Insight:
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COVID Crunch

The COVID-19 Recession's Impact on Georgia's Economy

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The COVID-19 recession will be one for the history books. This recession was unlike most others in recent history because the immediate impacts to the economy, though deep and widespread, were largely by design. States shut down entire industries for months at a time to slow the spread of COVID-19 among residents. Each state had slightly different shutdown and reopening timelines, which will have both short- and long-term effects on the economy. Recommendations on mask use and social distancing will have prolonged effects on operating capacity of stores, restaurants, entertainment venues, and mass transit.

Across the U.S., the short-term impacts to the economy were glaring: the unemployment rate spiked to 14.7 percent in April 2020. U.S. GDP dropped by 33 percent as of Q2 2020. Many households are still struggling to pay for housing and other necessities despite stimulus checks. Although employment in some industries has begun to rebound from the shutdown due to federal funding relief or reopening measures, the pandemic is far from over and cases are spiking in several states across the country, including Georgia. It will be difficult to amass the full effect of the COVID-19 recession until a vaccine is widely available and infection rates fall. We predict that recovery will not take effect until early 2022.

So, how badly has Georgia been hurt? Seven months into the pandemic, which hard-hit industries are likely to bounce back and which will be depressed long-term? One important thing to note when looking at the employment data is that PPP loans encouraged employers to keep workers on despite a significant decrease in business activity and profits. Some employment data, therefore, may paint a rosier picture than expected before PPP loans expire or must be paid back. If PPP loans come due, employers will likely furlough or lay off workers permanently. There is still a lot of uncertainty surrounding federal stimulus efforts, making long-term predictions about the state of the economy very imprecise.

Economic Impact by Industry Size

Georgia's top five industry sectors by proportion of nonfarm employment in 2019 include: government (15 percent); healthcare and social assistance (11.2 percent); retail trade (10.7 percent); lodging and food services (9.7 percent); and manufacturing (8.8 percent).

Government

Combined local, state, and federal government makes up a relatively larger proportion of Georgia's employment when compared to other states. Government also functions very differently than private industry. Budgeting decisions are typically made based on revenues collected in the previous year. Government revenues were even more delayed this year due to the shift in the IRS filing deadline from April to July. After accounting for this revenue shift, total state general fund receipts were only down by 0.4 percent from fiscal year 2019 to fiscal year 2020. Income tax makes up the bulk of Georgia's revenue. Individual income tax collections were up by 1.9 percent from fiscal year 2019, while corporate income tax was down by 3 percent. Sales and use taxes make up the second-largest portion of Georgia's revenue. Net sales-and-use tax was down by 1.4 percent compared to fiscal year 2019. This decrease in sales tax would have been more significant if Georgia had imposed more strict or lengthy closures of businesses as did New York and California.

The pandemic had an uneven effect on other types of government revenues in Georgia. Gas, cigarettes, and alcohol all continued to sell throughout the shutdown. Motor fuel, tobacco, and alcoholic beverage tax collections all increased since fiscal year 2019 (1.9 percent, 1 percent, and 4.5 percent respectively). Property taxes dropped by 12.3 percent from fiscal year 2019. Car sales also floundered as supply chains and imports of new vehicles were disrupted. Motor vehicle taxes dropped by 16.8 percent, largely due to a 23.5 percent drop in collection of title ad valorem taxes (Georgia's one-time motor vehicle tax upon purchase of a new or used vehicle). Overall, the decline in tax revenue from fiscal year 2019 was relatively small. At the beginning of 2020, the state was predicting large swaths of furloughs and possibly layoffs. These measures were avoided in the short term, but revenues are unlikely to bounce back quickly, especially if a second shutdown is enacted due to a spike in cases through the fall and winter. Time will tell how state budgets will fare due to the COVID-19 recession.

