Georgia’s economy will slow down, and for the first time in nine years many of us are going to feel it. The year ahead will be very different from the way things were in 2000; for instance, watch for a major drop in the growth of real gross state product and personal income. The Terry College of Business’s 2001 forecast of real gross state product—the inflation-adjusted sum of goods and services produced within Georgia—anticipates a year-over-year increase of 4 percent. The 2001 percentage gain is down considerably from both the peak growth of 6.8 percent in 1998 and from 2000’s 5.8 percent increase.

It took two years to cut the growth rate of Georgia’s GSP by 1 percent (6.8 percent annual rate to 5.8 percent annual rate), but over the next twelve months, the rate of growth will be cut by 1.8 percentage points (5.8 percent annual rate to 4 percent annual rate). Households and businesses will have half the time to adjust to almost twice as much slowing in growth. Everyone will feel it as the brakes are applied more firmly.

The decelerating growth of the national economy is the main short-term force that will reduce Georgia’s rate of GSP increase, but the strains of accommodating recent growth, especially traffic congestion and deteriorating air quality, also will be a factor in the slowdown. Georgia’s nominal personal income will follow a similar path, expanding by 6 percent, also lower than both last year’s 7.2 percent gain and the peak growth of 8.6 percent in 1998. A projected 1.9 percent increase in nonagricultural employment will be an important factor behind the income gains, as will the already tight labor markets that ensure higher wages and salaries. Also, a growing proportion of Georgia’s new jobs is expected to pay above-average wages.

**A CRITICAL RISK OF RECESSION IN 2001**

As of this writing, there is a 45 percent chance that Georgia’s economy will experience a recession in 2001. This is up from the 35 percent downside risk that the
Selig Center estimated in early December. In short, while the baseline forecast calls for more of this unprecedented prosperity, recent economic shifts mean that we already may be in the early stages of a recession. Several factors largely account for the high probability of recession.

**Tight energy markets** Each time we go to the gas pump, we are reminded that global energy markets are extremely tight. Expensive energy lowers consumers’ confidence and cuts discretionary spending. High energy prices undermine corporate profits, reducing business peoples’ confidence and putting downward pressure on the stock market. Even a relatively minor disruption in energy supplies could send oil and gas prices skyrocketing above current levels.

**Declining stock prices** Falling prices have reversed the wealth effect. In a sustained bear market, wealth-dependent consumers gradually will spend less and save more of their paychecks. The resulting slowdown in consumer spending reduces economic activity. Also, low stock prices make businesses much more cautious about capital spending and hiring.

**Tight monetary policy** Aggressive tightening of monetary policy in 1999 and 2000 raised key short-term interest rates by 175 basis points. In the first week of January, the Federal Reserve recognized that it may have tightened too much, so it reversed course and lowered key short-term interest rates by 50 basis points.

**Declining auto sales** Sales of cars and light trucks will decline by 10 percent.

**Less construction business** The number of new houses built in Georgia will decline by more than 10 percent. Developers, homebuilders, building supply companies, realtors, and those who originate mortgages should prepare for less business in 2001.

**Diminished consumer confidence** People will be less upbeat about the economy. In both 1999 and 2000, widespread optimism helped to counter the negative effects of slower growth in personal income and employment on consumer spending. But sagging confidence will put retailers and other consumer-dependent businesses on the forefront of the economic slowdown in 2001. There will be more bankruptcies in the crowded retail sector.

The good news is that the odds still slightly favor growth over recession. Also, should the economy begin to contract, the recession should be both short and shallow. The Federal Reserve is already cutting key interest rates, and the Selig Center expects the Fed will lower rates by at least 150 basis points in 2001. Second, as economic growth slows and stalls, energy prices should drop significantly. Third, there is a strong secular trend that will keep stock prices from going much lower—the babyboomers are preparing for retirement. Fourth, with the notable exception of IT spending, there are only a few big excesses that need to be worked off. For example, inventories are not too large, there are not many empty office buildings, residential real estate markets are not overbuilt, companies are not overstaffed, and government budgets are in good shape. Fifth, it will be easier to export goods and services. Fast-paced export growth will stem from the strong, steady growth of our major trading partners’ economies. A depreciating dollar will make Georgia’s products more affordable in emerging overseas markets, and will help Georgia’s businesses by reducing import competition.

