

*Looking Toward 2023:  
Comments on the Economic, Business & Political  
Climate*

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Fall Meeting  
November 17, 2022  
Atlanta, GA*

# Topic #1:

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After 10 years of growth, COVID-19 sidelined the economy . . . But for how long . . . And what parts of the “new normal” will remain?

# What is a Recession?

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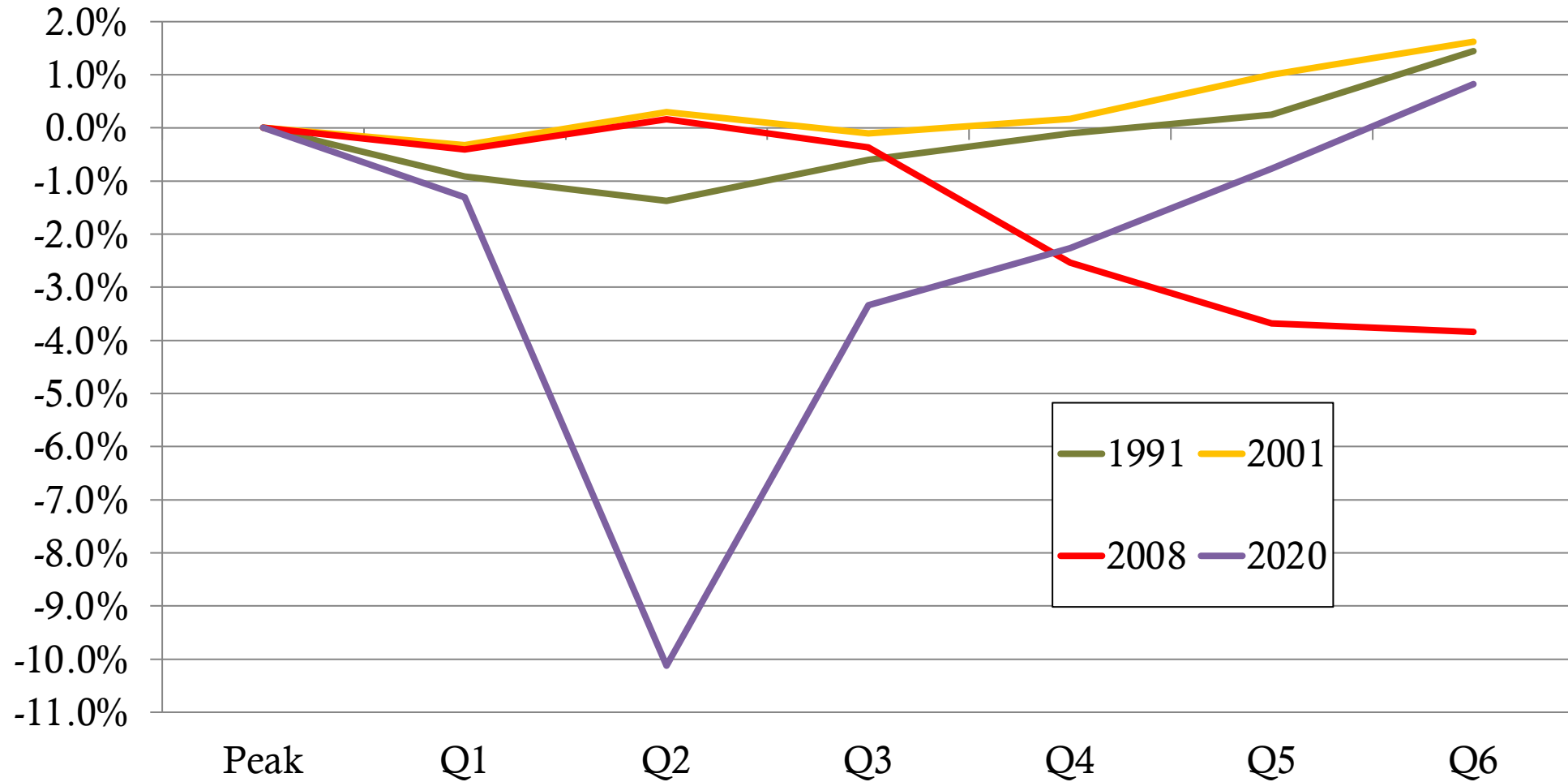
Two Quarters of Negative GDP Growth?  
What about 2001?

NBER says . . .

“. . . based on a range of monthly measures of aggregate real economic activity . . . include real personal income less transfers, nonfarm payroll employment, real personal consumption expenditures, wholesale-retail sales adjusted for price changes, employment as measured by the household survey, and industrial production”

“Recessions and expansions refer to the direction of change in economic activity, not its level”

# Tale of 4 Recessions



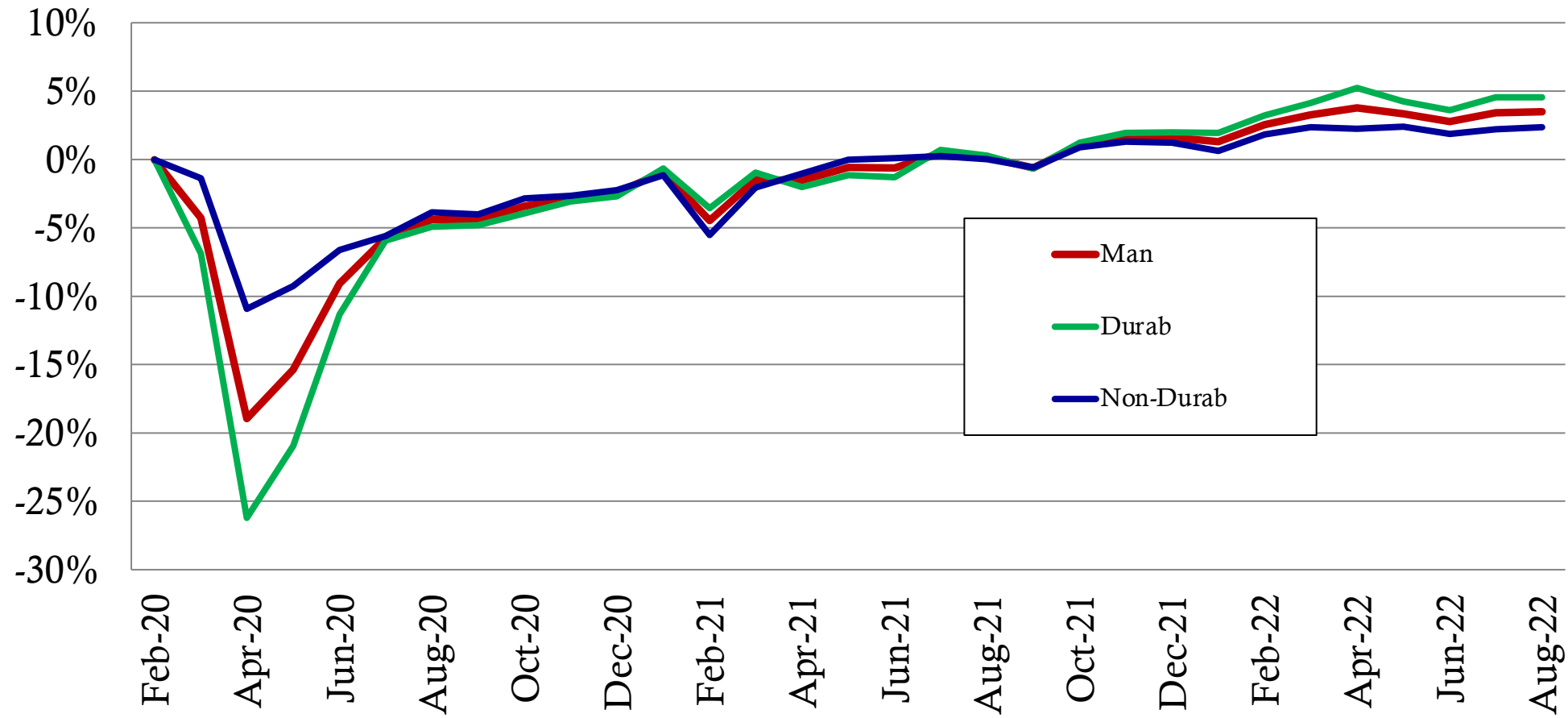
(Source: Bureau of Economic Analysis)

# Contributions to GDP Growth

(Source: Bureau of Economic Analysis)

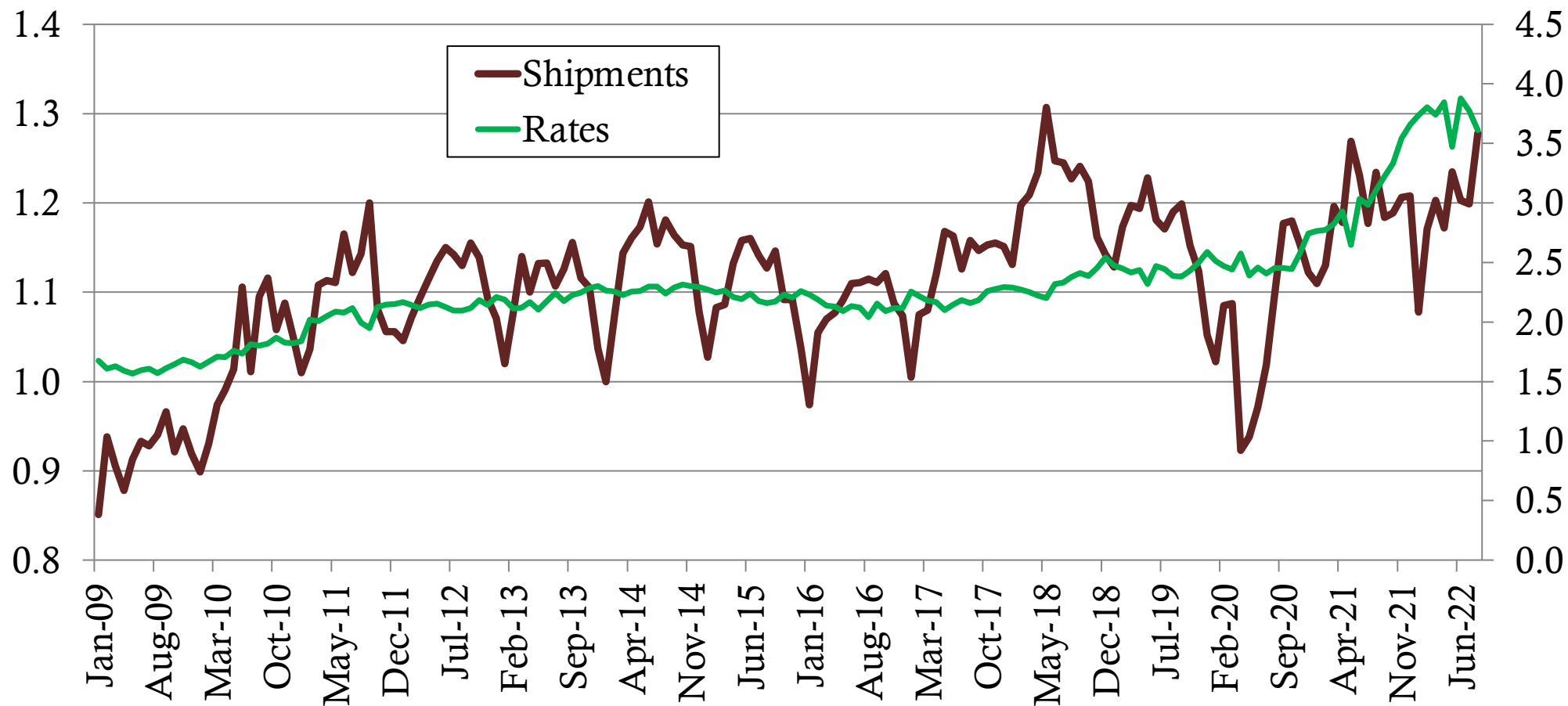
	GDP =	Consumption	Gross Investment	Net Exports	Government
2020: Q1	-4.6%	-4.25%	-0.88%	-0.05%	0.57%
2020: Q2	-29.9%	-23.07%	-9.65%	1.3%	1.57%
2020: Q3	35.3%	26.34%	12.69%	-2.74%	-0.97%
2020: Q4	3.9%	2.53%	3.07%	-1.68%	-0.01%
2021: Q1	6.3%	6.98%	-0.82%	-1.02%	1.18%
2021: Q2	7.0%	7.84%	0.3%	-0.6%	-0.54%
2021: Q3	2.7%	1.98%	1.78%	-1.08%	-0.02%
2021: Q4	7.0%	2.14%	5.14%	-0.16%	-0.16%
2022: Q1	-1.6%	0.91%	0.98%	-3.13%	-0.4%
2022: Q2	-0.6%	1.38%	-2.83%	1.16%	-0.29%
2022: Q3	2.6%	0.97%	-1.59%	2.77%	0.42%
	Gross Investment	Nonresidential	Residential	Inventory	
2020: Q3	12.69%	2.91%	2.21%	7.57%	
2020: Q4	3.07%	1.46%	1.3%	0.3%	
2021: Q1	-0.82%	1.18%	0.52%	-2.52%	
2021: Q2	0.3%	1.29%	-0.24%	-0.75%	
2021: Q3	1.78%	0.1%	-0.29%	1.96%	
2021: Q4	5.14%	0.17%	-0.05%	5.01%	
2022: Q1	0.98%	0.98%	-0.15%	0.15%	
2022: Q2	-2.83%	0.01%	-0.93%	-1.91%	
2022: Q3	-1.59%	0.49%	-1.37%	-0.70%	

# Industrial Production: From Peak



(source: Federal Reserve Board of Governors)

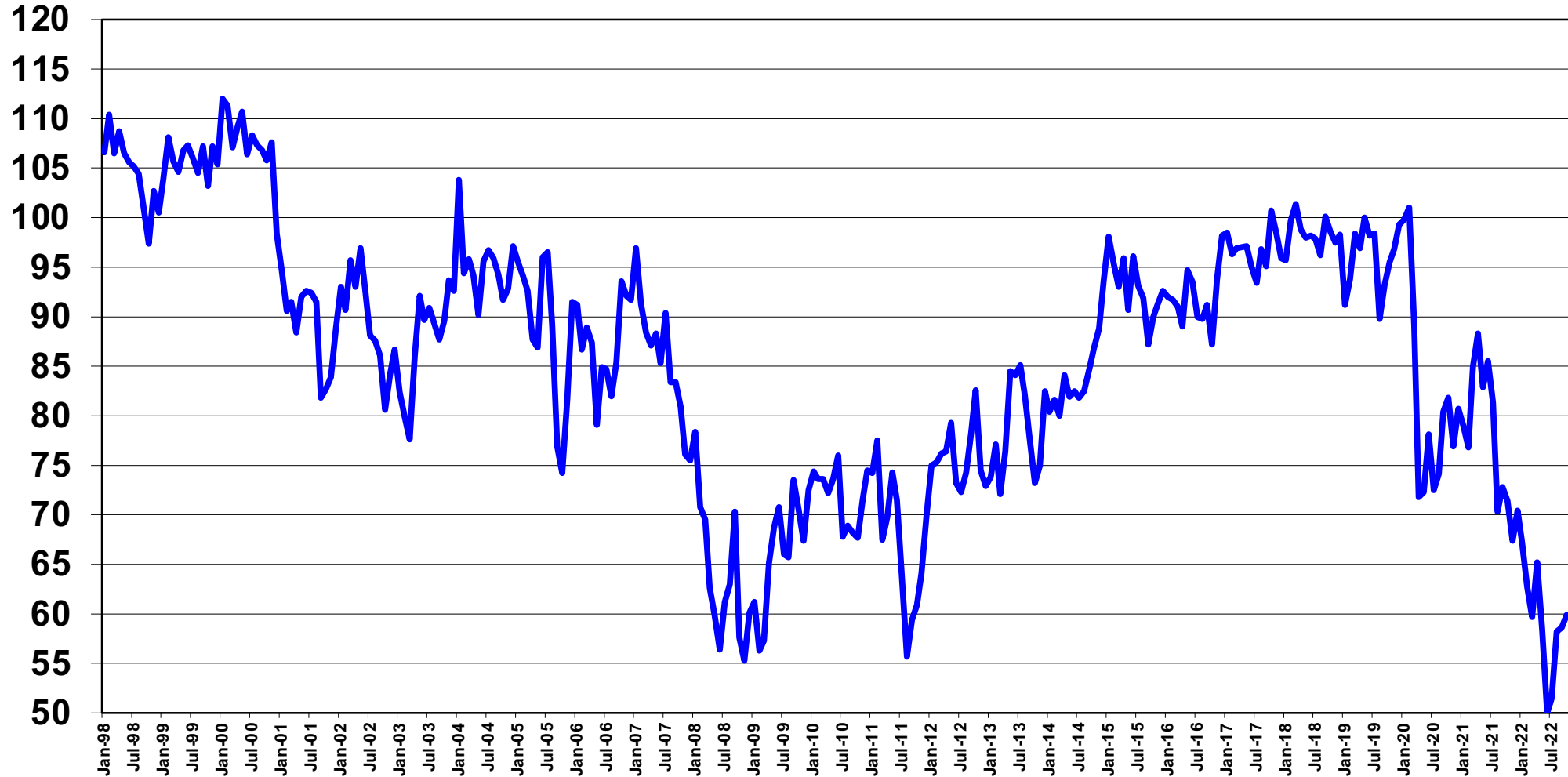
# Freight: Shipments & Rate



(Source: Cass Freight Index)