The COVID-19 recession had a more delayed effect on government employment than on private industries due to the budget structure. Total government employment in Georgia dropped by 2.2 percent as of April 2020. Year-to-date employment in government was still 1.3 percent below 2109 levels as of July. Federal government was the only tier that gained employees throughout the COVID-19 recession. This is likely attributable to the CDC being headquartered in Atlanta and the increased demand for epidemiologists and other researchers. In July, federal government employment in Georgia rose by 2 percent, but state government employment losses rose to 3.1 percent. Most of those losses were felt by state government educational services which lost 3.8 percent of employees as of July. Local government employees make up about two thirds of Georgia's government employment. Proportion of employment loss in local government was relatively lower than the state level, but 5,800 local government employees lost their jobs as of July.

From 2019 Q4 to 2020 Q1, Georgia's real GDP dropped by 4.7 percent (seasonally adjusted at annual rates). Government and government enterprises constituted 0.38 percent of that decrease. In the U.S., government accounted for 0.33 percent of the 5 percent real GDP loss. In the Southeast, government contributed 0.37 percent to the 5 percent loss. It is unsurprising that government in Georgia has a greater effect on GDP than surrounding states and the nation since government comprises 15 percent of our total employment. The concerning trend, though, is that losses in GDP and employment in the public sector are more delayed than in the private sector, so things will get worse before they get better. This will ring especially true if revenues take another hit from a second shutdown, which may happen due to a concerning rise in Georgia's cases per capita through the summer.

Healthcare and Social Assistance

Healthcare and social assistance was moderately affected by the COVID-19 recession. Obviously, hospital emergency rooms and intensive care wards were quite busy. In April 2020, at the peak of the shutdown, employment in healthcare and social assistance decreased by 4.3 percent. As of July 2020, employment is 1.1 percent above 2019 levels. Some industries fared worse than others; employment in ambulatory healthcare services dropped by 9.4 percent as of April 2020 but has recovered to -0.7 percent as of July. Hospitals, on the other hand, experienced a 3.1 percent increase in employment over 2019 levels as of April 2020. Employment in hospitals was still elevated by 2.4 percent as of July 2020. Employment in social assistance, which includes daycares, dropped by 9.6 percent as of April 2020 and is still 1.1 percent below 2019 levels as of July 2020.

This sector accounted for -0.41 percent of Georgia's -4.7 percent change in real GDP, compared to sectoral losses in the Southeast (-0.62 percent) and the U.S. (-0.6 percent). This signals that Georgia's healthcare and social assistance industry was more resilient throughout the COVID-19 recession and will resume growth soon.

Retail Trade

Retail trade also took a lesser blow than some other industries. In April 2020, employment in retail trade fell by 3.9 percent from 2019 levels; by July 2020, it recovered to just below 2019 levels (-0.3 percent). Food and beverage stores saw increased sales and employment during the shutdown as many Americans stockpiled. Employment in April 2020 rose to 5.2 percent above 2019 levels and was still elevated by 3.4 percent above 2019 levels as of July. Food and beverage stores likely absorbed some of the workers furloughed by general merchandise stores and other miscellaneous retailers. General merchandise stores like Walmart and Target shed 1.2 percent of their employees as of April 2020 but recovered to 0.9 percent above 2019 levels in July 2020. Miscellaneous store retailers took the biggest hit during the COVID-19 recession. As of April 2020, employment in miscellaneous stores dropped by 4.5 percent below 2019 levels. By July 2020, employment was still 2.5 percent below 2019 levels. These stores are primarily small businesses and specialty retailers, which were already threatened by the massive switch to online shopping. Many of them closed temporarily during the shutdown and some will never reopen. According to Yelp, based on 26,000 retail locations across the U.S. that were open in March, 48 percent have gone out of business as of early July.

GDP loss in Georgia's retail trade sector was less severe than in the Southeast or the U.S. Retail trade accounted for 0.23 percent of Georgia's total 4.7 percent GDP loss from 2019 Q4 to 2020 Q1, significantly below the -0.38 percent figure for both the Southeast and the nation. Thus, Georgia's retail industry is relatively strong, but to survive long-term, however, brick-and-mortar retail must continue to evolve. COVID-19 made online purchasing, pickup, and delivery services essential to customers for safety reasons, but the convenience of these services has real staying power. Many customers who resisted online shopping in favor of in-person store trips have learned how easy and convenient it is to order online, so it is unlikely that shopping habits will ever fully return to the pre-pandemic status quo.

