West Georgia Regional Update
Carroll, Coweta, Douglas, Haralson, Paulding and Polk Counties

Spotlight: Inflation Concerns on the Rise

The recent uptick in prices for various goods has increased worries about the potential for an upcoming bout of inflation. With the size of the stimulus and pandemic relief packages that are in the process of being injected into the U.S. economy, there is reason to expect some effects on the overall price level, but even the “experts” disagree on the likely size of these effects, and whether the stimulus and relief dollars will be the primary source of the inflation that does occur.

Inflation is defined as the persistent increase in the overall price level in an economy, and it has the effect of eroding purchasing power over time. There are a couple of primary sources of inflation, demand-pull inflation and cost-push inflation. Demand-pull inflation occurs when the economy is at or near full employment of all resources and then aggregate demand is stimulated. Cost-push inflation can be driven by rising input prices for producers, including labor costs, the price of raw materials, higher taxes on production, or declining productivity. Other secondary sources of inflation can come from rising housing prices and expansionary monetary policy (printing money, lowering key interest rates, or quantitative easing).

The Federal Reserve Bank (i.e., the FED) is the caretaker of our monetary system. It has a dual mandate of fostering conditions that 1) support stable prices and 2) maximize sustainable employment. Historically, the FED has targeted a long-run inflation rate of 2%. The primary concern with regard to the inflationary impact of the stimulus and COVID-19 relief is demand-pull inflation, i.e., too many dollars chasing too few goods; however, much of the current inflationary pressures are coming from shortages of key inputs (i.e., cost-push).

At least at the moment, the important question is whether the FED will be required to take more forceful steps to control inflation or whether the market will self-correct before it needs to. In the most recent data, the annualized inflation rate for May 2021 was 5%, up from 4.2% in April, and higher than previously forecasted for the month. The most recent median “consensus” inflation rate projection from the Federal Reserve rose from 2.4% in March to 3.4% in June. There is not doubt that 3.4% is significantly above the FED’s targeted 2% core inflation rate, which excludes food and energy prices. However, current FED projections for 2022 and 2023 have inflation moderating to 2.1% and 2.2%, respectively, indicating the view that the current inflation rate uptick is transient. However, recent shortages and subsequent price spikes have weighed heavily on the minds of many market-watchers.

The Housing Market

The “shelter-in-place” orders across the nation in March and April of 2020 may have inadvertently focused our attention on our shelters themselves. The combination of low interest rates, low for-sale inventories of houses, a shift away from living in larger cities toward the suburbs, and a growth in home-ownership interest among millennials, has supercharged the housing market. This also led to a ripple effect into both building materials and household furniture. Lumber and wood product sales (and prices) slumped in the early days of the pandemic, despite robust housing demand and rising home prices; however, as the promise of a safe and effective vaccine came into clear view in late April of 2020 may have inadvertantly focused our attention on our shelters themselves. The combination of low interest rates, low for-sale inventories of houses, a shift away from living in larger cities toward the suburbs, and a growth in home-ownership interest among millennials, has supercharged the housing market. This also led to a ripple effect into both building materials and household furniture. Lumber and wood product sales (and prices) slumped in the early days of the pandemic, despite robust housing demand and rising home prices; however, as the promise of a safe and effective vaccine came into clear view in late April of 2020, these trends began to reverse. The Housing Market

Recent data show that the U.S. economy is experiencing a strong rebound as Gross Domestic Product (GDP) grew by 6.4% during the first quarter of 2021. Employment data indicate that the U.S. economy added 850,000 jobs in June while the U.S. unemployment rate was 5.9% (compared to 11.1% in June 2020). Inflation is a concern as reflected by the 5% increase in the consumer price level from May 2020 to May 2021. U.S. Housing prices are up sharply, 14.6% year-over-year in April 2021, based on the Case-Schiller Index. According to MLS data for the West Georgia Region, the average price of homes sold in April 2021 was an astonishing 21.8% above the April 2020 average. Georgia’s economy added 296,000 jobs between May 2020 and May 2021 (up 7.1%) while the state’s unemployment rate declined to 4.1% from 9.4% in May 2020.

