SENSIGHTS

A monthly roundup of various economic indicators that could, will, or are impacting Georgia

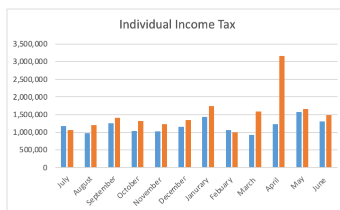
Entrenched Inflation Poses Significant Risk

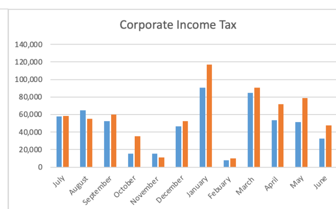
Top Federal Reserve officials think entrenched inflation is a "significant risk" to the US economy and fear tighter monetary policy will be needed if price growth exceeds their exceptions. Policymakers now support raising interest rates to the point at which economic activity is restrained, and the possibility could become "even more restrictive" if warranted by the data. The notes from the Federal Open Market Committee revealed the alarm spreading though the top ranks of US central bank over inflation which is running at an annual pace of 8.6 percent. The Fed will decide whether to raise rates by .50 percentage points or .75 percentage points later at its meeting this month. "If inflation becomes entrenched in consumer and business psyches, it will be much more difficult to lower it over the medium term. That is the breaking point for the Fed and they really want to do their best to make sure that does not happen" said Kath Bostjancic chief US economist at Oxford Economics. The minutes also showed that participants were increasing aware that their plans to tighten monetary policy would slow the pace of economic growth. Most noted that the risked to the outlook were "skewed to the downside" given the possibility that further tightening could weigh on activity. Powell reiterated the message last week saying, "The process is highly likely to involve some pain but the worst pain would be from failing to address this high inflation"

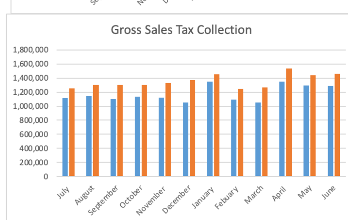
-Financial Times

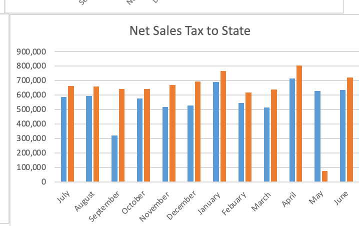
May Revenues Rise Slightly

The State of Georgia's June net tax collections totaled $2.85 billion for an increase of **$354.2 million**, or 14.2 percent, compared to June 2021, when net tax collections totaled $2.50 billion. For the fiscal year-ended June 30, 2022, net tax collections totaled $33.09 billion for an overall increase of **$6.19 billion**, or 23 percent, compared to Fiscal Year 2021, during which final net tax revenues approached $26.90 billion.



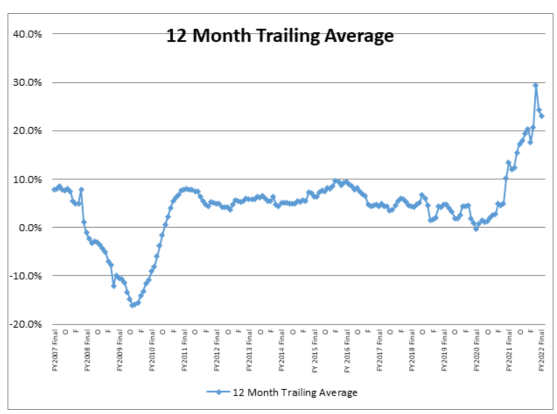






Key: July 2020 -June 2021 July 2021- June 2022

12 Month Trailing Average



Fears of Another Gas Shock

White House officials fear a new round of European penalties aimed at curbing the flow of Russian oil by year-end could send energy prices soaring anew, slamming already beleaguered consumers and plunging the United States and other economies into a severe contraction. That chain of events could exacerbate what is already a food crisis plaguing the world. .To prevent that outcome, U.S. officials have latched on to a never-before-tried plan aimed at depressing global oil prices – one that would complement European sanctions and allow critical flows of Russian crude onto global markets to continue but at a steeply discounted price. The potential for another oil shock to puncture the global economy, and perhaps Mr. Biden's re-election prospects, has driven the administration's attempts to persuade government and business leaders around the world to sign on to a global price cap on Russian oil. Ideally, the officials say, the plan could bring down global oil prices by reducing the risk of a future supply disruption, which traders may be factoring into their decisions. Some experts doubt the plan will work, saying it is ripe for evasion and will still provide Russia with plenty of energy revenue. There is also the chance that a low cap would induce Moscow to refuse to ship any discounted oil, instead paying to cap wells and halt production.
- New York Times

June Jobs Exceed Expectations

Job growth accelerated at a much faster pace than expected in June, indicating that the main pillar of the U.S. economy remains strong despite pockets of weakness. Nonfarm payrolls increased 372,000 in the month, better than the 250,000 Dow Jones estimate and continuing what has been a strong year for job growth, according to data Friday from the Bureau of Labor Statistics. -CNBC

