

SENSIGHTS

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

A Monetary Muddle

The Federal Reserve raised short-term interest rates by three-quarters of a percentage point (75 basis points) last Wednesday. The day before, the Fed had released M2 money supply data for June and it fell slightly, the second decline in three months. For now, with the federal funds rate at 2.375%, the futures market is leaning toward a rate hike of 50 bps in September. The Fed has apparently abandoned "forward guidance" partly because it has already pushed rates close to what many Fed members said is "neutral." Meanwhile, the 10-year Treasury yield has fallen from north of 3.4% to under 2.7% suggesting the market thinks the Fed will either slow down rate hikes, or maybe even cut them next year. Unless, inflation falls precipitously, this makes no sense. "Core" PCE inflation is closing in on 5% and a "neutral" interest rate should be at least that high, or higher. Slow growth (or even slight declines) in M2 is good news. Data on deposits at banks back this up. However, banks have trillions in excess reserves and total loans and leases are growing at double digit rates. The problem is that the Fed never talks about M2 and the press never seems to ask. The bottom line is that the Fed seems determined to bring inflation down but thinks raising short-term interest rates, all by itself, can do the job effectively, even at the same time that it is willing to hike more gradually when inflation is well above the level of rates. This is not a recipe for confidence in the Fed. Expect rates to peak higher than the market now expects and keep watching M2. -Monday Morning Outlook

July Revenues Rise

The State of Georgia's net tax collections during the first month of FY 2023 totaled nearly \$2.21 billion for an increase of \$54.2 million, or 2.5 percent, over July 2021 (FY '22), when net tax collections approached \$2.16 billion.



Key: August 2020 -July 2021

August 2021- July 2022

Jobs Beat Expectations in July

Hiring in July was far better than expected, defying multiple other signs that the economic recovery is losing steam, the Bureau of Labor Statistics reported Friday. Nonfarm payrolls rose 528,000 for the month and the unemployment rate was 3.5%, easily topping the Dow Jones estimates of 258,000 and 3.6%, respectively. The unemployment rate is now back to its pre-pandemic level and tied for the lowest since 1969. More broadly, though, the report showed the labor market remains strong despite other signs of economic weakness. -CNBC

Real GDP Declines in Q2

Real GDP declined at a 0.9% annual rate in Q2, lagging the consensus expected +0.4% rate. The largest negative drag on the real GDP growth rate in Q2, by far, was inventories, with home building, commercial construction, business investment in equipment, and government purchases also holding real GDP down. Net exports, consumer spending, and business investment in intellectual property all increased in Q1. The big drag in the second quarter was a slowdown in the pace of inventory accumulation, which, all by itself, reduced real GDP growth by two percentage points; excluding inventories, real GDP would have grown in Q2. However, inventories were not the only soft part of the economy. On an inflation-adjusted basis, home building dropped at a 14% annual rate while commercial construction fell at an 11.8% rate. Business investment in equipment also declined, as did consumer spending on goods. - FT Portfolios

Personal Income Rises

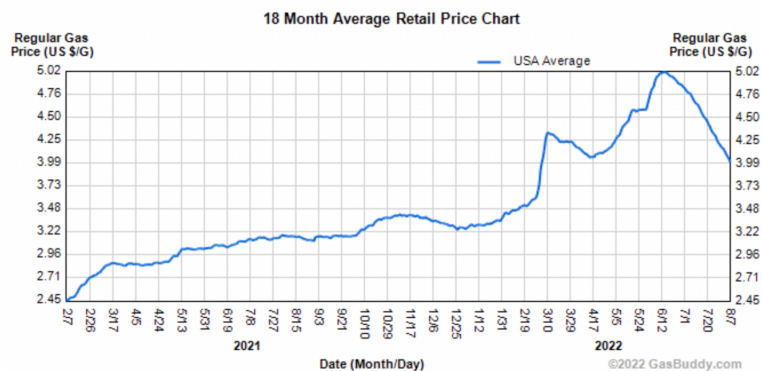
Personal income rose 0.6% beating the consensus expected +0.5%.

Personal consumption rose 1.1% versus a consensus expected +1.0%.

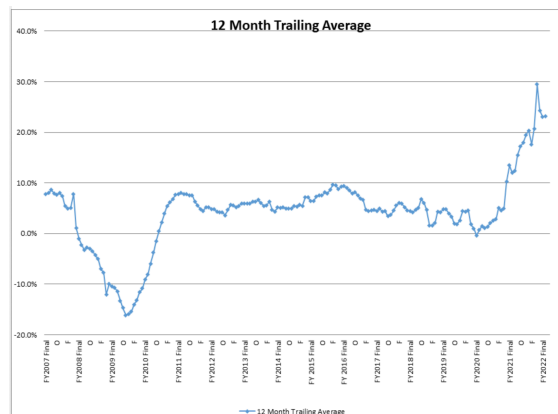
Personal income is up 5.7% in the past year, while spending has increased 8.4%. Consumers continue to spend at a healthy pace, but inflation is eating away at what they get for their dollars. Compared to a year ago, personal income is up 5.7%, lagging the 6.8% rise in inflation of the same period. However, the headline income number hides an important transition. Strip out government transfer payments - the economic morphine that Washington used to cover up the pain of bad COVID policies - and personal income is up 8.1% in the past year, with private-sector wages and salaries up a massive 11.2% over the same period. - Monday Morning Outlook