Lodging and Food Services

All sectors experienced a significant dip in employment due to the shutdown, but none was hit as hard as accommodation and food services. Again, this swift drop in employment was largely by design; gathering at bars and restaurants was identified as high-risk activity early in the pandemic. Bars were completely shut down and restaurants closed their dining rooms. Hotels saw a huge drop in business due to bans on international travel and, later in the pandemic, restrictions on interstate travel as well.

In 2019, employment in this sector averaged just under 450,000 employees. As of April 2020, employment dropped to 259,000 employees for a decrease of 41.7 percent. As of July 2020, with reopening in full swing, employment has rebounded to 372,000 which is still 14.6 percent below 2019 levels. Food services and drinking places were able to shift to takeout and delivery which is the main reason why employment was able to recover from -41.4 percent in April to -13.8 percent in July. Employment losses were also tempered by PPP loans, but as mentioned earlier, there is great uncertainty surrounding forgiveness or payback of these loans. There may be an unemployment cliff coming soon as employers must choose between keeping their employees and remaining financially solvent. As of June, the hotel industry is still 21.5 percent below 2019 employment levels, and it is unlikely that the industry will recover until an effective vaccine is widely available.

Unsurprisingly, this sector was the primary contributor to the drop in GDP across U.S., regional, and state levels. At the national level, accommodation and food services comprised 0.92 percent of the 5 percent total GDP loss from 2019 Q4 to 2020 Q1. In the Southeast, the sector accounted for 0.98 percent of the 5 percent drop, and for 0.81 percent of Georgia's total 4.7 percent GDP loss. Again, consistent with GDP trends in Georgia's other major industry sectors, the lodging and food services sector was relatively less affected by the COVID-19 recession is more likely to bounce back.

But if a larger percentage of Georgia restaurant and hotel closures are permanent, GDP growth will be hampered long-term due to the larger relative size of the industry in the state. Preliminary data from Yelp does not paint a hopeful picture. According to self-reported data from 26,000 restaurants, 60 percent of restaurants that were open in March are now closed permanently. Forty-five percent of bars and nightlife establishments reported that they were closed permanently. Restaurants and bars run on extremely tight budgets even in the best economic times. The COVID-19 recession was especially difficult for restaurants despite many receiving PPP loans from the federal government.

Manufacturing

Despite declines in employment over the last few decades due to outsourcing, manufacturing was still the fourth largest industry sector by private employment in Georgia as of 2019. The COVID-19 recession may be the end of an era for domestic manufacturing. Other countries with large manufacturing sectors such as China enacted strict measures to combat the pandemic early on, enabling their manufacturing operations to recover quickly after the threat of the virus was reduced. In the U.S., there was no cohesive response to the virus, and manufacturing plants were largely allowed to self-regulate or even forced to remain open as transmission rates within them reached concerning levels. Despite most plants staying open, demand for products other than food was plummeting.

In 2019, average employment in manufacturing was 406,000 workers. In April 2020, that total dropped to 357,000 for a decrease of 12 percent. As of July 2020, employment in manufacturing is still 5 percent below 2019 levels. Of course, there were winners and losers within the sector. Food manufacturing dropped by only 3.1 percent at the peak of the shutdown, recovering to 1.5 percent above 2019 levels as of June 2020. Plants that manufacture transportation equipment and textiles were some of the hardest hit by the COVID-19 recession. Employment in transportation equipment manufacturing dropped to -27.5 percent in April 2020 and is still at -9.8 percent in July. Textile mills lost 31.4 percent of workers as of April 2020 and are still down by 18.6 percent compared to 2019 employment levels.