Inflation will Stay Above the Pre-Pandemic Norm

The bad news on inflation just keeps on coming. There have never been no many "inflation surprises" where the data have come in higher than economists' forecasts. This, in turn, is taking a heavy toll on the economy and financial markets. Consumer confidence in many places is now lower than it was in the early days of the COVID-19 pandemic. What consumer prices do next is therefore one of the most important questions for the global economy. Many forecasters expect that annual inflation will soon ebb, in part of because of last year's sharp increases in commodity prices falling out of the year-on-year comparison. Inflation worrywarts can point to three indicators suggesting the rich world is unlikely to retune to the pre-pandemic norm of low, stable price growth any time soon: rising wage growth, and increasing in the inflation expectations of both consumers and companies. If sustained, these could together contribute to what the Bank for International Settlements, the central bank for central banks, described in a report as :a tipping point". Falling goods prices could, in theory, help douse the inflationary flames in the rich world easing the cost-of-living crisis, giving central banks breathing room and buoying financial markets. But, with enough indicators of future prices pointing the other way, the odds of that happening have strengthened. Don't be surprised if inflation grows for a while. - Economist

The Economist

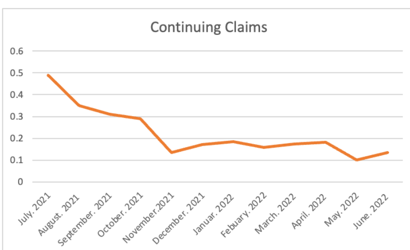
Fed Urges Swift Action on Cryptocurrency

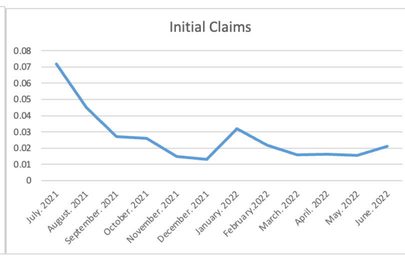
The cryptocurrency industry needs strong regulation before it becomes so pervasive it poses financial stability risks, Federal Reserve Vice Chair Lael Brainard said, noting recent turmoil in the space has shown cryptocurrencies suffer from the same risks as the traditional finance sector.The risks of loosely regulated cryptocurrencies and stablecoins, which operate in a legal grey area, have come into focus with the crypto market slumping sharply and the collapse of major "stablecoin" TerraUSD. Leading cryptocurrency bitcoin has dropped more than 75% from its all-time high over the past seven months. The crash has felled a number of major crypto companies. While the crypto industry has touted digital assets as fundamentally different from traditional finance, Brainard said the sector has proven to be susceptible to the same risks and should be subject to the same rules. These risks include leverage, fire sales, opacity, maturity and liquidity mismatches, and contagion, she said, adding that new technologies and financial engineering cannot alone transform risky assets into safe ones. -Reuters

More Freedom for our Monetary Policy

As we celebrate 246 years of national independence, our country is now more than two years into an economic recovery from the two-month COVID Lockdown Depression. Although the economy has improved dramatically from the complete lockdown bottom in April 2020, it's still feeling lingering pain from policy mistakes made to address the pandemic. In our view, we are still suffering from three major policy mistakes. First, running an overly loose monetary policy. second, handing out too many government checks, which allowed American consumers to borrow from future production and spend more in the past two years than they would have if no pandemic had ever occurred. And third, shutting down many parts of the economy through government mandates at multiple levels. Markets are extremely robust under normal circumstances. War, hurricanes, drought, power failures are all disruptive, but markets absorb them and move on. But, by taking the unprecedented path of shutting down large parts of the economy, government made the recovery process extremely hard. Markets only work when information (the pricing system) is allowed to function. It hasn't functioned properly for over two years now. In a sense, the answers to our problems were all around us this past weekend, in all the celebrations of America and in all our connections with family and friends. The answer is us. What we need is more of all of us thinking things through on our own, figuring things out, with fewer Washington rules, mandates, and regulations getting in between. - Monday Morning Outlook

Continuing and Initial Unemployment Update





Chairman Hufstetler's Final Thoughts

As you have read we had a record year of revenue for a variety of reasons. Up 23% and 6 Billion + over a tremendous last year. Sales tax will also be benefitting in the future from inflation but the increase in costs from inflation will have a big impact. With the only two income tax rate cuts in history recently and an unprecedented increase in revenue these years are historic. I can give you a lot of reasons to worry but for this month we will just celebrate a fiscal year unequaled in any other time.

Chairman Tillery's Final Thoughts

FY 2022 ended with an approximate $6 billion surplus. That's 19% greater than expected and 23% ahead of last fiscal year's revenue. But you don't have to look far to see the pressing needs that will quickly eat away that surplus. We added $3 billion in payroll to our budget last year. And the raises we funded to help with retention and recruitment are struggling to keep up with inflation. It's almost as if the raise made no headway and only kept employees from falling further behind.GDOT reports approximately 19% increases to inputs for contracts. If other areas feel the same pinch, our 23% surplus quickly evaporates and the increased cost become a weight around our neck for the foreseeable future. In a best case scenario for Georgia, prices will soon normalize and we can make progress in strategic areas of improvement- automating processes for easy citizen access, allowing the savings from automation to be reinvested in necessary employee retention, and investment in technology to maximize the skills and time of employees. I see the next few months as a huge opportunity. When all is calm, we rarely make seismic moves for fear of upsetting the status quo. But the tempestuous days ahead will demand we think differently, plan differently and respond differently. Georgia is in a great position to lead out of looming storm.