Georgia’s Economic and Budgetary Outlook

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• The national and international pictures matter, but state economies vary more than people think with 38 states having had recessions since the last national one.
  – Unfortunately, state level data are limited, so lots of inference is needed.

• I’ll start international and work my way down to Georgia.
### International outlook

<table>
<thead>
<tr>
<th>Biggest Economies</th>
<th>Top US Trade Partners</th>
<th>Biggest Buyers US Exports</th>
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<tbody>
<tr>
<td>US</td>
<td>China</td>
<td>Canada</td>
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<td>UK</td>
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<td>France</td>
<td>South Korea</td>
<td>Germany</td>
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Note: Georgia is the 12th most trade-dependent state.
Why any economic slowdown will be mild

[Graph showing Household Debt Service Payments as a Percent of Disposable Personal Income from 2006 to 2019. The graph indicates a trend of decreasing percent from approximately 13.5% in 2006 to around 9.5% in 2019. Shaded areas indicate U.S. recessions. Source: Board of Governors of the Federal Reserve System (US).]

Shaded areas indicate U.S. recessions

Source: Board of Governors of the Federal Reserve System (US)
What keeps the state economist awake at night?

- China (economy and trade war)
- Germany and European recession
- UK and Brexit
- 2020 Election
- Middle East and oil markets
- ...
Georgia outlook

• Wage growth in Georgia is solid at 3-3.5%, but job growth slowed to 0.3% from Aug 18 to Aug 19; back to 1.4% now.
  – It’s tough to grow jobs when unemployment is 3.3%

• Consumer sentiment has dropped and so has sales tax revenue growth.

• Georgia’s economy is likely to grow slowly or shrink slightly over the next 9-12 months.
This is what is slowing our Income tax collections.
• Record employment.

• Record low unemployment.

• More than 70% of new plant openings outside metro Atlanta.

• #1 state to do business in for seven years running.
Given this, why is the budget so tight?

- Tight budget year because revenue growth is slow
  - Employment is at record high, but growing slowly (hard to grow jobs when everyone has one)
  - Retail sales are growing, but, again, slower than they have been.
  - Corporate taxes are the one bright spot.
Given this, why is the budget so tight?

• Tight budget year because of tax cuts/reallocation
  – 0.25% rate cut lowered revenue by $500M/year
  – TAVT change reduced state revenue by $170M

• Nondiscretionary budget items for AFY20 are $202M.
  – For FY21 they are $519M.
Given this, why is the budget so tight?

- Tight budget year because some parts of the budget grow faster than revenue and are formula-based or otherwise subject to more limited state control

  - Need to cut other parts of the budget to get to target average growth (priorities).
FY 2019 State Revenue by Source

- Income Tax - Individual: 51.18%
- Income Tax - Corporate: 0.94%
- Net Sales and Use Tax: 7.72%
- Motor Fuel Taxes: 5.32%
- Tobacco Taxes: 2.38%
- Alcoholic Beverages Tax: 0.84%
- Property Tax: 0.01%
- Motor Vehicle Revenues: 0.84%
- Interest, Fees and Sales: 0.01%

Total Revenue: 100%
Sales Tax Collections Are Slowing

Net Sales Tax by Month

Millions of Dollars

State Funds Expenditures Per Capita

*All amounts shown are adjusted for inflation to current fiscal year dollars*
• Thank you for listening
• HB 918 – lowering state revenues by $500 million/year.

• Market facilitator law would bring in $120 million/yr or more.

• Tax Credits, direct cost, timing uncertainty, transferability, HB 132.

• Tax policy and economic growth are NOT linked.
  – This is something the Governor plans to change.