**Establishment Employment**

In 2001, the state’s nonagricultural employment will expand by 1.9 percent, or by 91,000 jobs.

The percentage gain surpasses the 1 percent

Georgia Business and Economic Conditions
increase predicted for the nation, but will be the second-straight year of slower statewide employment growth. The number of jobs expanded by 4 percent and 2.8 percent in 1999 and 2000, respectively. The lower rate reflects the slower growth of GSP, limits on public infrastructure, more substitution of capital equipment and software for labor, and higher inflation-adjusted wages and benefits.

The growth in the number of persons in the labor force, up by 74,500 in 2001 compared to 80,300 in 2000, and employment growth, up by 76,700 in 2001 compared to 107,500 last year, will maintain tension in the state’s taut labor market. Georgia’s unemployment rate therefore will remain at 3.8 percent in 2001. Existing labor market pressures will drive wages and salaries higher, but because the number of people in the labor force will grow nearly as fast as the number of jobs, wages within comparable occupational categories will not rise higher here than in the nation as a whole. Labor costs therefore will stay well below the national average.

**Services**  The services sector is projected to add the most jobs—36,000—and will see the fastest growth, 3.3 percent. New positions should be abundant in computer and information services companies, consulting and research firms, and in firms that provide temporary staffers. Educational, business, and medical services all have strong underlying growth trends, too.

**TCPU**  The transportation, communications, and public utilities sector will see 2.6 percent employment growth. Activity in the transportation sector will increase slightly faster than GSP, creating demand for additional workers. The gains also reflect the state’s increasing role as a regional center warehousing and distribution. High fuel costs will restrain employment growth, however. The favorable job outlook for the telecommunications sector reflects surging demand for telecommunications and Internet services. Due to deregulation, technical advances, and restructuring, relatively few jobs will be created in public utility companies.

**Government**  Employment in government will expand by 2 percent, and most of the new jobs will be in state and local government. The number of federal civilian jobs is not expected to change significantly.

**Trade**  Wholesale and retail trade employment will grow by 2.8 percent in 2001. Georgia’s retailers will continue to benefit from growth in disposable personal income and population. Lower interest rates also will help to spur retail sales. Recent high levels of home sales will boost demand for furniture and other household items. Developments that will slow the growth in retail employment include a drop off in sales of new cars, an increase in the savings rate, the lackluster performance of the stock market, less activity in residential real estate, and high energy costs.

**FIRE**  In 2001, employment in finance, insurance, and real estate will expand by 0.7 percent. Intense competition, less origination and refinancing of mortgages, and moderating growth in GSP will make conditions less positive for banks and insurance companies. Less active single-family housing and commercial real estate markets and the consolidation of real estate firms will limit job growth in the real estate industry. Also, the increasing emphasis on less labor-intensive distribution channels will restrain job growth across the entire sector.

**Manufacturing**  Georgia’s manufacturing employment will decline by 0.3 percent. Manufacturers of durable good are expected to fare better than those of nondurables, but increased competition from imported goods and more automation in production are the two major obstacles to employment growth.

**Construction**  Construction employment will decline by 3.1 percent primarily because fewer new homes will be built. Georgia’s homebuilders operated at record levels in 1998-2000, but the forecast calls for permits authorizing 61,800 new single-family homes in 2001, a year-over-year decline of 10.6 percent. In contrast, people will spend much more on home improvements. Public spending for schools and other infrastructure also should increase. Private spending for new nonresidential structures, however, should level off.

**FAVORABLE DEMOGRAPHICS**

One major plus for Georgia is the continuing influx of young, educated workers into the state’s major metropolitan areas, particularly Atlanta. Retirees also are moving here, bringing experience, steady income, and considerable capital. The impact of retiree migration can be seen in the economic revitalization of Georgia’s sub-Appalachian and mountain counties, which once were some of the nation’s poorest.

Georgia’s annual rate of population growth is about double the nation’s, and will continue to grow faster than any state outside of the Rocky Mountain region.
But the Terry College of Business predicts that this growth will decrease from 2 percent in 2000 to 1.8 percent in 2001. The gradual slowdown is primarily due to the lagged effects of improved labor market conditions in states such as Alabama, South Carolina, Michigan, New York, and New Jersey that traditionally have provided many of Georgia’s newcomers. Traffic congestion and pollution also are eroding the state’s reputation for providing a high quality of life, and the cost of living in Atlanta is rising.

