Governor's Office *of*
PLANNING AND BUDGET
THE STATE OF GEORGIA

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# Economic Outlook:
## Forget Recessions—Look at Jobs, Wages, and Purchasing Power


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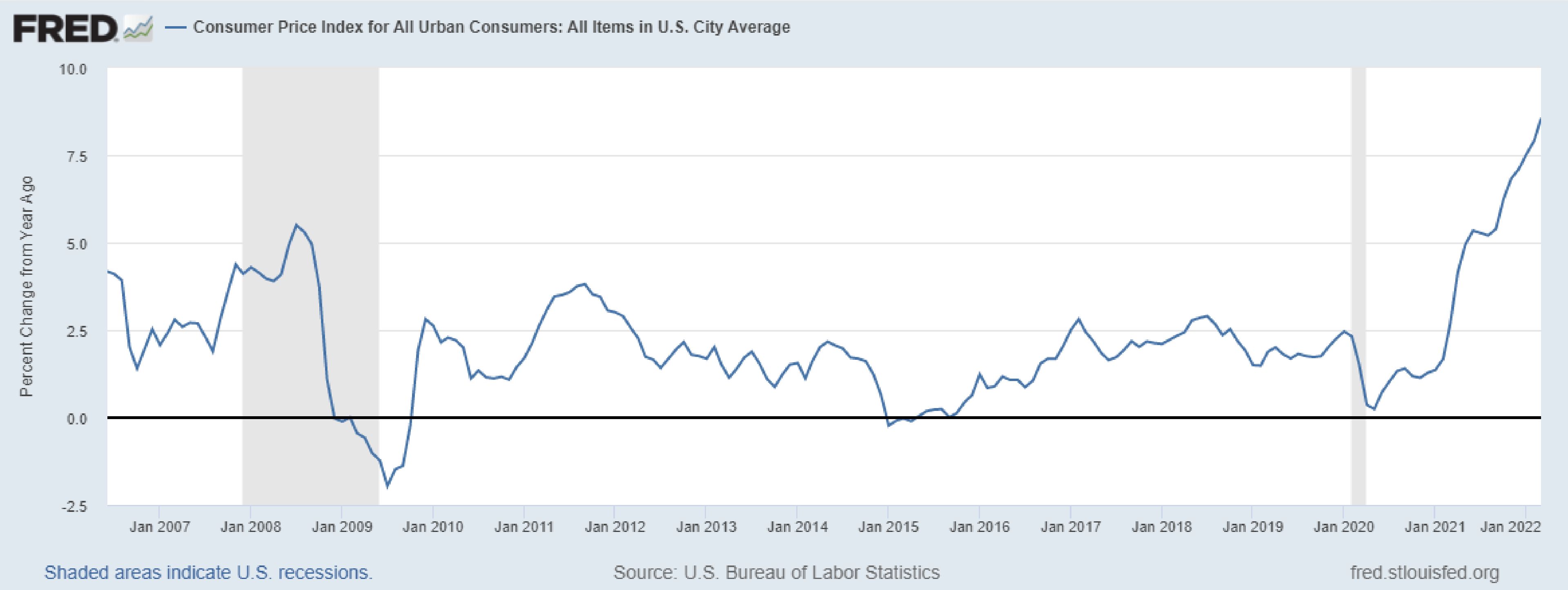
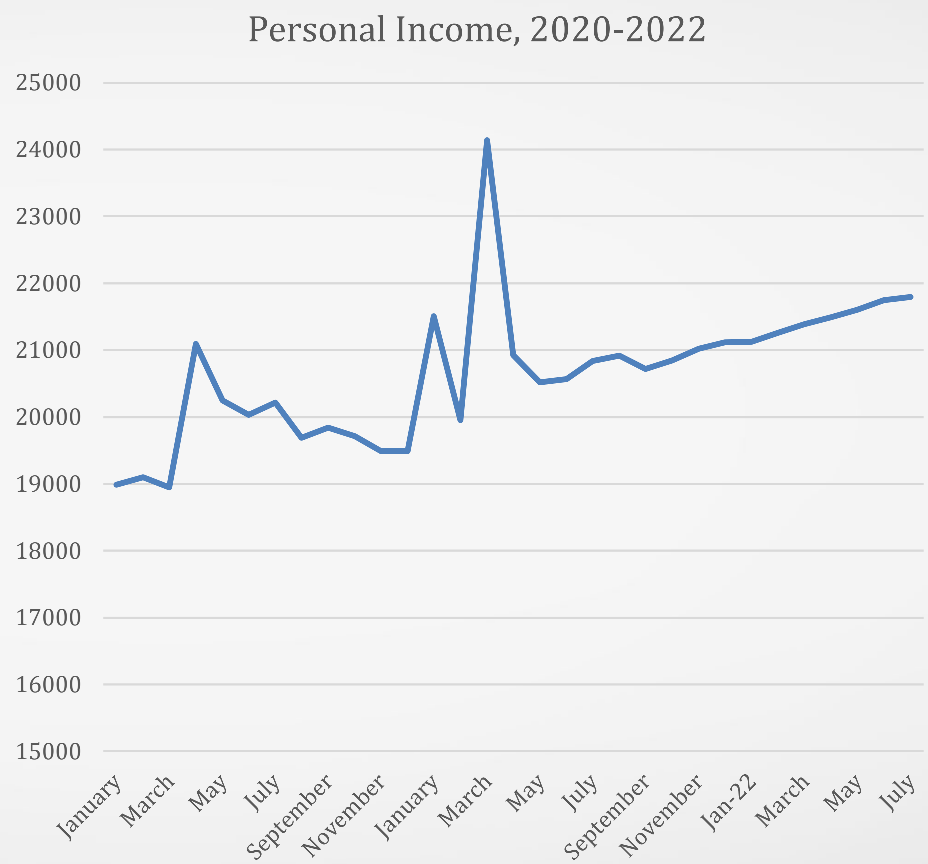
# Inflation is high, but …

