

# Economics Group

## Special Commentary

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# Georgia 2014 Economic Outlook

## A Few Frequently Asked Questions About the State's Prospects

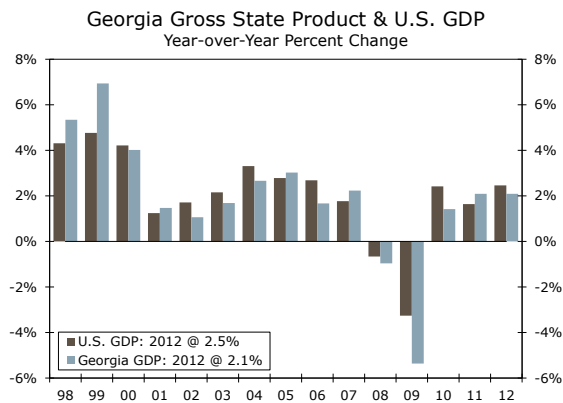
Georgia's economy made dramatic strides in 2013 and likely turned in its strongest overall performance in more than a decade. Nonfarm employment has increased 2.1 percent over the past year, on a year-to-date (YTD) basis through November. The unemployment rate has also fallen, although somewhat more begrudgingly. We estimate that the state's real Gross Domestic Product (GDP) increased 3.3 percent in 2013. Overall growth has been bolstered by the resumption of corporate relocations and expansions into the Peach State and the increased population growth that tends to accompany it. Long-smoldering problems in the housing sector also eased considerably, as home sales rebounded, home prices increased and the backlog of foreclosures declined. The improvement has flowed through to tax receipts, which are up 3.6 percent YTD over the past year.

We are relatively optimistic about Georgia's prospects in 2014. The state's economy appears to have gained momentum throughout 2013 and more industries are expanding today than at any other time since the recession ended. The mix of jobs being created is also encouraging, with manufacturing, construction, logistics and the technology and innovation sector all expected to add meaningfully to growth in the coming year. International trade and investment should remain notable bright spots. The better mix of jobs should support stronger income growth, which should help further the recovery in home sales, new home construction and retailing.

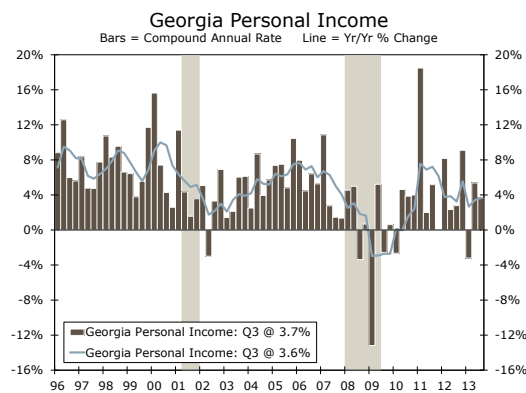
We have compiled a list of key questions that we are often asked about Georgia's economic prospects. Some deal with specifics with the forecast, such as how many jobs will be created, while others reflect on emerging themes shaping the state's economic development, such as the reshoring of manufacturing, unwinding of the housing bust and the growth in the state's innovation sector. We also include an updated forecast table through 2015 for Georgia and Atlanta.

***We are relatively optimistic about Georgia's prospects in 2014.***

**Figure 1**



**Figure 2**



Source: U.S. Department of Commerce and Wells Fargo Securities, LLC



### Is The Economy Finally Achieving Escape Velocity?

The U.S. and Georgia economies appear to have ended 2013 on a positive note. U.S. real GDP is on track to expand around a 2.0 percent pace in 2013, and growth in the second half of the year appears to have been above that pace. The drag from Europe’s recession and slowdown in global GDP growth appears to be waning. We also received some rare good news on the political front, with a budget deal hammered out between the House and Senate that significantly decreases the chances of a government shutdown early next year. Hopefully the bi-partisanship will carry into the negotiations over extending the debt ceiling, which will need to be raised at some point in the first half of 2014. The budget deal will slightly lessen the effect of sequestration next year, which may provide some short-term relief for military bases and defense contractors in the state.