In July of 2001, Georgia will have 8.1 million residents, 138,701 more than last year. Net migration will account for 74,400, or more than half of the new residents. According to the Census Bureau’s most recent estimates, Georgia ranks second in the nation in net domestic migration and thirteenth in net domestic international migration. In terms of overall population growth, four counties on Atlanta’s periphery, and one rural county, rank among the nation’s ten fastest growing counties. Nonetheless, census data show that a number of mostly rural counties in the southern half of the state continue to lose population.

The majority of those who move here are attracted by job opportunities, which in turn makes Georgia one of the top choices for companies that are selecting sites for new operations, expansions, or relocations. This population-fueled cycle of growth is responsible for much of Georgia’s prosperity, is vital to expanding the state’s consumer market, and provides crucial human capital for industries ranging from high technology to hospitality. Population growth also has helped many rural counties to diversify their economic bases, which often were overly dependent on labor-intensive manufacturing, agriculture, and government.

### GEORGIA’S EMPLOYMENT FORECAST, 2001-2002

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1 Indicates thousands of workers.

PROSPECTS FOR MSAs

Atlanta The twenty-county Atlanta MSA will be the state’s fastest growing MSA, adding 55,700 jobs, a year-over-year increase of 2.5 percent. This growth in nonagricultural employment will be broadly based, but falls below the area’s 1999 and 2000 annual rates of growth of 5.2 percent and 3.7 percent, respectively. The anticipated slowdown is mostly due to slower growth of the national and regional economy as well as a downturn in new residential construction, but the area’s low unemployment rate, rising cost of living, and the limitations exacted by an overburdened transportation infrastructure also will hamper growth.

Many factors make the Atlanta MSA the economic center of the Southeast. The vibrant metropolitan area ranks high on the list of the nation’s best locations for business. The large pool of talented people, industrial diversity, and the growth of several major research universities foster economic prosperity. Transportation also underpins the region’s growth. Hartsfield International Airport is the busiest passenger airport in the world, and its daily nonstop and direct flights to more than 170 domestic and international destinations make Atlanta a prime location for corporate headquarters, foreign direct investment, trade shows, and conventions. The convergence of major fiber optic trunk lines here also attracts telecommunications and information technology firms, which increasingly are powering Atlanta’s economy.

The city’s location at the confluence of rail lines and three interstates—only four other U.S. cities are served by three interstates—makes the area ideal for distribution centers and parts manufacturing. The city also is home to MARTA, the largest heavy rail passenger transit system in the Southeast. But due to inadequate funding, the lack of regional planning, and unprecedented growth, local roads and the public transportation system are stretched to capacity, which highlights the pressing need for alternatives to I-285 and for MARTA rail extensions, light rail lines, and commuter rail lines.

Albany This MSA will add 700 jobs, representing a 1.3 percent increase in employment. Sources of strength include a surplus of dependable workers, a low cost of doing business, an excellent telecommunications infrastructure, the Material Command for the Marine Corps, the area’s low crime rate, and a low cost of living. The area has considerable potential as a center for back-office operations and telemarketing. Because consumer spending will remain strong in 2001, Albany will benefit from its role as a regional retail center, and from the spillover from Florida’s flourishing economy. The area’s increasing role as a regional center for health care also weighs in its favor.

Athens The number of jobs in the Athens MSA increased by 1.7 percent in 2000 and will increase by 1 percent in 2001. The area’s relatively slow pace of job creation primarily reflects the slower growth of the University of Georgia, an expected drop in new construction activity, the ripple effects of recent layoffs at General Time, and the area’s extremely low unemployment rate. Although the immediate prospects for employment growth are limited, the local economy will benefit from several area-specific factors. Athens is favorably located in the path of Atlanta’s future growth, though it lacks an interstate-quality connection to the state’s capital. The presence of the University of Georgia contributes substantially to the economy, and has helped to promote the city as a center for biotechnology. There have been improvements to the area’s infrastructure, especially Highway 316, the city’s new Convention Center, and massive new additions to the UGA campus. Athens also has a large group of working-age people compared to its total of young and elderly; in fact, the dependency ratio is the lowest in the state.

Augusta The 2001 outlook calls for the sustained expansion of Augusta’s economy. The area’s employment will expand by 1.6 percent in 2001, compared to 2.3 percent in 2000. New jobs will be broadly distributed across economic sectors, but will grow fastest in services, telecommunications, and transportation.

