Georgia Business and Economic Conditions

VOLUME 60, NUMBER 1 ■ TERRY COLLEGE OF BUSINESS ■ JANUARY-FEBRUARY 2000

THE NATIONAL ECONOMIC OUTLOOK FOR 2000

Jeffrey M. Humphreys

In February of 2000, the current expansion became the longest in U.S. economic history, the durability of which attests to structural and regulatory changes that raised productivity and increased competition, exemplary monetary and fiscal policies, and good fortune. The Terry College of Business's baseline U.S. forecast anticipates that expansion will continue, but that many of the supporting forces will weaken. Inflation and interest rates will increase, corporate profits will be more subdued, and the risks of lower asset values and recession will rise. Moreover, solid economic growth in the rest of the world, heightened labor force utilization, strong consumer markets, ebbing growth in businesses' capital spending, and decelerating productivity growth will shift the balance of underlying positive forces.

After rising by nearly 4 percent in 1999, inflation-adjusted GDP will expand by 3 percent in 2000, exceeding the 2.6 percent average annual rate of the last 20 years—a remarkable achievement for an expansion that is nine years old. The extended outlook calls for sustained growth in real GDP of 3.5 percent in 2001, 3.4 percent in 2002, 3.2 percent in 2003, and 3.1 percent in 2004. The risk of recession in 2000 is low.

■ Also Included ■
Revised Economic Forecast for Georgia

The baseline U.S. forecast also depends on several forces to power the American economy in 2000: consumers' spending, net hiring, stronger export markets, business investment in durable equipment, and added spending by federal, state, and local governments. But other forces will restrain expansion. Monetary policy will be restrictive. Construction will taper off. Energy and commodity prices will rise. Growth will diminish in some regions as tight labor markets continue to squeeze wages and benefits. In addition, the high valuations in the nation's equity markets will be vulnerable to corrections. In early 2000, businesses' spending on inventories and capital equipment will slump after the Y2K buildup.

CONSUMER MARKETS

Consumer spending will remain strong in 2000 because salary gains will give people the freedom to spend more and to borrow less. In contrast, spending momentum will fade as a result of slower growth in employment, higher interest rates, and some let-up in stock market performance. Inflation-adjusted expenditures will grow by 3.1 percent in 2000, and will account for 70 percent of the year's increase in GDP.

In 2000, disposable personal income will increase by an inflation-adjusted 3.2 percent (or by an unadjusted 4.9 percent). Wage and salary pressures in the already tight labor market also will boost income substantially. The projected 3.9 percent increase in hourly compensation should be a very potent force, particularly since the average number of hours worked per week will increase. The slowdown in employment growth will provide less support, however.

Even though people will continue to outspend all of their income gains, higher borrowing costs and less wealth creation in the stock market will dampen consumer borrowing. The savings rate will rise from 2.4 percent in 1999 to 2.5 percent in 2000. Consumers' confidence will continue to very high, even though some the recent euphoria will fade.

GEORGIA BUSINESS AND ECONOMIC CONDITIONS

January-February 2000
Volume 60, number 1

SELIG CENTER FOR ECONOMIC GROWTH

P. George Benson
Dean

Lorena M. Akioka
Editor

Beata D. Kochut
Research Coordinator

Jeffrey M. Humphreys
Director
Economic Forecasting

Ian Armit
Information Analyst

GEORGIA BUSINESS AND ECONOMIC CONDITIONS (ISSN 0297-3857) is published bimonthly 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

Home values, too, are at a record levels and prices of existing homes will climb steadily higher in 2000. Most homeowners therefore will see their housing investments increase in value, adding considerably to their net worth.. For high-income households, stock prices probably are more important than housing prices, however. Borrowing against the increasing worth of the family home has boosted consumer outlays, but higher mortgage rates will make tapping into this increasing source of wealth more expensive; therefore the use of cash-out refinancing and home equity loans to buy consumer goods is expected to decline.

LABOR MARKETS

From 1991 through 1999, the U.S. economy added 20.1 million jobs, or about 210,000 jobs a month; but in 1999, the scarcity of labor threatened the nation's ability to sustain its high rate of economic growth. Household employment rose by 2.2 percent and the monthly unemployment rate averaged 4.2 percent. In 2000, total employment will rise by only 1.2 percent or about 1,530,000 jobs, and the unemployment rate will be 4.4 percent. If so, it means that about 127,500 jobs per month will be created, about 61 percent of the average monthly increase for this expansion. The limited labor supply and pressure to raise wages will limit short-term employment gains and exert severe pressure on corporate profits, but workers' larger paychecks and their confidence in finding good jobs will sustain both growth in consumer spending and the overall economic expansion.