**Georgia continues to ride a wave of efficacious industrial recruitment.**

Georgia’s nonfarm employment growth ramped up a bit in 2013, and the unemployment rate fell to a five-year low of 7.7 percent in November. Georgia continues to ride a wave of efficacious industrial recruitment that has significantly bolstered the state’s industrial base. The past two years have been a transformative period in Georgia’s economic history, where manufacturing has been re-energized by a surge in domestic and foreign direct investment. The state’s extensive highway network, deep-water ports and job-training programs are helping attract a new assortment of industries that will drive the state’s economy for years to come. The breadth is truly remarkable. Several major expansions and new developments are currently underway in emerging fields like life sciences and cloud computing, media and entertainment, as well as the next iteration of manufacturing in motor vehicles, aerospace, industrial equipment and textiles.

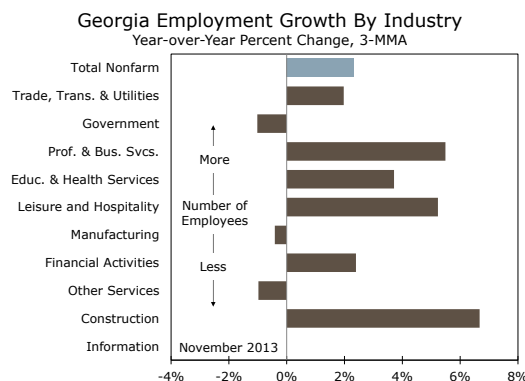
We are optimistic about 2014. We see U.S. real GDP growing 2.4 percent next year, and on an annual average basis, the comparable measure for Georgia should rise 3.8 percent. Job and income growth should be noticeably stronger next year, with a better mix of jobs being created, including more high paying positions in construction, manufacturing and the technology and innovation sectors. Improving growth overseas should help boost exports, and the state’s agriculture and forest products industries are going into the New Year in good shape and with a more diverse mix of products and customers. Whether or not this is enough to achieve escape velocity remains to be seen but the U.S. and Georgia economies are expanding on more fronts today than any other time since the recession ended. Moreover, with the economy gaining momentum and exports and homebuilding improving, the risks to our forecast and the consensus forecast appear to be to the upside.

### What is Going On in Georgia’s Labor Market?

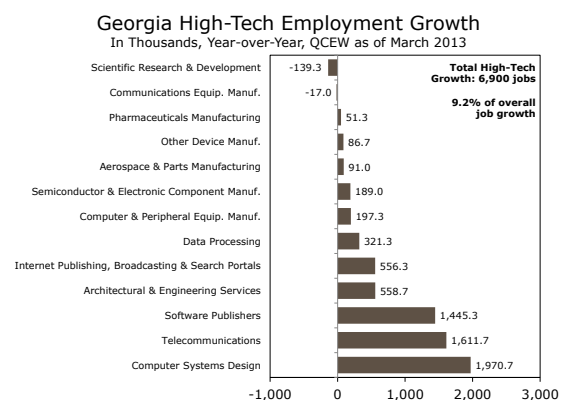
**Hiring has been on an upswing.**

Georgia’s economy was among the hardest hit during the recession, with nonfarm employment falling 8.1 percent from its pre-recession peak to its low in February 2010. Hiring has been on an upswing ever since and the state has recaptured 65 percent of the jobs lost during the recession. That leaves the nonfarm employment 2.8 percent short of its pre-recession level.

**Figure 3**



**Figure 4**



Source: U.S. Department of Labor and Wells Fargo Securities, LLC

The overall employment numbers, however, do not do justice to the struggles the state has been through. A large proportion of the jobs lost during the recession were relatively high paying positions in construction, manufacturing, financial services and government, while a large proportion of the jobs added during the recovery have been in relatively low paying fields such as retail trade, the hospitality sector and temporary staffing.

This past year seems to have marked a bit of a change. November’s year-over-year data show nonfarm payroll employment is up 2.3 percent over the past year, besting the nation’s 1.7 percent gain. The state has added 91,200 jobs over the past year. The gain would have been even greater if not for the continued drag from government cutbacks. Private payrolls have increased 3.0 percent over the past year, producing a net gain of 98,100 jobs. The improvement in hiring is consistent with the steady flow of industrial development announcements. Georgia placed first in Site Selection’s annual ranking for top business climate in 2013, after placing fourth in 2012. The ranking process considers hard data on new projects as well as anecdotal survey data from business leaders.