Now emerging as a center for telecommunications services, Augusta will continue to depend on its skilled— but underutilized—labor force to attract businesses. The hospitality industry will continue to benefit from recent downtown development, including Riverwalk, the Morris Museum of Art, and Georgia’s Golf Hall of Fame. Adaptive reuse of historic buildings makes the city more appealing as a site for regional meetings and conventions. Augusta’s location astride I-20 is an obvious advantage; it links the city to booming markets in Georgia and South Carolina and makes the city a prime site for regional distribution and manufacturing. Manufacturing activity increased sharply in 2000, and probably will expand again in 2001. Growth in the area’s disposable personal income will create new jobs in wholesale and retail trade. The area’s medical industry may face more competition from medical centers located elsewhere in the region, but demographic and other forces should encourage renewed expansion. Extremely affordable housing is another plus.

Columbus After advancing by 2.9 percent in 2000, employment in the Columbus MSA will increase by 2 percent in 2001. The demonstrated commitment of business, government, and residents to economic development is one of the area’s greatest strengths. Extensive downtown redevelopment will promote tourism and
make the area more attractive to businesses and local residents.

Retail activity will continue to benefit from all the newly created jobs in the area. The largest retail development will be concentrated on the northern side of the city, but downtown restaurants and shops gradually will benefit from substantial public and private investments in the central business district and riverfront. The expansion of Columbus College and the large-scale training of employees for Total Systems Services improved the skills of the labor force, making Columbus more attractive to technology-oriented companies.

### Macon

The 2,800 new jobs in the Macon MSA represent a year-over-year increase of 1.8 percent, most of which will be in services, retailing, and government. The growth reflects the area’s extensive surface transportation system, its proximity to Atlanta, the strong hospitality industry, and the contribution of the Warner Robbins Air Force Base.

Macon is located strategically at the intersection of I-75 and I-16, has two railroad lines, and a good airport that is used by local residents as well as others from throughout much of South Georgia. The tremendous selection of national and international flights available an hour’s drive away in Atlanta and the excellent general aviation facilities available locally should meet the needs of any domestic or international company. As Atlanta becomes more congested, sites in Macon will become very attractive to both private businesses and state government operations. When the Fall Line highway is completed, Macon will have multi-lane highway connections to Augusta and Columbus. The city’s emerging air quality problems may limit future access to federal funds for highway work, however.

Macon’s central location is ideal for hosting statewide meetings. The expanded and renovated Centreplex convention center provides the physical space necessary to handle large and small groups simultaneously. Antebellum homes, the Georgia Music Hall of Fame, the Sports Hall of Fame, the Douglas Theater, the Cherry Blossom festival, and the continuing emphasis on downtown redevelopment boost the contribution that tourism makes to the economy. In addition, the Georgia National Fairgrounds and Agricenter is becoming one of the nation’s leading sites for agriculturally-oriented trade shows, exhibitions, and meetings.

### Savannah

The area’s employment will increase from 139,100 to 141,100, a gain of 1.4 percent. Savannah is capitalizing on many strengths, especially its unique ambiance, historical legacy, and natural attractions that draw visitors and retirees from everywhere. Home prices in Savannah’s historic district probably will continue to appreciate, ensuring their preservation; while the demand for retirement and second homes will expand substantially.

Savannah is poised to become a premier destination for national conventions, trade shows, and meetings. The encouraging outlook for the business travel industry reflects substantial recent investments in the area’s infrastructure, including the newly opened Savannah International Trade and Convention Center on Hutchinson Island and over 1,000 additional hotel rooms. Non-stop flights from the Savannah International Airport to major metropolitan areas in the Midwest will boost convention business. Business travelers attending conventions and trade shows will spend far more than the typical visitor, and this money will be concentrated on downtown Savannah.

In addition, Savannah’s healthy outlook builds on its excellent transportation infrastructure that unites sea, air, railroad, and interstates, making it an ideal center for distribution and manufacturing. I-16, in particular, helps Savannah to benefit from Atlanta’s growth, making it easy for big business to get to the coastal port.

The Terry College believes that the prospects for the Port of Savannah are excellent in FY 2001 and 2002. The improving global economy will stimulate international trade. Domestic shipping will benefit from the sustained growth of U.S. GDP and the above-average growth of the Southeast’s economy. Recent and planned port and harbor improvements will help Savannah’s port compete favorably with ports in Charleston and Jacksonville.