Although the unemployment rate is expected to increase from 4.2 percent to 4.4 percent in the coming year, unit labor costs will rise by 2.3 percent, significantly higher than last year's 1.5 percent increase. Hourly pay rose by 4.2 percent in 1999 and existing labor shortages will push this up by 3.9 percent in 2000. Average hourly earnings will increase fastest in financial services and manufacturing, moderately in retail and mining, and relatively slowly in construction and utilities. Due to smaller productivity gains, output per hour, which rose by 2.5 percent in 1999, will rise by only 1.5 percent in 2000.

As predicted by the Terry College of Business's employment forecast, the goods-producing industries shifted direction in 1999. Employment growth in the manufacturing, and mining slowed, stalled, and then declined. Both sectors lost jobs because of the continuing emphasis on greater efficiencies in production, which often entail the substitution of capital for labor. In 2000, these sectors will continue to shrink, and the construction sector also will encounter difficulties. The nation's service-producing industries, in contrast, will add jobs as more consumers opt to hire others to help with chores and errands, and businesses outsource more work.

The transportation, communications, and public utilities sector will see relatively high rates of annual employment, with most of the jobs occurring in transportation and telecommunications. Increased demand for services will add jobs in state and local government, but fewer jobs will be available with the federal government. Although consumer spending will increase, retail employment will stabilize.

CORPORATE PROFITS AND BUSINESS INVESTMENT

The tight labor market, slower productivity growth, higher commodity prices, and a slower economic growth account for the forecasted 1.6 percent decline in after-tax corporate profits in 2000. Domestic labor costs will increase faster than U.S. companies can raise prices or increase productivity, and demand will not rise fast enough to compensate for thinning profit margins. Net margins are likely to be squeezed through 2000, and to improve only when labor market pressures ease and markets accelerate. Until this occurs, stock prices probably will remain compressed and businesses' spending for new investment will be subdued.

Although consumer spending is the most powerful component of GDP, investment spending has been growing the fastest. From 1993 to 1999, businesses annually increased their inflation-adjusted spending on equipment by 10 percent or more, but spending on capital goods will decelerate in 2000. Inflation-adjusted expenditures for producers' durable equipment will rise by about 7.5 percent, or only about three-fifths of last year's 12.6 percent increase. Nonetheless, even this diminished spending will grow two-and-a-half times faster than GDP.

Boosted by Y2K-related acquisitions, businesses increased their spending on information-processing equipment by 23 percent in 1999. Because millennium preparations probably siphoned demand from that which would have occurred in 2000, outlays will rise by only 13 percent in 2000. Despite this, demand for computers and information processing equipment will grow because of lower prices, improved performance, better software, and businesses' heightened emphasis on productivity.

At 78.6 percent, capacity utilization in domestic manufacturing will not be high enough to justify major outlays, so spending for industrial equipment will increase by 2.2 percent. Also, the prospects for additional investment in industrial equipment are limited by the substantial excess capacity in many foreign countries. Nonetheless, the projected 3.9 percent increase in hourly compensation will make labor-saving machines and technologies more attractive.

Other countervailing forces will affect the overall growth rate, too. Higher interest rates and the recession in corporate profits will contribute to the slower growth of fixed investment. Business owners' confidence in the economy will diminish in 2000, and they will defer some spending for capital equipment. U.S. GDP growth will slow substantially. Demand for construction machinery will decline as building activity stagnates or falls. Low prices for many agricultural commodities will affect sales of farm equipment. Finally, economic improvements in other countries will make it more difficult for the U.S. to attract foreign capital.

U.S. businesses' inflation-adjusted spending on building reached a cyclical peak in 1999, and will decline in 2000. Outlays for industrial structures will drop the most, with slight decreases in outlays for new stores, hotels, and office buildings. In contrast, outlays for telecommunications facilities and building renovations will increase. Moreover, businesses will spend less on inventories as they use up their precautionary Y2K stockpiles, and this will subtract 0.2 percent from GDP growth in 2000.

GOVERNMENT EXPENDITURES

In 2000, federal fiscal policy will be slightly stimulative, with real expenditures rising by 1.4 percent. Despite slower economic growth, higher borrowing costs, and less restraint on spending, the surplus will remain at its 1999 level of $120 billion, or 6.2 percent of total receipts. Receipts from contributions for social insurance will rise fastest; revenue from indirect business taxes and personal tax and non-tax payments will rise moderately; and returns from corporate profits taxes will decline.

