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## Newsroom

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# Georgia Southern University BBRED Forecast: Economic Recovery Will Gradually Build Momentum in 2010

JANUARY 27, 2010

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The Bureau of Business Research and Economic Development (BBRED) in Georgia Southern University's College of Business Administration expects a national economic recovery to build momentum gradually through the coming year.

BBRED has completed its 2010 Regional Economic Outlook and Forecast. The report predicts what is to come this year in national economic growth, state and regional economic growth, real estate, inflation rates, interest rates and unemployment.

### National Economic Growth

- Real Gross Domestic Product (GDP) will increase 2 to 2.5% (2.3%) in 2010 and 2.7 to 3% (2.8%) in 2011. The growth rates will be below the long-term average growth rate of 3% for the U.S. economy and well below the rebound rate experienced during previous serious recessions during 1973-1974 and 1982-1983.
- Real GDP growth will be weaker in the first half of 2010 and build momentum in the second half of the year and into 2011. As such, the positive impact on Main Street America (smaller businesses and consumers) will not be felt until the third quarter – too late to support incumbents' prospects in mid-term 2010 elections.
- Real Disposable Income will increase at 1 to 1.5% – typical of recent years prior to the recession – and will provide a robust base for increases in consumer spending. Consumer spending will increase approximately 1.5%.
- Business spending for equipment and software, as well as replenishing inventories, will increase more rapidly than consumer spending and will be a significant contributor to economic growth. However, business spending for construction and expansion will decrease 10-15% due to an oversupply of available space and increased vacancy levels.

### State and Regional Economic Growth

- Georgia and the southeastern Georgia region will grow at slightly lower rates than the national economy in 2010 due to an above average concentration in real estate and financial services as a percentage of the state and local economies. This is especially true in larger markets in Georgia, most notably the extended Atlanta region where the sharp drops in residential and commercial real estate values and continued weaknesses in the financial services and banking industry will require a longer period to heal.
- The coastal Georgia region, defined as Chatham County on the eastern border, Bulloch County on the northwestern border and Glynn and Camden counties close to the Florida border, will experience growth rates higher than statewide averages.

- A more stable and diversified economic base in Savannah (education, healthcare, tourism, military and the Savannah Port) and the combination of education, healthcare and retail distribution in Statesboro will support higher growth rates than other regions in central and southern inland Georgia.
- Real disposable income and consumer spending in the southeastern coastal region will be higher than most other regions in the state and will support above-average growth rates compared to the overall state totals.

#### Real Estate

- After three years of sales declines and 6 to 12% decrease in home prices, residential real estate prices will stabilize and increase slightly in desirable sections of the region. An increase in home sales should be evident in the spring buying season, aided in part by the extension and expansion of the Homebuyers Tax Credit program.
- Commercial real estate values will continue to decline throughout 2010 and the early part of 2011. Thereafter, commercial properties will begin to stabilize as the excess inventory of vacancies will decline. Positive gains and increased commercial construction spending will not be evident until the fourth quarter of 2010 or the first quarter of 2011.

#### Inflation Rates

- Core inflation rates (excluding food and energy prices) will be held at manageable levels, if slightly higher than the 1.7% growth in 2009. Core inflation is projected at 1.5% in 2010 and average 2.2% in 2011 – well within the 1.5 to 2.5% policy parameters currently set by the Federal Reserve.
- ‘Headline’ inflation (including food and energy) was a negative-0.4% in 2009 – the only year with a negative figure in the past decade – due primarily to the drop in average energy prices from their artificially high, speculative peak in mid-year 2008. Assuming moderate increases in food and commodity (including oil) prices, the headline inflation rate is projected at 1.8% in 2010 and average 2.5% in 2011.

#### Interest Rates

- In the absence of a major external shock (i.e., oil prices at \$150 or a sharp reduction in the value of the U.S. dollar in world currency markets), short- and medium-term interest rates will be stable and remain at historic lows for the better part of 2010. Mortgage rates will remain low and support a favorable environment to afford home buying.
- The Federal Reserve had clearly stated that the low interest rate environment will be maintained until there are evident improvements in the economy and job creation. As such, increase in interest rates will not occur before the third quarter, and more probably not until the fourth quarter 2010. Even then, interest rate increases will be modest and not exceed 50 basis points (1/2%) this year.
- For the average consumer and business, BBRED’s interest rate forecasts are:

	12-31-10	12-31-11
Fed Funds Rate	0.50%	1.50-2.00%
Prime Rate	3.75%	4.50-5.00%
30-year Mortgage Rate	5.25%	5.50-6.00%

#### Unemployment

- Unemployment rates always lag the recovery and will be more pronounced now than the extended ‘jobless recovery’ (43 months) after the mild 2001 recession.
- Monthly job losses will end in the first quarter and gains will occur throughout the rest of the year. Initially, job growth will be weak and pick up momentum later in 2010 and into 2011. But the recovery will be weak as U.S. labor markets are going through a significant long-term structural change rather than a typical business cycle adjustment.
- In light of the above, unemployment rates will peak at approximately 10.6% in the first half of the year. Average annual and December monthly unemployment rates for 2010 and 2011 are listed below:

	2010	2011
Average Annual Rate	10.1%	9.8%
December Monthly Rate	9.8%	9.0%

Normal levels of unemployment (5.5%) will not be reached until 2013-2014 based upon expected economic growth rates.

- Unemployment rates for Bulloch County (8.8%) and the Savannah Metropolitan Statistical Area (7.7%) are below the state (10.2%) and national (10%) levels at the present time. BBRED expects both areas to perform better and remain 1 to 1.5% below state and national averages in 2010-

2011.

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"O Christmas Tree, O Christmas Tree..." 🎄🎵#TBT to circa 1964, when a tree in front of the Williams Center was decorated for the holidays.



16h

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