The MSA’s diverse economic base, recent growth, and greater integration with the global economy also improve its prospects. The area is not overly dependent on a single major industry, and its expanding range of supporting industries provides a broader spectrum of locally-produced goods and services each year.
THE OUTLOOK FOR GEORGIA’S CONSTRUCTION INDUSTRY

Jeffrey M. Humphreys

otal spending for new construction will decline from the extraordinarily high levels of 1999-2000. While this anticipated drop reflects less new construction in the private sector, homeowners and businesses—in contrast—will spend much more on renovating existing homes and offices. Public spending for schools and other infrastructure also should increase.

Throughout the state, and in metropolitan Atlanta, suburban and ex-urban development will continue to outpace center-city and inner tier suburban development, but these respective growth rates will converge rather than diverge. Long commutes and hectic schedules are two of the reasons why, but demographic changes and lifestyle choices also contribute to this urban renaissance.

SINGLE-FAMILY HOMES

Georgia’s homebuilders operated at record levels in 1998-2000. In 1999 and 2000, permits authorizing the construction of 71,530 and 69,100 houses were issued, respectively—a cyclical peak that was 41 percent above the previous high market of 1986. Construction boomed throughout the state, but Atlanta’s market—three times larger than that of any other metropolitan area in the Southeast—once again reigned as the nation’s busiest homebuilding market. Affordable mortgage rates, robust domestic migration, exceptionally heavy demand for new single-family homes, a limited number of existing homes for sale, and builders’ and buyers’ optimism about the near future were the major factors in this housing boom. Although most homebuilding occurred in newer suburbs, traffic congestion and long commutes spurred demand for in-town housing, and this revitalization will intensify in 2001.

Although the general outlook is good, activity in this subsector will settle to a more sustainable level in 2001, down from 1998-2000, but well above that of 1997. The forecast calls for permits authorizing 61,800 new single-family homes, a year-over-year decline of 7,300 units, or 10.6 percent. But chances are good that the effective mortgage rate will drop significantly, and higher employment and income will keep people confident enough to buy a first home, trade up to a larger one, or buy a vacation or retirement home. Although personal income will grow slightly more slowly in 2001, Georgia’s per capita personal income will increase, encouraging homeowners to move to larger or more luxurious homes.

Compared to last year, demographic forces will provide considerably less support to new home construction in 2001. The nation’s extremely tight labor market, with good jobs available almost everywhere, will make it much harder to attract workers from other states. The resulting slowdown in employment growth and in-migration will curb population growth and new home sales. In fact, the state’s overall population will expand by 138,700 in 2001, which is 13,100 fewer than in 2000. More importantly, Georgia will add 58,500 households in 2001, compared to 105,500 in 2000, and household formation is a better indicator of housing demand than population growth.

More positively, the state’s increasing number of seasonal residents, who generally are excluded from the foregoing statistics, will reinforce demand for new home construction. Homebuilders in the coastal and mountain counties, where seasonal residents like to live, therefore can anticipate better housing markets than resident population projections would lead them to expect.
THE DEMAND

Although employment growth initially increases the demand for rental housing, lagged effects on single-family homebuilding are crucial in a maturing economic expansion. In 2001, many renters will be ready to buy their own homes, and thus will keep Georgia’s single-family housing market from declining sharply. In the latter stages of an economic expansion, trade-up activity is an important to the homebuilding industry, and this will be the case in 2001.

Older Georgians are another important element in the housing market. The number of residents over 65 is expected to grow twice as fast as the number of those under 65, and a large proportion of the elderly own their homes. Moreover, many retirees have accumulated substantial equity and have stable sources of income, making this segment of the market much less sensitive to fluctuations in economic conditions and mortgage rates. Because many retirees choose to live in the mountains or on the coast, these areas already see high demand for retirement homes. Many retirees also move to Georgia to be near children who work here, and these newcomers typically settle in the state’s metropolitan areas. Georgia’s concentration of military bases helps the state attract retired military personnel, too. Although the older homebuyers now absorb only a small percentage of the market, the fact that they are living longer and have more financial resources certainly will create a major impact.