Inflation-adjusted spending by state and local governments will increase by 3.1 percent—4.5 percent in nominal dollars—driven by higher spending on construction, larger school enrollments, and larger prison and Medicaid populations. Meeting the responsibilities transferred to state government by changes in federal programs will mandate higher spending. Many state and local governments also will spend more to provide services to larger populations. Strong but conflicting pressures to increase spending and reallocate tax burdens simultaneously may encourage states to turn to sales taxes instead of increasing income or property taxes. Revenues from income, sales, and property taxes all should rise in 2000, but revenues from corporate income taxes will drop.

MONETARY POLICY

In the third quarter of 1999, the Federal Reserve's neutral bias shifted to a slightly restrictive stance, reflecting more normal interest rates now that the global economy is healing. The forecast assumes this will continue to be true in 2000, and that policy implementation will be based on actual evidence of rising wages and prices rather than on GDP growth that exceeds a specified rate. To counter higher inflation, the Fed will raise the federal funds rate to 6 percent, and reduce the money supply's rate of growth to about 4 percent in 2000.

TABLE 1

UNITED STATES ECONOMIC FORECAST 1999-2000

United States	1995	1996	1997	1998	1999	2000
Gross Domestic Product, Bil. of 96$	7537.0	7813.0	8165.0	8516.0	8842.0	9111.0
Percent change	2.7	3.7	4.5	4.3	3.8	3.0
Personal Income, Bil. of Current $	6201.0	6547.0	6951.0	7359.0	7778.0	8154.0
Percent change	5.3	5.6	6.2	5.9	5.7	4.8
Saving Rate (%)	5.6	4.8	4.5	3.7	2.4	2.5
Civilian Unemployment Rate (%)	5.6	5.4	4.9	4.5	4.2	4.4
CPI-U, Ann. % Chg.	2.8	2.9	2.3	1.6	2.1	2.5
U.S. $ Exchange Rate, Ann. % Chg.	-5.7	4.9	8.0	5.0	-1.9	-2.9
Retail Sales, Bil. of Current $[1]	2329.3	2461.2	2566.2	2746.0	2987.6	3146.0
Percent change[1]	4.5	5.7	4.3	7.0	8.8	5.3
Light Vehicle Sales (Mil.)	14.8	15.0	15.0	15.6	16.7	15.4
Housing Starts (Thousands)	1360	1470	1480	1620	1650	1450
Acquisition Price, Crude Oil ($ bbl.)	17.2	20.7	19.1	12.6	16.9	18.7
Percent change	11.0	20.1	-7.6	-34.2	34.7	10.5
Money Supply (M2), Bil. of Current $	3572.4	3745.6	3931.5	4221.1	4529.1	4734.5
Percent change	2.1	4.8	5.0	7.4	7.3	4.5
Federal Funds Rate[1] (%)	5.8	5.3	5.5	5.4	5.0	5.5
Nonfarm Employment (Mil.)	117.2	119.6	122.7	125.8	128.5	130.1
Mining	0.6	0.6	0.6	0.6	0.5	0.5
Construction	5.2	5.4	5.7	6.0	6.2	6.2
Manufacturing	18.5	18.5	18.7	18.8	18.4	18.3
Trans., Comm., Public Utilities	6.1	6.3	6.4	6.6	6.8	6.9
Wholesale and Retail Trade	27.6	28.1	28.6	29.1	29.8	30.3
Finance, Insurance, Real Estate	6.8	6.9	7.1	7.4	7.6	7.7
Services	33.1	34.5	36.0	37.5	39.0	39.8
Government	19.3	19.4	19.6	19.8	20.1	20.3
Nonfarm Employment (% Change)	2.7	2.1	2.6	2.6	2.2	1.2
Mining	-3.3	-0.2	2.9	-1.0	-9.1	-1.7
Construction	3.8	4.8	5.0	5.2	4.3	-0.7
Manufacturing	1.1	-0.2	1.0	0.5	-1.9	-0.7
Trans., Comm., Public Utilities	2.5	2.0	2.4	3.0	2.8	1.7
Wholesale and Retail Trade	3.4	1.9	1.9	1.8	2.4	1.7
Finance, Insurance, Real Estate	-1.3	1.5	2.8	4.2	3.0	0.9
Services	4.9	4.1	4.6	4.1	3.8	2.2
Government	1.0	0.6	0.7	1.3	1.6	0.9

[1]The Georgia Economic Forecasting Project (November 1999).

Source: The WEFA Group, *U.S. Economic Outlook* (November 1999).

Despite this policy, many of the forces that have held inflation to the lowest levels in more than thirty years will weaken and reverse, continuing the gradual shift to higher inflation. Because tight labor markets and slower productivity growth will underpin the change, the inflation forecast calls for a 2.5 percent increase in the consumer price index in 2000.