Durable and non-durable goods manufacturing contributed -0.61 percent to Georgia's -4.7 percent change in GDP. This was a greater portion than the U.S. (-0.54 percent) but smaller than the Southeast (-0.67 percent). Georgia does have more manufacturing activity than the average state, so it makes sense that state GDP would be proportionately affected. It is a good sign that Georgia's manufacturing sector was relatively less affected by the COVID-19 recession than the Southeast. GDP from durable goods manufacturing was significantly less affected by the COVID-19 recession than GDP from nondurable goods. In Georgia, durable goods manufacturing made up only 0.17 percent of the 4.7 percent

GDP drop. This was significantly less than both the Southeast (-0.24 percent) and the U.S. (-0.3 percent). Nondurable goods manufacturing made up the bulk of Georgia's manufacturing GDP loss, at -0.44 percent. This is due to Georgia's large textile industry, which has been struggling for years only to be hit especially hard by the COVID-19 recession.

Impact on Home Building and Home Prices

Unlike the 2008 recession, which was caused by unscrupulous lending and investment practices surrounding mortgages, the COVID-19 recession had some positive impacts on the real estate market. First and foremost, mortgage rates hit a 50-year low of sub-3 percent. As the Fed lowered its prime rate, mortgage rates dropped along with it which encouraged prospective buyers to finance home purchases. Current homeowners were also eager to refinance. Mere months into the shutdown, many banks were forced to tighten their lending requirements to reduce demand for financing and insulate themselves against rising unemployment rates, which added risk in underwriting. Many banks were also feeling nationwide pressure to provide mortgage relief, which reduced their ability to lend. Despite tightening standards from banks, the housing market has become red hot in recent months. This trend can be explained by both low mortgage rates and supply constraints as home builders slowed down their efforts during the shutdown.

As of July 2020, total year-to-date building permits across the state were down by 3.6 percent from July 2019. Single unit permits were down by 3.7 percent. At the MSA level, some of Georgia's most in-demand areas were experiencing greater declines in new home building. The Atlanta MSA saw a 9 percent drop in year-to-date single unit permits from July 2019. Gainesville, the fastest growing MSA in Georgia, experienced an 11 percent decrease in single unit permits. On the other hand, the Augusta MSA, another fast-growing area, had an increase in single unit permits of 20 percent. Multi-unit permits decreased in all three of these MSAs, constraining the supply of rentals.

This lack of supply of new homes fueled the price fire in the real estate market sparked by low mortgage rates. Prices were climbing despite the economic turmoil gripping the country. Data on home prices is released quarterly and at the time this article was written, only data through the second quarter of 2020 was available. In the first quarter of 2020, U.S. home prices were up 4 percent over Q2 2019. In Georgia, home prices were up by 4.5 percent. Home prices here have fully recovered from the 2008 recession and have now climbed to 22.8 percent above their pre-recession peak.

All of Georgia's MSAs experienced home price increases from Q2 2019 to Q2 2020. They increased significantly in the fastest-growing MSAs: Atlanta's home prices increased by 4.2 percent; Gainesville's by 5.9 percent; and Augusta's by 6 percent. Average home prices in all but three of Georgia's MSAs have now recovered at or above their pre-recession peak. Home prices in Atlanta and Athens are almost 30 percent above their pre-recession peak. Home prices in Gainesville are 18.8 percent above their pre-2008 peak and home prices in Augusta are not far behind at 13.1 percent above peak. Even non-metro home prices in Georgia, which were much slower to recover, have exceeded the state and risen by 5 percent from Q2 2019 to Q2 2020. Non-metro prices only just recovered to their pre-2008 recession peak as of Q1 2019.