# Consumer Sentiment

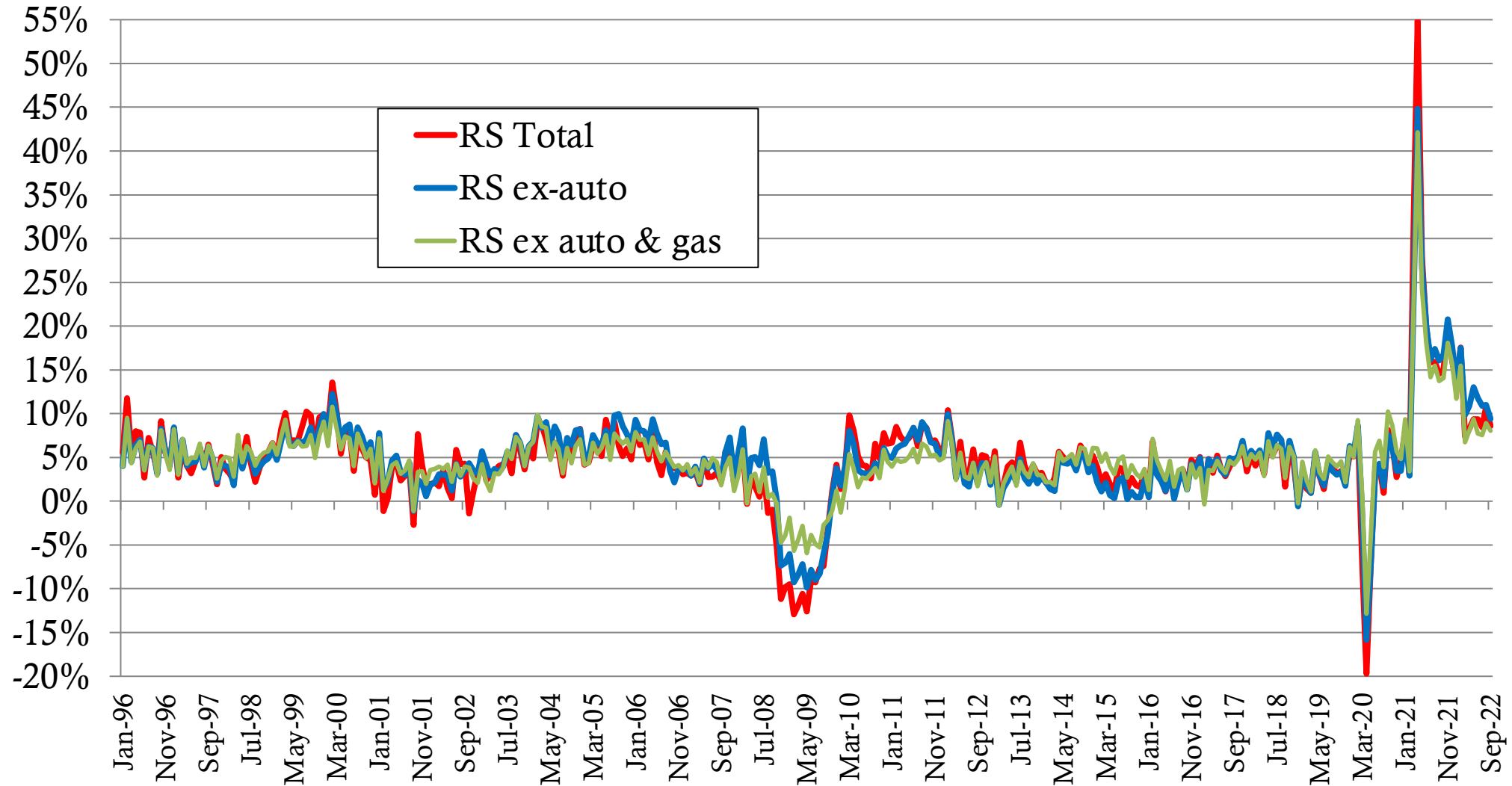
(source: University of Michigan, Survey Research Center)



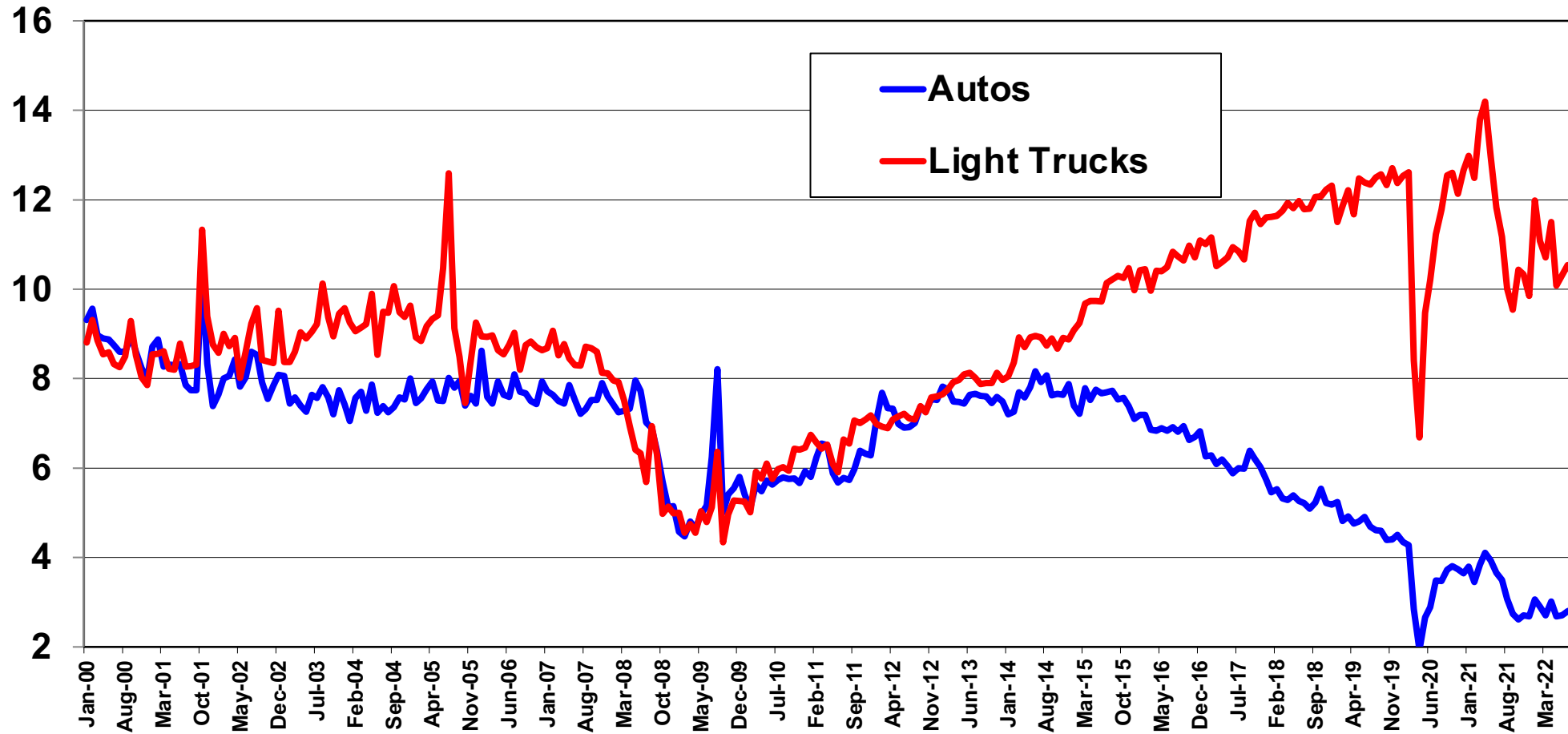


# Retail Sales

(source: U.S. Bureau of the Census, annual rate of growth)

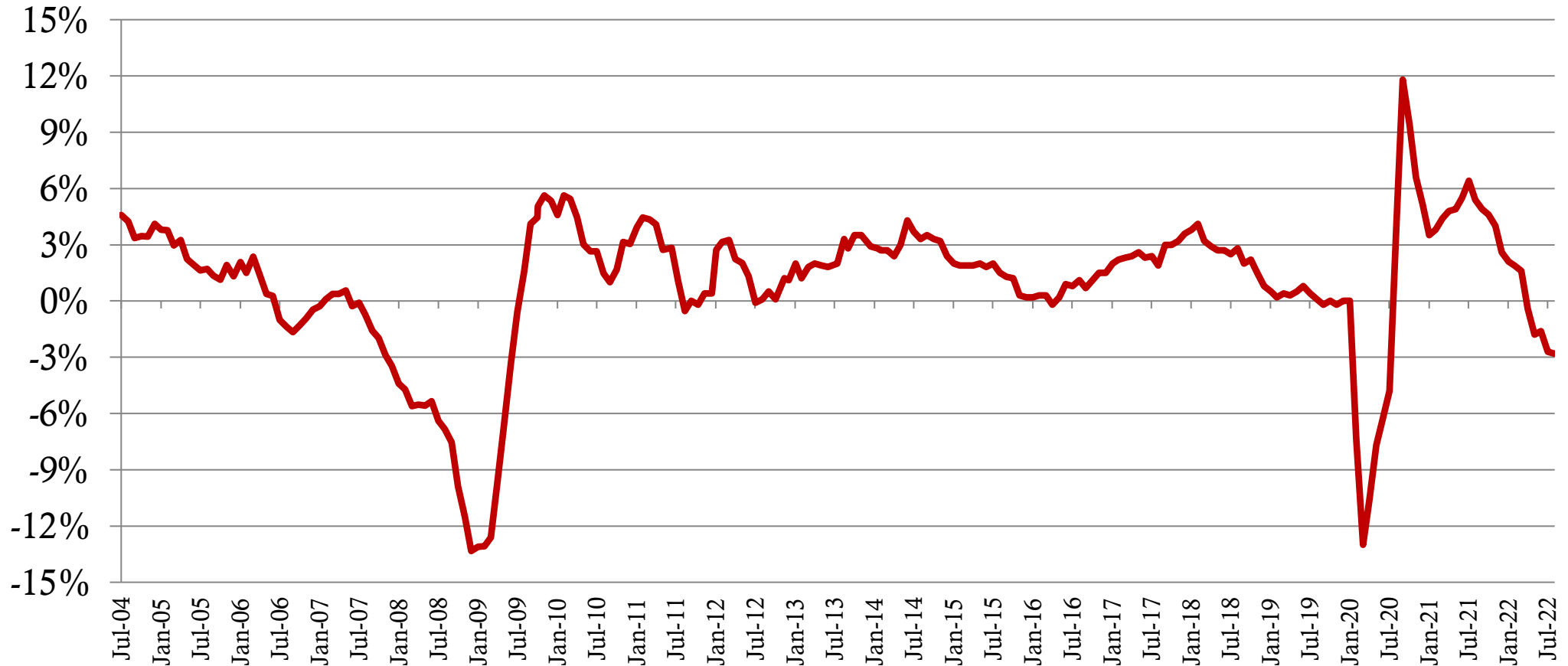


# Auto & Light Truck Sales



(Source: Department of Commerce, in millions)

# Leading Economic Indicators



(source: Conference Board, % change in last 6 months)

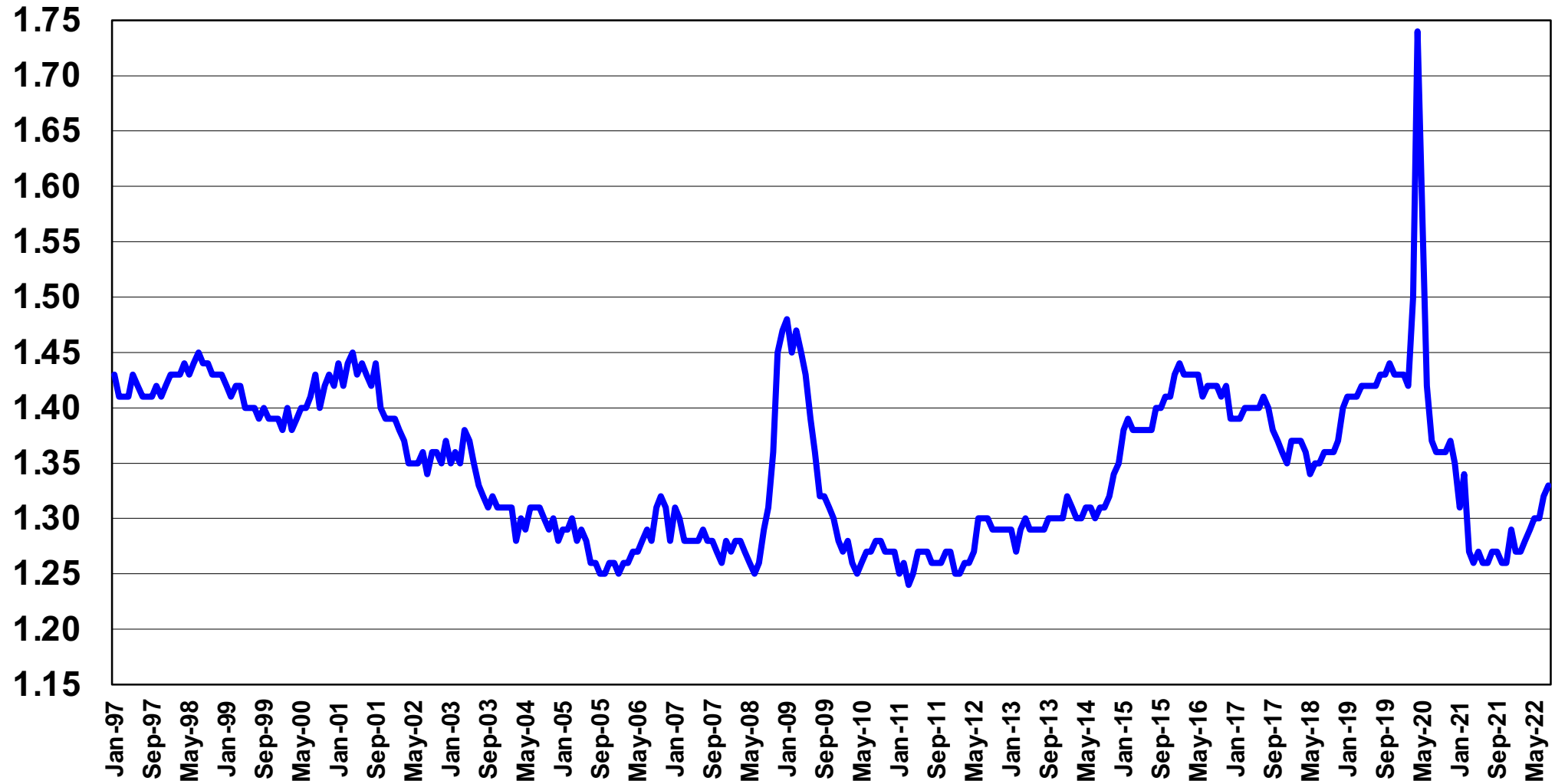
# Topic #2:

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One of the Big 3 challenges – *supply chain disruptions*

# Inventory/Sales Ratio

(Source: Department of Commerce, in months)

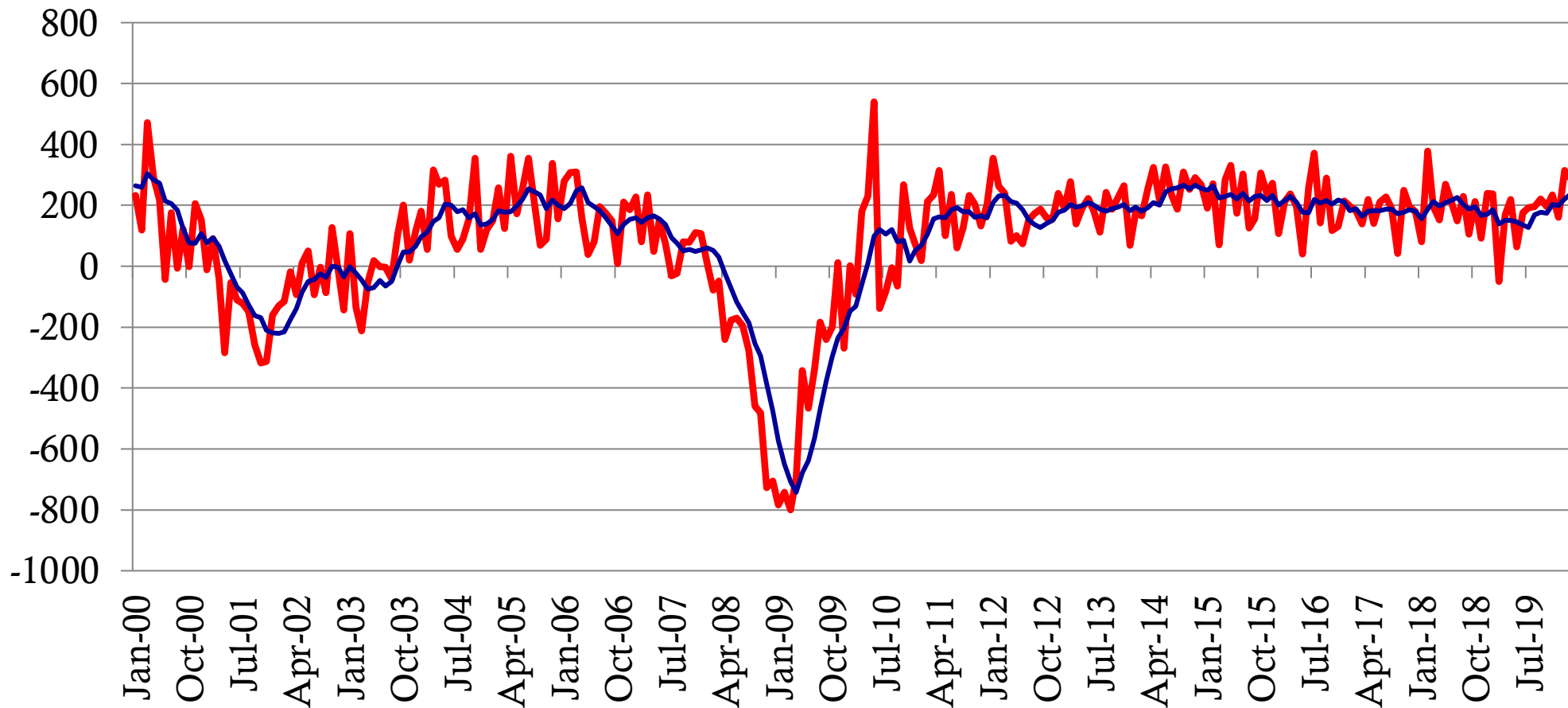


# Topic #3:

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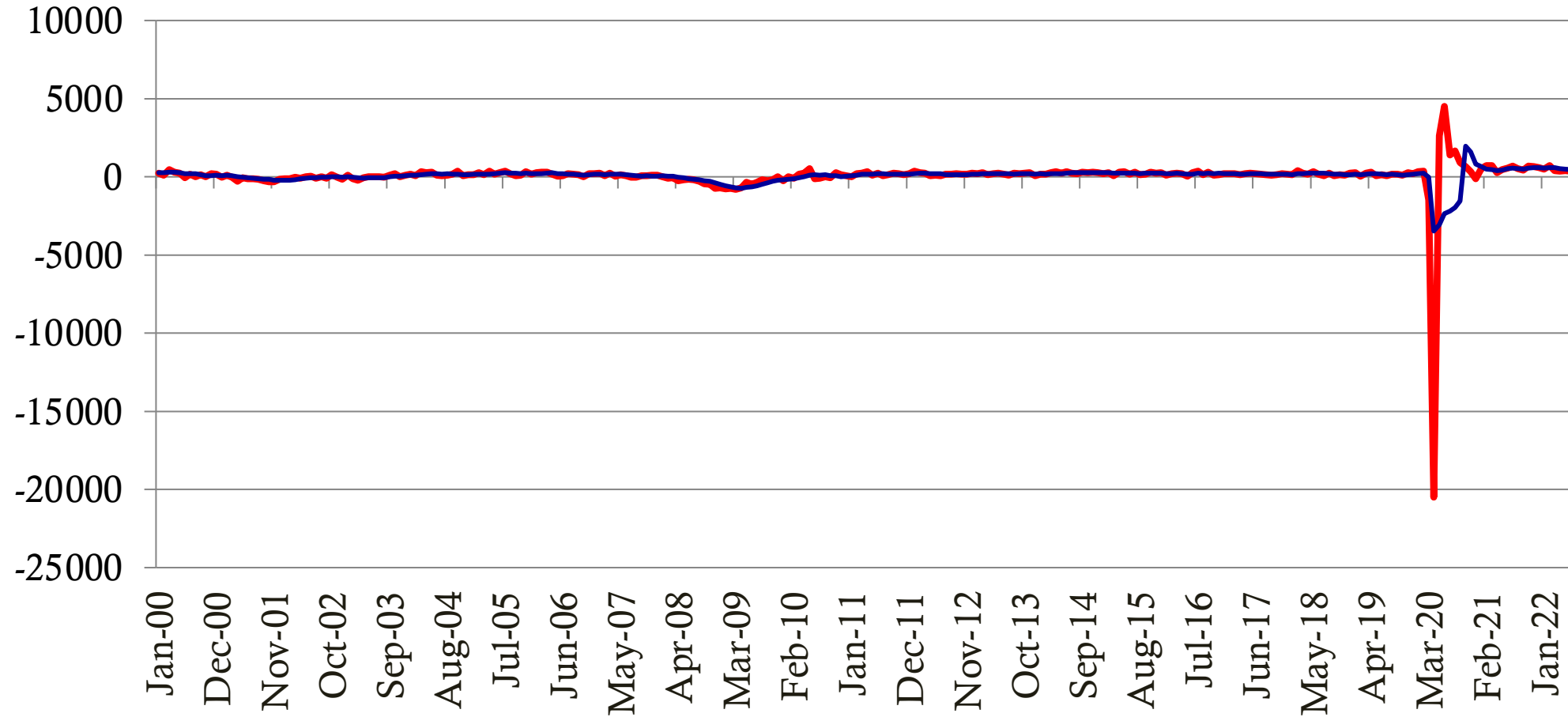
2<sup>nd</sup> major challenge – *tight labor markets!*