In 1998, the nominal trade-weighted value of the U.S. dollar was 19 percent greater than in 1995, primarily due to lower prices of imported goods, healthy domestic consumer markets, and capital flight from foreign countries. The situation has changed. Growing foreign economies and the high current account deficit will cause the dollar to depreciate in 2000.

INTERNATIONAL TRADE

In 1999, real imports increased by 11.8 percent and real exports grew by 3.5 percent, cutting 1.3 percent from the rate of GDP growth; and the current account deficit reached $315 billion.. In 2000, real imports and exports will increase by 8.4 percent and 6.9 percent, respectively, which will cut GDP growth by a scant 0.5 percent; therefore the current account deficit will rise to a $387 billion, or 4 percent of GDP.

The forecast anticipates that export markets will be best for computer equipment, industrial supplies, and services. Exports of consumer goods will increase moderately; shipments of cars and automotive parts will remain relatively steady; and foreign demand for commercial aircraft and some agricultural and processed food products will continue to decline.

HOUSING MARKETS

Although its outlook is generally favorable, activity in the nation's homebuilding industry will be more sustainable in 2000. Slightly higher mortgage rates will reduce single-family housing starts by 12.4 percent to 1.15 million units. Nationally, sales of existing homes are expected to drop by 16 percent, but the median sales price of existing homes will rise by 4.3 percent in 2000, or by about $5,700 on the typical $133,300 home. The median selling price of new homes will rise from $158,700 in 1999 to $167,600 in 2000.

CRUDE OIL MARKETS

Refiners' acquisition costs per barrel of crude petroleum plummeted by 34 percent in 1998, and in the first quarter of 1999, the annual average price per barrel slid to $11. The collapse that began in early 1997 and made the price of gasoline cheaper than bottled water reflected several problems. Chronic excess in worldwide production capacity, plus the unwillingness of some OPEC countries to stay within their established quotas, flooded the market. Economic and financial turmoil in developing nations cut oil consumption and demand in those areas. Mild winters in Europe and the U.S. also left crude oil stocks high.

Market conditions changed abruptly in the second quarter of 1999. A growing world economy and an agreement among OPEC members on production cutbacks that were reinforced by actions of non-OPEC oil exporting countries, particularly Russia and Mexico, made oil prices soar. So in 2000, a barrel of crude will cost more than $20. ■

GEORGIA'S ECONOMIC OUTLOOK FOR 2000

Jeffrey M. Humphreys

Although Georgia continues to ride a wave of unprecedented growth, with an economy that is 51 percent larger than in was in 1991, the 2000 outlook projects less vigorous expansion that is more representative of long-term trends. The strains of accommodating recent growth, especially traffic congestion and deteriorating air quality, also will be a factor in the projected slowdown. Another reason is simply that it will be very difficult to surpass the enormous annual percentage gains made in 1996-1999. Nonetheless, a combination of favorable economic and demographic factors and economic momentum will give Georgia the edge over most other states in growth.

The Terry College of Business's forecast of real gross state product—the inflation-adjusted sum of goods and services that Georgia produces—anticipates a year-over-year increase of 4.5 percent. Although the percentage gain is down noticably from 1999's 5 percent increase, it is significantly higher than the projected 3 percent growth in the nation's GDP. Georgia's nominal personal income will follow a similar path, expanding by 6.6 percent, but again markedly higher than the 5.5 percent increase projected for the U.S. Consumers' spending will be encouraged by the state's projected above-average gains in personal income as well as continuing job growth and rising home values.

Economic momentum will give Georgia the edge over most other states in growth

A projected 2.1 percent increase in nonagricultural employment will be an important factor behind the income gains, and the already tight labor markets ensure that higher wages and salaries will contribute substantially. Also, a growing proportion of Georgia's new jobs is expected to pay above-average wages, which will help to narrow the gap between the state's per capita personal income and that of the nation.

The Terry College of Business accurately forecast that the state would add fewer jobs in 1999, but the gains were much greater than anticipated. Nonagricultural employment expanded by 3.2 percent, surpassing the nation's 2.2 percent increase, but fell short of 1998's 3.5 percent gain. Labor shortages, limits on public infrastructure, higher interest rates, and weak foreign direct investment are some of the factors that will limit Georgia's employment growth to 2.1 percent, or 79,600 jobs, in 2000.

As the combination of relatively steady labor force growth and slower employment growth eases some of the tension in the state's taut labor market, Georgia's unemployment rate will rise from 3.9 percent in 1999 to 4.5 percent in 2000. Existing labor market pressures will push salaries up, but because there are more people in the labor force than there are jobs available, wages within comparable occupations are not expected to rise faster in Georgia than in the nation as a whole. Labor therefore will remain affordable, and labor costs will stay well below the national average.