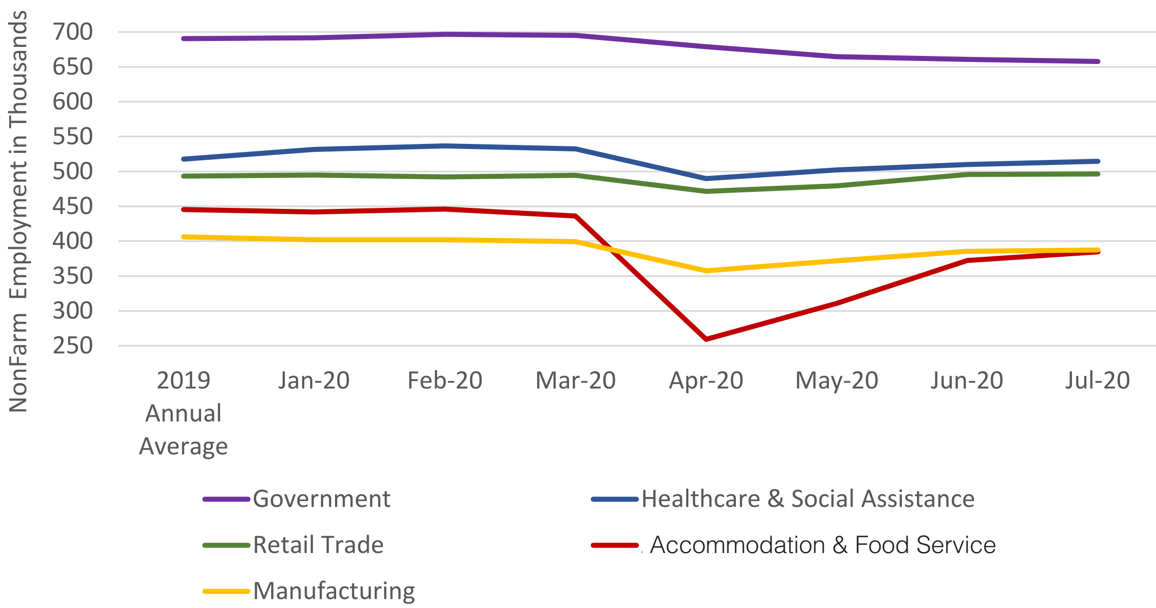
Uncertainty Ahead

The COVID-19 pandemic has upended our way of life unlike any other event in modern history. Though many economists were optimistic about a v-shaped recovery wherein the U.S. economy would be largely back to normal by the end of 2020, we are just now experiencing a second wave of cases that shows no signs of slowing down. There is hope for a vaccine by the end of the year, but even a widely adopted vaccine will not be a magic bullet that reverses the economic contraction we have experienced. 2021 will be a tumultuous year for all industries across Georgia and the nation and many industries will be permanently changed by the COVID-19 recession.

In some ways, this recession merely accelerated trends that were already gaining momentum in some industries, such as online ordering in retail and food. Ultimately, many of the industry trends which increase convenience or decrease prices for customers will also reduce employment in favor of automation or outsourcing. Home prices have seen recent growth, but this trend will soon come up against persistent unemployment and mortgage delinquencies. Policymakers at the state and federal level may be able to stem the bleeding in the short-term with eviction moratoriums and increased unemployment benefits, but some economic trends will be irreversible. It is difficult to project the full effect of the COVID-19 recession when only a few months of data has been released, and so researchers will continue to analyze the effects of the COVID-19 recession on Georgia and the nation for years to come.

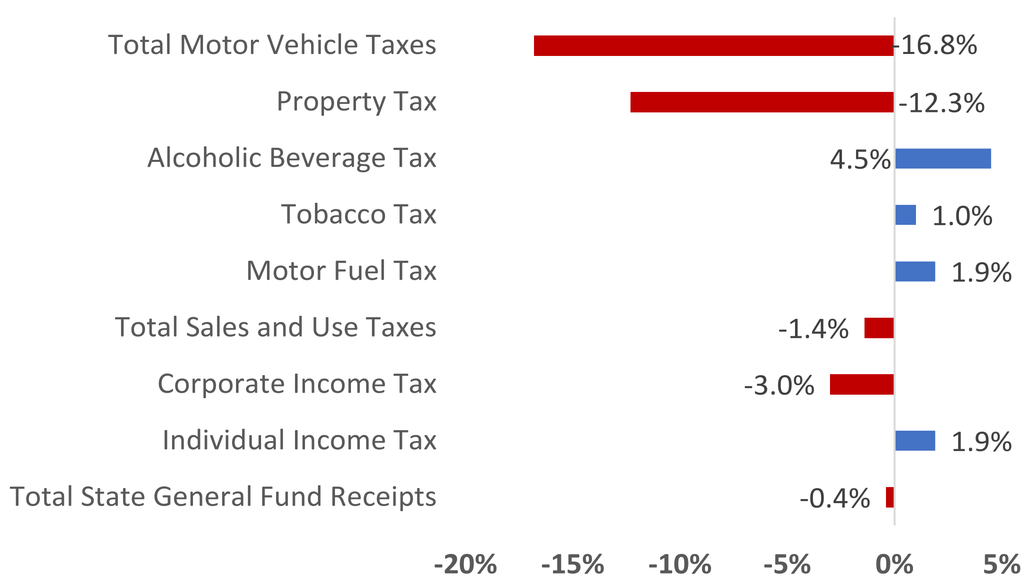
Alexandra Hill is the Selig Center's senior research analyst.