# Change in Payroll Employment



(Source: Bureau of Labor Statistics, in thousands)

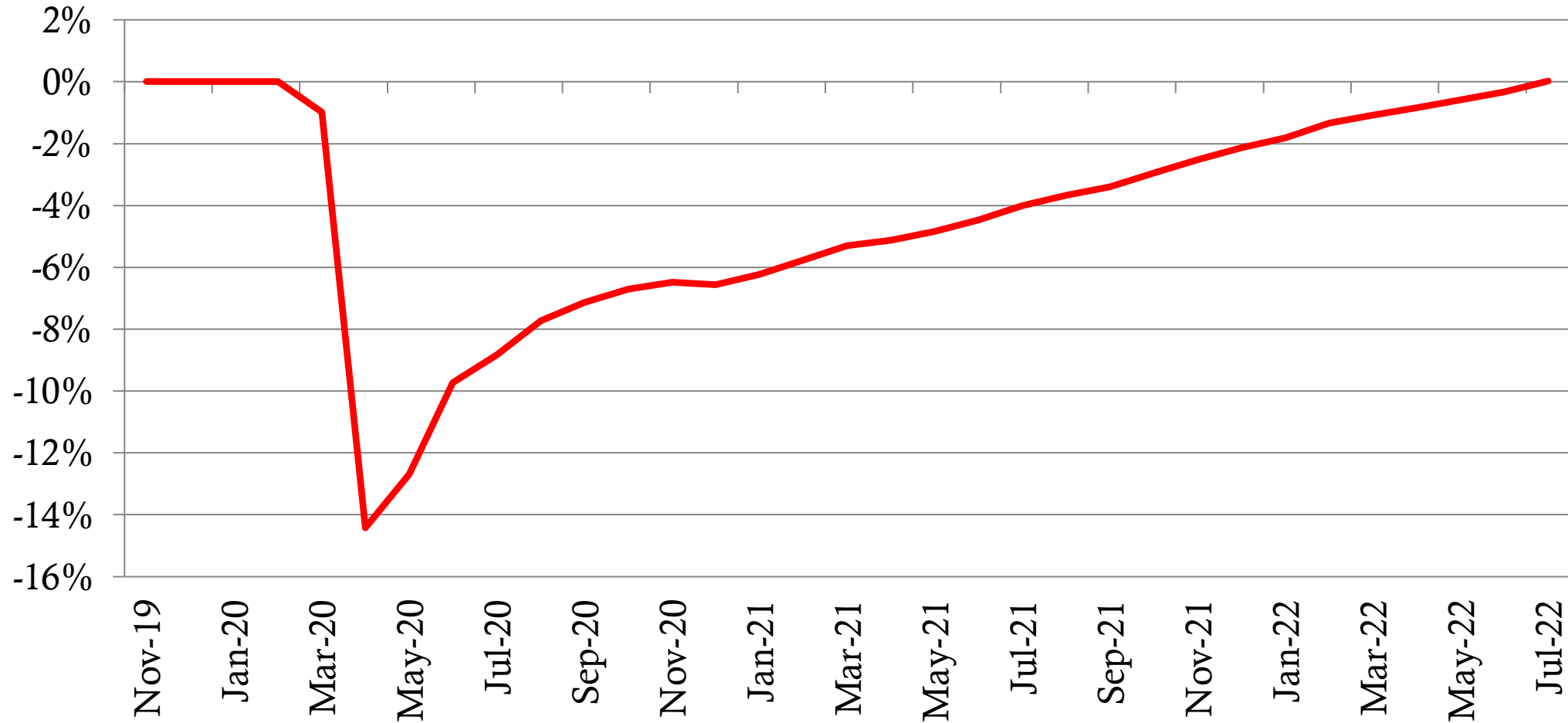
# Change in Payroll Employment



(Source: Bureau of Labor Statistics)



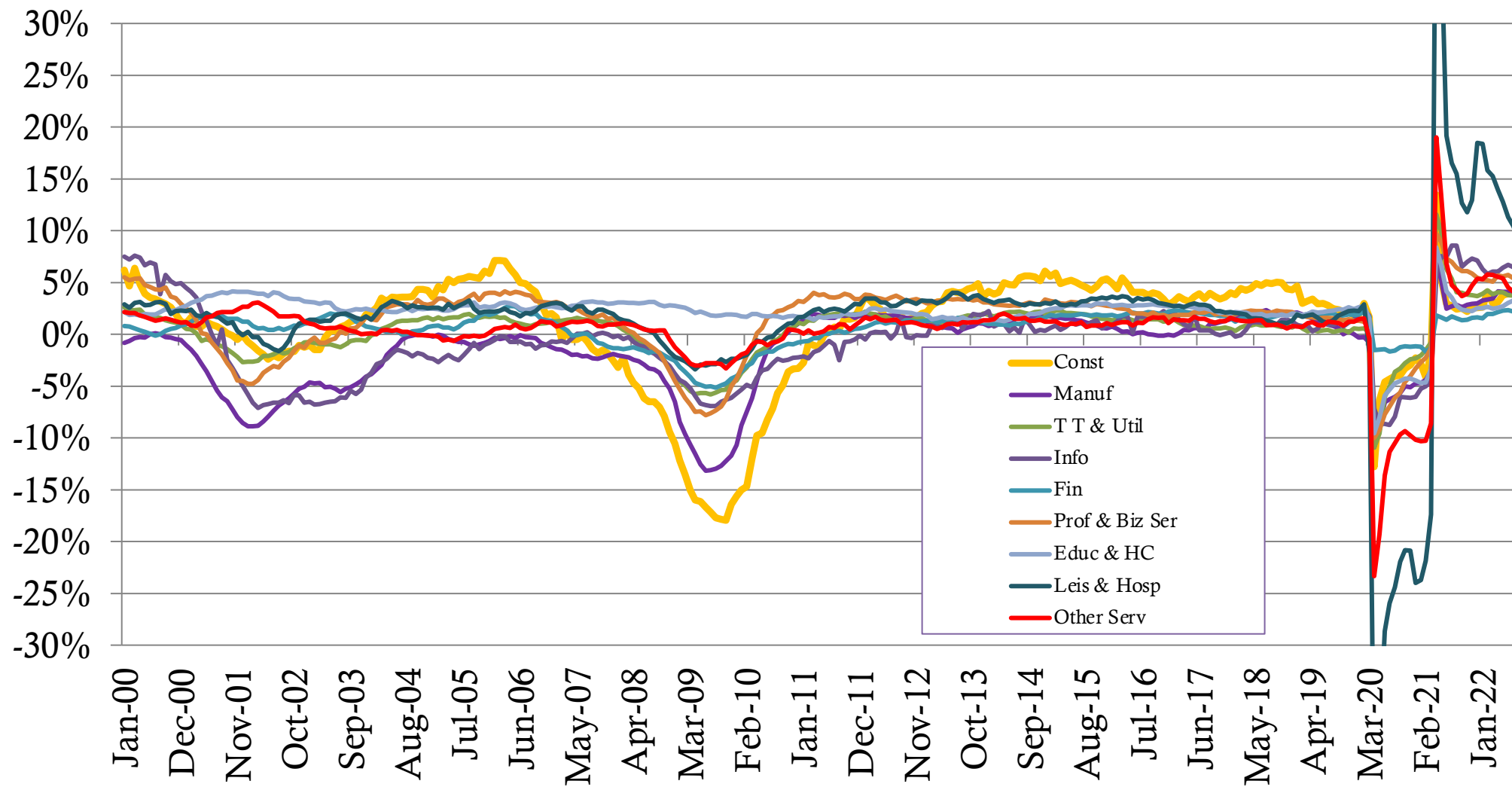
# Employment Below Peak



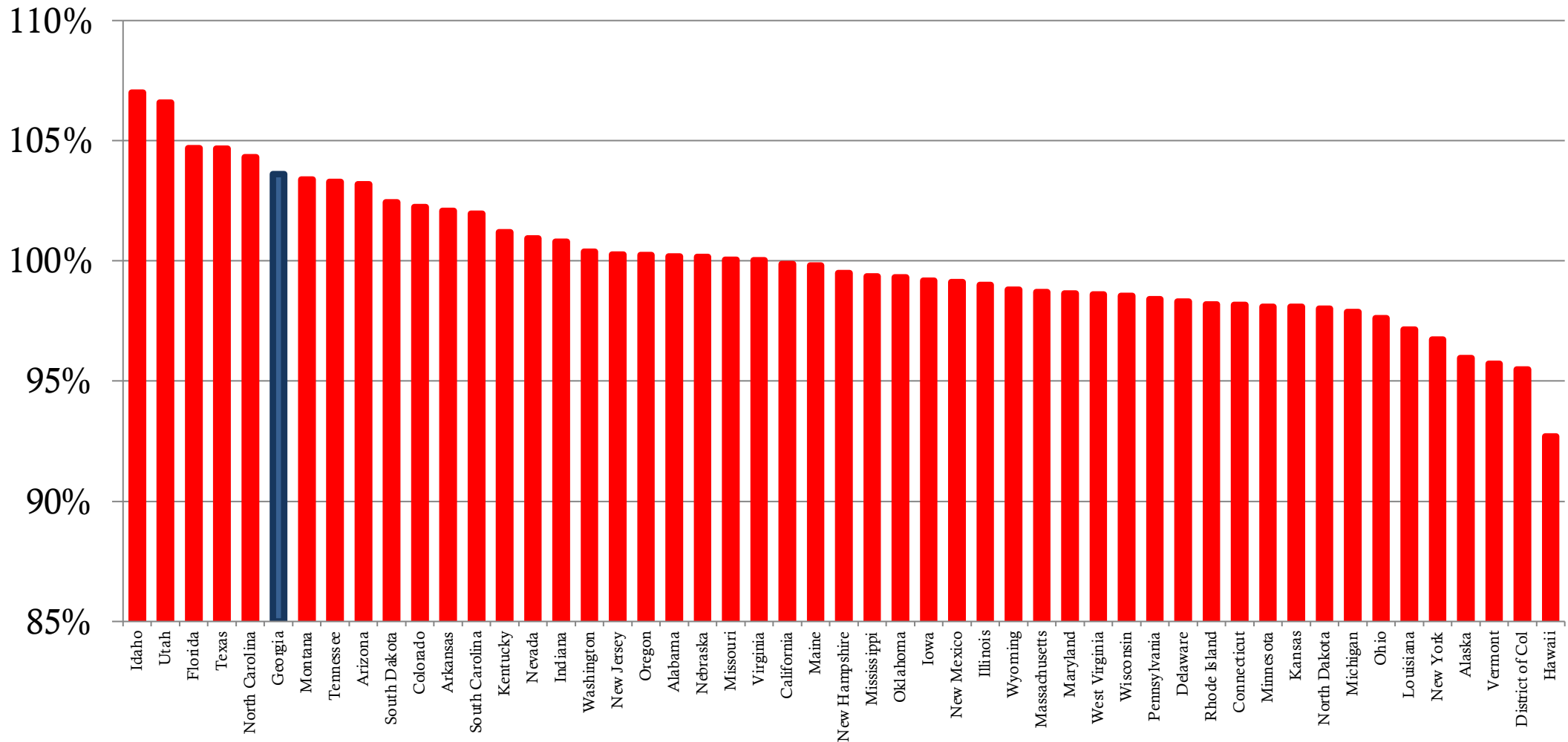
(Source: Bureau of Labor Statistics)

# Employment

(Source: Bureau of Labor Statistics)

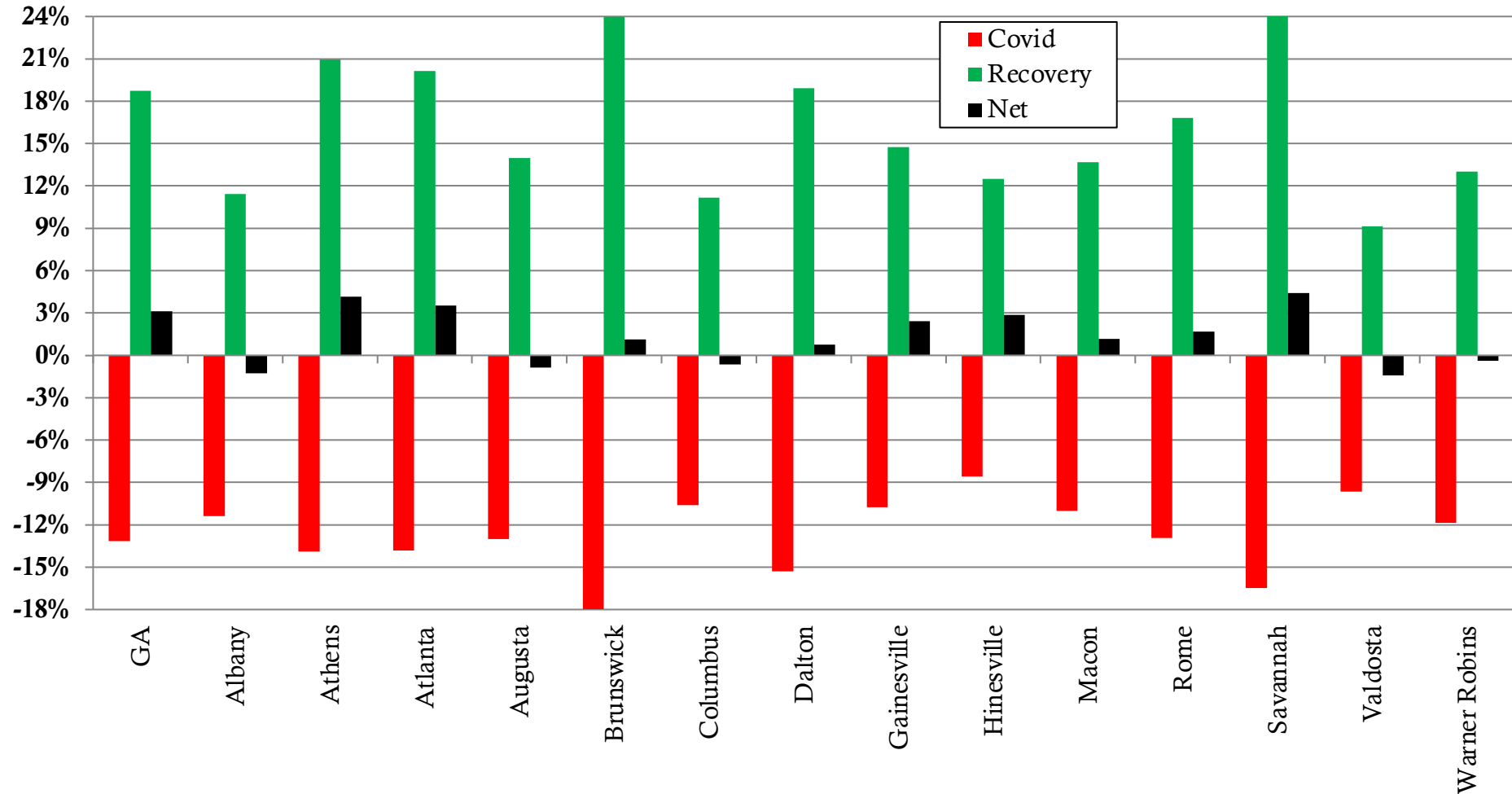


# Employment Recovery from Bottom



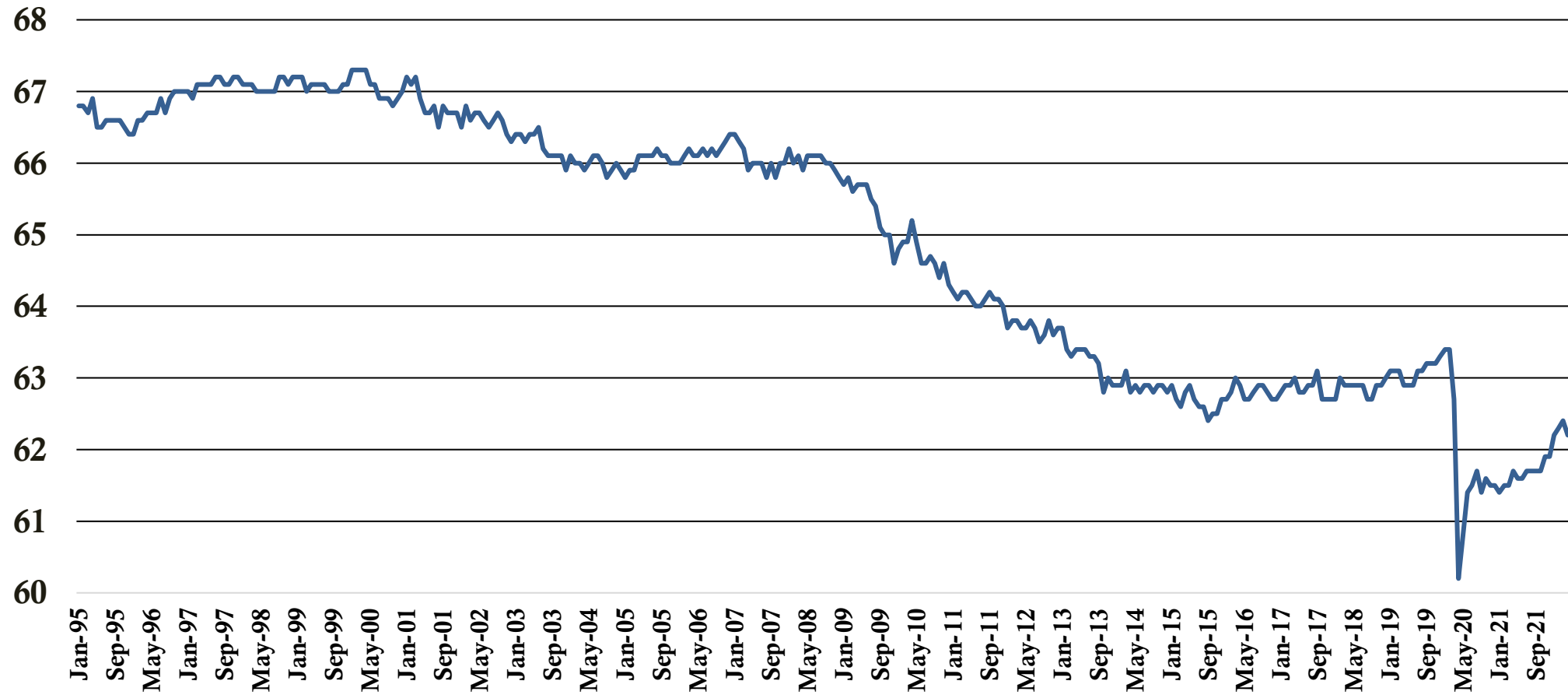
# Employment: Georgia Cities

(Pandemic Effect – thru July 2022)