SECTORAL EMPLOYMENT

The service sector is projected to add the most jobs—46,500—and will see the fastest growth, 4.4 percent. Industries with the strongest underlying growth trends include computer and information services, educational services, temporary staffing firms, and business services. Basic demographic trends and expanded coverage will boost medical services employment, but market-oriented health care reforms will moderate the gains. Although the hospitality industry will benefit from hosting the Super Bowl, a projected decline in corporate travel budgets and a drop in the number of large conventions booked in Atlanta will hurt.

Georgia's increasing role as a regional warehousing and distribution center will boost employment in the transportation, communications, and public utilities sector by 3.5 percent. Port and bridge improvements and stronger foreign economies will allow coastal Georgia to attract more business, but the nearby ports of Charleston and Jacksonville will vie for container tonnage. The optimistic outlook for the telecommunications sector reflects surging demand for telecommunications and Internet services; but due to deregulation and restructuring, relatively few jobs will be created in public utilities.

In 2000, employment in the finance, insurance, and real estate will expand by 2 percent, or by less than half the percentage gain reported in 1999. Intense competition, increasing inflation, higher interest rates, and slower growth in GSP will make conditions less positive for banks and insurance companies. Less active residential and commercial real estate markets and the consolidation of real estate firms will limit job growth in this subsector. Job growth in the government sector will be restrained as well, with employment expected to expand by 1.3 percent.

After expanding by 2.2 percent in 1999, wholesale and retail trade employment will grow by only 1.3 percent in 2000. In the coming year, people will save more of their additional income, which will diminish prospects for retail sales growth and thus reduce the need for additional workers. Competition from new malls and online shopping also will crimp same-store retail sales.

Slower growth in both consumers' and businesses' spending for durable equipment and inventories, an anticipated decline in new home construction, the weak farm economy, and fewer car sales will hold the 2000 gain in manufacturing employment to 0.4 percent, the smallest gain since 1996. Georgia's apparel industry will continue to struggle, but demand for carpets and textiles will rise slightly. Demand for pulp and paper will increase, although prices will remain at unprofitable levels. Stronger export markets, however, will provide manufacturing's bright spot.

A drop in new construction will cut sectoral employment by 1.4 percent, but spending for home improvements and renovations will increase. The forecast calls for permits authorizing 63,700 new single-family homes, a year-over-year decline of 12.7 percent. Not surprisingly, suburban and ex-urban development will continue to outpace redevelopment downtown, but due to long commutes and hectic schedules, respective growth rates for suburban and urban development will converge rather than diverge.

A major plus for Georgia is the continuing influx of skilled workers, most of whom are moving into the state's major metropolitan areas. Retirees also are moving here,

TABLE 1

GEORGIA'S GROSS STATE PRODUCT, 1985-2000, IN CURRENT AND CONSTANT (1992) DOLLARS WITH YEAR-TO-YEAR PERCENTAGE CHANGES (millions of dollars)

			Percentage Change from Previous Year	
Year	Current $	Constant (1992) $	Current $	Constant (1992) $
1985	98,659	126,983	10.8	6.9
1986	108,389	134,227	9.9	5.7
1987	117,029	139,492	8.0	3.9
1988	126,356	145,747	8.0	4.5
1989	133,542	148,527	5.7	1.9
1990	140,487	149,956	5.2	1.0
1991	147,448	151,578	5.0	1.1
1992	159,299	159,299	8.0	5.1
1993	170,903	166,748	7.3	4.7
1994	185,982	178,434	8.8	7.0
1995	200,152	186,613	7.6	4.6
1996	214,436	196,141	7.1	5.1
1997	229,473	206,136	7.0	5.1
1998	244,618	217,053	6.6	5.3
1999	261,008	227,954	6.7	5.0
2000	277,712	238,175	6.4	4.5

Source: Data for 1985-97 were obtained from the U.S. Department of Commerce. Data for 1998-2000 were obtained from the Selig Center for Economic Growth, Terry College of Business, The University of Georgia (November 19, 1999).

bringing experience, steady income, and considerable capital.. With an annual growth rate that is more than twice that of the nation's, Georgia's population will continue to grow faster than any state outside of the Rocky Mountain region. The Terry College of Business predicts that Georgia's annual rate of population growth will decelerate, however, and drop to 1.8 percent in 2000.

In July of 2000, Georgia will have 7.9 million residents, 142,900 more than a year ago. Net migration will account for 91,500, or almost two thirds of the new residents. According to the Census Bureau's most recent estimates, four counties on Atlanta's periphery rank among the nation's ten fastest growing; in contrast, many rural counties in the southern half of the state continue to lose population.