Nearly one-third of the gain in private sector payrolls has been in professional and business services, which is up 4.8 percent over the past year. Although many of these new jobs have been in areas that traditionally pay higher wages, such as accounting, engineering and corporate and regional headquarters operation, a large portion were also in administrative and support, waste management, and remediation services (+17,600 jobs), which tend to be lower-paying jobs. The stronger growth in these lower-paying sectors is not unique to this cycle. What has been missing up until recently has been the addition of higher-paying jobs. Such hiring appears to have picked up in 2013, with particularly strong growth in the technology and innovation sectors. We expect this momentum to carry over into 2014. Other industries posting sizable gains include leisure and hospitality (up 5.2 percent), healthcare and social assistance (up 3.8 percent) and construction (up an impressive 9.4 percent). Government, manufacturing, and “other” services, are the only areas posting declines and even here declines were relatively modest.

Overall, job growth should gain momentum in 2014. We expect nonfarm employment to rise 2.4 percent on an annual average basis, producing a net gain of 95,000 jobs statewide. The mix of jobs should be better. Hiring in construction should be considerably stronger, and we expect the state’s factory sector to post modest job gains. Financial services, the tech sector and healthcare should all build on their recent gains

**Nearly one-third of the gain in private sector payrolls has been in professional and business services.**

### Why Has Georgia’s Unemployment Rate Remained So High?

Georgia’s unemployment rate has also remained stubbornly high, ending the year just under 8 percent, which is still one of the highest in the South and unbefitting a state more accustomed to leading the nation in job growth. The state’s high unemployment rate is a byproduct of the unusual depth of the last recession.

Figure 5

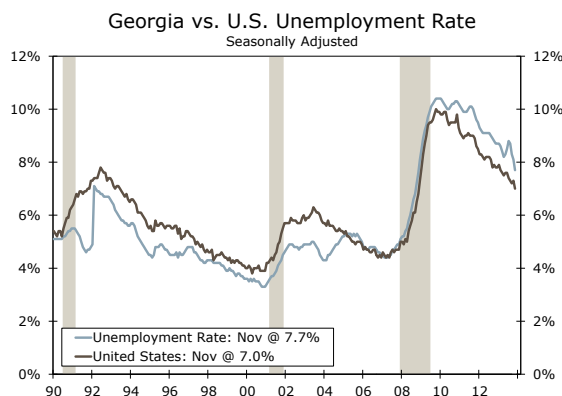
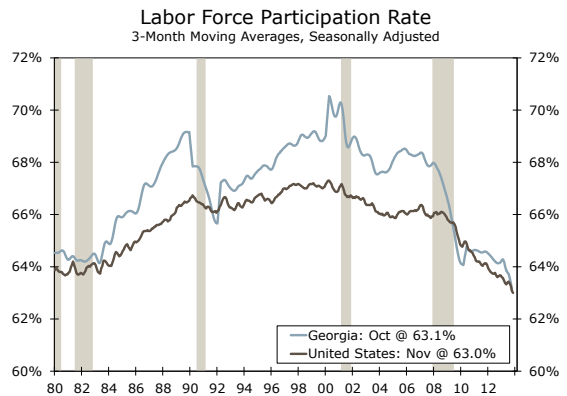


Figure 6



Source: U.S. Department of Labor and Wells Fargo Securities, LLC

Georgia was hit harder than most other states, with its large construction, building products, carpet, financial services and construction equipment sectors all taking a huge hit. The sluggish recovery has made it difficult for workers displaced in these industries to find suitable new jobs, particularly in the state's rural areas. The housing slump also presented some unusual challenges for Georgia. The plunge in housing prices around the country made it much more difficult for companies to relocate operations to Georgia. In the past, this has been a huge source of growth, particularly in Atlanta.