(Source: Bureau of Labor Statistics)

# Labor Force Participation



(Source: Bureau of Labor Statistics)

# Topic #4:

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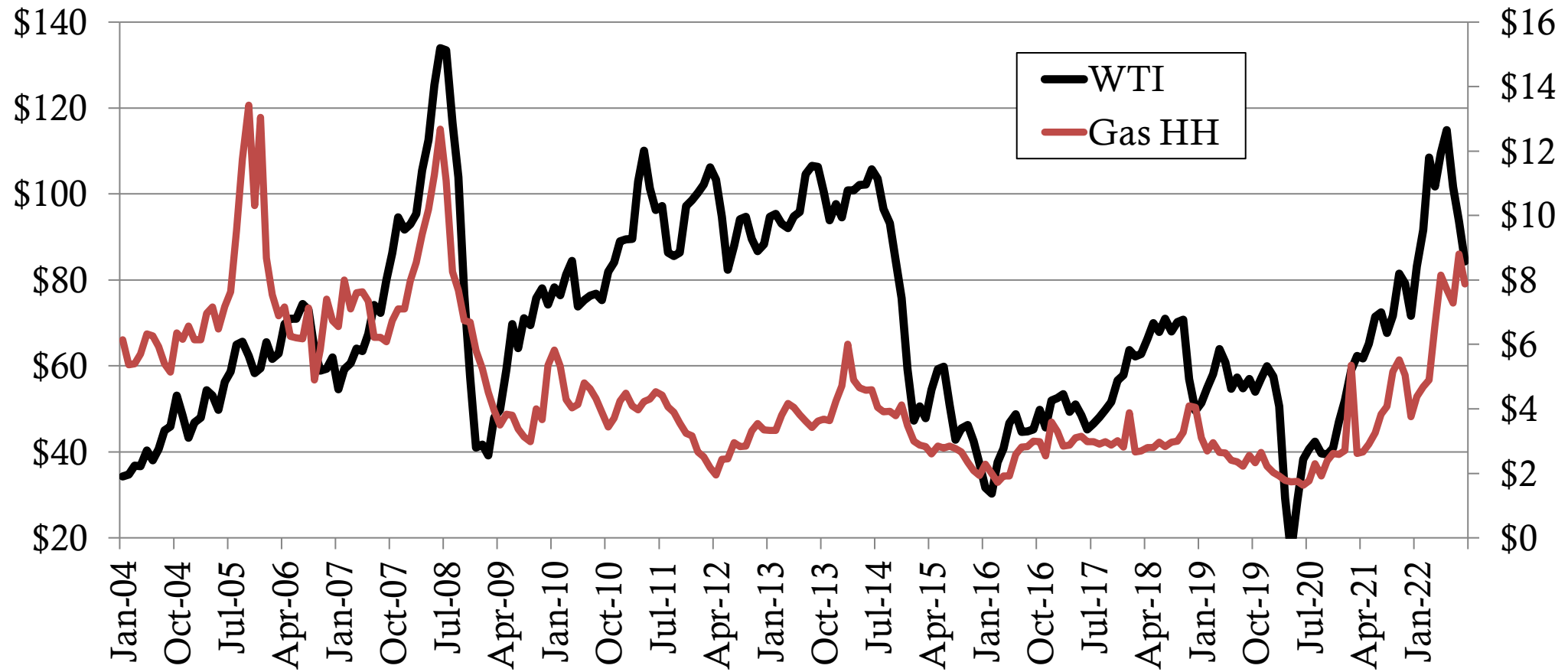
Challenge #3 . . . *the return of inflation!!!*

# Inflation: Transitory or Persistent?

(source: Bureau of Labor Statistics)

- CPI was up 0.4% in October – after being up 0.4% in September and 0.1% in August. Overall CPI up 7.7% over last 12 months.
- Core CPI up 0.3% in October – after being up by 0.6% in September and August. Core up 6.6% over same period.
- PCE up 6.2%, core PCE up 4.9%.
- Energy component rose by 1.8% in October and dropping for the third previous months. The energy component is still up by 17.6% over the last 12 months.

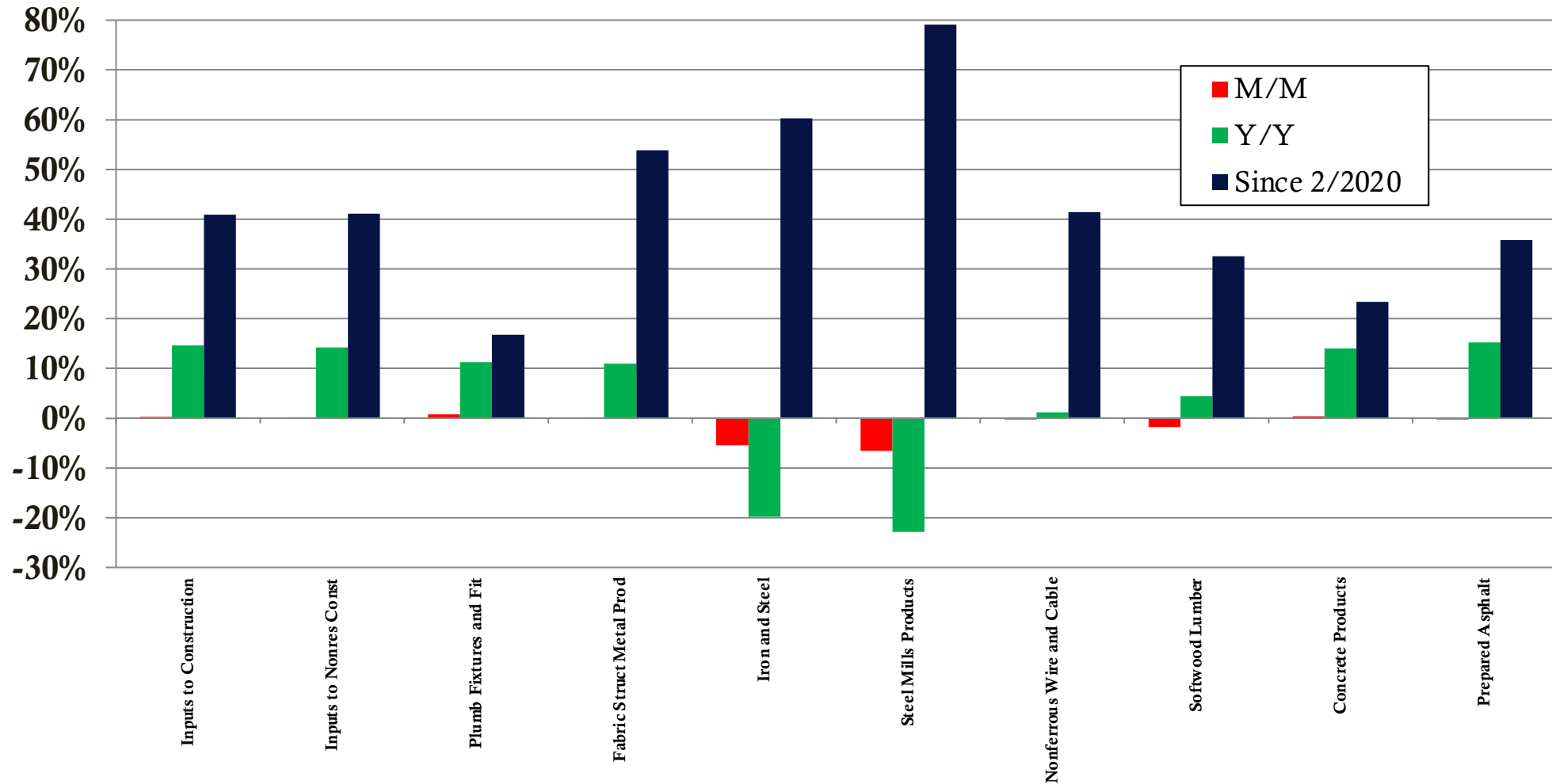
# Energy Cost: Oil & Natural Gas



(Source: US Energy Information Administration)



# Construction Cost w/o Energy



(Source: Bureau of Labor Statistics (PPI) & Associated Builders & Contractors)

# Topic #5:

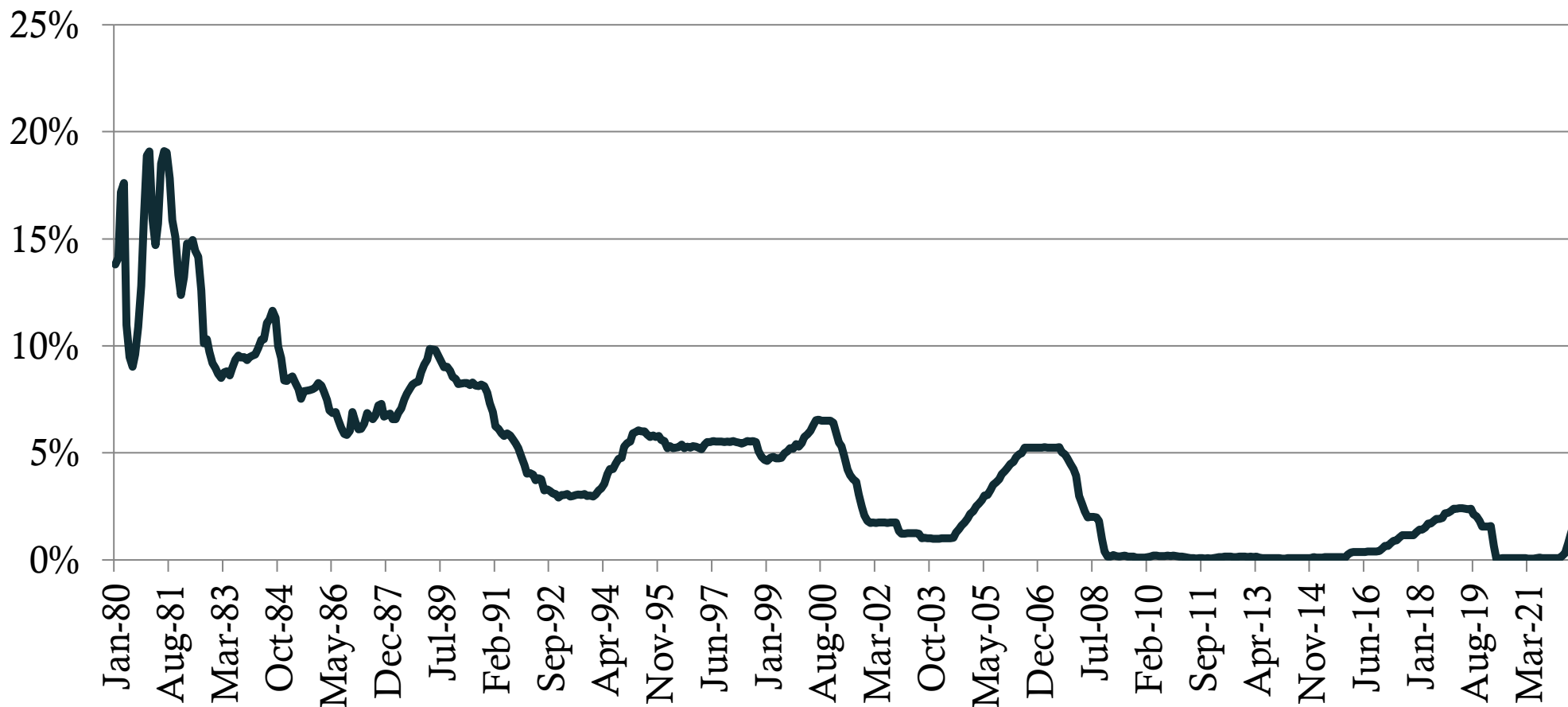
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After starting to unwind three rounds of QE . . . we went to zero in March 2020.

. . . now, . . . rate hikes & QT?

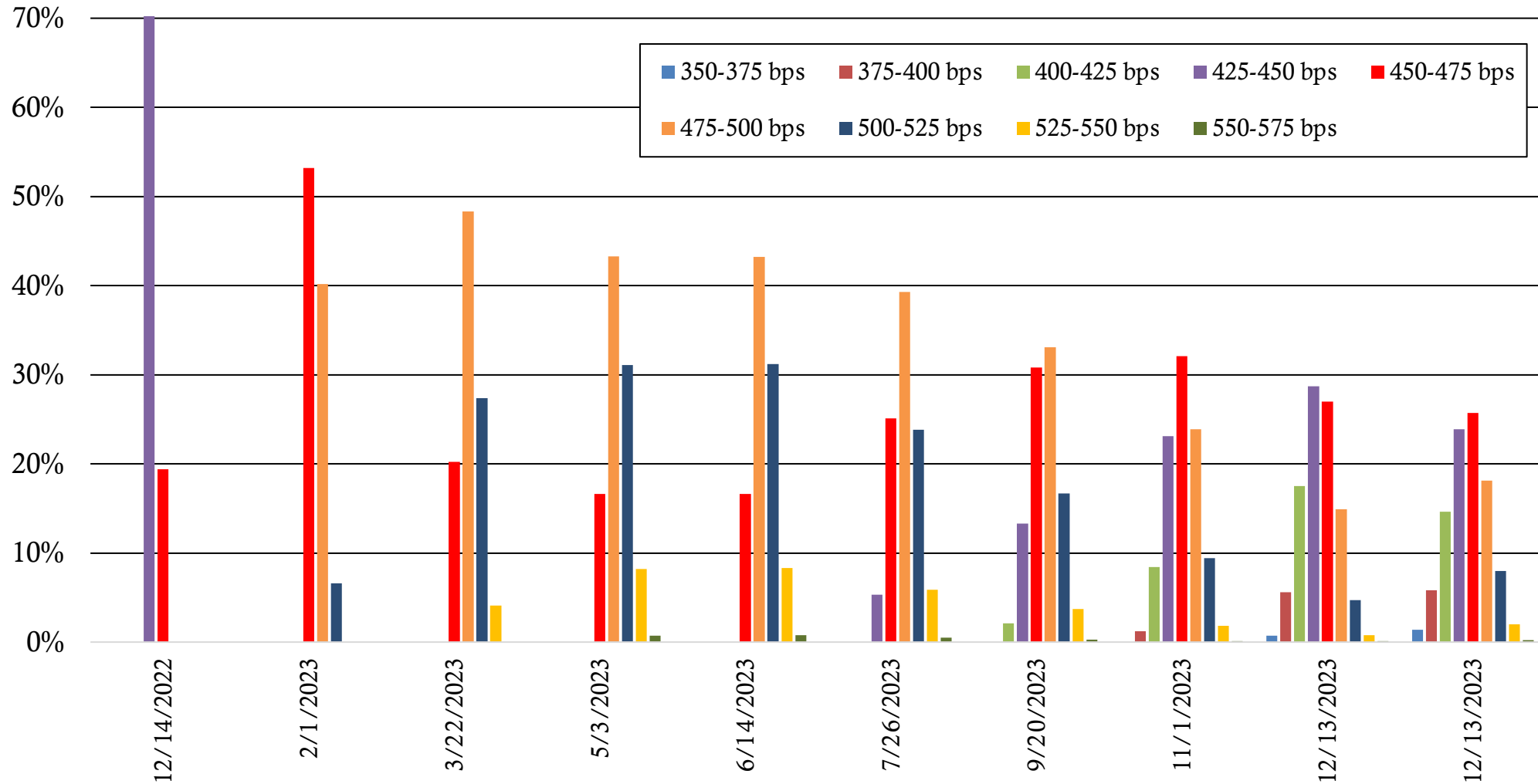
# Federal Funds Rate

9 Up, 3 Down, back to ZLB – Now head back up?

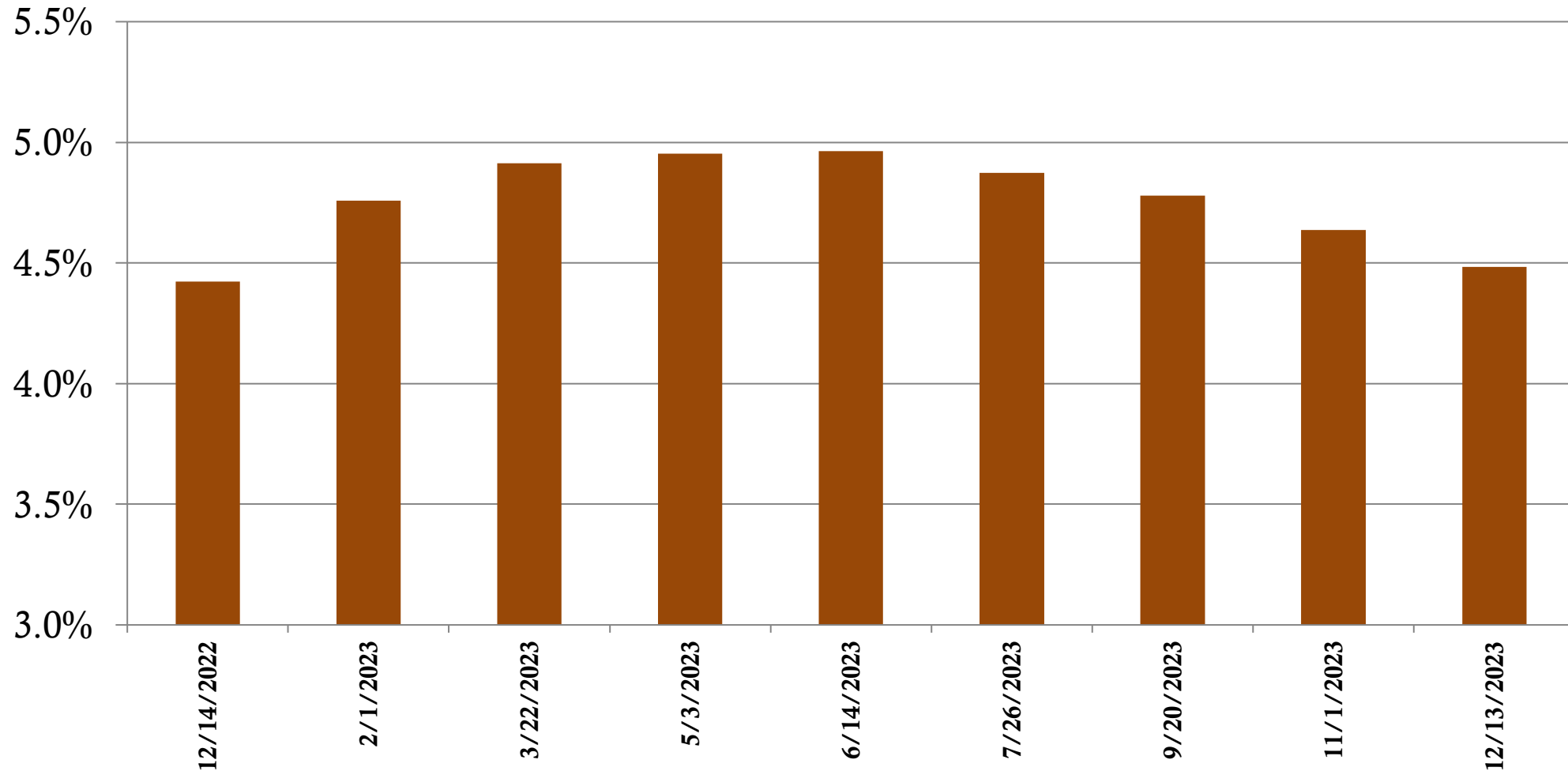


(Source: Board of Governors of Federal Reserve System)

