

## Georgia's economic outlook for 2003

Jeffrey M. Humphreys  
P. George Benson

The outlook for 2003 indicates that the recovery that already is underway will gradually become more broadly based, but that the state's economy will remain vulnerable to an unpredictable shock.

On an annual average basis, real gross state product—the inflation-adjusted sum of goods and services produced within Georgia—expanded by 1 percent in 2002. The weakly positive value reflects both the sluggish pace and narrow base of the economic recovery. (Georgia's 1 percent advance in real gross state product trailed the 2.5 percent advance in the nation's GDP.) The GSP forecast calls for a 2.7 percent advance in 2003, which is approximately equal to the 2.8 percent advance expected for the U.S. Georgia's inflation-adjusted personal income will follow a similar path, increasing by 2.5 percent in 2003, which exceeds the 0.9 percent gain estimated for 2002. Above all, job growth will be the most important factor contributing to income growth, but the labor surplus will give employers the upper hand in 2003, limiting the boost to income from wages and salary increases. Personal income derived from interest, dividends, and capital gains gradually will recover from its extremely depressed level, although income derived from rent will languish until 2004.

### Employment

In 2003, the state's nonagricultural employment will increase by 1.5 percent, which compares well to the 2.2

percent decrease estimated for 2002. Even though the state will add 56,400 jobs in 2003, total employment still will be shy of where it stood in 2000. The failure to completely bridge this gap reflects both the severity of job losses in the recession as well as the slow pace of hiring during the recovery. Since productivity gains often allow companies to do more without hiring additional workers—in essence, a “jobless” recovery—Georgia's labor market will not fully recoup the jobs lost in the 2001 recession until 2004.

The 2003 employment gain is slightly larger than the 0.8 percent increase predicted for the nation, but the positive differential primarily reflects easy gains off Georgia's severely depressed base rather than any relative economic advantages or strengths. The slow pace of job creation, the severity of recent job losses, and labor force growth will maintain an uncomfortable degree of slack in state's formerly taut labor market. On an annual average basis, Georgia's unemployment rate therefore will rise 5.3 percent in 2003 from 4.8 percent in 2002.

The services sector is projected to add the most jobs—35,000—and will see the fastest growth (3.1 percent). Help-supply, educational, and medical services have the best prospects for growth, but financial difficulties in the state's large lodging and hospitality industries will counteract overall employment gains. In a less-traditional arena, the state's relentless efforts to pursue biotech talent and research dollars



have resulted in a steep increase in the number of biotechnology firms in Georgia; and the industry has reached the point where it will attract adequate venture capital funding and other investment.

Despite the 1 percent rise in wholesale and retail trade jobs, total retail employment in 2003 will be 13,800 less than it was before the recession. Developments that will restrain hiring include drops in sales of new cars and in new construction. The weak forecast also reflects high levels of retail bankruptcies, the closing of failing stores, and fewer new stores.

Overall employment in government will expand by only 0.2 percent, or 1,200 jobs, but intense budgetary pressures will force state government to cut jobs. Because local government especially depends on property tax collections, revenues collected at this level will fare better than those collected by state government. The federal government will continue to increase spending and hiring in 2003, but workforce expansion will cease in 2004.

After three-straight years of relentless layoffs and plant closings, manufacturers will be hiring again in 2003.

## GEORGIA BUSINESS AND ECONOMIC CONDITIONS

**Fourth Quarter 2002**  
Volume 62, number 4

### SELIG CENTER FOR ECONOMIC GROWTH

**P. George Benson**  
*Dean*

**Jeffrey M. Humphreys**  
*Director*

**Lorena M. Akioka**  
*Editor*

**Beata D. Kochut**  
*Research Coordinator*

**Ian Armit**  
*Information Analyst*

GEORGIA BUSINESS AND ECONOMIC CONDITIONS (ISSN 0297-3857) is published quarterly by the Simon S. Selig, Jr. Center for Economic Growth, Terry College of Business, The University of Georgia, as a service to the business and academic communities. Signed articles reflect the author's opinion but not necessarily those of the Selig Center for Economic Growth, Terry College of Business, or The University of Georgia. This publication is sent free of charge upon request.

Manuscripts and letters to the Editor should be sent directly to us. **Postmaster** send address changes to: Selig Center for Economic Growth, Terry College of Business, The University of Georgia, Athens, GA 30602-6269.

Periodicals postage paid at Athens, Georgia

Employment will rise by 1 percent, or by 5,300 jobs, but the gain is meager when measured against the 63,900 manufacturing jobs that Georgia lost in 2000-2002. Global economic growth, somewhat less excess capacity in many manufacturing sub-sectors, decreased competition from imported goods (due to the weaker dollar), the continued migration of auto manufacturers and parts suppliers to the state and region, and rising markets for many manufactured products are the primary reasons for the improved outlook. In the wake of the recession, there are 16,200 fewer jobs in public utilities. In 2003, the sector will recoup 6,200 of the lost jobs, but full-fledged recovery will have to wait until 2004. The improving job outlook for telecommunications reflects rising demand for telecom and Internet services. Activity in the transportation sector—excluding air transportation—will increase slightly faster than GSP, creating demand for workers.

Basically unaffected by recession, Georgia's ports will continue to generate jobs in transportation as well as in a range of supporting industries; and Savannah's container port is one of the fastest growing in the world.

Construction employment will decline by 3,200 jobs, or 1.7 percent because there will be less new construction in 2003. Although the forecast calls for permits authorizing 4.8 percent fewer new homes, the slump in multi-unit residential construction will be even steeper: 23.6 percent fewer units will be authorized in 2003. In contrast, spending on home improvements will decline only slightly. Public spending for schools and other infrastructure probably will decrease, reflecting weak FY 2003 revenue collections, but spending associated with bond-financed projects may be relatively steady. Private spending for nonresidential construction will decline, however.