The majority of people who move here are attracted by job opportunities that were not available where they formerly lived. This steady inflow of highly productive workers helps existing businesses to grow and makes Georgia one of the top choices for companies that are selecting sites for new operations, expansions, or relocations. The influx also is responsible for much of the state's prosperity, is vital to expanding Georgia's consumer market, and provides human capital that is critical to the expansion of industries that range from high technology to hospitality. In turn, the incentives that the state provides to people, such as the HOPE scholarship, will reinforce this virtous cycle of population growth and business expansion.

ECONOMIC STRENGTHS AND WEAKNESSES

Ranked among the fastest growing states in terms of gross state product and employment, Georgia's diverse economic strengths include:

- A diverse industrial base oriented towards consumer goods and services;
- High-tech job growth, especially in information technology and biotechnology, for which the Athens-Atlanta area has become known;
- A large consumer market;
- A well-developed transportation and telecommunications infrastructure;
- Major convention centers and other facilities that attract corporate interest;
- Affordable housing, office space, industrial facilities, and land;
- Incentives such as the HOPE scholarship, Quick Start, and ICAPP programs;
- The Yamacraw Mission;
- A solid venture capital market;
- Massive inflows of domestic and foreign investment; and
- Hefty government spending for research and development.

Even though the pace of economic growth in Georgia exceeds the nation's, several barriers will slow expansion.

- Highway construction that lags demand in the Atlanta metro area;
- Air quality problems, which limit the options for road and highway expansion;
- A multi-lane highway system that bypasses many rural areas;
- A K-12 education system that is one of the worst in the nation;
- Inadequate water distribution and treatment systems;
- Vast economic disparity between rural and urban areas;
- Lack of ready-made facilities for companies that wish to relocate; and
- Poor cash incentives to companies that are outmatched by neighboring states.

Although several of these weaknesses suggest that the state is approaching limits that will confine the economy to average rates of expansion in the future, the Terry College believes that these solvable problems do not necessarily reflect long-term realities. Eliminating these shortcomings will increase the costs of doing business, but Atlanta's cost structure, for example, will remain competitive with that of New York, London, Los Angeles, San Francisco, Paris, Tokyo, or Hong Kong.

PROSPECTS FOR MSAS

Albany Sources of strength in this MSA, which will add 700 jobs in 2000 (or a 1.2 percent gain), include a surplus of dependable workers, a low cost of doing business, the Material Command for the U.S. Marine Corps, a low crime rateand a cost of living that is only 92 percent of the national average. Its excellent telecommunications infrastructure was key to BellSouth's decision to locate a new directory assistance center here. Moreover, the area has considerable potential as a center for back office operations and telemarketing.

After dropping sharply in 1999, manufacturing employment should stabilize in 2000. The region also will benefit from the somewhat improved outlook for agriculture, but complete recovery of the farm economy is not anticipated in the coming year. Consumer spending, however, will remain strong in this regional retail center.

Athens The number of jobs in the Athens MSA increased by 0.7 percent in 1999 and will increase by 1 percent (from 74,000 to 74,800) in 2000. 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, and the area's extremely low unemployment rate. Although it is hard to find skilled or semi-skilled blue-collar workers in Athens, the market for newly educated professionals and part-time student workers is relatively slack.