Demographically, the number of traditional families is increasing in Georgia, and such families often prefer buying a home to renting. More nontraditional families—never-married singles, childless couples, and adults living together—also now own or are buying homes. Baby boomers still are a vital part of the market: as this large group reaches its years of highest earnings, its members are likely to demand more luxurious homes, thereby boosting value-added per start. The “baby bust” and growing number of remarriages will drag down the national housing market, but foreign immigration, domestic in-migration, recent increases in fertility rates, increased longevity, and other factors will more than offset this effect in Georgia. The increased buying power of, and increased mortgage lending to, minorities and immigrants also will help builders.

Moreover, the recent increase in the homestead exemption will encourage homeownership. Conversely, however, greater disparities in income, reductions in federal subsidies for low-cost housing, and cutbacks in income support programs will reduce demand for inexpensive starter homes.

In the coming year, Georgia’s homebuilders should expect only a small boost from pent-up demand because the state’s extraordinary economic expansion long ago helped most potential buyers decide to invest in a home. The low mortgage rates of the last few years also have cut the number of buyers waiting for cheaper credit. In particular, pent-up demand for luxury homes appears to be satiated, although some deferred demand for starter homes, second homes, smaller homes, and retirement homes persists. The very strong demand for second homes reflects underlying demographic trends, the wealth effect of households’ gains in the stock market, the reduced federal income tax on home sales, and improvements in telecommunications technologies that allow people to conduct business while on the go.

In Georgia, an important source of pent-up demand stems from last year’s severe labor shortages when builders could not find enough workers and thus pushed back completion dates on houses under construction and created long waiting lists for starting new homes. Discouraged by long delays, some prospective customers postponed new construction, and this deferred demand will help to support the industry in 2001.

THE SUPPLY

Recent low price increases for new homes, at least relative to other housing choices, make new houses very attractive to prospective buyers. More efficient methods of construction, the availability of substitute building materials, and restrained price increases for many raw materials probably explain why new home prices are not climbing more rapidly. The scarcity of construction tradesmen also will be less of a problem in 2001.

One cloud on the horizon is that home sites are scarce, and the situation is likely to remain tight in some areas of the state. For example, Atlanta’s air quality problems are retarding the construction of new roads and

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highways, which would have opened up new areas for development. Inadequate public infrastructure, especially water and sewer capacities, also will slow homebuilding in some areas. In addition, traffic congestion in the state’s major urban areas increases the appeal of in-town addresses over suburbia, and this preference for urban living cuts demand for new home construction. In built-up urban areas, renovating an existing home or condo often is more sensible than building anew. Finally, the adverse side effects of nine straight years of booming economic expansion generate support for additional public sector controls on growth and development in the private sector. Effective growth controls almost certainly would reduce new home construction, but would increase demand for existing homes and the construction of new multi-family residences.

Because the number of unsold new homes is small, speculative overbuilding currently is not a major concern in Georgia. In 2001, inventories are expected to increase slightly as demand tapers off a little faster than supply. Builders’ margins will narrow. More positively, several years of robust housing sales have drastically reduced the number of desirable older homes on the market, so new construction therefore may account for a relatively high percentage of total sales.

As more new homes include amenities of various sorts, the outlook for residential construction improves, even though the average size of new homes probably has reached a plateau. More homebuyers are looking for functional, mid-sized houses that are easy to maintain, and are closer to town centers. Location, technological extras, fancy finishes and fixtures, extensive storage, and expensive materials will become the hallmarks of luxury, all designed to appeal to retirees, empty-nesters, or childless couples.

Families with children still prefer the suburbs, where the price per bedroom is lower, the yards are big enough for both children and pets, the public schools are better, and the streets are safer. The demand for suburban living is reinforced by the development of office parks, retail centers, and industrial clusters, especially since employers have become amenable to telecommuting and flexible scheduling. Also, the increased popularity of golf and gardening prompt many households into suburban living.

Georgia’s newer suburban developments are different from those of the last twenty years, too. Sidewalks and paths connect clusters of houses and condos to open spaces and community facilities; and more neighborhoods advocate community-controlled commercial development within easy walking distance.

THE PRICE TAG

Housing will remain affordable in 2001, as the negative effects of increased costs are offset by increased incomes. Nonetheless, the median sales price of new homes is expected to rise by 5.3 percent in 2001, and the shortage of home sites within reasonable commuting distance will drive up housing costs in many areas. Rents also are expected to climb more rapidly than households’ income gains, thereby increasing the pressure to buy a home.