## Economic Performance

Georgia's economy generally does far better than most other states. Comparisons of compound annual rates of growth for 1990-2001 show that Georgia ranks fifth fastest in personal income growth. By comparison over this period, the increase in Georgia was 109 percent versus 78 percent for the nation and 85 percent for the Southeast. In this regard, Georgia outpaced all states east of the Mississippi River. Indeed, all of the states that outpaced Georgia were much smaller and in the Rocky Mountain Region (Nevada had a 150 percent gain, Colorado a 127 percent jump, Arizona a 117 percent rise, and Utah a 112 percent increase).

Ranked sixth in population growth, Georgia's 29 percent increase from 1990-2001 was more than double the nation's 14 percent gain. The Southeast's population grew by 18 percent over the same period. Again, the leaders were small states in the Rocky Mountain region. (Nevada took the top spot with a 73 percent increase in its population. The second, third, fourth, and fifth spots went to Arizona (44 percent), Colorado (34 percent), Utah (31 percent), and Idaho (30

percent.)) 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 human capital that is crucial to the expansion of 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.

Similarly, Georgia ranks eighth in the 1990-2001 percentage increase in employment, and except for Florida and Texas, the leaders were Rocky Mountain states. The cumulative growth in employment was 32 percent in Georgia, which is about 50 percent higher than the 21 percent rate experienced by the nation as a whole.

The prospects for the next decade are still very strong. Georgia continues to outperform the nation, but growth probably will be slower for everyone, and there probably will be more convergence between economic growth here and in the U.S. as a whole. Georgia's population growth will no longer grow twice as fast as the nation's, but its ranking may not change very much.

In contrast to the population projections, there will be marked convergence towards the national average in the

growth of both personal income and employment—these two variables are better measures of economic performance and well-being than is population. With respect to the growth rate of personal income, Georgia probably will drop considerably in the rankings, but growth still should be faster here than in the nation as a whole. Also, the growth leaders over the next decade may no longer be confined solely to the Rocky Mountain region, but will include neighboring states such as Florida, South Carolina, and North Carolina. Similarly, Georgia will drop in the employment growth rankings, but its growth still should outpace that of the nation. Again, several neighboring states probably will grow more rapidly, including Florida and North Carolina.

High-tech job growth, especially in information technology and biotechnology, and a booming hospitality industry were big pluses in the 1990s, but recently have exacerbated the effects of the 2001 recession. Moreover, the Georgia economy—and especially metro Atlanta's economy—is becoming more diversified, with local operations of most of the Fortune 500. This is a strength in that it makes the area less subject to the ups and downs of a single industry, but as the economy comes to more closely resemble that of the nation as whole, so does the shape of its

**TABLE 1**

**GEORGIA'S GROSS STATE PRODUCT, 1989-2003,  
IN CURRENT AND CONSTANT (1996) DOLLARS  
WITH YEAR-TO-YEAR PERCENTAGE CHANGES  
(billions of dollars)**

Year	Current \$	Constant (1996) \$	Percentage Change from Previous Year	
			Current \$	Constant (1996) \$
1989	134.9	162.8	5.7	2.1
1990	141.4	164.8	4.8	1.2
1991	148.7	167.1	5.2	1.4
1992	160.8	175.6	8.1	5.1
1993	172.2	183.1	7.1	4.3
1994	187.6	195.3	9.0	6.6
1995	203.5	206.4	8.5	5.7
1996	219.5	219.5	7.9	6.3
1997	235.7	231.8	7.4	5.6
1998	254.8	245.9	8.1	6.1
1999	276.4	261.3	8.5	6.2
2000	296.1	273.6	7.1	4.7
2001	305.0	275.2	3.0	0.6
2002	311.7	278.0	2.2	1.0
2003	327.6	285.5	5.1	2.7

Source: Data for 1989-99 were obtained from the U.S. Department of Commerce. Data for 2000-2003 were obtained from the Selig Center for Economic Growth, Terry College of Business, The University of Georgia (October 21, 2002).

business cycle and its prospects for growth. Thus, increased diversity probably means growth that is more typical of the U.S. as a whole.

Hartsfield Atlanta International Airport's vast array of daily nonstop and direct flights to domestic and international destinations have helped to make Atlanta a good location for headquarters operations, foreign direct investment, trade shows, and conventions. But in the post-9/11 world, cities with more than one major origin/destination airport probably will gain the advantage over those with a single large hub airport, particularly one with a single passenger access point to the concourses. So the lack of a second major airport is another reason why growth rates probably will converge.

Traffic congestion will be one of the state's most stubborn barriers to sustaining substantially above-average rates of economic growth—and therefore will be a large factor bringing about the convergence of growth rates in Georgia and the nation. For two decades, an abundance of transportation and distribution infrastructure has underpinned this growth, but now, the traffic density is more than the system can handle. The metro area's air quality problem also is likely to be reclassified from serious to severe, which will prompt new regulations that will be costly in terms of both outlays and jobs. Meanwhile, Atlanta's poor air quality hurts Georgia's image as well as its ability to attract some types of businesses.

In addition, the state's image—and ultimately its growth—suffers from its last place ranking among the fifty states in regard to SAT scores. Raising the scores substantially

means putting more state resources into the worst performing public schools, which are mostly located in the City of Atlanta or in rural areas. Given the current budget crisis, this is extremely unlikely in 2003 or 2004.

A groundswell of antigrowth sentiment is a definite threat brought about by the stresses of decades of economic boom. Moratoriums on residential rezoning applications and new impact fees are relatively mild examples of public sector controls that dent Atlanta's heretofore stellar reputation as a good place to do business. Moreover, due to widespread financial prosperity, Atlanta simply may not be as hungry for growth as it was ten or twenty years ago.

Basically, Atlanta is approaching some limits that gradually will force the entire state's economy closer to average rates of expansion in the future. One obvious solution is to spend more to add capacity; but finding the money, the will, and the leadership will be difficult.

