

# **Appraisal Institute**

## **U.S & CT Current Conditions:** **With Near Term Outlooks** **Headwinds and Tailwinds**

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# U.S. Economic Condition

- U.S. Economy = Political mess, no adults
  - Lost our economic focus on what really matters
- Great Recession – Began 12/07 Ended 6/09
  - Recession + financial panic = Unusual = 1929
  - Very slow recovery from financial distress
- UE Rate Peak 10.1%=10/09, 12/11=8.5% +15 %
  - 13m official w/o jobs, 20m w/discouraged + P/T
  - End 2012 – 8.5%, ↓b/c older workers gave up
- Occupy Wall Street – Broad public protest
  - Born out of frustration + desperation + fear



# U.S. Economic Condition

- Inflation CPI – 11/11 Headline 3.4%, Core 2.2%
- Balance of Pay – Trade deficit \$450-500B
  - Energy, imports, China holds sizable U.S. debt
- Housing – Depression, worst b/c job loss
  - New homes: permits, starts, sales at/near lows
  - 24% existing mgt – Underwater
  - 5.88% mgts 60-day delinq in Q3/11
  - 2.2mil in foreclosure pipeline, 4.4m 30-day del
  - Sale price existing home - ↓1/3<sup>rd</sup> & falling

# U.S. Economic Condition

- **Federal Reserve** – Monetary Policy
  - S-T (i) low, QE2 over, dissent on FOMC policy
  - Op Twist: L-T(i)↓, force to riskier assets, stim inflation
  - Low (i), hurts savers + retirees, discourages bank lending
- **Congress/Pres** – Fiscal Policy at loggerheads
  - Deficit ceiling – 8/11 Self-inflicted pain, S&P downgrade
  - Cong Super Comm 11/23/11 – Collapse → Automatic cuts
  - Soc. Sec. cut, ue benefits, more debt ceiling, Bush cuts
- **Banks** – Top 10 w/75% of U.S. bank assets
  - Flush w/cash & mgt loans, need capital + good borrowers
  - Narrow spreads, new fin-regs, regulator constraints
- **Stock Market** – Weak + volatile
  - Undermines consumer demand + confidence in fairness

# U.S. Economic Headwinds 2012

- U.S./Iran – Impact on energy prices
- Global Weakness – Europe recession + debt
- Home Foreclosures – Depress home prices
  - Restrains construction recovery
- Jobless Recovery – Limit cons spending
- Gov Spending Cuts – Federal, state, local
- Domestic Political Strife – Pres election
  - Soc sec, UE \$, debt ceiling, Bush cuts

# U.S. Economic Tailwinds 2012

- Weak \$ - ↑U.S. mfg, ↓imports + ↑exports
- Business Balance Sheets – Flush w/cash
  - ↓(i) → refi ↓costs + ↑profits w/o hiring workers
- Household Balance Sheets – Improving
  - ↑savings, ↓mgt debt w/defaults=↑spend income
- 12/11 data – Jobs, UE rate, new UE claims
  - Unsold housing inventory peak has passed
  - Low prices + low fixed rates = Time to buy

# U.S. Outlook: 2011-2013

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
• <u>Jobs:</u>	-0.7%	1.0%	1.2%	1.3%
• <u>Unempl Rt:</u>	9.6%	8.9%	8.7 %	8.4%
• <u>Real GDP:</u>	3.0%	1.5%	2.0%	2.5%
• <u>Real Income:</u>	1.8%	2.2%	3.2%	2.2%
• <u>Home pmts:</u>	0.6m	0.6m	.87m	1.3m
• <u>Sales Existing:</u>	4.9m	4.9m	5.7m	5.9m
• <u>Med Home \$:</u>	\$172.8	\$164.0	\$160.9	\$161.5



# CT Economy: September 2011 Data

- Jobs – Lost 119k 3/08-1/10 Low 1,594k  
– 11/11 =+0.1k Tot = 1,628.7k, +35.2k, +30%
- Unemploy Rate – Low 4.3% in Mar-May/06  
– Peak 9.2% Feb-Mar/10, Nov/11 = 8.4%
- Ave Initial New Claims – Low 1/06 3.7k  
– Peak Mar/09 7.4k Nov/11 8.6k
- Super-sector Jobs Lost in Recession
  - Const -26.6% -19k 11/11 49.3k +0.6k
  - Mfg -12.7% -24k 11/11 167.5k -0.8k

# CT Economy

- LMA UE Rate – Nov/11 (nsa)

- Bpt-Stfd 7.4%                      NH – 8.3 %              Willi-Dan 9.0%
- Hartford 7.9%                      Waterbury 10.2%      Danbury 6.3%

- Housing – CT Depression

- Permits YTD 2,584 -18.5% v. 11/10, Peak 9/04 =8,566
- Sales Existing – Prudential 1-fam Q3/11 vs. Q3/10

• <u>DOM</u>		<u>Price</u>		<u>Sales</u>	
• CT 148	+6.5%	\$257.0	-1.2%	16.3k	-9.0%
• Fld 152	+3.4%	\$497k	+3.3%	4,395	-5.9%
• CT Months supply 1-fam	8.3%		-17.8%	Condo 9.9	+7.6%