Nationally, the average median sales price of existing homes will be $145,300, a year-over-year increase of $6,600, or 4.7 percent. Comparable increases in 1999 and 2000 were 3.9 percent and 4.3 percent, respectively. Appreciation will exceed the CPI because of strong demand and the limited number of new and existing homes on the market; and mid-priced homes will appreciate faster than those at the high and low ends of the market. In Atlanta, in-town homes will see stronger appreciation than homes located in the suburbs. Appreciation helps Georgia’s homebuilders, because more people will have accumulated substantial equity capital. In addition, as long as prices and values rise, the state’s major lenders are likely to approve many mortgage applications. Meanwhile, lower taxes on the profits from the sale of existing homes should encourage more people to sell their homes, benefiting both the construction and real estate industries.

MULTI-UNIT RESIDENTIAL CONSTRUCTION

The fundamental determinants of demand—growth in employment, population, and personal income—should again support very high levels of multi-unit residential construction in Georgia, but they will not be robust enough to equal or surpass 2000’s unexpectedly strong performance. Although such construction soared by 25.8 percent in 2000, occupancy remained high and rents rose to record levels. Population growth and the conversion of apartments to condominiums helped to keep a favorable balance between supply and demand.

In 2001, about 18,200 units will be authorized for construction; but despite the projected 19.8 percent drop in permits authorized, Georgia’s strong economy and growing population underpin this subsector’s long-term prospects. The influx of skilled workers and the expanding number of elderly residents also provide a floor of demand.

The multi-unit segment of the retirement housing market will benefit from a strong demographic push and the substantial equity that many older homeowners have accumulated. Retirees increasingly will prefer communities that offer many levels of health care and different types of housing. Assisted-living facilities will become more popular, but in some parts of the state, particularly metropolitan Atlanta, too much new capacity has temporarily saturated the market. Increasingly, universities will develop retirement housing for nostalgic alumni.

The 1997 budget accord provided big tax breaks on the profits from the sale of a principal residence, so older persons with more than $125,000 in capital gains—the
biggest beneficiaries of the tax break—are most likely to move into condos. Moreover, the new law no longer requires persons under 55 to reinvest the profits from the sale of their principal residence into another house in order to avoid taxes. So younger homeowners who want to sell their homes and become renters can do so with impunity.

Apartment and condo developers will continue to benefit from the growing popularity of in-town living. Traffic congestion and long commutes are the primary reasons why working professionals are returning to Atlanta’s inner suburbs, but young people and retirees also are lured back by urban amenities, lifestyle choices, and convenience. In Atlanta, the market should be excellent for apartments or condos, with secure parking, that are located within an easy walk of a MARTA station.

Public attitudes are the biggest impediment to high-density housing and mixed-use development in the suburbs, however. The vast majority of homeowners do not want apartments or other high-density housing to be built nearby. Many suburban homeowners, and the officials who represent them, exacerbate sprawl by mandating large residential lot sizes and by opposing retail and office development. Several suburban Atlanta counties have issued moratoria on building new apartments, and homeowners will remain adamant until they understand that market forces are shifting: high-density and mixed-use development increasingly will help nearby homes to appreciate faster than would otherwise be the case.

RENOVATION AND REPAIRS

Many factors will increase demand for home improvements, where activity is less cyclical than new construction because the peaks are less pronounced and tend to occur later. Since this business cycle has seen strong sales and an increasing stock of existing structures, many of which are aging, both current and new owners are likely to invest in repairs and improvements. Owners can afford to do so, thanks to appreciating values that have increased equities, and recent refinancing that has lowered monthly payments. The surge in refinancing home mortgages also gives many owners an incentive to improve their homes rather than to move on to newer quarters.

Traffic congestion and other factors further enhance the appeal of living in or near older urban centers. Because the supply of vacant lots in such areas is very limited, moving into built-up urban areas often entails buying and renovating older structures. Older office buildings in the central business districts of our cities are prime sites for conversion into apartments or hotels. Obsolete retail developments in good locations also may be converted to mixed-use developments. More interest in preserving and restoring historic homes and buildings will continue to help the industry, too.