## Prospects for MSAs

**Atlanta** On an annual average basis, the twenty-county Atlanta MSA will add 27,700 jobs, a year-over-year increase of 1.3 percent, and thus replace about half of the jobs that were lost in 2002. The lackluster performance of the large high tech, airline, and hospitality clusters basically will postpone the area's full-fledged recovery, however. Another complicating factor is the projected downturn in residential and commercial construction.

### GEORGIA'S ECONOMIC FORECAST, 2002-2003

Georgia	1998	1999	2000	2001	2002	2003
Real Gross State Product, Bil of 96\$	246.0	261.3	273.6	275.3	278.0	285.5
Percent change	6.1	6.2	4.7	0.6	1.0	2.7
Nonfarm Employment (thousands)	3740.8	3883.1	3949.3	3953.6	3867.9	3924.3
Percent change	3.5	3.8	1.7	0.1	-2.2	1.5
Real Personal Income, Bil of 96\$	194.2	204.1	216.2	219.9	221.8	227.5
Percent change	7.7	5.1	5.9	1.7	0.9	2.5
Housing Permits, Total	85401	89581	91820	93059	93300	85000
Percent change	13.7	4.9	2.5	1.3	0.3	-8.9
Unemployment Rate (percent)	4.2	4.0	3.7	4.0	4.8	5.3

Source: Selig Center for Economic Growth, Terry College of Business, The University of Georgia, October 21, 2002.

The places with the best balance between population and employment growth include Gwinnett County, North Fulton County, and portions of Cobb County—all of which are outside the I-285 perimeter. According to Census 2000 data, population growth in Fulton and DeKalb counties (Atlanta's core) continues at a good pace, with growth rates that are only slightly below the statewide average. Population growth in the city itself, however, is considerably less impressive.

**Albany** After several years of severe job losses, Albany's labor market should stabilize in 2003. Although the forecast suggests that the area will neither add nor lose a significant number of jobs, the actions for the better or for the worse by one major company probably will determine the area's actual performance. Nonetheless, sources of strength include 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's increasing role as a regional center for health care also weighs in its favor.

**Athens** The number of jobs in the Athens MSA will increase only slightly in 2003, rising by 0.7 percent, or 500 jobs. Although the presence of the University of Georgia

spared Athens the worst of the recession, the area's weak performance in 2003 reflects the fact that a large proportion of spending and employment at the University is tied to state appropriations and/or to the value of endowments. An upturn in University-related spending therefore will severely lag the overall economic cycle.

Although the immediate prospects for employment growth are limited, Athens will benefit from several area-specific factors. It is favorably located in the path of Atlanta's future growth, but lacks an interstate-quality connection to the state's capital. The presence of the University of Georgia contributes both substantially to the economy, and has helped to promote the city as a center for biotechnology. The arrival of high-tech and other investors would provide a welcome addition to the Athens MSA economy, where the University of Georgia and other, state, and federal government agencies provide about 27 percent of jobs.

**Augusta** As a major center for telecommunications services, this MSA can expect a 1 percent increase in employment, which represents about 2,000 new jobs. An improving economy also means a pick-up in the local hospitality industry because the city is well suited to attracting

#### GEORGIA'S EMPLOYMENT FORECAST, 2002-2003

Georgia	1998	1999	2000	2001	2002	2003
Nonfarm Employment <sup>1</sup>	3740.8	3883.1	3949.3	3953.6	3867.9	3924.3
Employment by Industry <sup>1</sup>						
Mining	7.9	8.1	7.9	7.7	7.4	7.6
Construction	181.5	199.2	201.3	202.8	190.6	187.4
Manufacturing	594.6	596.7	583.3	549.8	532.8	538.1
Trans., Comm., Public Utilities	243.9	258.7	264.1	265.9	249.7	255.9
Wholesale and Retail Trade	930.7	959.6	967.8	965.8	944.6	954.0
Finance, Insurance, and Real Estate	198.2	202.6	205.6	207.4	205.7	208.0
Services	998.1	1065.8	1122.1	1149.6	1128.9	1163.9
Government	586.0	592.4	597.2	604.6	608.2	609.4
<b>Percent Change</b>						
Nonfarm Employment	3.5	3.5	1.7	0.1	-2.2	1.5
Employment by Industry						
Mining	1.3	1.3	-2.5	-2.5	-4.1	2.9
Construction	8.0	8.0	1.1	0.7	-6.0	-1.7
Manufacturing	1.0	1.0	-2.2	-5.7	-3.1	1.0
Trans., Comm., Public Utilities	5.9	5.9	2.1	0.7	-6.1	2.5
Wholesale and Retail Trade	2.2	2.2	0.9	-0.2	-2.2	1.0
Finance, Insurance, Real Estate	5.9	5.9	1.5	0.9	-0.8	1.1
Services	5.7	5.7	5.3	2.5	-1.8	3.1
Government	1.5	1.5	0.8	1.2	0.6	0.2

<sup>1</sup> Indicates thousands of workers.

Source: Selig Center for Economic Growth, Terry College of Business, The University of Georgia, October 21, 2002.

small meetings, corporate retreats, and day-trippers. Retirees also are drawn to Augusta by its low costs, good climate, and medical facilities, or by ties to Fort Gordon.

Augusta's location astride I-20 is a perfect location for regional distribution and manufacturing, and it will be a major factor in the area's development. Not only does I-20 have significant potential as an industrial corridor, but it also links the city to markets in Atlanta and South Carolina.

In addition, the Georgia Medical Authority will use the expertise available at the Medical College of Georgia to establish Augusta as a center for the rapidly growing biotechnology sector. One long-range goal is to develop a high-tech medical park that focuses on private biotechnology research and its practical applications.

**Columbus** Employment in this MSA will rise by a healthy 1.9 percent in 2003, largely because of the public and private sectors' unwavering commitment to economic development. The recent 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. The area's advanced telecommunications infrastructure also helps to attract business services and information and data processing companies, which pay higher salaries than most other industries and attract highly qualified workers. With this young, new economy-oriented workforce, comes a corollary benefit: the city and metropolitan area are enhanced by the increased demand for better schools.