At the local level, data is not yet available to illustrate the jobs recovery in the West Georgia Region from the depths of the pandemic. The most recently available employment statistics for establishments are for the 4th quarter of 2020. These data show that for the West Georgia Region, employment was 2.9% lower in 2020Q4 compared to 2019Q4. Five of the counties in the region sustained job losses over this period. Only Paulding County was able to eke out a gain in jobs, up 0.5%.
West Georgia Employment Update

It’s no surprise that May 2020 represented the peak month for new unemployment insurance claims for West Georgia. The Region’s new UI claims topped out at 49,935 (not visible in the graph due to scale). However, the number of new claims has dropped precipitously over the past year and has declined to a level near that experienced toward the end of the Great Recession. Nevertheless, the current number of claims represents a vast improvement over last year. Between May 2020 and May 2021, the region experienced a decline of 88.1% or 43,995 fewer new UI claims. The reduction in claims comes primarily from rising confidence in the success of the available vaccines, improvements in hospitalization rates, and a subsequent willingness in recent months of the consumer to venture out and re-engage. With the state’s economy now fully re-opened, businesses have been scrambling to find workers to fill positions, resulting in the state’s move to end participation in federal pandemic unemployment relief.

Unemployment rates across the region have also experienced dramatic improvements over the past year. Between May 2020 and May 2021, West Georgia’s overall unemployment rate declined 5.9 percentage points from a rate of 9.5% to 3.6%. The largest absolute unemployment rate decline came from Douglas, which shed 6.7 points since May 2020, and now stands at 4.3%, the highest rate in the region. As of May 2021, every county in the region except Douglas posted unemployment rates below 4%. Paulding currently leads the pack with a May 2021 unemployment rate of 3.1%. The chart depicting unemployment rates indicates that unemployment rates fell quickly as the shut-down ended; however, from October through December of 2020, rates leveled off and even started to climb again. The announcement of successful vaccine trials and the subsequent rollouts have played a significant role in further extending the unemployment rate decline and in putting West Georgians back to work again, yet the region’s pre-pandemic labor force levels are a ways off.

Perhaps the most surprising outcome from the employment growth table (left) for the period between 2019Q4 and 2020Q4 is that not every county has negative numbers in every category. In fact, Paulding managed to add jobs over the period, albeit only 130 or 0.5%. The largest job losses both in absolute and percentage terms was concentrated in Douglas County, which experienced an 8.1% overall loss in employment or a net decline of 3,762 total jobs. Douglas’ service-providing sectors were the hardest hit, as these accounted for the majority of net job losses (-3,472 jobs). Transportation and warehousing (-651 jobs), accommodation and food services (-452 jobs), and retail trade (-425 jobs) all suffered significant employment declines; however, the largest total sub-sector losses occurred in administrative, support, waste management, and remediation, which is where temporary employment service jobs are located. It lost 1,839 jobs (or 37.2%) by itself. On a positive note, four counties added jobs in services over the period, significantly outperforming the state overall.
Last year, pandemic-required shelter-in-place orders and various restrictions on businesses caused labor force participation to drop and the unemployment rate to increase dramatically. Between February and August of 2020, the labor force in our region dropped by 6.6%. Since COVID-19 vaccines became more widely available and restrictions on businesses and crowd gatherings have been eased, businesses have started hiring again and people have begun to re-enter the labor force. In May 2021, the labor force stood at 327,111, only 2.1% below February 2020 levels. At the same time, we have reached a point where some of the emergency unemployment insurance benefits offered by the federal and state governments are coming to an end, including the extra weekly unemployment insurance payments and the work search exemption. The combination of vaccine availability and the ability to send children back to school has allowed West Georgians to return to work.