Gas Prices Beginning to Drop

Gasoline prices, which hit a record high earlier this summer, have fallen sharply in recent weeks. They are now below \$4 a gallon in parts of the country, even as the national average remains above that level. Gasoline consumption in the U.S. has been about 9% lower in recent weeks than it was last summer - a pretty dramatic drop in demand. At the same time, domestic crude oil supply has increased more than 6% from a year ago. Growing concern about an economic slowdown around the world has also weighed on crude oil prices, which account for about half the cost of gasoline. All of this is a recipe for lower prices at the pump. "Americans collectively are going to spend \$340 million less on gasoline today than they did on June 16th when prices peaked," says petroleum analyst Patrick De Haan with the price-tracking website GasBuddy. Pump prices could fall further in the near term, but it's harder to say what will happen later this year. De Haan, the GasBuddy analyst, predicts the average price of gasoline nationwide will drop below \$4 a gallon in the coming days. But he warns, there are some wild cards out there. A hurricane in the Gulf of Mexico, for example, could knock out drilling rigs or refineries, crimping gasoline supplies. Geopolitical threats in Europe or Asia could also send gas prices climbing again. -NPR



12 Month Trailing Average



A Look at Cost-of-Living Adjustments

In both FY 2022A and FY 2023, most State Employees (elected officials excluded) received a \$5,000 cost-of-living adjustment. We've had many questions about other state employee pay increases. Here's a quick summary on all raises over the past 10 years:

Pay Increases for Ten-Year Span from FY2014 – FY2023

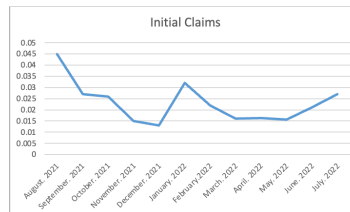
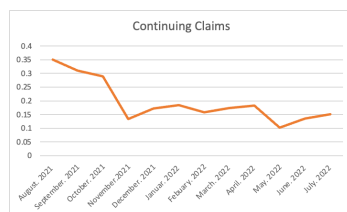
| Fiscal Year | Statewide Actions | | Highlights of Targeted Actions* |
|-------------|---|--|--|
| | Merit-Based or Recruitment and Retention Pay (discretionary, not necessarily evenly distributed) | Cost of Living Adjustment (across all state portions of state-funded employees) | State Job-Centric Adjustments or Other Special Items Regarding Non-State Workers |
| 2014 | n/a | n/a | <ul style="list-style-type: none"> Assistant District Attorneys: step increases (first ½) Auditors: 20% |
| 2015 | 1% of Salary Budget added | n/a | <ul style="list-style-type: none"> Assistant District Attorneys: step increases (second ½) Superior Court Secretaries: step increases Agricultural Food Inspectors: \$2,000 Dept of Banking & Finance Financial Examiners Correctional Officers |
| 2016 | 1% of Salary Budget added | n/a | <ul style="list-style-type: none"> Justices, Judges, District Attorneys, and Public Defenders: 5% Agricultural Inspectors: 5% Dept of Driver Services Examiners: \$3,000 GBI Medical Examiners: 12% State Accounting Office County-Level Health Workers |
| 2017 | 3% of Salary Budget added | n/a | <ul style="list-style-type: none"> Behavioral Health Aides: approx. \$5,000 Correctional Officers: 7% Assistant District Attorneys: 4% Public Defenders: 5% Sworn Law Enforcement Officers: 3% Attorneys General in Dept of Law: variable up to \$10,000 Public Health Nurses: 6% |
| 2018 | 2% of Salary Budget added | n/a | <ul style="list-style-type: none"> Sworn Law Enforcement Officers: 20% Child Welfare Services Workers: 19% Drugs and Narcotics Agency Special Agents: 4% Assistant District Attorneys: 2% Assistant Public Defenders: 2% Court of Appeals and Supreme Court Staff: 2% Teachers: similar 2% increase to state employees Educational Support Staff employed at local education agencies: similar 2% Dept of Defense Youth Challenge Academy Staff: variable |
| 2019 | n/a | n/a | n/a |
| 2020 | 2% of Salary Budget added | n/a | <ul style="list-style-type: none"> Teachers: \$3,000 to begin effort toward \$5,000 increase to state salary schedule Educational Support Staff employed at local education agencies: 2% Assistant District Attorneys: revised scales Assistant Public Defenders: revised scales Foresters and Forest Rangers: revision of scales range from 2-6% |