**Macon** A year-over-year employment increase of 1.4 percent is underpinned by the MSA's diversified economic base, with trade, manufacturing, lodging, and food services providing the most jobs. The aerospace, health, and insurance industries also provide a large number of well-paid jobs.

The area's extensive surface transportation system and its proximity to Atlanta are pluses, too. 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. Also, as Atlanta becomes more congested, sites in Macon will become very attractive to both private businesses and state government operations.

**Savannah** This coastal MSA emerged from the recession largely unscathed, and will see its overall employment rise by 2.1 percent, which is the largest percentage gain predicted for any of the state's metropolitan areas. Its dual personality—a major tourist destination and an extraordinarily successful port—accounts for the city's success. Savannah's unique ambiance and transportation infrastructure make it both an attractive place to live and do business. Not surprisingly, tourism and convention business will be one of the fastest growing sectors of Savannah's economy. ❖

## Now Available

### The Multicultural Economy Minority Buying Power in the New Century • 2002

The Selig Center's nationally-known buying power data series is available for the first time in a special data book-and-CD package.

The completely updated time series for 1990-2002, and projections for 2003 through 2007, are essential to business analysts, marketing specialists, product developers, advertisers, and researchers. Data are available for the U.S. and all the states; and county-level data are included for Georgia and Florida.

The series features buying power data for major races and ethnic groups, including Whites, African Americans, Hispanics, Asians, and Native Americans.

**Special Highlight:** Data by expenditure category for selected years for the total population, African Americans, and Hispanics.

To order the \$100 package, visit [www.selig.uga.edu](http://www.selig.uga.edu)

---



---

# The National Outlook 2003

---



---

Jeffrey M. Humphreys  
P. George Benson

*When this was written, it was not certain whether or not the U.S. would attack Iraq. Nevertheless, this forecast should be reasonably valid in the event of either no war or in the event of a short, successful conflict (from America's perspective) that does not significantly impede the flow of oil from the Middle East. The forecast also assumes that no additional massive terrorist attacks will occur on U.S. soil. Because the U.S. economy is almost stalled, an obvious risk to the forecast is a more pessimistic scenario in which the war with Iraq is protracted and/or there is a significant reduction in the flow of oil from the region. In this scenario, oil prices soar, consumers' and business confidence plunges, and the overall economy contracts. The severity and duration of the ensuing recession obviously cannot be assessed at this time. Similarly, a massive terrorist attack on U.S. soil could shred confidence and heighten uncertainty enough to cause a recession.*

**T**he 2003 outlook calls for the sub-par expansion of economic activity to continue, and consumers and the federal government will continue to be the economic mainstays. Nonetheless, the U.S. economy will remain extremely vulnerable to a sudden economic shock, such as a major disruption in the flow of crude oil from the Middle East, or to further deterioration of consumers' and businesses' confidence. Since the economy will be operating close to stall-speed in late 2002 and in early 2003, there is a 35 percent chance of a double-dip recession, which is only slightly lower than the 40 percent downside risk that existed at the beginning of 2002. If these pitfalls are avoided, moderate growth will be sustained and the forces supporting it will broaden to include spending by businesses. Increases in business spending will be required to offset slightly slower growth in consumer spending and a marked slowdown in spending by state and local governments. Higher

spending by businesses also will be the key to sustaining the expansion beyond 2003, when there will be a slowdown in the growth of federal purchases. The Federal Reserve also is apt to maintain its very accommodative monetary policy, at least through the middle of the year.

It is increasingly clear that the shape of this economic cycle resembles an elongated U; that is, a sharp slowdown in growth that gives way to a drawn-out bottoming—which included a brief, small contraction of GDP—ultimately followed by a relatively modest rebound. Statistically, the economic recovery (measured in terms of GDP) was completed in December 2001 and the expansion began in the first quarter of 2002; however, most states avoided neither the recession nor the sub-par recovery that is following in its wake. Although the terrorist attacks stole the headlines, corporate cost cutting to eliminate significant structural excesses and the deflation of the bubble in the U.S. stock market are the hallmarks of this business cycle. Healthy and robust growth that is self-sustaining will not develop until the business sector is willing and able to participate more fully.

Even though a double-dip recession is possible, it is more likely that inflation-adjusted GDP will expand by 2.8 percent in 2003. In aggregate, this is not too far from the 2.5 percent gain expected for 2002. One big difference, however, is that businesses will make their first significant contribution to growth since the expansion began in the first quarter of 2001. In 2003, business will be the third leg of the expansion (the first was the consumer and the second was the federal government), and this will not only raise the prospects for growth, but also will improve the balance of growth and make the economy much more shock-resistant.

## Consumer Markets

**D**espite diminished confidence, consumers kept the nation's economy moving forward in 2002, accounting for a lopsided proportion of GDP growth, and basically determined the economy's path. Gains in real income, expanded home equity, easy access to credit, low and declining mortgage rates, automakers' aggressive incentives, greater need for medical care, and low prices for manufactured goods propped up spending in 2002. What was missing were new jobs, and unless businesses soon begin to hire, there is a good chance that consumer spending will slacken in 2003.

Assuming that business leaders step up the pace of hiring, consumers' inflation-adjusted spending will grow at the same pace in 2003 as it did in 2002—which is approximately 3 percent. The positive forces that will sustain the nation's consumer markets include improving conditions in the labor market, current dollar personal income growth, low and relatively steady interest rates, and the recent robust sales of new and existing homes. Negative forces include a high degree of uncertainty regarding the future economic situation, recent declines in households' net worth, and

softer markets for homes and cars. It probably will take at least two or three years for households' net worth to recover from the recent stock market implosion.