Figure 1
Non-Farm Employment in Georgia



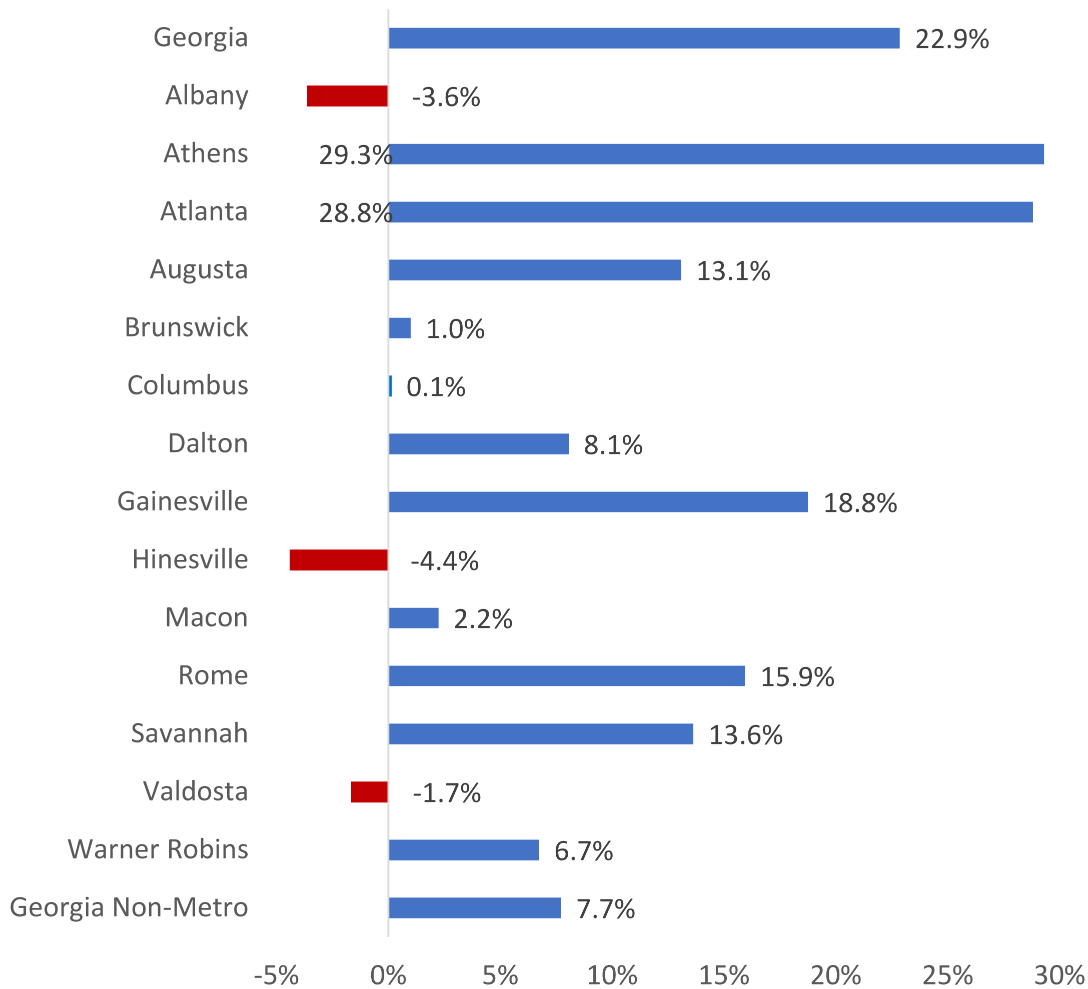
Source: Selig Center for Economic Growth, University of Georgia.