TABLE 2

GEORGIA'S PERSONAL INCOME FORECAST, 1999-2000

Georgia	1995	1996	1997	1998	1999	2000
Total Personal Income[1]	155959.3	167955.5	178874.5	191865.0	205487.4	219049.6
Nonfarm Personal Income[1]	154200.3	165962.3	176696.0	189695.3	203752.6	217098.0
Earnings by Industry[1]						
Ag. Serv., For., Fish., Other	641.3	675.5	739.8	829.0	907.8	972.2
Mining	344.0	349.9	368.8	395.8	385.9	368.1
Construction	6516.5	7247.3	7646.3	8713.3	9767.6	8947.1
Manufacturing	20044.5	20896.8	21959.5	23283.5	24424.4	25938.7
Trans., Comm., Public Utilities	11198.0	11958.5	12881.3	14064.5	15231.9	16282.9
Wholesale and Retail Trade	20917.8	22591.0	24245.0	26551.3	28463.9	30284.6
Finance, Insurance, Real Estate	8153.8	8918.5	9837.0	11217.0	12720.1	13152.6
Services	29368.0	32127.3	35080.8	38702.5	42534.0	46362.1
Government	18367.0	19048.8	19939.8	21056.0	22024.6	22883.5
Farm Personal Income	1759.0	1993.3	2179.0	2163.1	1734.8	1951.6
Percent Change						
Total Personal Income	7.3	7.7	6.5	7.3	7.1	6.6
Nonfarm Personal Income	7.4	7.6	6.5	7.4	7.4	6.5
Earnings by Industry						
Ag. Serv., For., Fish., Other	11.4	5.3	9.5	12.1	9.5	7.1
Mining	6.3	1.7	5.4	7.3	-2.5	-4.6
Construction	11.6	11.2	5.5	14.0	12.1	-8.4
Manufacturing	4.8	4.3	5.1	6.0	4.9	6.2
Trans., Comm., Public Utilities	6.0	6.8	7.7	9.2	8.3	6.9
Wholesale and Retail Trade	6.7	8.0	7.3	9.5	7.2	6.4
Finance, Insurance, Real Estate	9.5	9.4	10.3	14.0	13.4	3.4
Services	10.6	9.4	9.2	10.3	9.9	9.0
Government	4.4	3.7	4.7	5.6	4.6	3.9
Farm Personal Income	-3.9	13.3	9.3	-0.7	-19.8	12.1

[1] Indicates millions of current dollars.

Source: Selig Center for Economic Growth, Terry College of Business, The University of Georgia, November 19, 1999.

The low employment rate hampers efforts to recruit new business and industry because it suggests that it will be difficult to find workers at acceptable wages; however, businesses that operate on flexible schedules—call centers, telemarketing, back office operations—and those willing ro recruit aspiring profesionals or underemployed faculty spouses should not have trouble finding workers.

Although the immediate prospects for employment growth are limited, the Athens economy will benefit from several area-specific factors:

- a favorable location in the path of Atlanta's future growth, though the area does not have an interstate connection to the state's capital;
- University employment of 7,000 Athens residents, and another 9,000 jobs that depend on university-related spending;
- extremely high enrollments at UGA;
- a growing reputation as a center for biotechnology;
- infrastructure improvements on campus and in town; and
- realistic prospects for a commuter rail link to Atlanta.

Atlanta The twenty-county Atlanta MSA will be the state's second fastest growing MSA, adding 52,600 jobs. This 2.5 percent growth in nonagricultural employment will be broadly based, but falls below the area's 1999 annual growth rate of 3.5 percent. The anticipated slowdown is mostly due to slower growth of the national and regional economy as well as a downturn in new construction, but the area's low unemployment rate and the limitations exacted by an overburdened transportation infrastructure also will hamper growth.

As the economic center of the Southeast, the highly livable metropolitan area ranks high on the list of the nation's best locations for business. The large pool of talented people, industrial diversity, the growth of several major research universities, a low cost structure, major transportation links, and the convergence of fiber optic trunk lines help foster economic prosperity.

Transportation also underpins the region's growth. Hartsfield Atlanta 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 good location for headquarters operations, foreign direct investment, trade shows, and conventions. The convergence of fiber optic trunk lines 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 manufacturing of component parts. Atlanta 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 unprecendented growth, the capacity of local roads and the public transportation system has not kept pace with traffic growth, forcing local commuters to rely heavily on the interstates.

The area's population will rise to 3,952,000 in 2000, up by 103,000 persons or 2.7 percent. Growth will be fastest on the northern periphery, but improving conditions (and the avoidance of traffic congestion) are pulling people back into Atlanta's urban center. In-town residential property values therefore are rising faster than those elsewhere in the area, which may be the best indicator of the city's gradual transformation from a classic nine-to-five commuter boomtown into a dymanic 24-hour one that embraces the MARTA system as well as proposed commuter rail lines.

Augusta Although it is slowly overcoming cutbacks at the Savannah River nuclear site, job losses in textile and apparel manufacturing, and restructuring of the health care industry, Augusta's unemployment continues to be the highest among the state's metropolitan areas. The 2000 outlook calls for sustained economic expansion, with most new jobs occurring in services, telecommunications, and transportation.

Augusta's location astride I-20 is perfect for regional distribution and manufacturing; and extremely affordable housing will help to attract spillover from South Carolina's flourishing economy. In addition, 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. The area's medical industry may face more competition from medical centers elsewhere in the region, but demographic and other forces should encourage renewed expansion. Job growth, some of the best housing bargains in the nation, and a high quality of life will boost the area's population by 8,000 residents (to a total of 474,000) in 2000.

Columbus After advancing by 2.9 percent in 1999, employment in the Columbus MSA will increase by 1.7 percent in 2000—numbers that underscore business, government, and the public's commitment to economic development. Retail activity will continue to benefit from strong consumer fundamentals, particularly in the high quality of the area's newly created jobs. Slow population growth will restrain retail sales growth, however.