Although consumers' confidence measures are not expected to register signs of extreme distress, the high unemployment rate will keep people from becoming significantly more optimistic about the current state of the economy. By mid-year, expectations about future economic conditions should increase slightly, which will help to support overall consumer spending, but this will occur just interest rates begin to rise. Consumers alone will not be strong enough to push the economy firmly onto a higher growth path in 2003, but they will do their part to sustain moderate economic growth.

In 2003, increases in inflation-adjusted disposable personal income will account for most of the projected rise in consumers' spending. The number of jobs is forecast to expand by 0.8 percent, supporting this income growth. Wage and salary increases also will contribute to higher income; the annual increase in workers' compensation will be smaller than in recent years, however. The average number of hours worked per week will not rise significantly from its already depressed level. Nonetheless, a small increase in hourly compensation will support income growth.

A substantial drop in the effective personal tax rate in 2002 provided an extra boost to consumers' after-tax incomes, which helped people to simultaneously spend more and increase their savings. The effective personal tax rate will remain relatively steady in 2003, and therefore will not provide a significant boost either to savings or to consumer markets. Similarly, the personal savings rate probably will decline only slightly, which will not provide a significant boost to consumer spending.

Consumer credit outstanding will expand much more slowly, too. Massive debt, recent financial losses in the stock market, little or no appreciation of residential real estate, and lingering uncertainty about current and future conditions are among the factors that account for the slowdown in consumer borrowing. Despite this previously-mentioned restraint, the savings rate will decline only slightly.

Home values rose sharply over the last five years, but prices of new and existing homes probably will not climb any higher in the coming year. Nonetheless, many homeowners have seen their housing investments increase in value, helping them to at least partially offset huge losses in the stock market. Gains in the housing market are probably more important determinants of overall consumer spending than gains in the stock market, which benefit only about one half of households. Conversely, stock prices probably are more important for high-income households. Borrowing against the increasing worth of the family home boosted consumer outlays in 2002, and attractive mortgage rates made tapping into this source of wealth more palatable. In 2003, people will be much less likely to use cash-out refinancing and home equity loans to buy consumer goods. This reflects two developments: first, the pool of eligible homeowners who

## UNITED STATES ECONOMIC FORECAST 2002-2003

United States	1998	1999	2000	2001	2002	2003
Gross Domestic Product, Bil. of 96\$	8508.9	8859.0	9191.4	9214.5	9444.9	9709.4
Percent change	4.3	4.1	3.8	0.3	2.5	2.8
Civilian Employment (Mil.)	131.5	133.5	135.2	135.1	134.0	135.1
Percent change	1.5	1.5	1.3	-0.1	-0.8	0.8
Civilian Unemployment Rate (%)	4.5	4.2	4.0	4.8	6.0	6.4
CPI-U, Ann. % Chg.	1.6	2.2	3.4	2.9	1.5	2.4

Source: The Selig Center for Economic Growth, Terry College of Business, The University of Georgia, October 21, 2002.

have not refinanced their mortgages yet is shrinking; and second, mortgage rates probably will begin to rise in the second half of the year. Thus, the push to consumer spending from mortgage refinancing will be minimal.

In the coming year, consumers' spending for goods and services will increase at about the same rate. Among goods, spending for durables will grow faster than spending for nondurables. Outlays for computers, energy, and software will increase briskly. Spending on drugs and medicines also will increase substantially. Moderate gains are expected in spending for clothing and shoes, motor vehicles and parts, and food and beverages. Outlays for tobacco products will decline. Among service sectors, spending for medical care, recreation and personal business will expand the fastest, followed by spending for leasing services, telephony, and electricity.

### Labor Markets

**O**n a net basis, hiring resumed in the second half of 2002, but since domestic and global demand for goods and services will grow very slowly, the pickup in job growth will be very gradual. Also, the dearth of venture capital—which fuels job creation—will restrain employment growth. Nonetheless, net hiring will lessen the intense pressure that consumers felt as job losses mounted. In 2003, total nonfarm employment will increase by 0.8 percent, or by about 1.1 million jobs, but due to labor force growth, the unemployment rate will rise from 6 percent to 6.4 percent.

In the coming year, employment will rise fastest in the nation's services-producing industries. Forces behind this growth include increasing numbers of households, favorable demographic and social changes, consumers' dependence on household help and other personal services, and more outsourcing by businesses. Among service producers, health care jobs will increase the most. Increases in retail sales will provide a tiny boost to retail employment. More jobs will be available with the federal government, but intense budgetary pressures will eliminate jobs in state and local government. Manufacturing employment will continue its prolonged decline. Overall, the manufacturing sector has been the weakest link in the nation's labor market, but contract construction will see the most job losses in 2003. The real estate sector also will lose jobs as buyers' interest in both commercial and residential properties wanes.

### Corporate Profits

**T**he U.S. economy experienced a deep profits recession in 2001 and 2002, but due to sharp cost reductions and strengthening of demand for most goods and services, profits began to recover in the second half of 2002. This fledgling recovery should be sustained through 2003. Excess capacity in many industries will make it hard for many companies to raise prices, however. In this environment, it will be extremely difficult for

American companies to increase spending or hiring very quickly. The business sector therefore will be hard pressed to contribute much to economic growth, but it will have the wherewithal—if not the will—to do more than it did in 2002. Unfortunately, net hiring will not increase fast enough to bring down the nation's unemployment rate.

The slow recovery of profits and an unusually high degree of uncertainty about the business outlook will force companies to scrutinize spending, too. Corporate travel budgets will be skimpy, postponing full-fledged recovery for the nation's hospitality industry and airlines. Outlays for new facilities will continue to drop sharply, and spending for capital equipment and software will rise only slightly. Also, until corporate profits show signs of sustained recovery, stock prices probably will remain depressed, but the risk of major additional price drops is relatively small.

## Business Investment

**I**n addition to excess capacity, a host of factors have prevented businesses from buying into either the recovery or the initial stages of the ongoing expansion. These factors include three back-to-back years of declining stock prices, the accentuated drop in corporate profits that did not end until mid-2002, corporate accounting scandals of truly historic proportions, and an unusually high level of uncertainty.