- Inflation is at a 40-year high and will take time to return to normal.
- Likely to be 4-5% by end of 2022 and 3% by end of 2023.



# Incomes still above pre-pandemic level

- Personal income is 14% above the February 2020 level at the start of the pandemic.
- That's even with (CPI) or 3% ahead of inflation (PCE).
- We can still afford stuff.



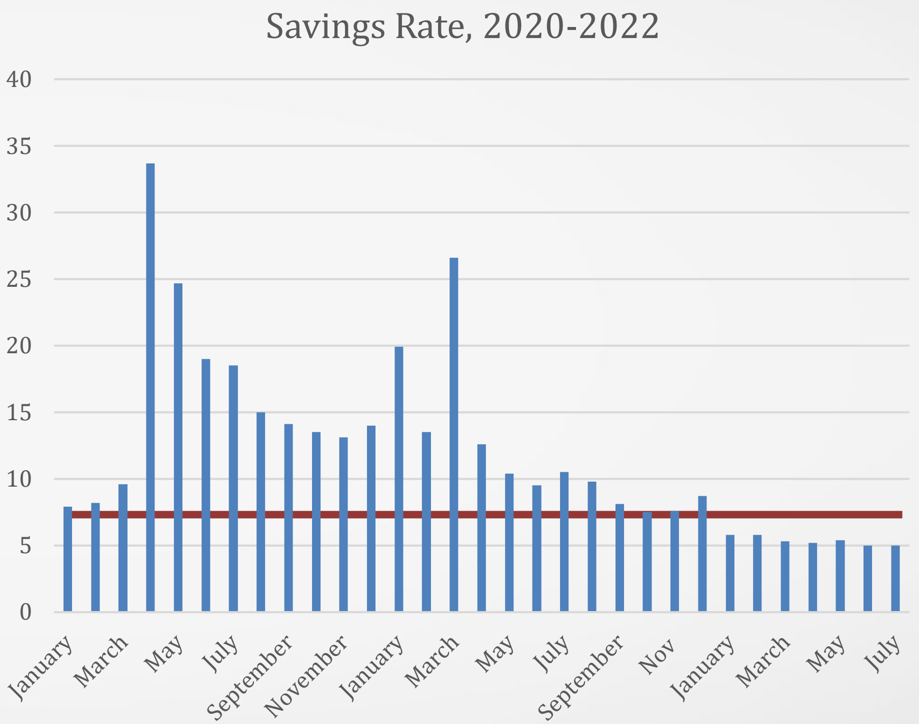

Source: BEA data.

# Savings rate normal, but savings HIGH



- Savings stayed elevated for 18 months until a return to normal in September 2021. Still a lot of catch-up spending to come.

- We can expect strong consumer spending to continue for a while as accumulated excess savings normalize ($2.4 trillion currently).