# Market's FFR Forecast

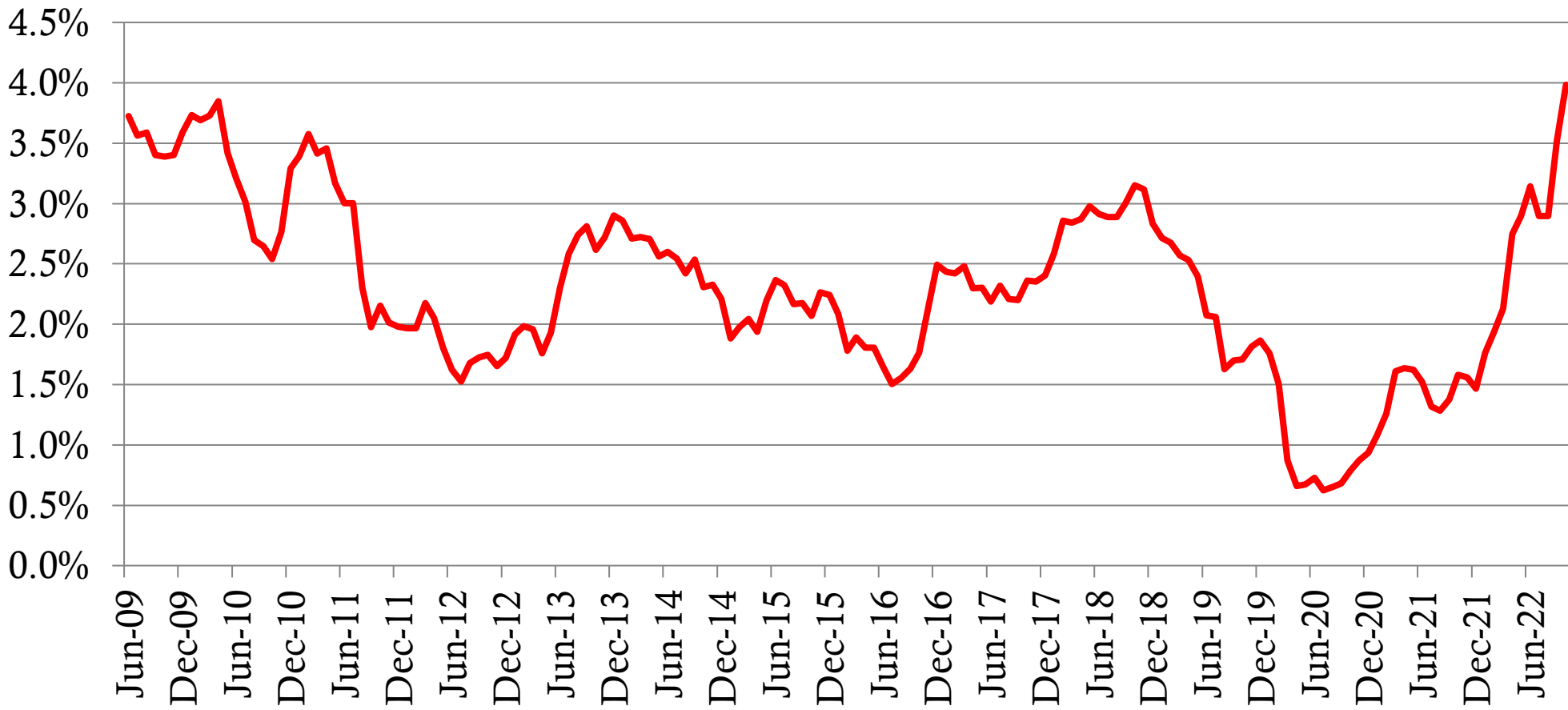


# Market's "Expected FFR"



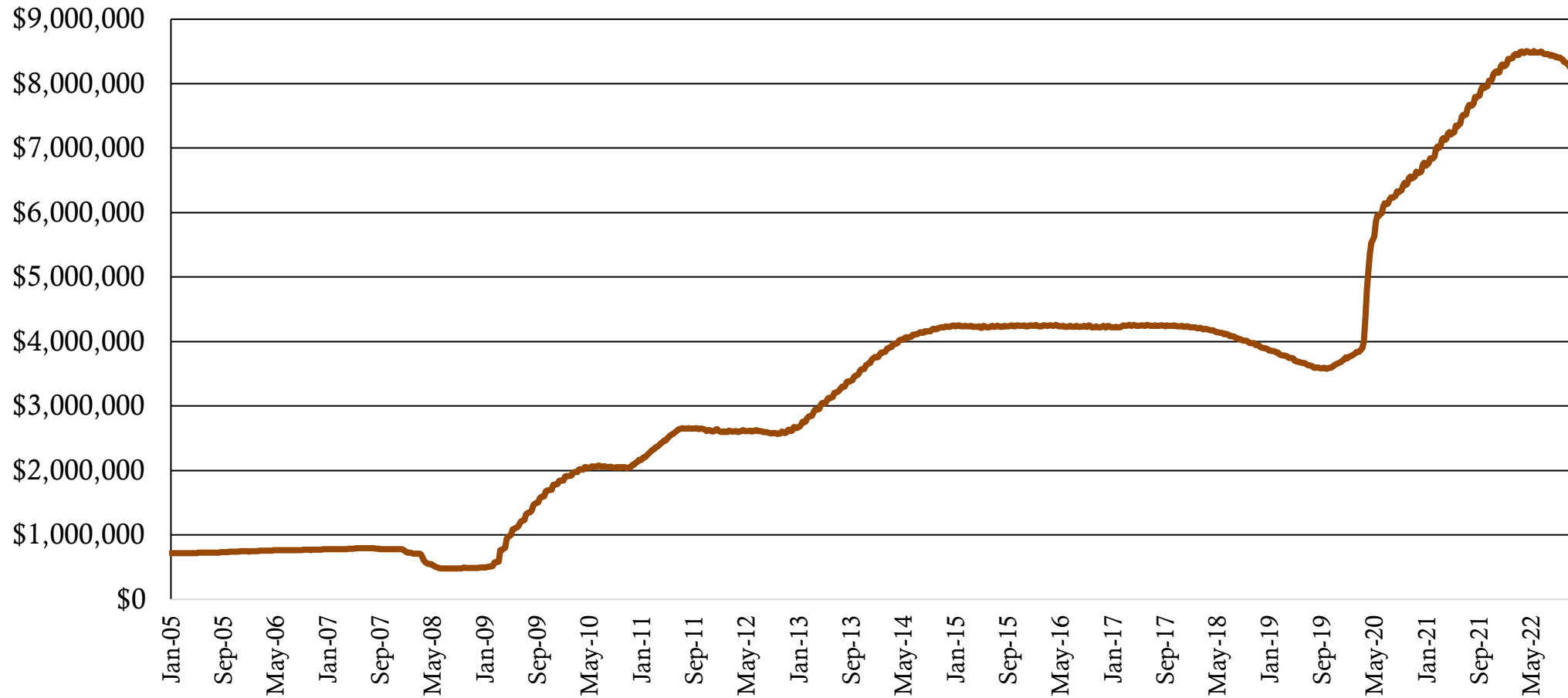
(Source: CME Group)

# 10-Year Treasury Bonds



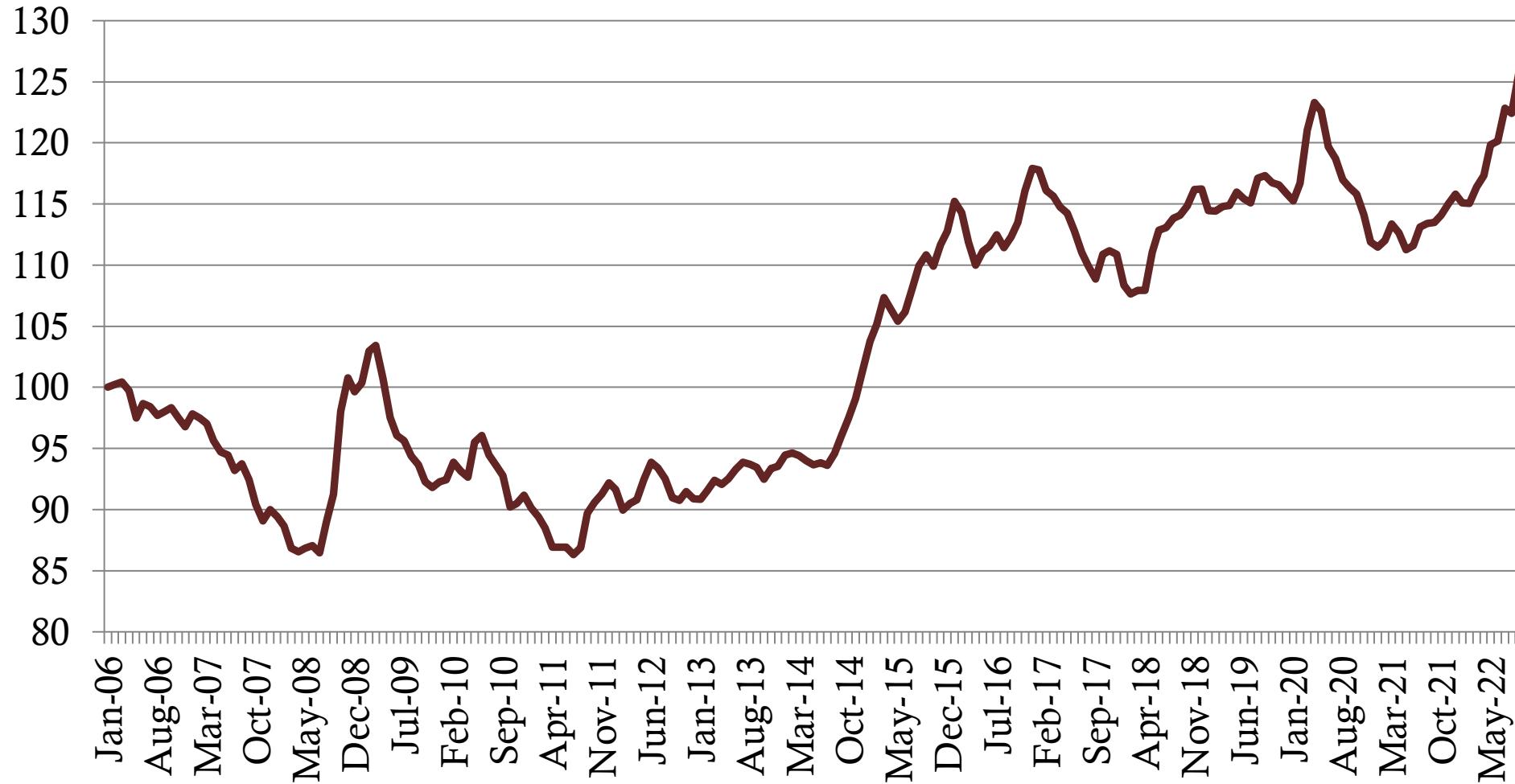
(Source: Board of Governors of Federal Reserve System)

# Fed: Securities Held Outright



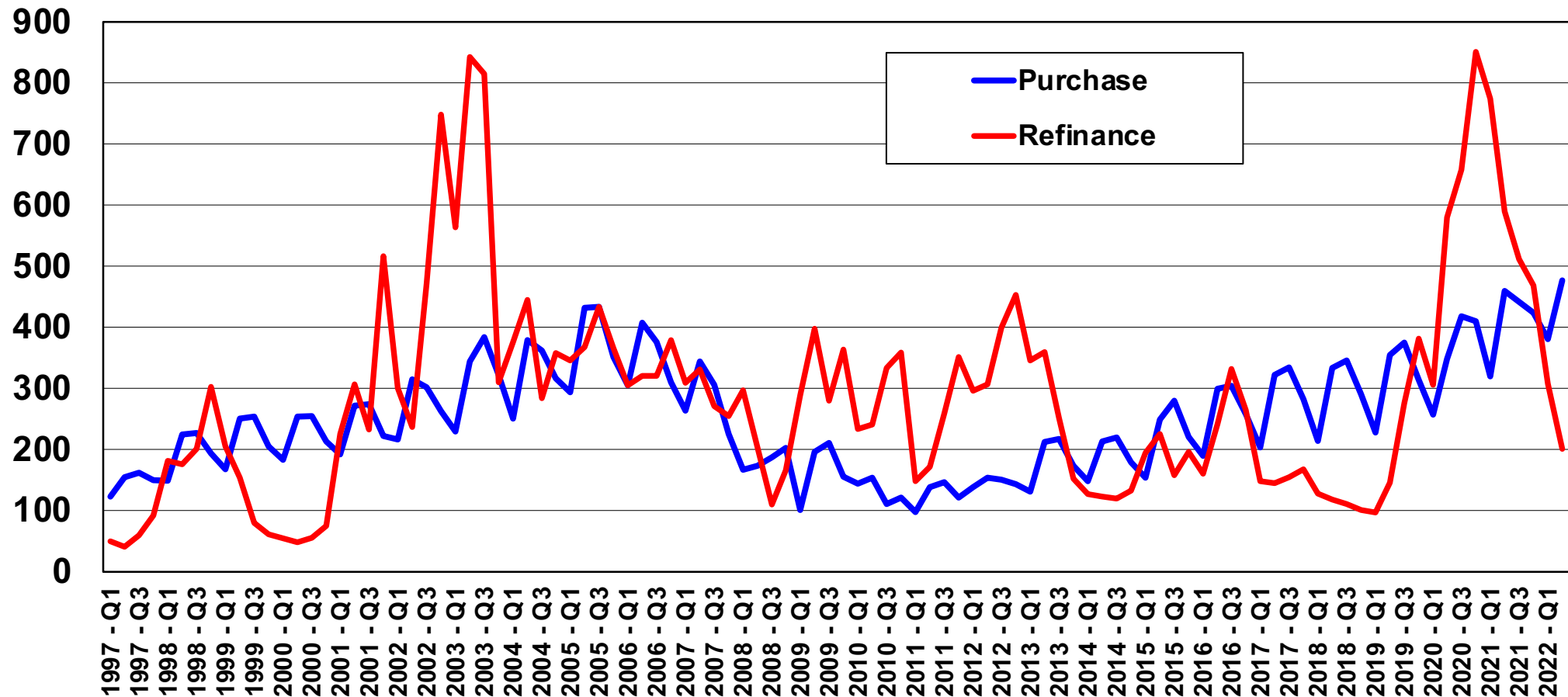
(source: Board of Governors of the Federal Reserve System; in billions)

# Foreign Exchange





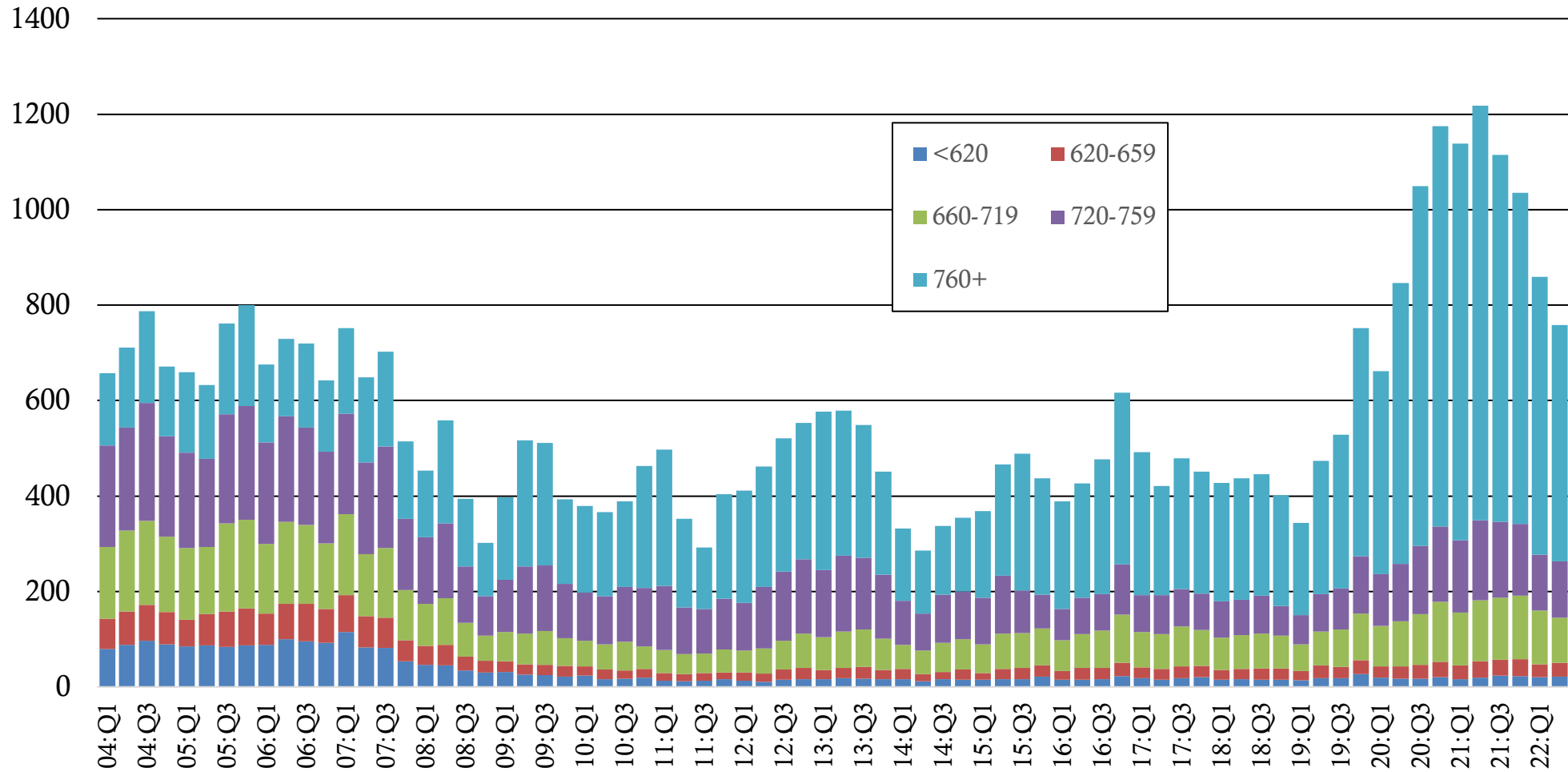
# Mortgage Activity: Purchase & Refinance



(Source: Mortgage Bankers Association)