The good news is that a turnaround in investment spending is expected in 2003. The pickup reflects both the lagged effects of the initial stages of the recovery in corporate profits and slightly higher rates of capacity utilization. Also, current spending for new capital goods is so low that it should be relatively easy to justify somewhat higher spending. A pivotal factor in the timing of the turnaround will prove to be business confidence, which the forecast assumes will return as the corporate world recovers from the damage inflicted by the accounting scandals and the free-falling stock market. Overall spending on non-defense capital equipment and software therefore will rise in 2003, and the gains will be broadly based. Nonetheless, after paring down over the last two years, there is little or no chance that companies will sharply increase their capital spending.

Spending on structures and communications equipment definitely will continue to decline in 2003. Nonresidential construction will continue to stumble, but the slide will moderate sharply. Factory construction probably will resume, but new office construction will continue to slide until 2004. Revenue shortfalls will be experienced by many state and local governments, which will reduce outlays for school construction. Also, three back-to-back years of a declining stock market have reduced the value of endowments that many non-profit organizations depend upon to fund new construction. Only health care facilities and federal projects will have more money available for their new construction needs.

## Government Expenditures

**A**lthough the outlook for the federal budget is very uncertain, it is clear that federal fiscal policy will continue to stimulate the economy. The sub-par expansion, accelerated outlays, and the reverberations of the terrorist attacks are making expenditures rise faster than receipts. The FY 2002 budget deficit therefore will expand, and it is increasingly likely that there will not be a surplus for many years to come.

Receipts received by state and local governments will grow slowly in calendar year 2003. Almost all jurisdictions will see hiring slowdowns and freezes on discretionary spending, such as outlays for travel, equipment, and facilities. Many states will cut their budgets or dip into reserves to make their budgets balance. Total employment in state and local government will decline.

Property tax collections will be relatively unaffected by the slowdown. Lower capital gains, less stock option exercise, and the weak labor market will retard the growth of personal income tax collections. Sales tax collections will roughly match trends in consumer spending. Corporate income tax collections will increase moderately in most jurisdictions, and increases in funds derived from federal grants-in-aid will help to offset weak receipts from other revenue sources. The overall impact of these trends probably is less negative for municipal and county government than for state government, however.

Nonetheless, inflation-adjusted spending by state and local governments will contribute to GDP growth in 2003, driven by bond-financed spending on construction, larger school enrollments, and larger prison and Medicaid populations. Spending to assist growing numbers of economically stressed people will increase. Many state and local governments also will spend more to provide services to larger populations. Effective tax rates are not expected to change in 2003, and thus slow revenue growth will unmask two festering problems: erosion of the tax base as the economy becomes more dependent on services and the void created when stable elements were removed from the tax base during the booming 1990s.

## Monetary Policy

**T**he yield curve will remain very steep. The forecast assumes that the Federal Reserve's monetary policy will remain on hold through most of 2003. The federal funds rate target will be 1.25—essentially a zero inflation-adjusted rate—and will not be increased before the third quarter of 2003.

Many of the forces that have held consumer price inflation to the lowest levels in more than thirty years still exist. Inflation bottomed out in 2002 when the consumer price index rose by only 1.5 percent. If oil prices behave as

expected, the index will increase by 2.4 percent in 2003. Energy and medical prices will be the main areas of strength, counterbalanced by price weakness in computers, clothing, and telephony.

Although there are several reasons to believe that an anticipated slowdown in productivity growth will not lead to higher inflation, the most important is slack capacity. Widespread labor surpluses and excess capacity in many economic sectors will keep the lid on wages and benefits. Worried workers will not make louder demands for higher compensation. The global economic slowdown will prevent commodity prices from rising in 2003, as weak demand coupled with excess capacity will restrain retail prices and will continue to crush commodity prices. The bottom line: businesses will find it only slightly easier to raise the prices of the goods and services they produce. The trade-weighted value of the dollar is also feeling the effects of a sour economy, and is forecast to decline in 2003, and continue to deteriorate for the next several years.

## International Trade

**R**eal exports decreased slightly while real imports rose substantially last year, cutting the rate of GDP growth. In 2003, both imports and exports are expected to rise, but exports will rise faster than imports. The slower rate of growth in domestic consumer spending and a weaker dollar both will reduce the demand for imported consumer goods, while faster growth of foreign-GDP will increase demand for exports. Real net exports therefore will be a positive factor in 2003, adding to GDP growth. The current account deficit will remain relatively steady at just under 5 percent of GDP.

## Housing Markets

**A**lthough the Federal Reserve will keep interest rates very low, the construction forecast calls for housing starts to decline moderately. Nationally, sales of both new and existing homes are expected to drop. Nonetheless, the average sales price of existing homes probably will rise slightly.

Because mortgage rates are very low and the levels of activity already are very high, even very attractive mortgage rates will not attract additional buyers. The other fundamental determinants of demand for homes—growth in employment, population, personal income, relocation activity, and consumers' confidence—suggest a drop in homebuilding.

Several factors will help to support demand for home renovations, however. Since this business cycle has seen booming sales of existing homes, owners are likely to invest in repairs and improvements. They can readily afford to do

this, thanks to appreciating values that have increased equities, and refinancing that has lowered monthly payments. Also, those who lack the confidence to buy a new home may choose to improve their existing homes instead.

## Crude Oil Markets

**O**il prices averaged \$23 per barrel during 2001 and 2002, and assuming that the U.S. does not wage war against Iraq, oil prices should average about \$25 in 2003, which is close to OPEC's target.