NONRESIDENTIAL CONSTRUCTION

Overall spending for new nonresidential construction will moderate in many subsectors in 2001. Because there are few barriers to new construction in Georgia, the risk of overbuilding during an economic expansion is greater here than in many other states. Fortunately, demand has grown fast enough to absorb most of the new space that has been built. Because overbuilding either is absent or is confined to specific markets, overall spending on nonresidential construction should level off rather than decline, but the recent additions to supply make the industry vulnerable to sudden shifts in economic conditions. In the coming year, spending for school construction, public infrastructure, telecommunications facilities, warehouses, and parking structures will increase substantially; outlays for offices and industrial plants are expected to stabilize or to grow moderately; but retail construction will dwindle.

SCHOOLS AND PUBLIC INFRASTRUCTURE

School construction will boom, given the rapid growth in the population of school-aged children, expanded pre-kindergarten programs, and the growing need to house computers and other equipment. In many jurisdictions, special local option one-cent sales taxes provide substantially more funding for new school construction. Cyclical increases in the property tax base also will help to support school construction, but efforts to limit the power of local authorities to reassess property may eventually restrain spending.

Public spending on a variety of projects, especially roads, bridges, and water treatment facilities, will rise to accommodate population and business expansion. The new highway and mass transit bill will increase federal funding for transportation projects in Georgia by 70 percent, provided the state generates matching funds and meets local environmental requirements. Continuing problems with air pollution and traffic congestion also will force Atlanta to extend and integrate its mass transit system with those of neighboring suburban counties.

OTHER CONSTRUCTION

Pushed by heightened competition, spurred by deregulation, and lured by profits, the telecommunications industry will scurry to upgrade networks, expand and contest markets, and install new technologies. Electric utilities will invest in new transmission lines, pollution control equipment, conversion and modernization of power plants, maintenance and repairs, and small peak-load generating plants.

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More parking decks will be built to serve people who are willing to pay a premium for convenient parking. Developers also recognize that high-quality parking is a major advantage in marketing their properties. Georgia’s rapid growth in miles driven, the increased concentration of office and retail developments, and recovery of some downtown business districts further improves the outlook.

Unfortunately, recent additions to the amount of new office space were inadequate to meet increases in demand in many areas, particularly in Atlanta’s Buckhead, Midtown, downtown, and Northlake submarkets. Pent-up demand therefore will help to offset slower growth in office employment and corporate profits. Vacancy rates are expected to remain relatively steady or to rise slightly. Rent increases will exceed the rate of inflation and property values will climb, making it easy to justify new projects. Because of these factors, slightly more new office construction will be started in 2001.

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RETAIL CONSTRUCTION

This subsector did very well in 1999-2000, especially in Atlanta’s northern suburbs. The mall of Georgia, located in Gwinnett County on a tract at I-85 and Highway 20, and Marketplace at Mill Creek, located directly across from it, and several other nearby projects boosted statewide construction activity.

The Mall of Georgia will continue to be a catalyst for development in 2001, but a glut of retail space and more competition from online retailers will reduce statewide outlays for retail construction. Speculative building will decrease markedly, although several factors will curb the slide. Consumers’ buying power and retail sales both will increase, helping to fill space. Population growth and associated activity in single- and multi-unit residential construction will continue to create desirable new retail locations. Many bedroom communities find that
residential growth quickly leads to commercial expansion because people prefer to shop close to home. New roads also will stimulate orders for retail space. Since location is vital, some facilities will be built to take advantage of new prime sites, which often are far from existing retail centers.

Changes in the overall structure of retailing will affect demand, too, as the popularity of online retailing eats into the need for new retail space. On the other hand, restructuring makes existing retail space become outdated faster and spurs the entry of new retail giants into Georgia’s market.

**INDUSTRIAL CONSTRUCTION**

Reflecting a balance of forces, the cautiously optimistic forecast indicates that new construction should steady in 2001. Due to high absorption, vacancies are limited in many places, and capacity utilization in manufacturing is expected to rise in the coming year. Also, the explosive growth of e-commerce and the region’s flourishing consumer market will boost orders for warehouses. Less positively, the markets for most industrial products will expand more slowly; fewer companies will be investigating relocation; and corporate profits will grow more slowly.

The long-term outlook for industrial construction is very good, however. Georgia is extremely attractive to domestic and foreign companies seeking to relocate, expand their operations, or enter new markets. Over time, foreign direct investment should continue to increase because of the state’s cost structure and strategic location.