Figure 2
State Government Revenues in Georgia, June 2020



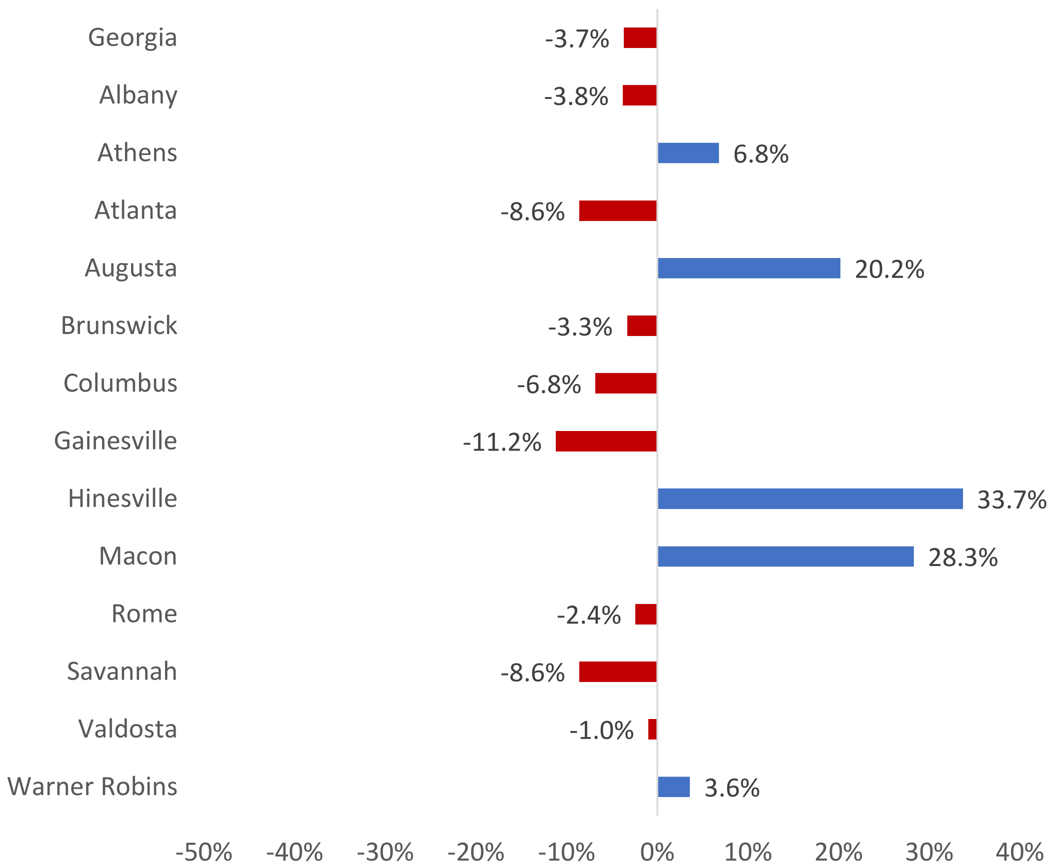
Source: Selig Center for Economic Growth, University of Georgia.

Figure 3
Degree of Home Price Recovery vs. Pre-2008 Recession Peak
as of Second Quarter 2020



Source: Selig Center for Economic Growth, University of Georgia.

Figure 4
2019-2020 July Year-to-Date Change in Single-Unit Housing Permits



Source: Selig Center for Economic Growth, University of Georgia.