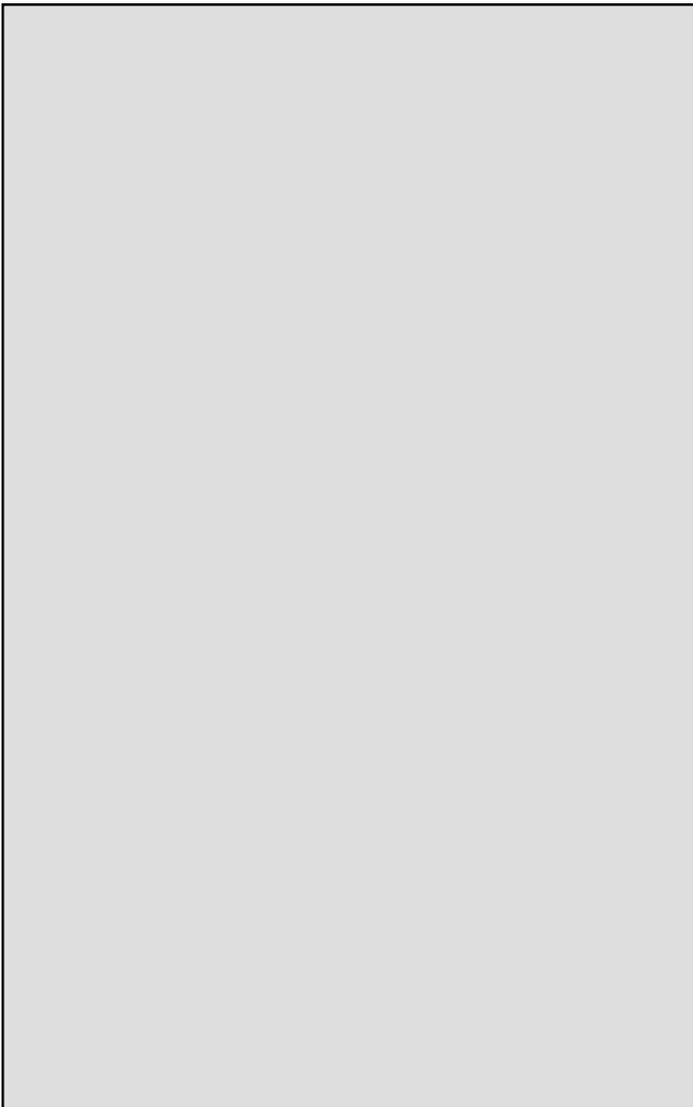
Market conditions favor stable or only slightly higher oil prices in 2003, with stronger demand for petroleum products and only a limited increase in supply. Any unusual disruptions in supply or quota reductions by OPEC would make prices climb. Both demand growth and capacity growth will be slow, suggesting relative price stability; however, discipline within the OPEC cartel is difficult to predict.

Given a modest degree of inventory accumulation, strengthening consumption will leave little surplus capacity to offset the loss of a major refinery or two. Energy markets will continue to be sensitive to unexpected shifts in supplies, political instability in oil-producing nations, or armed conflicts in the Middle East. Obviously, the biggest risk to oil prices is a war in the Middle East. ❖



# Boom Time at Georgia's Ports

Beata D. Kochut



**Transcontinental shipping, together with high-end transportation and warehousing services, are expected to remain a boom industry, because competitive advantages insulate Georgia's ports from the innate cycles of the transportation business.**

With the increased volume of domestic and international trade, the ports are a vital ingredient in the nation's and state's economic wellbeing. In today's business environment, a port's success primarily depends on seamless, fast, and dependable service. Expandability and the proximity to major manufacturing and population centers also are important. Since an ever-increasing volume of cargo requires larger and larger ships, the availability of funds for necessary infrastructure improvements is also vital to successful port operations.

The ports of Savannah and Brunswick are ideally located close to two major interstates (I-95 and I-16) and connected

to key railroad hubs, all of which are important factors in attracting domestic and international shipping business. It was the availability of space and funds for infrastructure improvements, however, that have helped Savannah and Brunswick exploit the specific opportunities in the transoceanic trade: Brunswick homed in on car and machinery shipments, while Savannah invested in infrastructure necessary to handle containerized cargo.

With the ample space necessary for container handling, the port of Savannah's new Mason Intermodal Container Transfer Facility, and the expansion of the Garden City Terminal, played a major role in the port's success. These improvements, which take advantage of the congestion and delays on the West Coast, together with Norfolk Southern's new intermodal terminal in Austell, make it possible for the cargo coming on ships through the Panama Canal to Savannah and Brunswick, to reach Atlanta overnight and arrive at other major hubs in the Northeast and Midwest within two to three days.

Savannah's containerized cargo throughput increased by nearly 70 percent between 1997 and 2002, and, for the second consecutive year, exceeded 1 million containers (TEU, Twenty-Food Equivalent Unit), solidifying the port's position as the seventh largest container port in the nation. Percentage-wise, for three consecutive years, the Port of Savannah saw a double-digit increase in container traffic, putting this facility among the fastest growing container ports in the world.

Brunswick's auto business began with the 1991 contract to handle Yugo shipments. Despite the humble beginnings, however, the port's decision to focus on cars is the key to its success. Between 1997 and 2002, the number of cars transhipped through Brunswick increased by nearly 84 percent, and, in FY 2002, exceeded 250,000 for the first time. In addition, agri-bulk business has increased tenfold in the last five years, reaching 481,476 tons in 2001. The port also handles heavy equipment, farm machinery and luxury tour busses.

The portion of gross state product contributed by the water transportation sector in Georgia began a steep climb between 1994-1995, with a 14 percent increase. That was

followed by another 13.9 percent jump in 1997. Measured in current dollars, this sector increased its overall share of the GSP by 53.8 percent between 1990 and 2000. Operations directly involved in water transportation are only a part of the picture, however

Port operations usually foster growth in all other forms of transportation. In Savannah, for example, the transportation sector has been for years second only to Atlanta's in the share of non-farm jobs. Again, excluding Atlanta, Savannah's transportation sector provides nearly double the share of the income generated by this sector in other metropolitan areas in Georgia. Currently, over 100 trucking services, and two class I railroads (CSX transportation and Norfolk Southern Railroad) facilitate ground transportation to and from the port of Savannah.