Since the expansion of Columbus College and the large-scale training of employees for Total System Services has improved the skills of the labor force, the city is counting on this asset to attract other technologically-oriented companies. Fort Benning will continue to be an economic mainstay, however; and this year, the replacement and renovation of on-base housing will support the area's construction industry.

TABLE 3

GEORGIA'S EMPLOYMENT FORECAST, 1999-2000

Georgia	1995	1996	1997	1998	1999	2000
Nonfarm Employment[1]	3402.3	3527.4	3614.4	3740.4	3860.4	3940.0
Employment by Industry[1]						
Mining	7.7	7.8	7.8	7.8	8.0	8.0
Construction	151.6	164.0	168.0	182.0	196.2	193.5
Manufacturing	586.9	585.4	588.6	593.1	595.2	597.5
Trans., Comm., Public Utilities	216.3	223.3	230.4	242.4	255.5	264.4
Wholesale and Retail Trade	856.1	893.4	910.8	930.3	951.1	963.7
Finance, Insurance, and Real Estate	175.0	180.5	187.2	199.7	208.8	212.9
Services	838.5	903.4	944.4	999.3	1050.7	1097.2
Government	570.3	569.5	577.3	585.9	594.9	602.8
Percent Change						
Nonfarm Employment	4.2	3.7	2.5	3.5	3.2	2.1
Employment by Industry						
Mining	1.3	1.3	0.0	0.0	2.6	0.0
Construction	8.6	8.2	2.4	8.3	7.8	-1.4
Manufacturing	1.7	-0.3	0.5	0.8	0.4	0.4
Trans., Comm., Public Utilities	2.3	3.2	3.2	5.2	5.4	3.5
Wholesale and Retail Trade	5.0	4.4	1.9	2.1	2.2	1.3
Finance, Insurance, Real Estate	1.7	3.1	3.7	6.7	4.6	2.0
Services	7.7	7.7	4.5	5.8	5.1	4.4
Government	1.1	-0.1	1.4	1.5	1.5	1.3

[1] Indicates thousands of workers.

Source: Selig Center for Economic Growth, Terry College of Business, The University of Georgia, November 19, 1999.

Macon The 2,200 new jobs in the Macon MSA represent a year-over-year increase of 1.5 percent, and most of the new jobs will be in service industries. The growth reflects the area's extensive surface transportation system, its proximity to Atlanta, the ongoing expansion of GEICO, the startup of Cagle's poultry processing facility, a strong hospitality industry, and the contribution of the Warner Robins Air Force Base.

In addition to these advantages, Macon's central location is ideal for hosting statewide meetings. The expanded and renovated Centreplex convention center provides the physical space needed to simultaneously host several groups simultaneously, and the area's myriad attractions boost the contribution that tourism makes to the economy. The Air Force Base, which is the MSA's largest employer, remains unscathed by military spending cuts, but it still shares the perennial risk faced by other defense installations.

Savannah With an employment gain of 2.7 percent, Savannah will become the state's fastest growing metropolitan area in 2000. Capitalizing on its many strengths—unique ambiance, historical legacy, and natural attractions—the area is poised to become a premier destination for national conventions, trade shows, and meetings. The optimistic outlook for the business travel industry is due to substantial recent investments in infrastructure, including the newly opened Savannah International Trade and Convention Center on Hutchinson Island and between 1,000 additional hotel rooms. In addition, new nonstop flights from New York, Chicago, and Cincinnati will boost convention business.

In addition, Savannah's healthy outlook builds on its excellent transportation infrastructure, which unite sea, air, railroad, and interstate highways, making it an ideal center for distribution and manufacturing. I-16, in particular, helps Savannah to benefit from Atlanta's growth. The Port of Savannah for example, reported a 3 percent increase in total tonnage and a 2.1 percent higher vessel count in fiscal year 1999, and recent major harbor improvements will help it compete favorably with ports in Charleston and Jacksonville. The forecast also indicates that domestic shipping will benefit from the sustained growth of U.S. GDP and the above-average growth of the Southeast's economy; and that the 1999 decision by The Grand Alliance to make Savannah its primary U.S. South Atlantic hub will increase shipments through the port. Moreover, Savannah's diverse economic base, recent growth, and greater integration with the global economy definitely improves its prospects. ■

1785
The University of Georgia

Selig Center for Economic Growth
http://www.selig.uga.edu
Terry College of Business
The University of Georgia
Athens, Georgia 30602-6269

Periodicals Postage Paid
Athens, Georgia