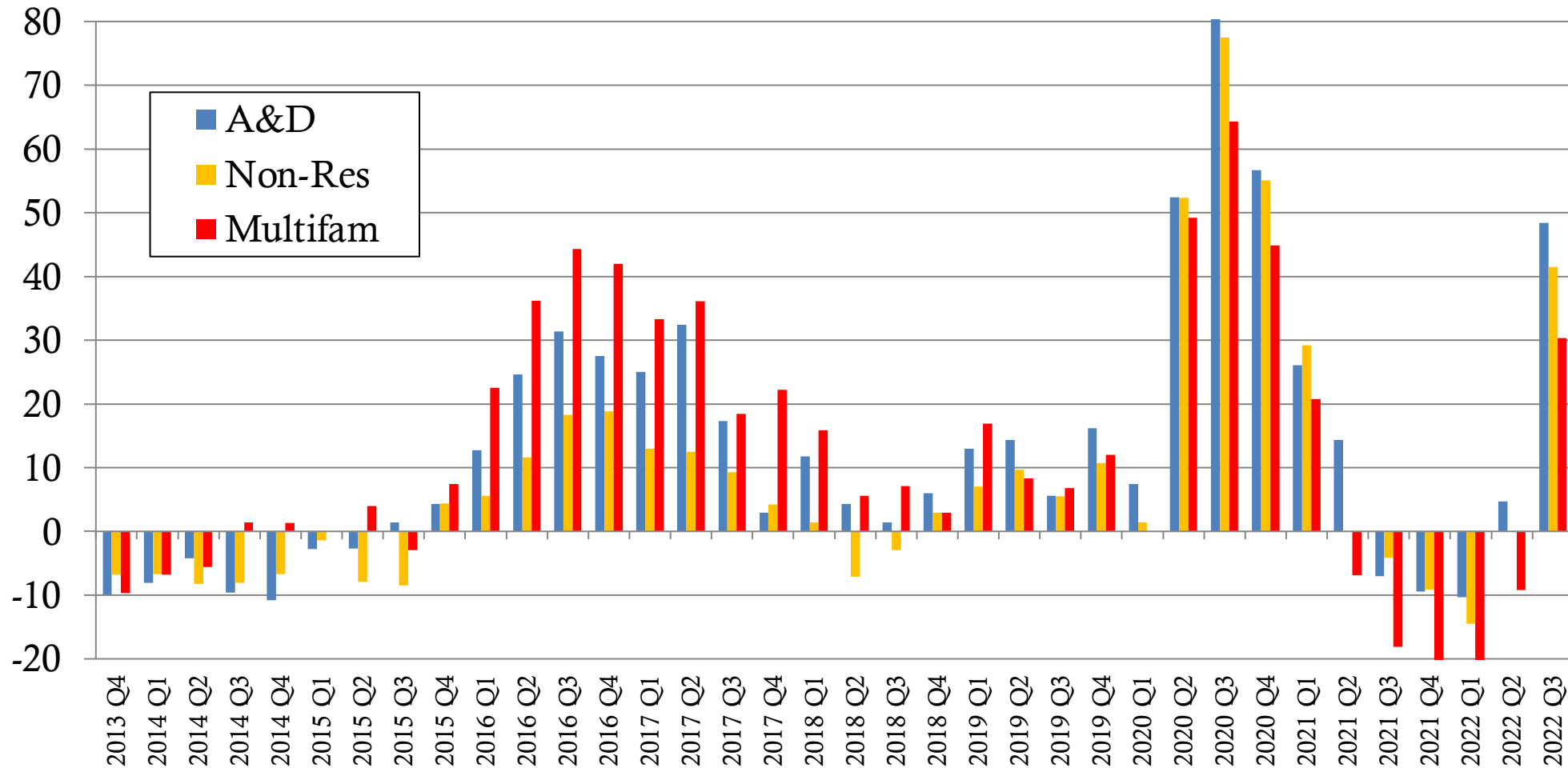
# Mortgage Origination by Credit Score

(source: NY Fed & Equifax)

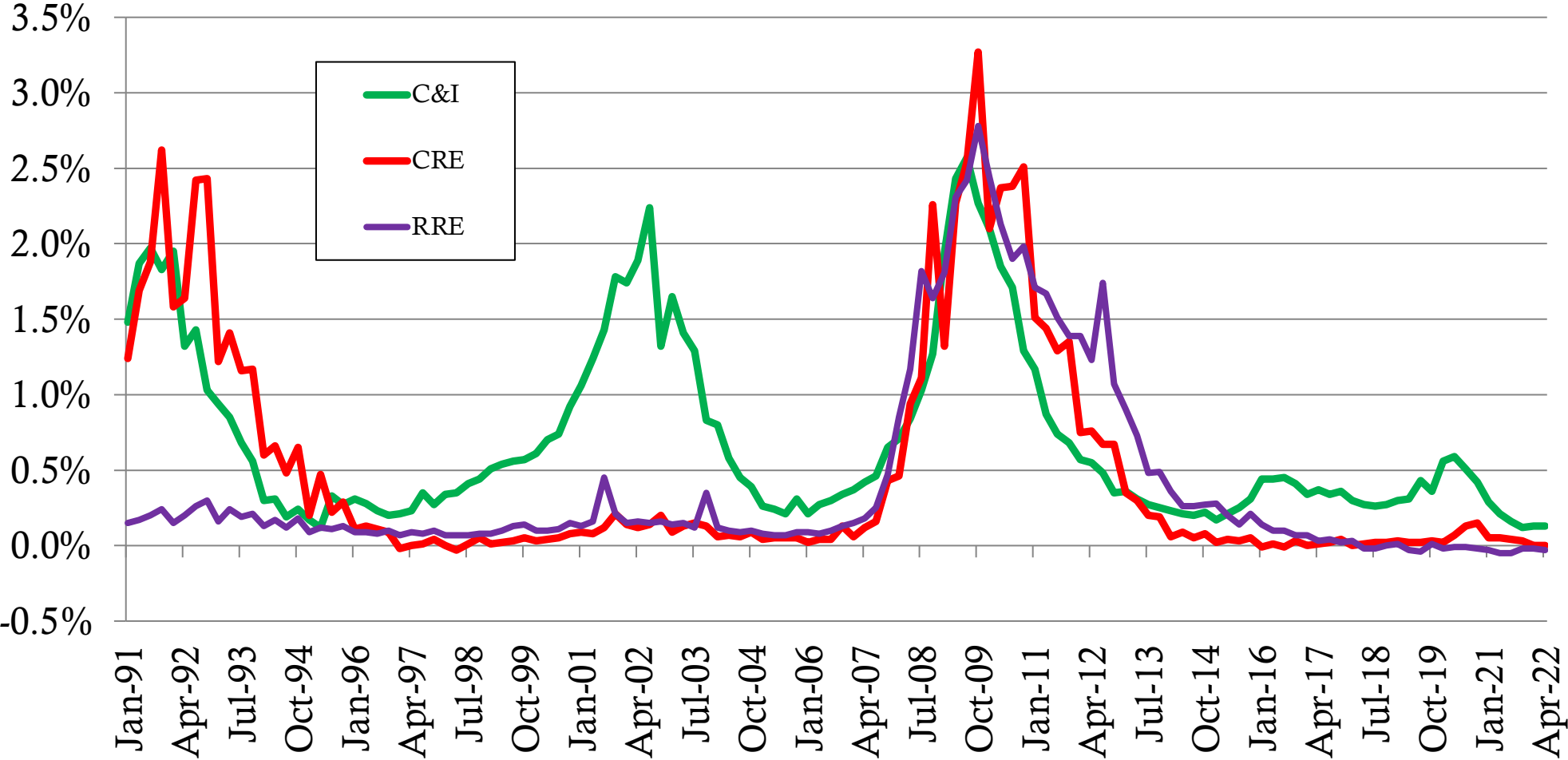


# CRE Loan Standards: Net Tightening

(Source: Federal Reserve System, Senior Officers Lending Survey)



# Charge Off Rates at Banks



(source: Board of Governors of the Federal Reserve System)

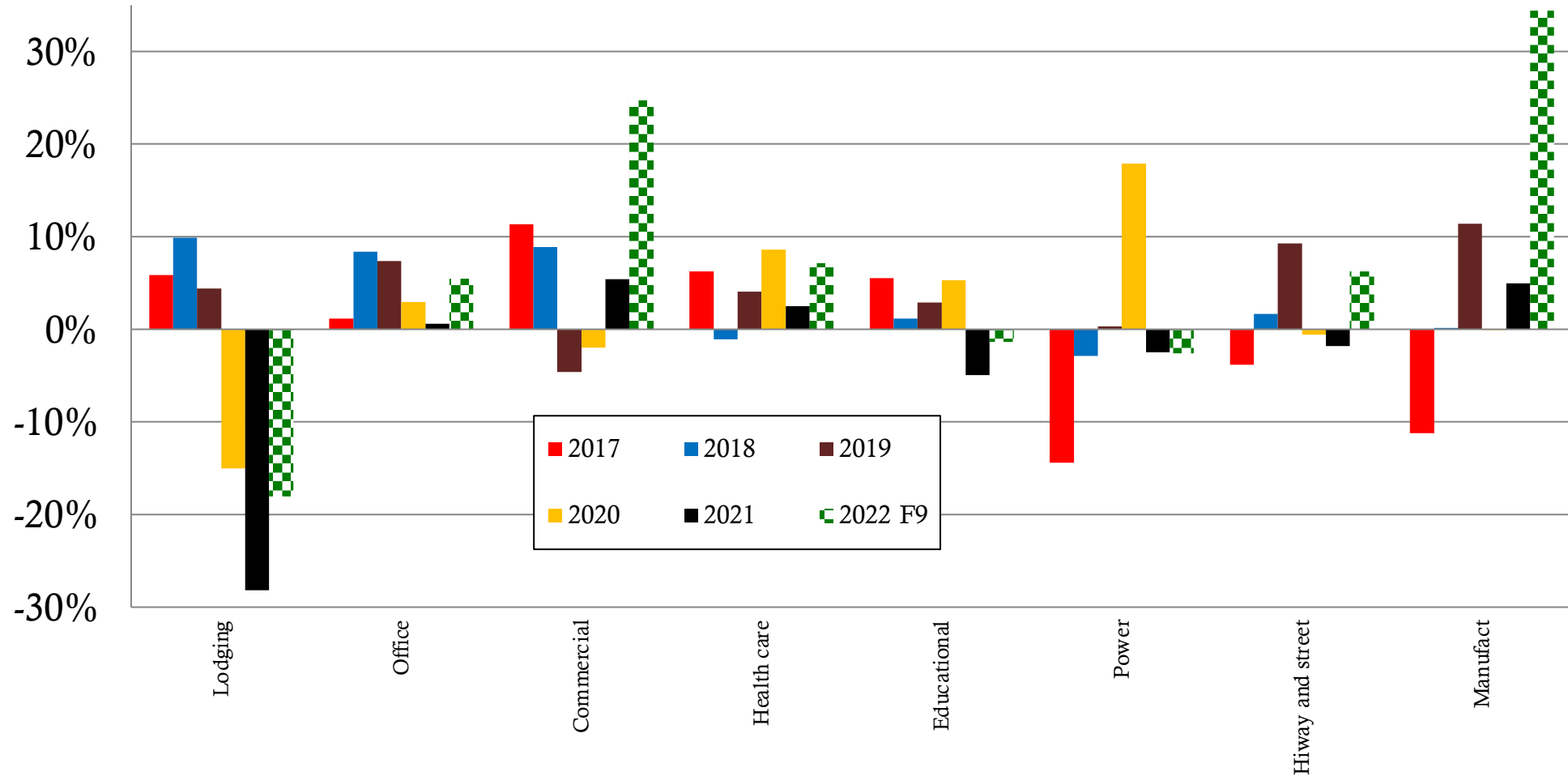
# Topic #6:

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Did Covid signal the death of “big box” and office?

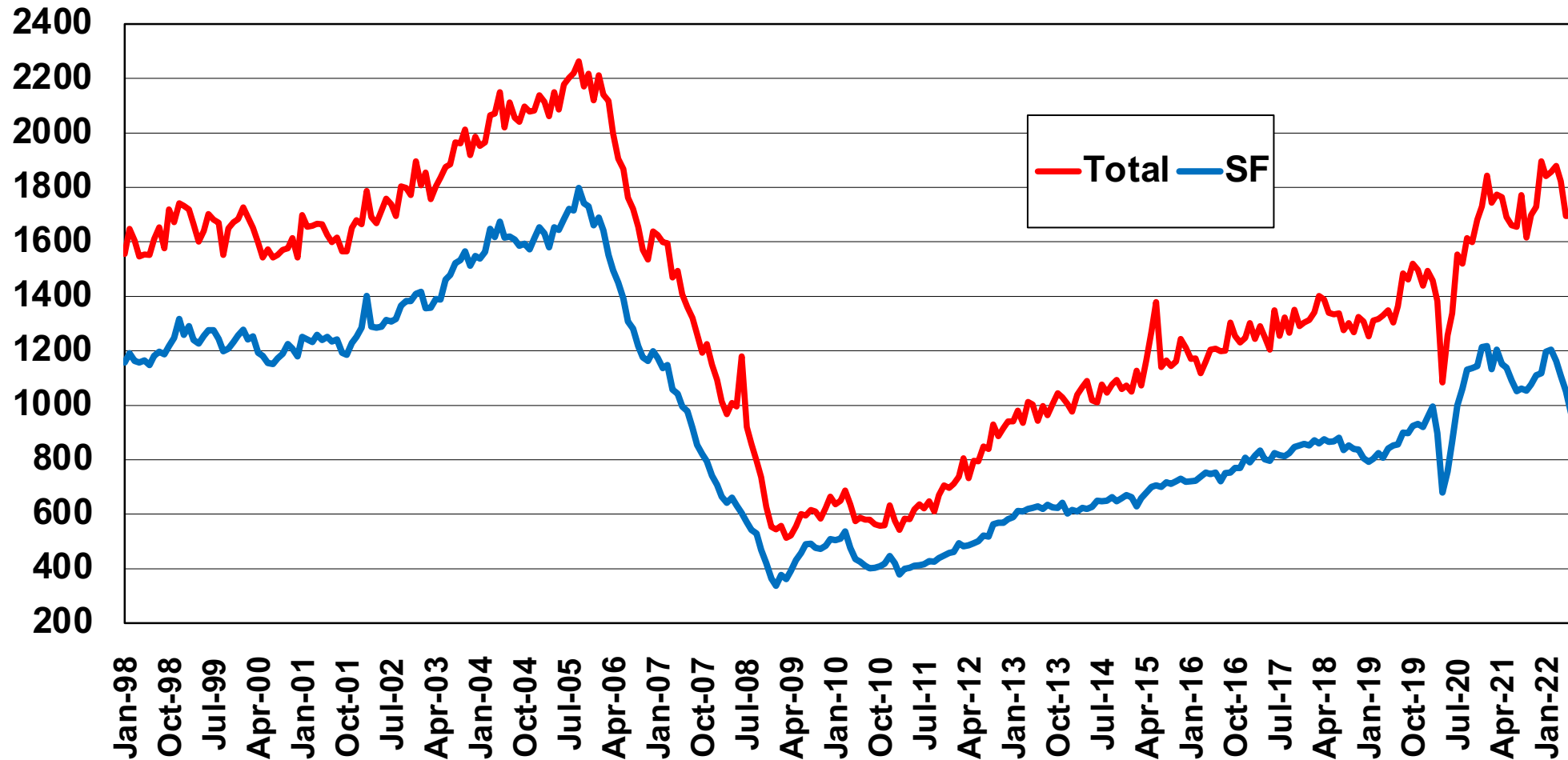
And is housing market getting “frothy” again?

# Non-Residential Construction



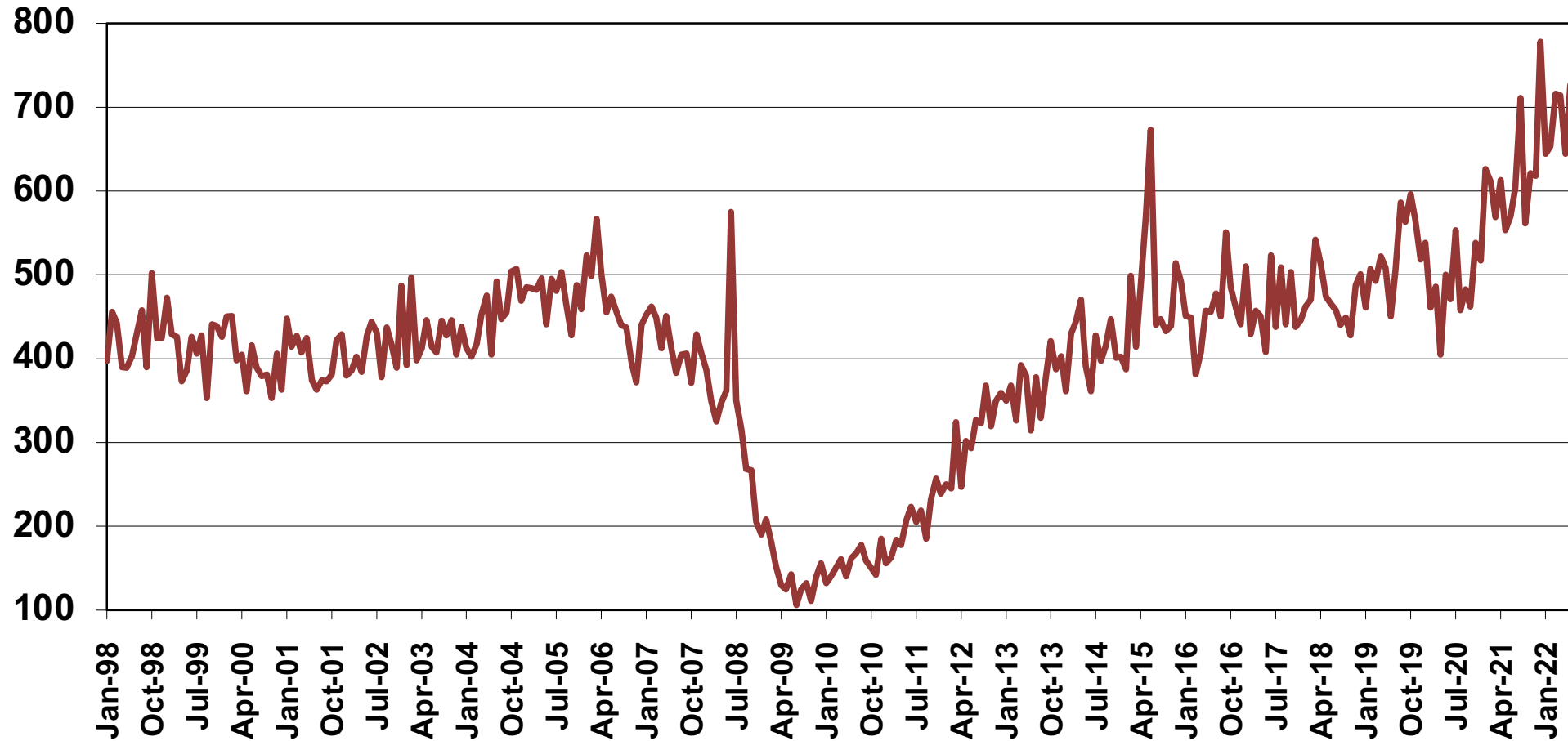
(Source: U.S. Bureau of Census)