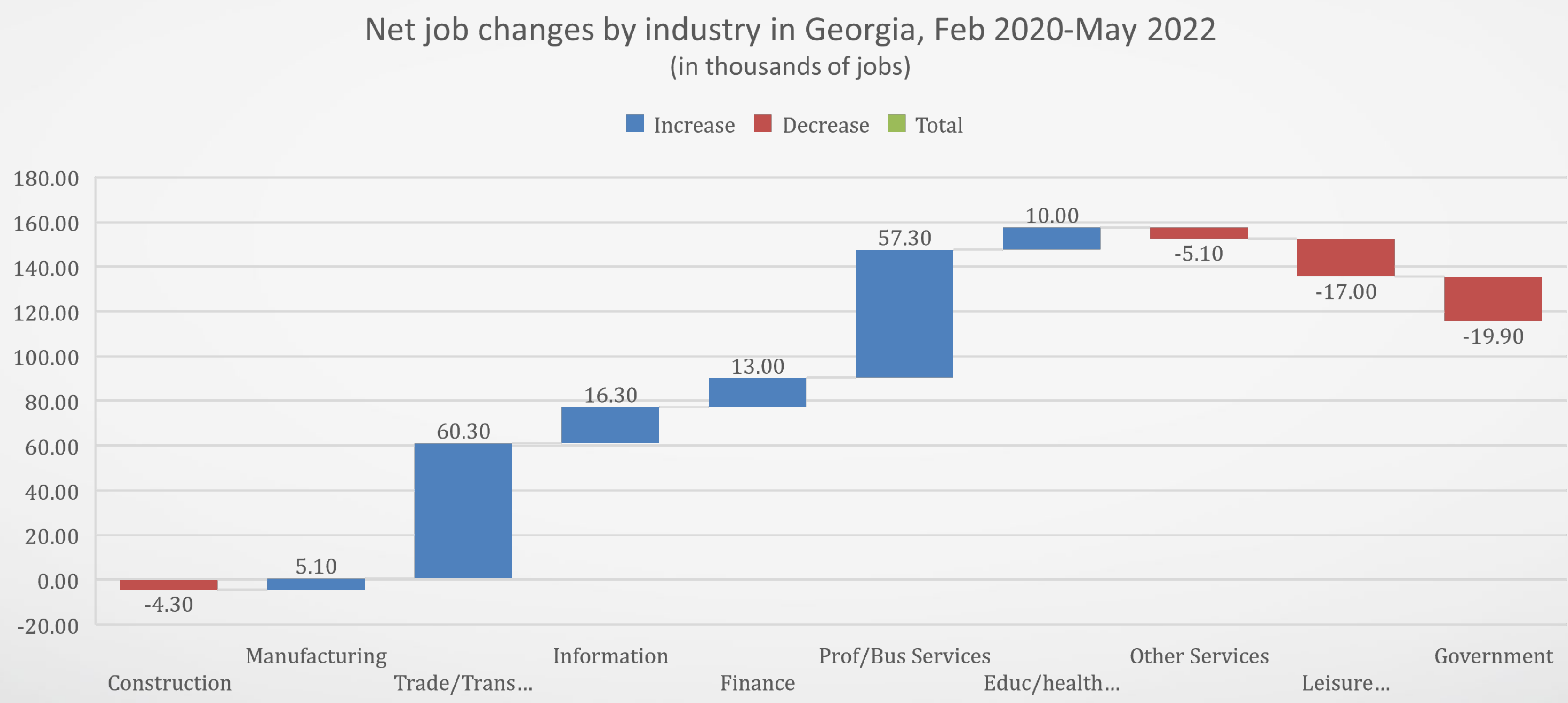

Source: BEA data.

# Inflation not hurting consumers yet

- Personal income either even with inflation (CPI) or +3.2% ahead (PCE) since February 2020.
- Savings up by amount equal to six weeks of spending.
- Home equity up 32% above inflation over past two years.
- People may not like gas and grocery prices, but we can still afford a better lifestyle than pre-pandemic.

# Job growth moving people to better jobs

- Industry composition in Georgia labor markets has changed to the benefit of workers (and, thus, family incomes).




Source: BLS data.

# Business doesn't want to cut output or workers




- Inventories are low while workers are scarce.
- If consumer demand slows, businesses may use that to catch up.

# Summary



- Why recession is less likely than people think
  - Consumer incomes are still okay, even inflation adjusted.
  - Savings are enormous.
  - Debt levels are manageable to low.
  - Household wealth is up.
  - Businesses need to restock inventories.
  - Businesses don’t want to fire workers.

# What economic data do we care about?



- Recessions usually involve lots of people losing jobs and struggling to pay their bills.
- If we have a "recession" in which incomes are near record highs and unemployment stays below 5%, how much do we care?
- After 2007-2009 recession, unemployment didn't drop below 5% until 2016!
- 2023 will feel a lot better than 2010-2016.

# What about the budget?



- Two years of large budget surpluses, but not expecting to see revenue like FY2022 for a few years.
- Surpluses are for one-time projects; ongoing programs must have sustainable funding.
  - That means OPB looks 3-5 years ahead and budgets for the low spot.
- Big problem: mandatory spending programs are soaking up most/all of the new revenue available.
- If you want more money, think of one-time uses to request.

# Thanks for listening!

# Questions?