The difference in interest rates on bonds of different maturity but same risk level is a good indicator of where investors feel the economy is heading. When the short term rates are higher than long term rates, investors feel that short term investments are riskier than long term ones and are weary of engaging in long term investments, which typically signals a recession. This is the position the economy was in between May and October of 2019. While people were worried about a recession, no one expected that the slowdown would be prompted by a global pandemic. Especially, for a few months in 2019, the Fed was actively pursuing a policy of higher short term rates. In 2020, the spread took on negative values again, but this time it was not due to the Fed’s influence. Today, the spread is back into positive territory. The average during 2021 has been 1.43. To put this into context, during 2020, the spread averaged 0.53 and during 2019 it averaged 0.04. Most of the rebound has come from a robust increase in the 10-month rate.

To say that West Georgia’s housing market is tight would be an understatement. Despite the array of economic impacts stemming from the global pandemic, the region’s housing market continues to show strength in all areas except for new listings. The region added only 24 new listings for sale in May 2021 over May 2020, an increase of 2.0% over the year; however, this increase wasn’t adequate to satisfy demand for housing in the region, as the average sales price increased by 30.1% over the same period, which included a self-inflicted recession. Despite the occasional modest monthly increases in new listings, the overall trend in pre-existing home inventory has been negative for the past five years. Days-on-the-market also reflects the increasing urgency for home-buyers, as this metric declined to an astonishingly short 23.2 days on average for the region, which represents a record for the series in the region. Additionally, with many buyers and only a few sellers, many desirable units have yielded a sales price above the asking price.
Inflation Concerns (continued from page 1)

2020, both lumber and building material prices staged a rapid recovery. Suppliers, having cut production and employment months earlier, were suddenly faced with rapidly increasing demand for building materials and a reduced workforce to meet that demand, resulting in a spike in prices. During the past year, lumber commodity price fell to a low of $259.80 on March 30, 2020, but has since risen to a peak closing price of $1,686.00 (per 1,000 board feet) on May 7, 2021. Since its peak, however, supply has increased and the condition of the supply chain has markedly improved. Recent lumber commodity prices have fallen by more than 50% from its peak and show signs of continued price moderation. The closing price on July 2, 2021 was $756.70, which is still higher than where we started, but only 44.9% of its peak price. However, the higher lumber prices from spring 2021 have already factored into many homes built during the past year, and inventories remain tight.

The New and Used Auto Market

Another source of inflation concerns stems from the automotive sector. Modern vehicles are filled with computer microchips. They are not only used in the “infotainment” systems, but are also used to monitor and control many critical engine and transmission functions. Unlike lumber, however, computer chips are significantly more difficult to manufacture, and are not simply a processed raw material. The shutdown essentially halted production of many auto manufacturers, and then caused a combination shift for chip manufacturers away from supplying auto manufacturers toward supplying remote computing infrastructure and other entertainment-related consumer electronics. However, auto demand recovered faster than expected, but chip manufacturers were already producing for these other buyers, putting automakers at the back of the line. As a result, chip supplies to auto makers will continue to be slow to return to normal. In fact, the U.S. trade war with China has exacerbated this shortage because it led major Chinese-based chip-buyers (e.g., Huawei) to increase orders to stockpile computer chips (and other semiconductors) in anticipation of the trade war and well ahead of the pandemic. Unfortunately, automakers didn’t do the same. The squeeze on auto manufacturers caused by the combination of rising demand for autos and the shortage of computer chips has resulted in cost-push inflation in the new car market. As another consequence, the chip shortage in the new car market has also revved up prices in the used car and car rental markets. The price level of used vehicles (the closest substitute for a new car) has increased by 109.8% between May 2020 and May 2021, and by 10.0% between April 2021 and May 2021, adjusting for seasonality.

As travel returns to normal, fuel prices have also risen. However, other infrastructure-related issues have affected fuel prices as well. The May 2021 cyber attack on Colonial Pipeline halted operations and interrupted the fuel supply for much of the Southeastern U.S. The pipeline, which supplies as much as 45% of the region’s fuel, took more than a week to resume partial operations. The shortage in supply resulted in a rapid increase regional prices. Between May 2020 and May 2021, the price of motor fuels increased by 55.3%, with the majority of the increase stemming from the cyber attack.