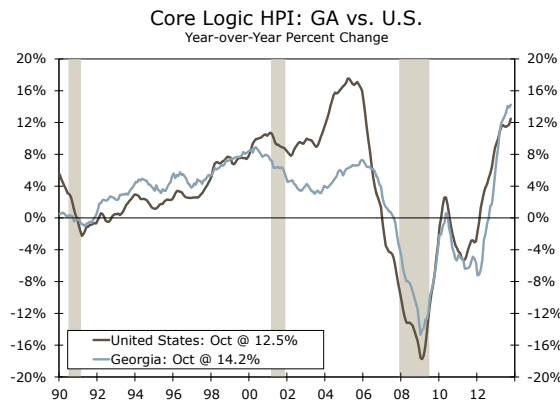
**Employment conditions improved this past year but the unemployment rate has not fallen all that much.**

Employment conditions improved this past year but the unemployment rate has not fallen all that much. Georgia's jobless rate looks like it will end the year under 8 percent, but will still likely be one of the highest in the South and likely be among the 10 highest in the nation. Georgia's labor force participation rate has declined in line with the trend seen nationwide, falling around 1 percentage point over the past year. Given that Georgia's unemployment rate has not fallen as rapidly as the nation's has and remains well above it, this would suggest that Georgia is facing a greater skills mismatch challenge than the nation is. The problem is most acute in construction and manufacturing, particularly at producers of building products and carpets. Many of the jobs being created by newer businesses setting up shop in Georgia over the past few years require a greater skill set than those that were eliminated over the past few years.

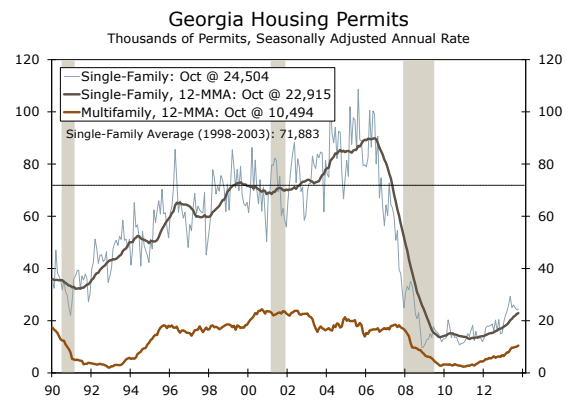
**What Is the Current State of the Housing Market?**

The rapid acceleration in home prices made 2013 a transformational year for Georgia's struggling housing sector. Home prices have risen 14.2 percent over the past year, compared to the national average of 12.5 percent. This increase comes on the heels of a nearly one-third peak-to-trough decline in prices. The rise in home prices has been helped along by an influx of investor purchases, particularly in the Atlanta area.

**Figure 7**



**Figure 8**



Source: CoreLogic, U.S. Department of Commerce and Wells Fargo Securities, LLC

**Homebuilding has been slower to recover but is improving nonetheless.**

Homebuilding has been slower to recover but is improving nonetheless. Single-family permits are up nearly 40 percent on a year-to-date basis but off an extremely low base. Even with the increase, single-family construction remains well below the pace averaged during the years prior to the housing boom. Multifamily construction is doing considerably better, however, reflecting strong demand for apartments. Activity has ramped up significantly over the past six months, with permits for multifamily residences running more than 65 percent above their year-ago pace.

While new construction has increased, sales of existing homes have fallen slightly over the past year. According to the Georgia Realtors Association, closed sales through November were down 3.0 percent from the same period in the prior year. The slowdown likely reflects less investor activity, as most of the bargain priced homes left over from the housing bust have already been sold. The median price of an existing home has jumped 33.4 percent over the past year on a year-to-date basis from those bargain-priced levels. Most other metrics have improved. Homes are selling faster and more homeowners are putting their homes on the market.

The sluggish recovery in home sales and new home construction has likely been exacerbated by the number of underwater borrowers, particularly in the Atlanta metropolitan area. The recent acceleration in home prices, however, has likely brought many homeowners back into a positive equity position. Statewide, 17.8 percent of all mortgages were in a state of negative equity in Q3. Although above the national average, this is a significant improvement compared to 35.6 percent in the prior year. Atlanta has also shown improvement, moving to 20.0 percent in Q3 2013 from 40.5 percent negative equity share in Q3 2012.