# US Housing Permits: SF and Total



(source: U.S. Census Bureau; Seasonally Adjusted Annual Rate in thousands)

# US Housing Permits: Multi-family

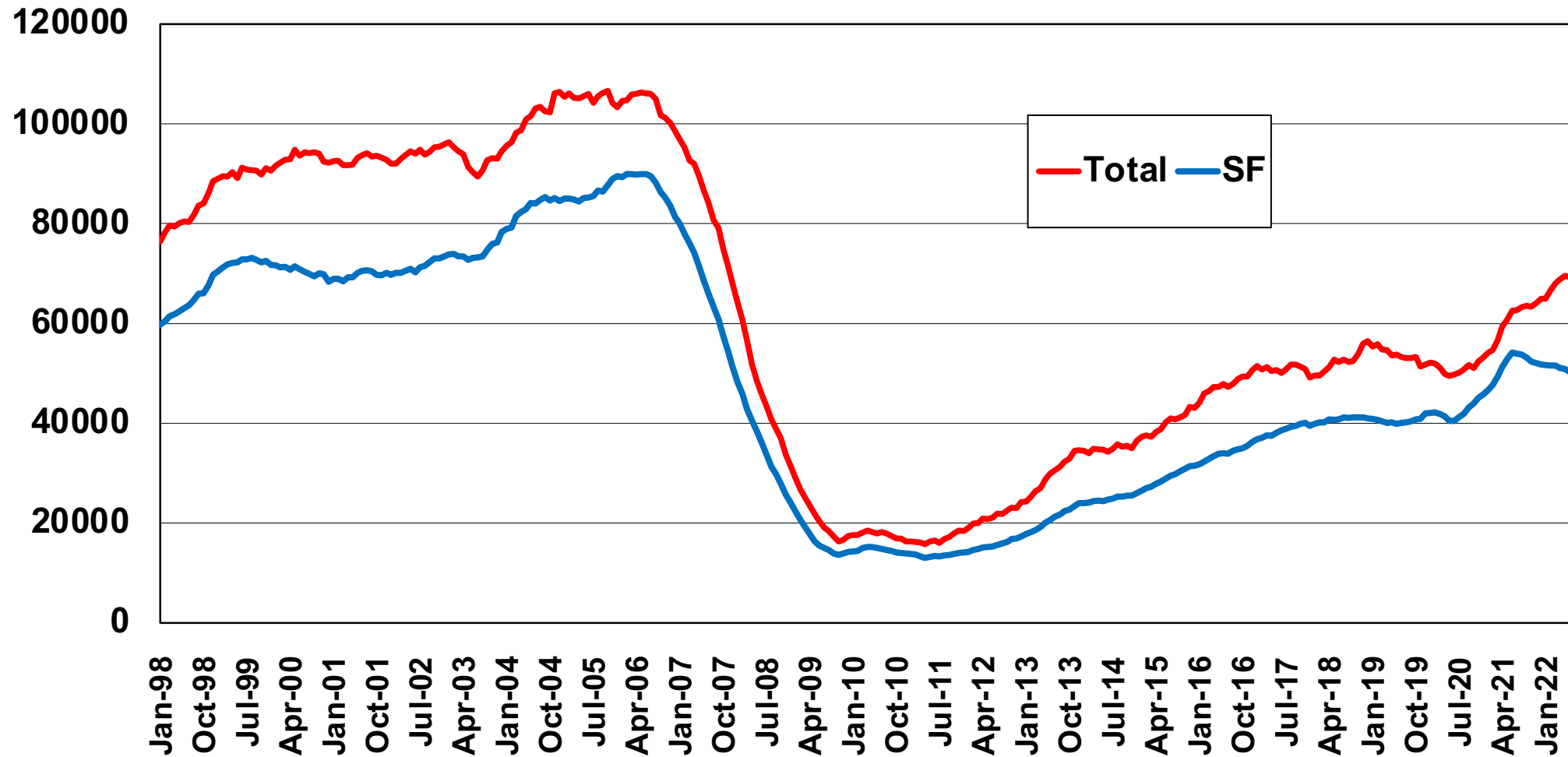


(Source: U.S. Census Bureau; Seasonally Adjusted Annual Rate in thousands)



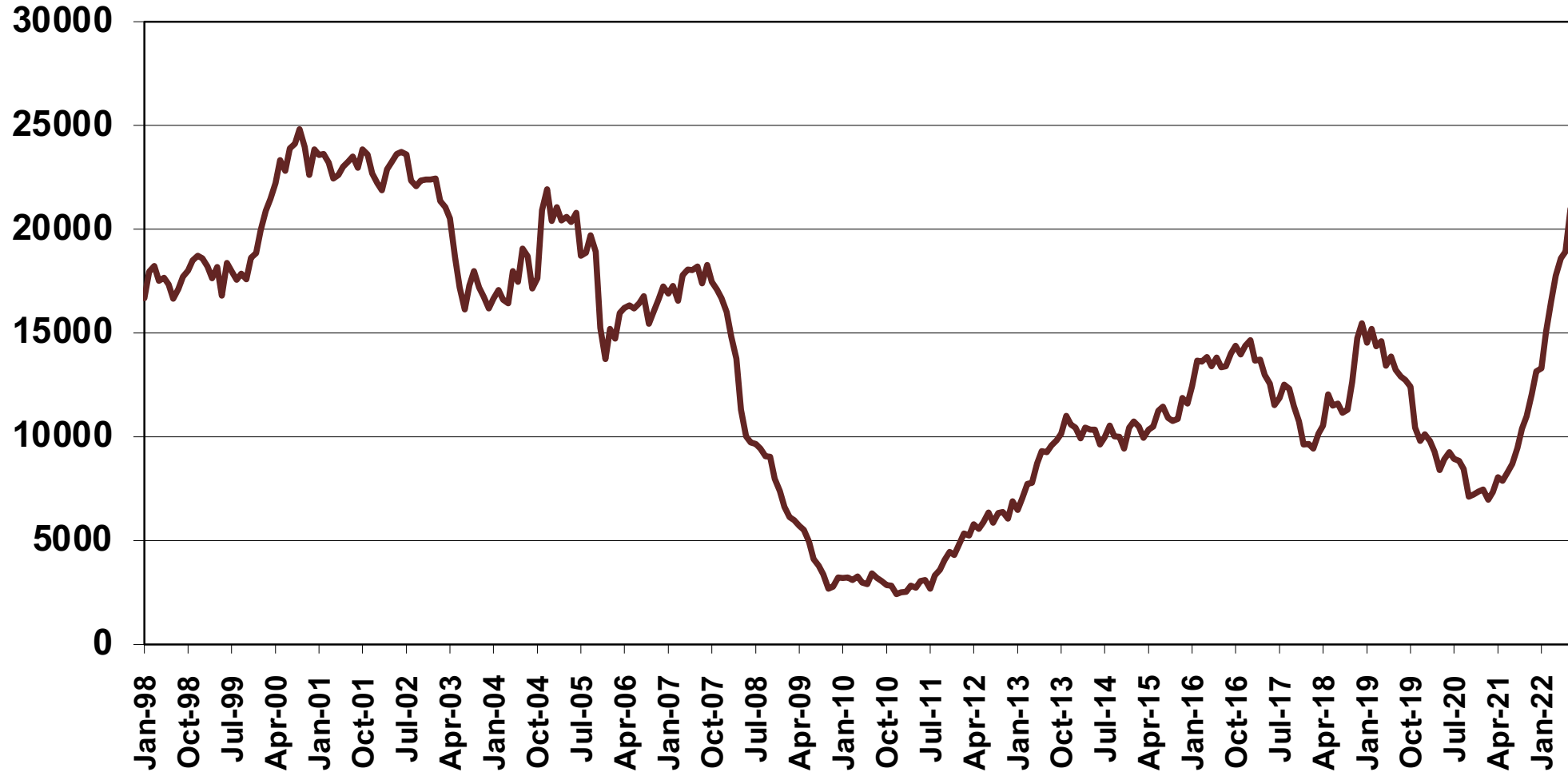
# GA Housing Permits: SF and Total

(source: U.S. Bureau of Census)

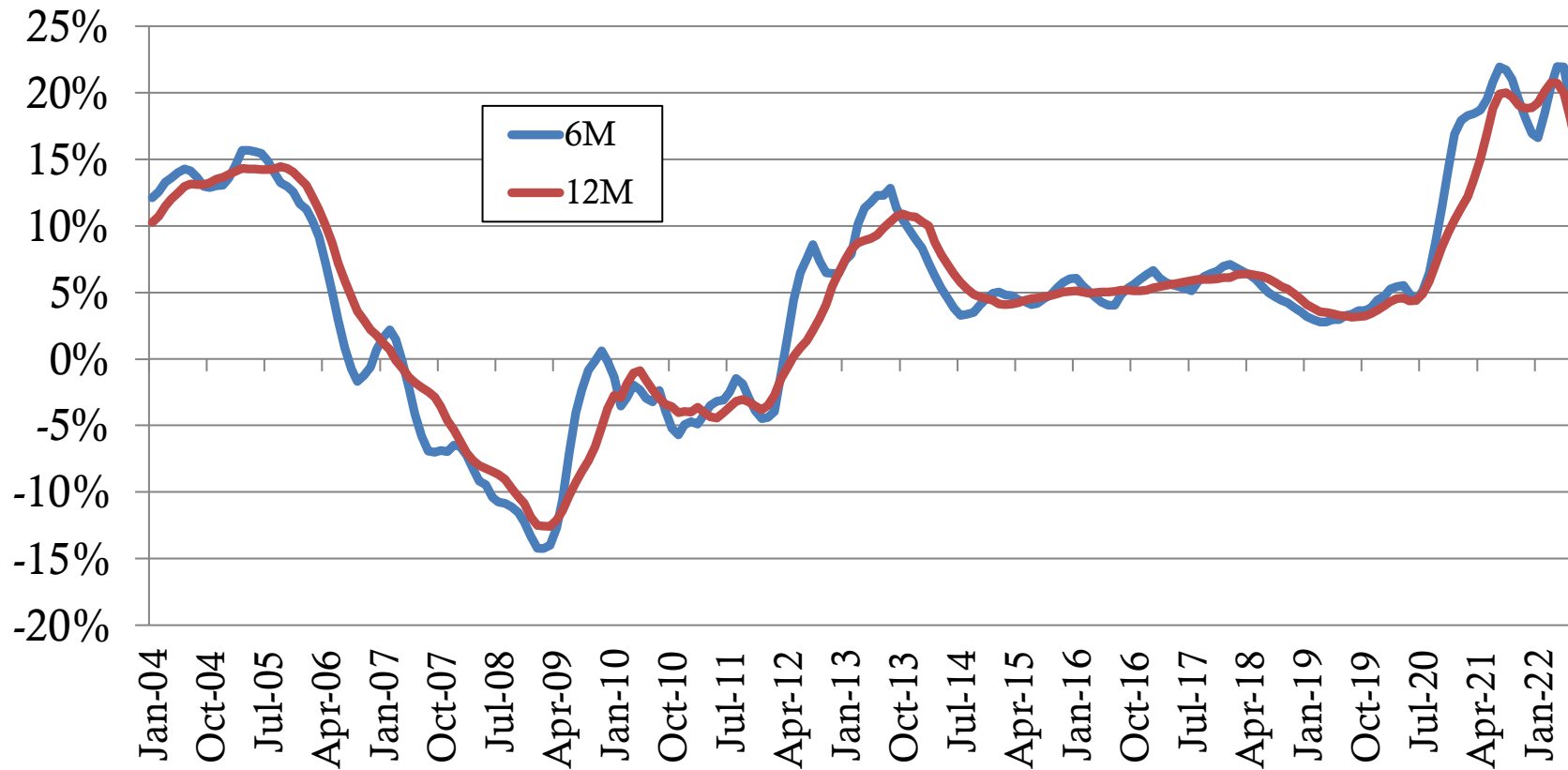


# GA Housing Permits: Multi-family

(12 month moving average)

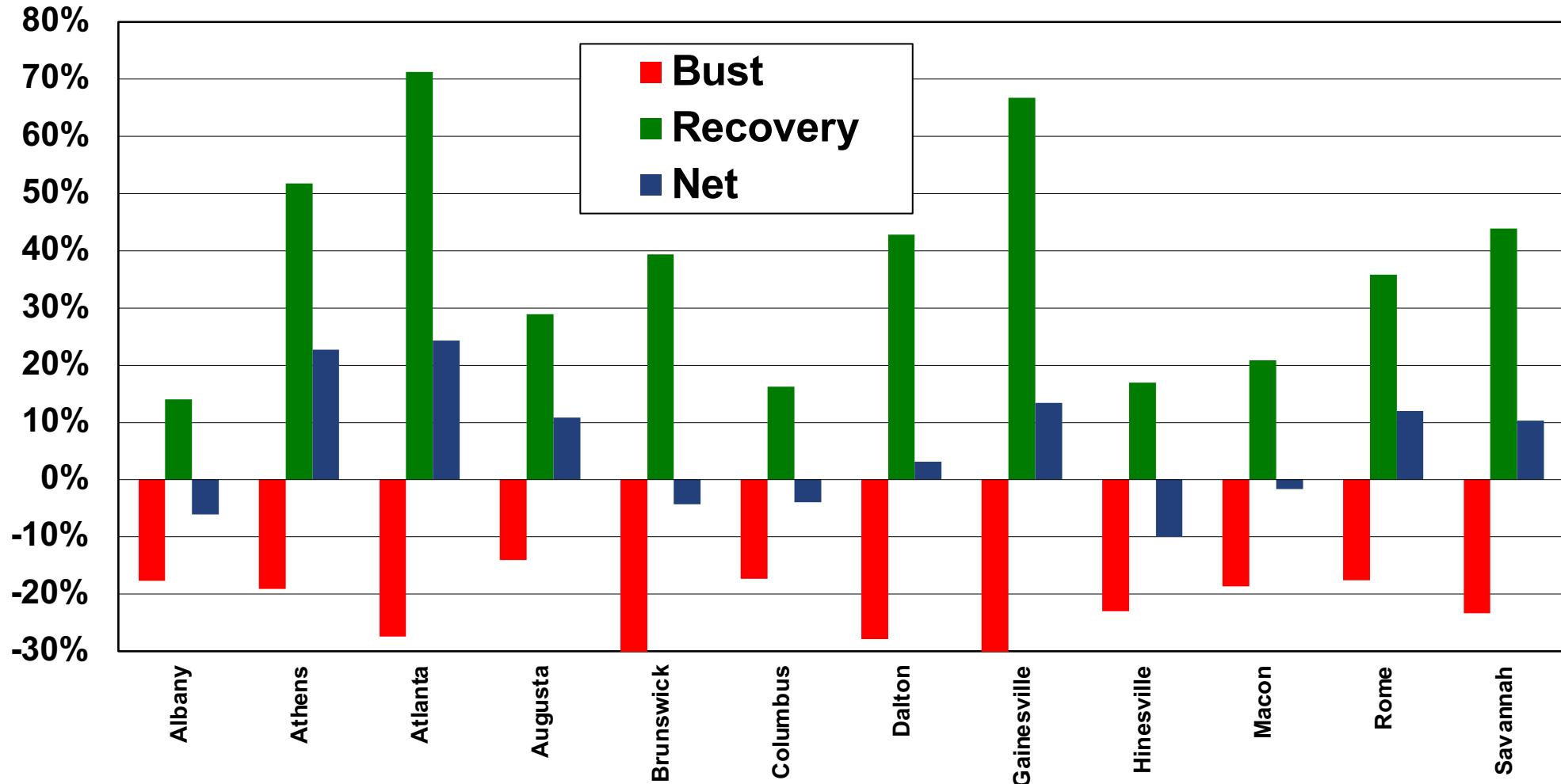


# Case Shiller: National Index

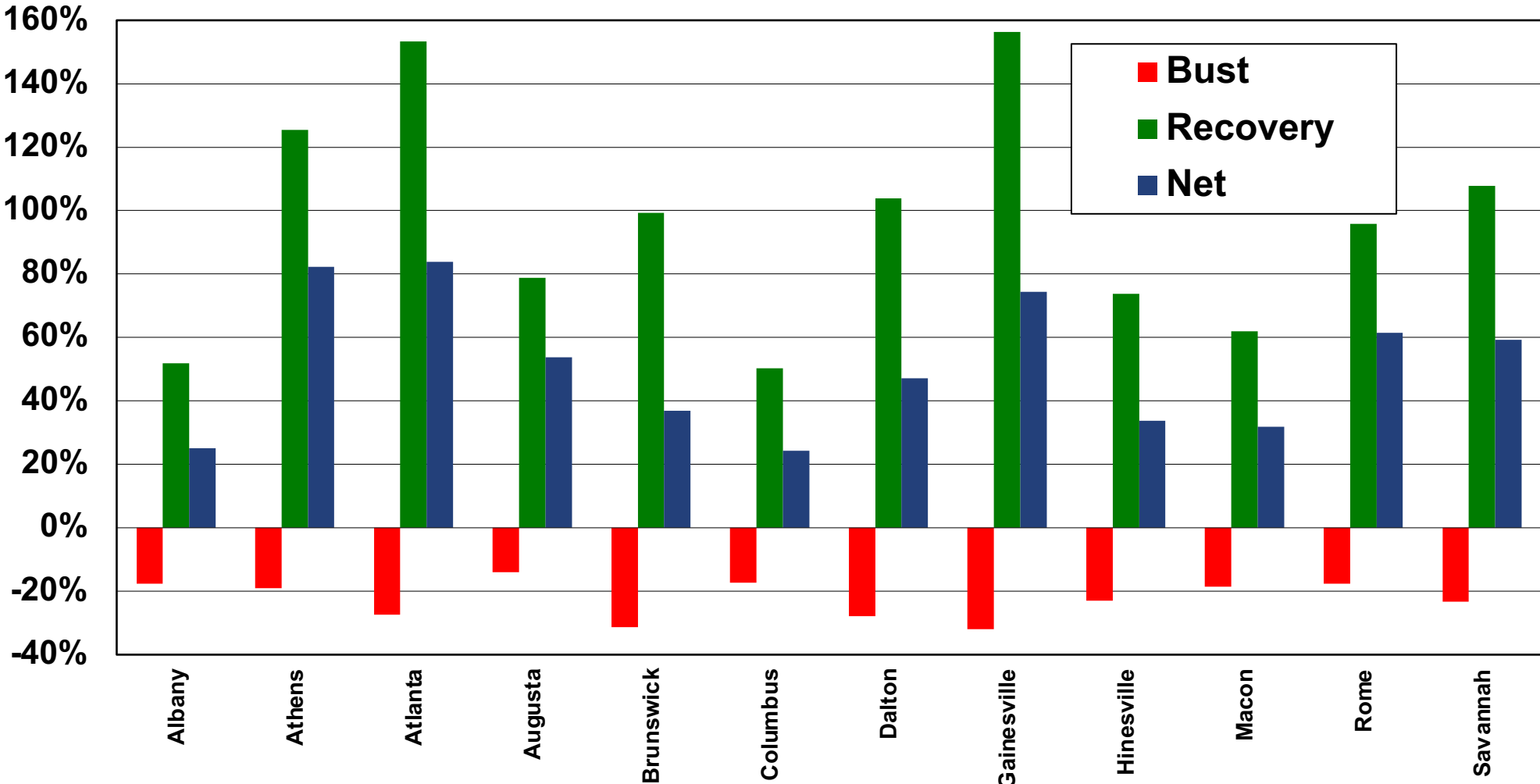


(source: Standard & Poor's Case-Shiller)