The trillion-dollar COVID relief plan is likely to affect prices in time, however, to tie the price increases that we have experienced to date directly to COVID relief is misleading. Rising lumber prices, fuel prices, home prices and auto prices were all the result of market decisions and market forces in multiple industries. What is abundantly clear, however, is that 2021 vacation travel will come at a relatively high price.

Update (continued from page 1)

year-over-year. The employment data show that the pandemic had the greatest regional impact on the retail-oriented Douglas County economy, which saw its total employment drop by 8.1% between 2019Q4 and 2020 Q4. Other employment measures provide evidence of a strong regional recovery in 2021. Unemployment rates have fallen dramatically across the region. In May 2020, unemployment rates in all West Georgia counties were 8% or higher. In comparison, May 2021 regional unemployment rates ranged from a low of 3.1% in Paulding County to a high of 4.3% in Douglas County. New filings for unemployment benefits have also fallen dramatically. New unemployment filings are fewer than 80% lower in May 2021 compared to May 2020 in all counties in the West Georgia Region. For the entire state, new unemployment filings dropped by 87.1% between May 2020 and May 2021.

Despite the pandemic there have been a number of positive economic developments in the West Georgia Region. Three major public construction projects are underway in Carroll County, the new West Georgia Technical College campus and two projects at the University of West Georgia, the nearly finished Richards College of Business building and the $31.5m renovation of the Humanities Building. More county-wide capital projects can be expected in the future as voters passed the 1% SPLOST sales tax extension in March. Southwire announced in March that it will be adding 230,000 sq. ft. to its service center in Villa Rica. This expansion is expected to be completed by the end of 2021. Recent retail expansions in Carroll County include a new Dollar General in Villa Rica along with the Central Coffee shop and the Sweet Basil Thai Cuisine (both in Carrollton). 4am Coffee Roasters also moved into an expanded space at the Maple Street Mansion in Carrollton. Also of note for Carroll County, former Georgia Secretary of State and Congresswoman Karen Handel was recently selected to the top leadership position at Carroll Tomorrow and the Carroll County Chamber of Commerce. Recent major expansions in Coweta County include an Amazon distribution center and a HelloFresh food distribution center. Combined, these two new expansions were projected to add over 1,000 jobs in the county. Semperit announced in mid-June that it will be opening a rubber gasket manufacturing and distribution facility in Newnan. The company expects to employ 70 people at this site. Homebuilder PulteGroup Inc. recently announced that it is planning to develop a 900-unit subdivision on a site near I-85 and Posey Rd. The homes will be age-restricted to buyers 55 and over. Other new developments in Newnan include a Day’s Inn, a Southern States Bank and a Publix grocery store. The redevelopment of the former Douglas County Jail site (located near downtown Douglasville) is progressing forward. A Florida company (Mill Creek Residential) was selected to develop the area around the proposed New Town Green and Amphitheater. Construction at the site is slated to begin in early 2022. Also, Microsoft announced in February that it is planning to build a data center in Douglas County. Bang Energy’s $145 million manufacturing and distribution facility, located in Lithia Springs, is expected to open in late 2021. The company expects to employ 600 people. The Douglas County School System purchased Greystone’s old headquarters on Veterans Memorial Highway and relocated its central office to the facility. Construction continues on the first Chick-fil-A in Bremen (Haralson County) at its location on U.S. 27 near I-20. In Paulding County, Costco opened its doors in March. Also, Greystone Power opened its new headquarters along the Hiram Douglasville Highway in February. The Paulding County Industrial Building authority is buying land to develop a new business park near Highway 92 in Hiram. Additionally, a Taco Mac restaurant opened in Hiram is April. In Polk County, Cedartown is pushing ahead in the expansion of the North Business Park. Also, Georgia Northwestern Technical College opened its Cedartown Adult learning center facility in March. A new specialty coffee shop, Elianos, is opening in Rockmart. An initiative spearheaded by Carroll EMC and Synnglobal will expand broadband access to over 10,000 homes in a three-county region (Carroll, Haralson and Heard). Phase I of this $40 million project is expected to take 2-3 years.