The foreclosure inventory also continues to fall, and accounts for 1.3 percent of all mortgaged homes in Georgia, down from 1.9 percent last year, 0.9 percentage points below the national average. The number of seriously delinquent mortgages accounts for 5.1 percent of all mortgages.

This past year likely marks a major transition point for Georgia's housing recovery. Home prices have now improved to the point where more homeowners are willing to put their homes on the market and employment conditions have stabilized enough that more traditional buyers are returning. We expect new and existing home sales to improve in 2014, with gains driven by stronger job and income growth and increased household formations.

### **What's Ahead for Atlanta?**

This past year has marked a monumental change for Atlanta's economy. Job growth has picked up in a major way, driven by a diverse mix of industries. On an annual average basis, nonfarm employment has increased 2.5 percent, producing a net gain of 59,400 jobs. Growth would have been even stronger if not for a 1.0 percentage point decline in government payrolls, most of which occurred at the federal level. Hiring in the private sector has risen 2.7 percent on a year-to-date basis through November.

A big part of Atlanta's turnaround is due to the technology sector. After lying dormant for more than a decade, Atlanta's tech sector reasserted itself in a big way in 2013. Atlanta is a major player in a number of key rapidly growing parts of the tech sector, including payments processing, mobile devices, Internet security and health information systems. In addition, the continued influx of young, college-educated residents into the Atlanta metro area has helped the region land a number of major tech-related relocations and expansions this past year. Projects announced this past year include General Motors new \$26 million technology development center in Roswell, which is expected to ultimately employ 1,000 workers, and an \$8.5 million expansion of Ernst & Young's global IT center in Alpharetta, which is expected to create 400 new jobs. Other notable relocations and expansions include athenahealth, which announced it would hire 400 people to staff a new operation at the Ponce City Market, in Midtown, and mobile device management software maker Airwatch, which added 800 jobs at its Sandy Springs headquarters.

***A big part of Atlanta's turnaround is due to the technology sector.***

Another rapidly expanding part of Atlanta's economy creating quite a bit of buzz is the media and entertainment sector, which has brought investment, jobs and garnered considerable national attention to the region. Several major projects were announced this past year, including a massive 286-acre complex by Pinewood Studios in Fayette County, which is scheduled to open in early 2014. Other projects announced this past year include plans by Triple Horse Studios to build a \$100 million studio in Covington and plans by Jacoby Development to build what is dubbed the South's largest movie studio in Gwinnett County. In addition, Tyler Perry Studios has also announced plans for a major studio expansion in the Atlanta area.

Finally, this past year, the Atlanta Falcons and the Atlanta Braves announced plans to build new stadiums. Both stadiums are expected to be completed by their team's respective 2017 seasons. The Falcons ultramodern \$1.2 billion stadium will be located near the current stadium in downtown Atlanta and, with its retractable roof, will put the city in a good position to host major events such as the Super Bowl, the Final Four, SEC Championship and major political conventions. The new Braves stadium is being built in Cobb County, about 15 miles north of downtown Atlanta. The \$400 million stadium will also include a huge entertainment complex, with an estimated investment of between \$700 million and \$1 billion. The complex should significantly expand the economic impact that Braves games have on the local economy, making them even larger events. Construction of both stadiums will provide a real boost to Atlanta's economy at a time that commercial construction remains relatively restrained.