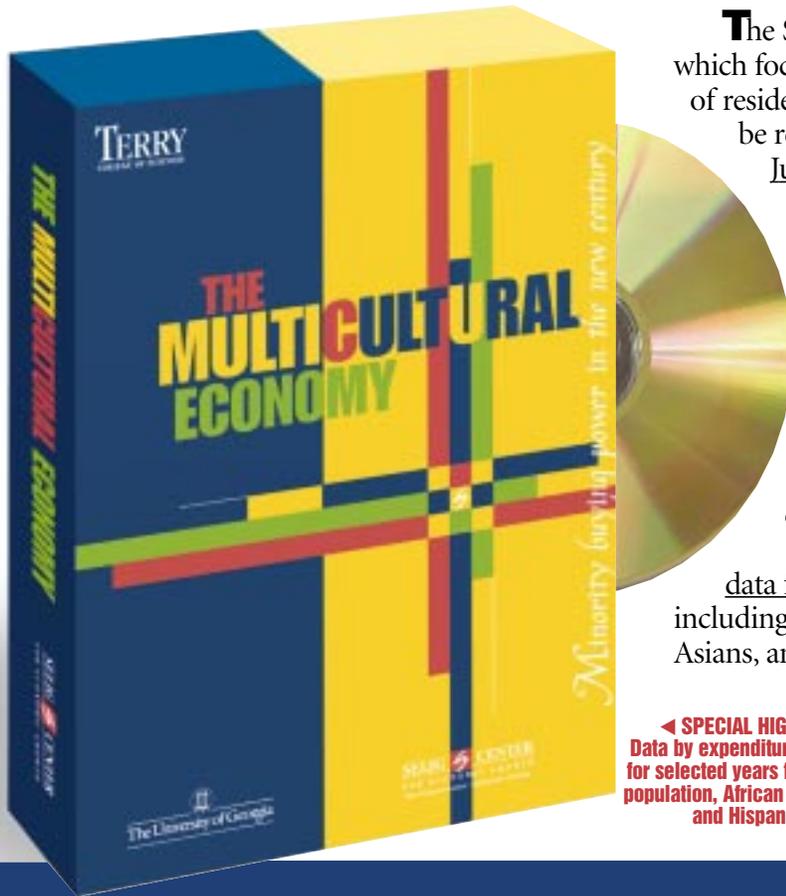
The proximity of major ports also attracts manufacturers. For example, Viracon, a world leader in high-performance architectural glass production, selected Statesboro as the location for a major manufacturing plant because it was easy to get to the port at Savannah via an interstate. More recently, eMotion Mobility (a unit of Daimler-Chrysler Corporation), selected Liberty County, near Savannah, for the site of a new factory to build electric cars.

Warehousing and distribution also thrive in and around port cities. Best Buy, Dollar General, Home Depot, Hugo Boss, Lowe's, Pier 1, Wal-Mart, and many other companies have major distribution centers in and around Savannah. Brunswick, which has carved a niche for itself in agricultural cargo and car shipments, serves clients such as Audi, Hundai, Jaguar, Land Rover, Mitsubishi, Saab, and Volkswagen. Brunswick also operates outbound facilities for Mercedes, Ford, General Motors, Daimler-Chrysler, and Saturn. In 2002 the port of Brunswick added Porsche and Volvo to its list of prestigious clients.

Major port cities create—and attract—wealth. Tourism, convention business, real estate, retail trade, and sports and leisure activities all benefit from the international exposure gained from intercontinental shipping business. Savannah, for example, known for its historical charm and cultural attractions, has recently become the port of call for major international cruise lines. ❖

Our thinking **inside this box**  
will accelerate your thinking **outside the box.**

## **The Multicultural Economy** *Minority Buying Power in the New Century*



**T**he Selig Center's most-requested data series, which focuses on the disposable personal income of residents of a specified geographic area, will be released in a limited-edition package in July 2002.

Developed by Selig Center director Jeff Humphreys, the time series for 1990-2002, and the projections for 2003 through 2007, are essential to business analysts, marketing specialists, product developers, advertisers, and researchers. Data will be available for the U.S. and all fifty states; and Georgia and Florida data will be delineated by county.

The series features buying power data for major races and ethnic groups, including Whites, African Americans, Hispanics, Asians, and Native Americans. Order today.

◀ **SPECIAL HIGHLIGHT:**  
Data by expenditure category  
for selected years for the total  
population, African Americans,  
and Hispanics.

**SELIG CENTER**  
FOR ECONOMIC GROWTH  
TERRY COLLEGE OF BUSINESS • THE UNIVERSITY OF GEORGIA

**TO ORDER THE \$100 PACKAGE (DATA BOOK & CD) CALL 706-542-4085 OR VISIT [WWW.SELIG.UGA.EDU](http://WWW.SELIG.UGA.EDU)**

## ORDER FORM

\_\_\_\_\_ copy of **The Multicultural Economy 2002** @ \$100 \_\_\_\_\_

**Georgia residents ADD your applicable county tax**

County \_\_\_\_\_ tax rate \_\_\_\_\_ x purchase price \_\_\_\_\_

TOTAL       

\_\_\_\_\_  
Name

\_\_\_\_\_  
Address

\_\_\_\_\_  
E-mail

\_\_\_\_\_  
City

\_\_\_\_\_  
State

\_\_\_\_\_  
ZIP

Bill me

Check enclosed

VISA

MasterCard

**payable to Selig Center, UGA**

\_\_\_\_\_  
Credit Card Number

\_\_\_\_\_  
Expiration Date

\_\_\_\_\_  
Name on Card

Mail or fax to: Selig Center for Economic Growth, Terry College of Business  
The University of Georgia P.O. Box 1764 Athens, GA 30603-1764  
Phone (706) 425-2961 FAX (706) 425-2965