- CT Outlook – 12-24 months 0-12k jobs per year

- U.S. sluggish, \$1.5B tax ↑, local job cuts, cuts at state
- Priv job threat, defense & finance ↓, no CT growth engine

# Connecticut Forecast 2012-13:

## Headwinds

- State job openings: 5,100/45,500 Unfilled = lost income
- State Tax: ↑\$1.5B 2011-12 pers + bus, \$1.1B 2012-13
- Local layoffs: ↓tax revenues + lower assessments
- UTC acq Goodrich – Move Hamil-Std mgt to Charlotte
- DOD cuts: Helicopters + F-35 engines + end F-22 (-2.5k)
  - Possible sub base closing – Not in 11/11 forecast
- Wall St: -10k Jobs & -30% Bonus; \$ impact CT tax, consu spend
- CT banks, hedge fund, fin service, wage/bonus cuts
- The “Graying” of Connecticut – ↓Spending & workers
- Storm Damage costs: Less \$ discretionary spending
- Hospital mergers: New Haven, Danbury, Waterbury, etc
  - Lower Medicare + Medicaid reimbursements

# Connecticut Forecast 2012-13:

## Tailwinds

- Electric Boat: \$495m sub grant, design, planing, tech
- Boeing 787 Work: Barnes Group, Hamil-Std, Edac Tech
- DOD P&W Engines: Jet tanker, \$75m for F-35 devel
- ↑CT Exports: U.S. Free Trade Agree + Cheap \$
  - Est: ↑exp \$280m S. Kor, Pana, Colu; weak w/Asia +Eur↓
- Gov/Legis: \$291 Jackson Labs: Jobs 300/6000
- Gov/Legis: \$621m funding for job stimulus
  - \$180 mil: 2<sup>nd</sup> five companies, worker train + hire
  - CIGNA, ESPN, TicketNetwork, NBC Sports, UBS
  - \$125 mil: Startups, film credits, mfg assistance
  - \$50 mil: Bridge/infrastructure repair
  - \$20 mil: Clean + sell state brown-fields

# CT Outlook: 2011-2013

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
• <u>Jobs:</u>	-17.2k	10.4k	6.4k	8.0k
• <u>Unempl Rt:</u>	9.1%	8.9%	8.6%	8.4%
• <u>Real GSP:</u>	3.0%	1.5%	1.8%	2.5%
• <u>Real Income:</u>	0.8%	1.6%	2.7%	2.7%
• <u>Home pmts:</u>	3,932	3,112	3,783	5,283
• <u>Sales Existing:</u>	34.1k	32.2k	42.5k	47.8k
• <u>Med Home \$:</u>	\$268.6	\$265.5	\$260.3	\$264.7

# CT Demographics: Census Implications

- Graying of the CT Pop – 40.0 yrs v. 36.6 yrs
  - ↓Workers, ↑soc support, Health care + med sites
- The Slow Growth of the CT Pop v. U.S.
  - 00-05    0.5%    1.0%    Housing: build, sell , price
  - 05-10    0.4%    1.0%    = Spend: Less, \$ draw ↓
  - 10-15    0.2%    1.1%    Jobs: ↓Retail, fin, const,
- CT Generation Drain: Lim job available
  - Fewer 20-44 yrs: energetic, innovative, family forming
- The CT Net Migration Problem - Negative
  - Leaving: Young skilled, retired wealthy Returning 85+

# Gov. Malloy/Legis CT Jobs Plan

- Price: \$626 mil, Bonded @ 20yrs, Cost \$1 bil.
- Elements:
  - \$180 mil: 2<sup>nd</sup> five companies, worker train + hire
    - CIGNA, ESPN, TicketNetwork, NBC Sports, UBS
  - \$125 mil: Startups, film credits, mfg assistance
  - \$50 mil: Bridge/infrastructure repair
  - \$20 mil: Clean + sell state brown-fields
- Jackson Labs: \$291 mil, loans/grants = jobs
  - Bioscience + Genetic R+D, 300 direct 6k indirect

# Causes + Cures – Problems + Actions

- **Govt** = Problem v. Govt acts solve problem
  - **H-1**: Regulation, taxes, big spending, ↓ bus confid
  - **H-2**: Gov acts lead to self-sustain expansion
    - Guards against next financial crisis, health care failure
- **Lack of Liquidity**
  - **View**: Easy money triggers bus invest/stocks – QE3?
  - **Now**: Banks + Corp awash with unused liquidity
- **Lack of Confidence**
  - **Entrepreneurs** limited by Gov deficits + reg policy
  - **Consumers** fearful of jobs, homes, retirement



# Causes + Cures

- Lack of Demand – Focus on priv job creation
  - Bus won't produce w/o expected sale at profit
  - Buyers not spend w/o jobs + income + stability
- Federal Leadership
  - Need: Short-run focus on growth + job creation
    - Problem – Priv sector creates jobs not gov
  - Encourage entrepreneurship + productivity
  - Need: Long-run plan to deal deficits + debt
  - Obama – Jobs plan 9/8/11; Senate defeat 10/20
    - Extend payroll tax cut + unemployment benefits
    - Infrastructure partnership + tax incentives to hire
    - Pay for via ↑ taxes on wealthy