Georgia Economic Outlook

	Actual					Forecast				
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Real Gross Domestic Product by State, Millions	369,241	377,492	373,862	353,817	358,843	366,342	374,000	386,400	400,907	418,000
Annual Rate	1.7	2.2	(1.0)	(5.4)	1.4	2.1	2.1	3.3	3.8	4.3
Nominal Personal Income, Millions	315,048	332,374	339,900	330,287	333,633	356,836	371,488	387,462	407,610	432,474
Percent Change	7.0	5.5	2.3	(2.8)	1.0	7.0	4.1	4.3	5.2	6.1
Population, Thousands	9,156	9,350	9,505	9,621	9,715	9,812	9,920	10,040	10,180	10,340
Change, Thousands	230	194	155	116	94	98	107	120	140	160
Households, Thousands	3,377	3,417	3,470	3,469	3,482	3,495	3,533	3,600	3,680	3,780
Change, Thousands	56	40	53	(1)	13	12	38	67	80	100
Nonfarm Employment, Thousands	4,112	4,167	4,123	3,900	3,862	3,902	3,953	4,035	4,130	4,240
Change, Thousands	87	54	-43	-223	-38	41	51	82	95	110
Unemployment Rate, Annual Average	4.7	4.6	6.3	9.8	10.2	9.9	9.0	8.1	7.2	6.4
Total Housing Permits	98,855	68,676	32,090	17,359	16,294	18,353	24,041	36,000	48,500	64,000
Single-Family Permits	81,695	51,947	24,654	14,111	13,917	14,055	17,212	24,900	34,500	48,500
Multifamily Permits	17,160	16,729	7,436	3,248	2,377	4,298	6,829	11,100	14,000	15,500
Existing Single-Family Home Sales, Thousands	198,953	144,075	86,249	65,927	62,495	61,982	74,961	73,462	75,298	77,407
CoreLogic Home Price Index, Percent Change	4.0	(4.0)	(13.1)	(3.8)	(5.4)	(5.6)	5.4	12.3	7.0	4.2

Sources: CoreLogic, National Association of Realtors, U.S. Department of Commerce, U.S. Department of Labor and Wells Fargo Securities, LLC  
Forecast as of: December 18, 2012

Atlanta Economic Outlook

	Actual					Forecast				
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Real Gross Domestic Product by Metro, Millions	249,992	257,683	254,444	239,062	243,667	249,981	256,357	266,073	277,647	291,057
Annual Rate	2.4	3.1	(1.3)	(6.0)	1.9	2.6	2.6	3.8	4.3	4.8
Nominal Personal Income, Millions	193,875	204,550	206,820	198,610	199,483	214,363	223,569	234,300	247,890	264,250
Percent Change	1.1	(4.0)	0.4	7.5	0.4	7.5	4.3	4.8	5.8	6.6
Population, Thousands	4,915	5,049	5,152	5,223	5,287	5,357	5,440	5,530	5,635	5,750
Change, Thousands	161	134	103	71	64	70	83	90	105	115
Nonfarm Employment, Thousands	2,454	2,427	2,291	2,291	2,271	2,307	2,350	2,410	2,480	2,560
Change, Thousands	(27)	(136)	(20)	36	44	36	44	59.6	70.0	80.0
Good Producing Service Providing	318	317	297	249	236	237	237	238	244	250
Service Providing	2,088	2,138	2,130	2,042	2,035	2,069	2,114	2,172	2,236	2,310
Unemployment Rate, Annual Average	4.7	4.5	6.2	9.8	10.1	9.8	8.8	8.0	7.1	6.2
Total Housing Permits	68,664	43,814	18,797	6,577	7,464	8,549	14,394	24,700	33,500	44,000
Single-Family Permits	54,406	31,029	13,318	5,454	6,417	6,291	9,317	15,275	22,800	31,500
Multifamily Permits	14,258	12,785	5,479	1,123	1,047	2,258	5,077	9,425	10,700	12,500
Office Vacancy Rate	16.1%	15.1%	16.6%	18.4%	20.9%	20.7%	20.7%	20.4%	19.6%	18.8%
Industrial Vacancy Rate	11.0%	10.9%	12.5%	14.0%	14.9%	13.4%	12.7%	11.8%	10.5%	9.5%
S&P/Case-Shiller Home Price Index	133.1	134.0	122.6	108.4	105.8	98.4	90.7	107.7	116.3	122.1
Year-over-Year Percent Change	4.3	0.7	(8.5)	(11.6)	(2.4)	(7.0)	(7.8)	18.8	8.0	5.0

Sources: S&P, National Association of Realtors, PPR, Reis Inc, U.S. Department of Commerce, U.S. Department of Labor and Wells Fargo Securities, LLC  
Forecast as of: December 18, 2013



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