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|------|-----|---|---|
| 2021 | n/a | n/a | Amended Budget: <ul style="list-style-type: none"> \$1,000 one-time supplement for employees making less than \$80,000 |
| 2022 | n/a | Amended Budget: recognized \$5,000 COLA via one-time supplement and last pay periods | Amended Budget: <ul style="list-style-type: none"> Assistant District Attorneys: One step increase Assistant Public Defenders Teachers and Educational Support Staff employed at local education agencies: \$2,000 salary supplement |
| 2023 | n/a | Same as in AFY22 (\$5,000), not additional, just annualized into base budget | <ul style="list-style-type: none"> Teachers: \$2,000 to round out the \$5,000 increase begun in FY2020 Educational Support Staff employed at local education agencies: 5.4% Correctional Officers: \$2,000 Assistant District Attorneys: One step increase and 2.5% DBHDD State Hospital Nurses: \$6,000 DBHDD State Hospital Health Aides: \$1,000 DOT Maintenance Workers: COLA plus additional funding gets them to \$15/hour wage DPS Troop C Troopers: 10% Environmental Compliance Specialists: \$2,000 Environmental Compliance Engineers: \$4,000 GBI Crime Lab Scientists: \$7,500 Contracted Special Assistant Attorneys General: additional hourly rate increase of \$20 Contracted Special Assistant Attorneys General Paralegals: additional hourly rate increase of \$15 Private Prison contracts: parity for \$7,000 correctional officer total pay increase Public Health Workers Auditors Circuit Public Defenders and Assistant Public Defenders |

US Job Gains Gives Fed “more work to do” on Inflation

The Federal Reserve will face more urgency in its fight to cool down the US economy with steep interest rate increases after the latest batch of labor market data shows an unexpected acceptance in job gains and strong wage growth. The figures released eased concerns that the American economy was sharply slowing down or already in recession after two quarters of contraction in output this year. However, it will increase worries that high inflation may become entrenched as wages keep rising, requiring even more intervention by the central bank. The Fed has already moved its main interest rate up from the rock-bottom levels of the coronavirus pandemic to a target range of 2.25 percent to 2.5 percent this year, including two consecutive .75 percentage point increases in June and July. On the back of the latest jobs reports, economists and Fed watchers say the likelihood of another aggressive upward move next month has risen, although the central bank will still be examining upcoming economic data closely, including inflation numbers due next week. Fed chair Jay Powell is expected to lay out his latest thinking on the path of US interest rates and the central bank's strategy to bring down inflation at their annual conference set for late August. During his last press conference in July, Powell said that “another unusually large increase” in interest rates in September “could be appropriate” but that decision has not been made. Financial market moves may also be a factor in the Fed's next step. Traders began pricing in expectations of higher interest rate increase after the jobs data, predicting that rates will peak in March at 3.64 percent compared with the 3.46 percent expected prior to the report. - [Financial Times](#)

Continuing and Initial Unemployment Update



Chairman Hufstetler's Final Thoughts

It was a tough month with the loss of Kathleen Cominski who had affected many of our lives. It is also a reminder of how fleeting our time here is and how we should use as she did in helping others.

We had a record fiscal year of economic growth again that shattered all previous records. It is a great time to be in Georgia. In Washington the Federal Reserve has now raised the prime rate 4 times since March, going from near zero at the start of the year to 2.25 to 2.5. No doubt there will be more as they got caught way behind the inflation that in my opinion and many others they caused. Lets hope they can moderate things without damaging the economy. Lets also hope some spending control will come from somewhere but I am not optimistic about that. Those new interest rates will start having an effect on the cost of Federal borrowing. However I believe in the long run there will be people among us who will be asked to step up and help out in Washington in the future as Georgia stands out. I hope you all don't forget what we have learned here and take that to D.C. And for those of us who stay here I look forward to even better days in spite of things that are not in our control. Thanks for all the many people who contribute in so many ways to Georgia. And its that time of year to say "Go Dawgs

Chairman Tillery's Final Thoughts

Remembering Ms. Kathleen:

Where do I begin? Ms. Kathleen Cominski knew the Capitol and state government better than I ever will. For 30 years, she was a part of the needs of the General Assembly and one of the absolute best at constituent services. For any constituent matter, Kathleen's tenure left her knowing just who to call and her outgoing nature usually meant she had their cell phone number. For the past 6 years, Ms. Kathleen was an almost daily presence in my life. Ms. Kathleen made the Capitol personal. She kept her door open to greet a friend in the hallway or to answer a question for the family taking a self-guided Capitol tour. Her voice was loud and distinguished enough to triumph over the Capitol ruckus. Her endearing words let you know she cared. Kathleen was strong in her convictions, but she didn't let a different view cease a friendship. She could disagree with you, loudly and firmly, but in disagreement she still could value you as a person. Kathleen caused me to look at everything under the Gold Dome through a different lens. She made me a better legislator. She took care of the folks in my district who sent me to Atlanta and by doing that she took care of me. Our Capitol is a quieter place without Ms. Kathleen. She is unable to be replaced. I'm so thankful for the years she invested in my life. I'm comforted by a promise that one day I'll see her again.