline, will keep Georgia's transportation and distribution industry growing.

Defense-friendly politics favor Georgia's many large military bases. That will give a bigger boost to the state's economy than to the national economy because Georgia ranks fifth in the U.S. for total Department of Defense employment. Higher military pay raises are expected in 2024. One risk to defense spending is the inability of Congress to pass a budget. If all 12 appropriations bills are not enacted by Jan. 1, defense and nondefense spending would be automatically cut by 1%. The law does not limit emergency spending, such as spending for Ukraine or Israel.

There is not enough time to discuss all the factors that boost Georgia's economic prospects for 2024, but our expectation of a substantial increase in U.S. vehicle sales bodes well for Georgia's vehicle and vehicle parts manufacturing industries. The end of the writers' strike bodes very well for Georgia's film industry, and the growing economic costs of cyberattacks bode well for Georgia's large cybersecurity industry. The larger number of headquarters, consulting firms, and providers of business services located in the metro Atlanta area bodes well for Atlanta's growth. For example, there were 31 Fortune 1,000 headquarters in metro Atlanta in 2023, up from 26 prior to the pandemic.

Economic Risks

In 2024, the economy will be vulnerable to something else going wrong. Our concerns include monetary policy missteps, a financial crisis, higher oil prices, more labor unrest, a stock market crash, a commercial real estate bust, and a collapse in home prices. In terms of economic severity, the main risks are Federal Reserve missteps, a financial crisis, and an energy price spike. Each of these risks alone could trigger a recession.

In contrast, more labor unrest or a government shutdown probably would not inflict too much economic damage and are best viewed as potential economic headwinds rather than recession triggers. The economic consequences of a stock market crash or a collapse in home prices would probably be moderate rather than severe. Both are more likely to act as strong economic headwinds rather than recession triggers. Of course, the potential economic costs of NATO getting dragged into the Russia-Ukraine war or a broad war in the Middle East that cuts off the flow of oil would be high. Let us examine a few of the risks.

Interest Rates

A misstep by the Federal Reserve is the biggest risk to the economy. Although we do not expect additional hikes in policy interest rates, we are concerned about the consequences of continuing to retire the Federal Reserve's holdings of mortgage-backed securities and treasuries. Quantitative tightening dries up liquidity, and the timing is not good. Mortgage rates have risen to levels not seen in over 20 years. Meanwhile, quantitative tightening removes a price-insensitive buyer from the market for U.S. treasuries even as federal budget deficits increase treasury issuance. The 10-year U.S. Treasury yield is close to 5%. Market interest rates will remain high throughout 2024. The Federal Reserve may overtighten, triggering a recession.

Higher-for-longer interest rates mean that banks and others with large holdings of commercial mortgage-backed securities are under a lot of stress. The combination of higher interest rates, falling commercial property values, and an inability to refinance maturing commercial real estate loans will cause defaults on commercial real estate loans. Our baseline forecast predicts some bank failures, but not a tidal wave of bank failures, which would trigger a mild recession or much worse.

Energy Prices

Another downside risk is additional and potentially large energy price shocks because of broader military conflicts, terrorist acts, natural disasters, sanctions, or worsening of relations with major OPEC+ producers. Our baseline forecast assumes OPEC+ limits production to levels that keep oil prices in the $70–$100 per barrel range. Cartel members have been very disciplined in limiting oil production to maintain high prices. We do not expect that discipline to break. The economy can handle oil in that range, but if oil prices climb higher on a sustained basis, a recession becomes more likely than not.

It is reassuring that OPEC+ has a lot of spare production capacity. That ability to quickly ramp up production limits the risk of an especially severe supply interruption, but it also is a disincentive for U.S. producers to drill more wells. Still, this represents an upside potential for stronger economic growth than our forecast predicts, but only if OPEC+'s discipline breaks.

Housing

Housing is one of the most interest-sensitive industries. Shortly after the Federal Reserve pivoted from easy money to tight money, mortgage rates more than doubled. The surge in mortgage rates ended the brief but intense post-pandemic housing boom. Housing activity declined in 2022 and again in 2023. The sharp run-up in home prices is the second reason for the housing downturn. In combination, higher mortgage rates and higher home prices reduced housing affordability.

In 2024, we expect permits to build new single-family homes will increase slightly from very depressed levels. In contrast, we expect permits to build new multifamily homes to fall sharply. The plunge in multi-unit homebuilding reflects extreme difficulty in obtaining financing and the recent high deliveries of properties in the construction pipeline that will raise vacancy rates and bring down rents.

In 2024, we expect the prices of existing single-family homes to decline by about 5%. This expectation may surprise many, but it is worth noting that, historically, single-family home prices are very sticky to the downside. The sharp price declines in the wake of the Great Recession were the exception and we believe they will not be repeated in 2024.

The fundamentals of supply and demand are much better than before the Great Recession. In

2024, the lack of homes for sale will help prevent home prices from declining too much, despite moderate overvaluation. Current supplies of single-family homes under construction are very limited, the opposite of the situation prior to the Great Recession.

Owners of existing homes are not putting their homes on the market because they are locked into historically low mortgage rates. The demographic trends are more favorable as well. A large cohort of millennials has reached the age where they want to become homeowners. Georgia's population is growing very quickly. The 2024 economic slowdown will not change the higher regard people have toward home ownership nor will it squash demographic trends that support higher demand for housing.

We expect the number of single-family housing permits to rise by 5% in 2024. Again, limited supplies of existing homes for sale will support higher demand for new homes. It should be emphasized that the base level of activity for single-family homebuilders is very depressed because of the 12% and 16% declines estimated for 2022 and 2023, respectively. Therefore, a 5% gain will not come close to making Georgia's single-family homebuilding industry whole again. Of course, the outlook for homebuilders and home prices could be much darker should the economic slowdown morph into a recession.

Summary

In closing, our forecast calls for an economic slowdown but not a recession. Our forecast depends on the resilient labor market and the strong financial positions of households to sustain the post-pandemic economic expansion. Georgia is well-positioned to weather an economic slowdown, and our economy will outperform the U.S. economy. The build out of many large projects in the economic development pipeline and favorable demographics are the main reasons why Georgia will fare better than the nation.

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