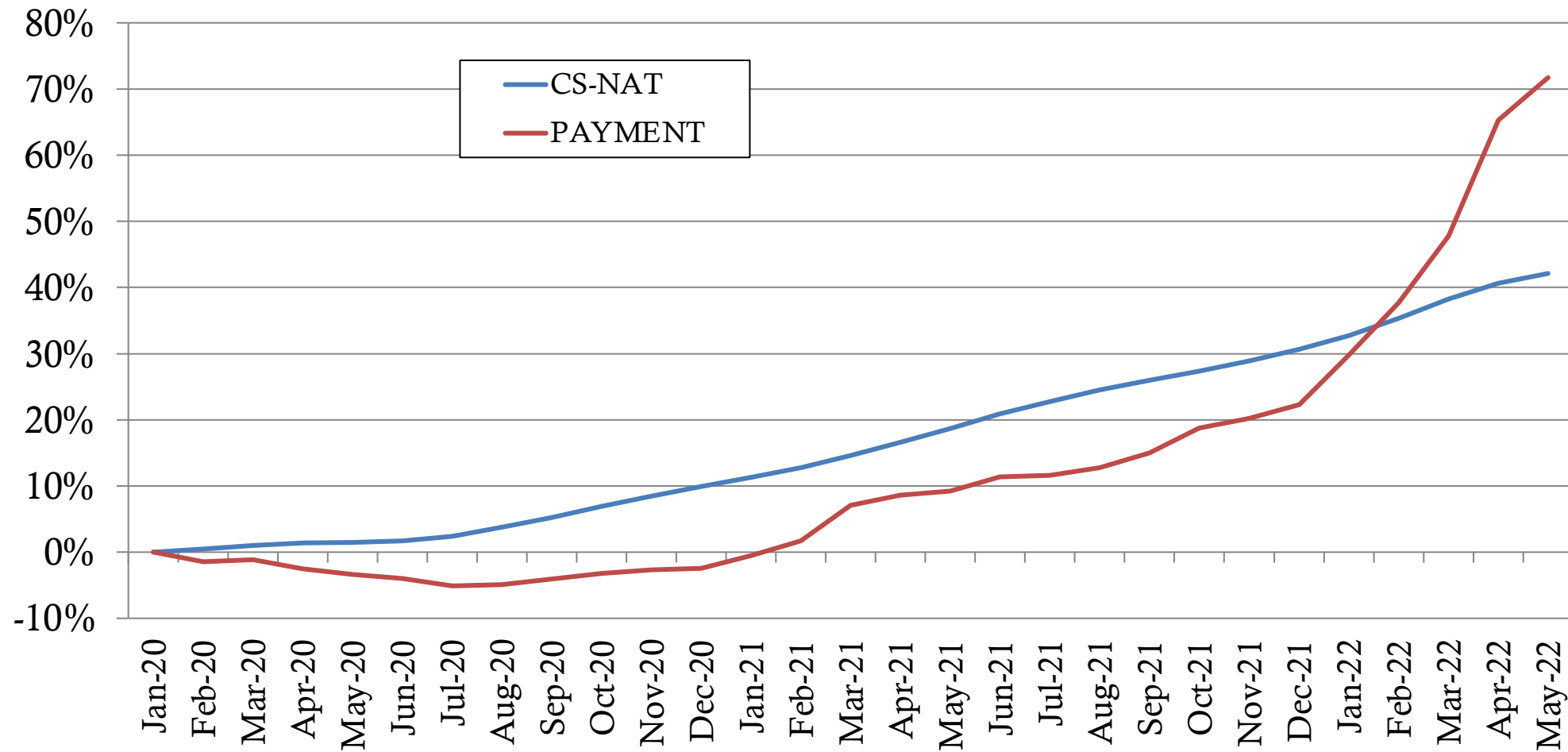
# Home Prices: Georgia (pre-pandemic surge)



# Home Prices: Georgia (post-pandemic surge)



# Affordability: Mortgage Rate Effect



(source: Freddie Mac, Case-Shiller)

# Topic #7:

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COVID-19 opened the flow on spending – where do we go from here? How will we pay for it?

And what about the demographics – friend or foe?

# Currents Issues in Fiscal Affairs

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- **Federal:**
  - Fiscal Outlook fundamentally shifted back by COVID**
  - Back in Play: Infrastructure**
  - Next in Play: Infrastructure, Tax Changes: Rates & SALT**
  - Always in Play: SCOTUS, “GREEN” ISSUES**
  - Ongoing Play: Revising Trade – Little focus since 2020, but chips shortage may change that**
- **States:**
  - Income and Sales Tax revenue plunge, then rebound.**
  - Deferred Income Tax collection shifts state revenues during pandemic**
  - State Budget Surplus: Sources and Uses**
  - Tax Reform Initiatives in other States stop, but SALT consideration weigh in**
- **Local:**
  - RE valuation rising = tax revenues, fiscal distress moderating**
- **The ZOOM Economy – implication for location!!**



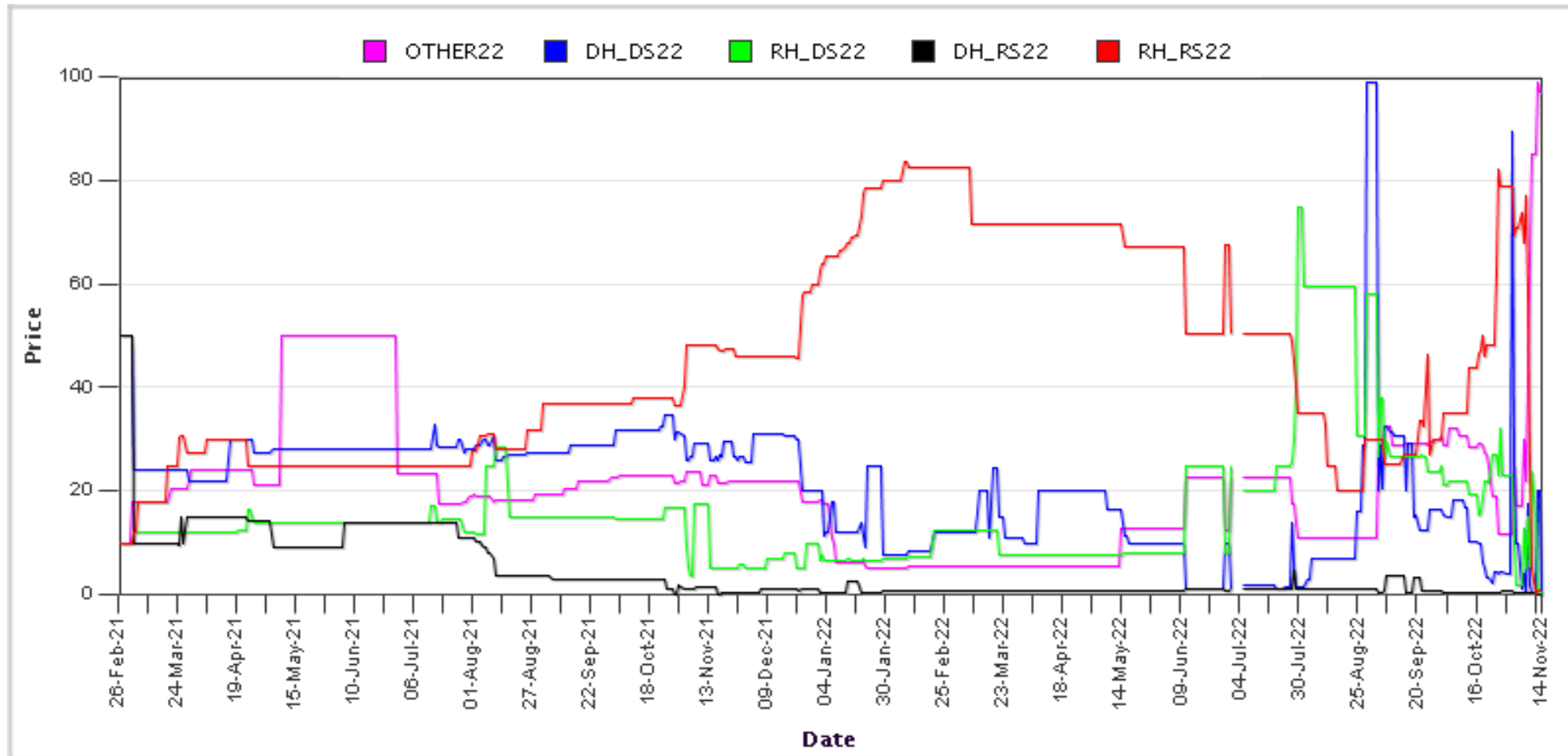
# FY 2022 Revenues

State General Fund Receipts	Year-to-Date			
	FY 2022	FY 2021	\$ Change	% Change
<b>Net Tax Revenues:</b>				
Income Tax - Individual	\$ 18,288,454	\$ 14,222,159	\$ 4,066,296	28.6%
Income Tax - Corporate	\$ 2,509,683	\$ 1,750,735	\$ 758,948	43.4%
<b>Sales and Use Tax - General:</b>				
Sales and Use Tax - Gross	\$ 16,483,809	\$ 14,166,161	\$ 2,317,647	16.4%
Local Distribution (Note 1)	\$ (8,099,674)	\$ (7,115,684)	\$ (983,991)	-13.8%
Adjustments \ Refunds	\$ (63,774)	\$ (102,182)	\$ 38,408	37.6%
Net Sales and Use Tax - General	\$ 8,320,361	\$ 6,948,296	\$ 1,372,065	19.7%
Motor Fuel Taxes	\$ 1,602,054	\$ 1,781,682	\$ (179,628)	-10.1%
Tobacco Taxes	\$ 238,574	\$ 242,897	\$ (4,323)	-1.8%
Alcoholic Beverages Tax	\$ 228,617	\$ 227,872	\$ 745	0.3%
Property Tax	\$ 1,436	\$ 1,226	\$ 210	17.1%
<b>Motor Vehicle Revenues:</b>				
Highway Impact Fees	\$ 23,174	\$ 18,496	\$ 4,678	25.3%
Tag, Title and Fees	\$ 402,477	\$ 399,815	\$ 2,662	0.7%
Title Ad Valorem Tax	\$ 799,185	\$ 732,156	\$ 67,029	9.2%
Motor Vehicle Subtotal	\$ 1,224,837	\$ 1,150,467	\$ 74,370	6.5%
<b>Total Net Taxes - Subtotal</b>	\$ 32,414,016	\$ 26,325,334	\$ 6,088,682	23.1%
<b>Interest, Fees and Sales:</b>				
Hotel \ Motel Fees	\$ 189,166	\$ 138,963	\$ 50,203	36.1%
Other Interest, Fees & Sales (Note 2)	\$ 488,004	\$ 433,007	\$ 54,997	12.7%
<b>Total State General Fund Receipts</b>	\$ 33,091,186	\$ 26,897,304	\$ 6,193,882	23.0%

**Footnotes:**

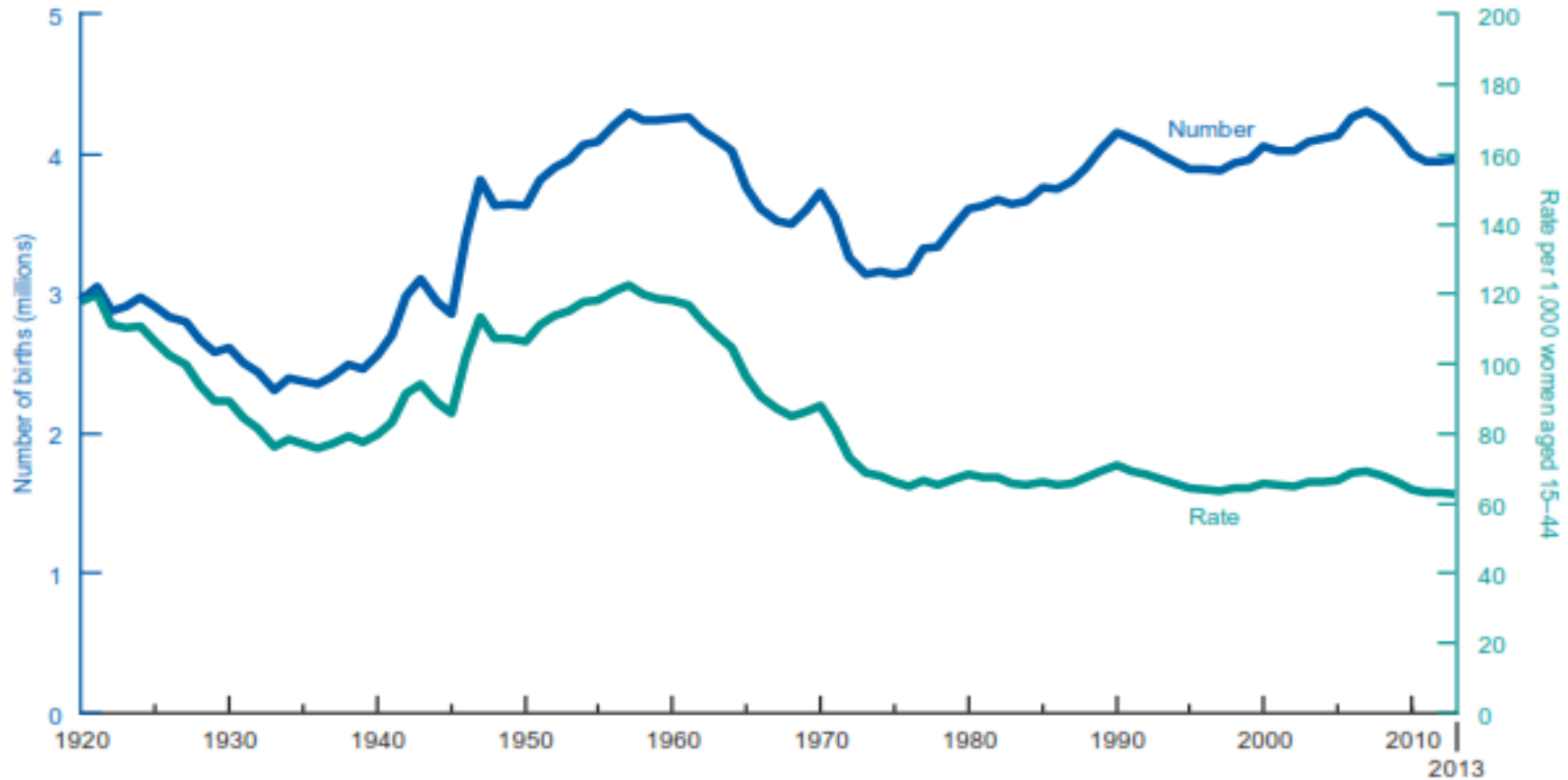
1. The Local Distribution is adjusted with an accrual to reflect payment activity that occurs after the actual distribution (3 business days prior to the end of a month).
2. "Other Interest, Fees & Sales" include payments that have been deposited in the bank, but for which returns may not have been processed. These undistributed tax payments are then re-classified (once the return is processed) to the appropriate revenue tax account. "Other" also includes Unclaimed Property collections.

# Iowa Electronic Markets: Congress



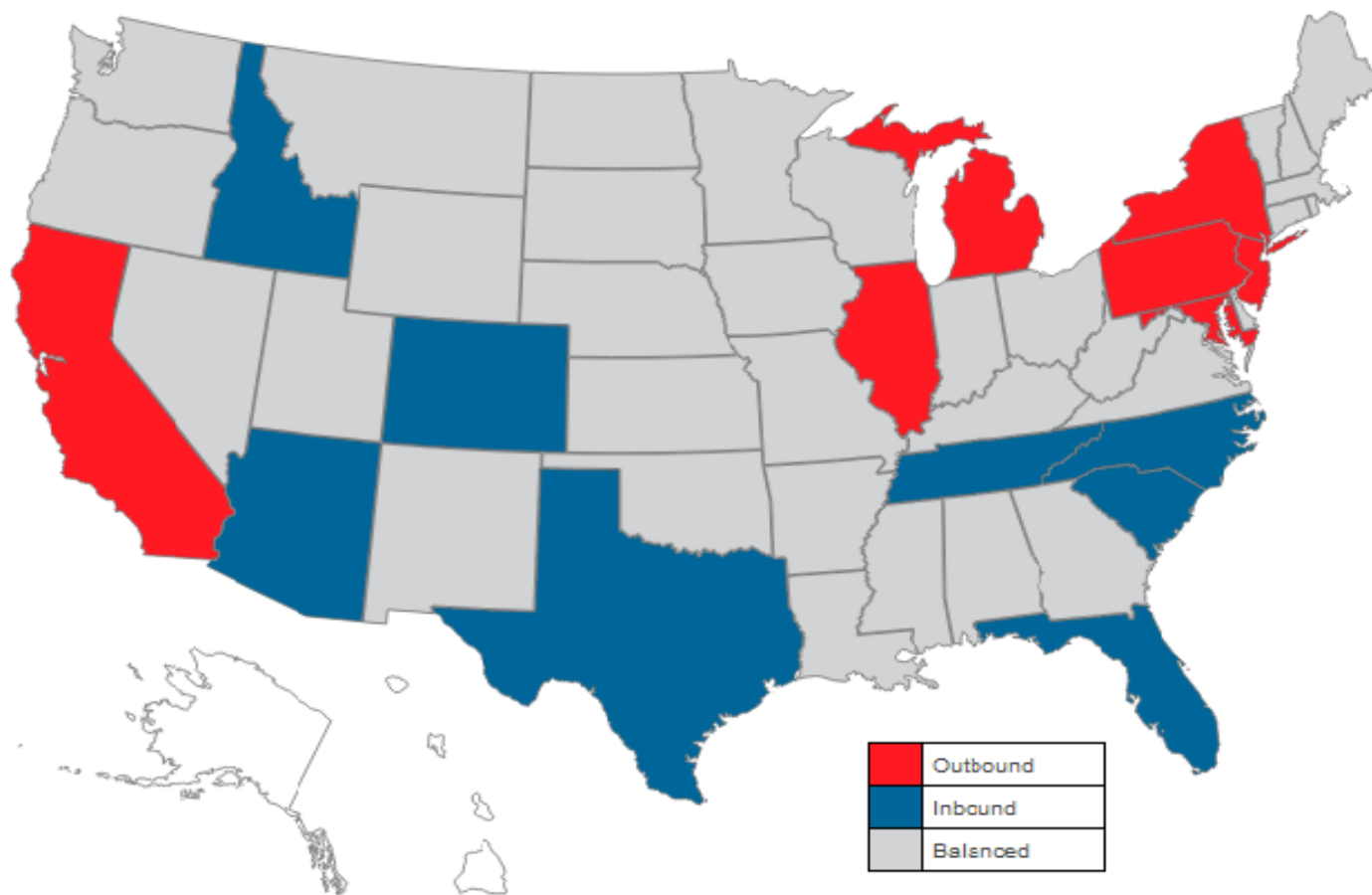
(source: University of Iowa)

# The Demographics: Boom & Bust



(Source: CDC, US Bureau of Census)

# 2021 Migration



(source: NAMS Report)

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