

U.S. and CT Economies:
Current Conditions & Outlooks

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Dr. Ed Deak
Professor of Economics, Emeritus
Fairfield University

U.S. Economic Condition

- U.S. Recovery: Painfully slow + fragile
 - Lost our economic focus: Jobs vs. fiscal stability
 - Job creators hurting: Consumers v. employers
- Great Recession – Began 12/07 Ended 6/09
 - Recession + financial panic = Unusual = 1929
 - Slowest recovery from “Greatest Recession”
- UE Rate Peak = 10.0% @ 10/09
 - 12/12 = 7.8% 12.2m w/o jobs, end 2013 = 7.5 %
 - But 14.6% = 23m w/discouraged + P/T

U.S. Economic Condition

- **Job Loss/Regain** – Loss 8.8m Recover 5.4m
 - 12/12 = 155k job gain, 153k per month in 2012,
 - Private ↑ 168k = Govt ↓ 13k
 - Fragile Recovery – Double dip vs. Escape velocity
 - Strong Recovery – 200+k jobs per month
- **Real GDP** – Recession ↓ 5.1%
 - Q3/12 = 3.1%, Q2/12 = 1.3%, Q1/12 = 2%, Q4/11 = 4%
 - Too slow for fast job ↑ or sharp ↓ in UE rate
- **U.S. Vulnerable** to external/domestic shocks
 - Euro sovereign debt
 - D.C. deadlock
 - Econ slowing: Europe + China
 - Energy/food costs
 - Debt ceiling/spending

Notes Post-Election: Impacts on CT Economy

- Winners:

- Healthcare – Hospitals: All patients covered
 - Cost cuts first = mergers: Added cash flow later
- Housing – Continued low (i) rates + industry support
- Sandy damage – Recovery/repair spending + transfers

- Losers:

- Defense – Sequestration, cuts at UTC + Electric Boat
- High income earners - ↑Tax rates
- Healthcare – Insurance (exchanges), medical equip
- Financial – Banks: Basel III capital rules
 - Hedge funds: “Carried interest” taxed at cap gains rate
- DOW drop - ↓wealth + counters FR m-policy

Conflict Issues in D.C.

- **Deficit Ceiling**
- **Sequestration**
- **Budget: Taxes + Spending**
- **Entitlements: Soc Sec, Medicare, Medicaid**
- **Gun Control**
- **Nuclear Iran**
- **Immigration Education Obamacare**

U.S. Economic Condition

- Inflation CPI – 2012 Headline 1.7%, Core 1.9%
- Balance of Pay – Trade deficit \$450-500B
 - Imports: Energy, electronics, China held debt
- Housing – Depression, bubble worst w/job↓
 - New homes: permits, starts, sales ↑ slowly
 - 24% existing mgt – Underwater
 - 2.2mil in foreclosure pipeline, 4.4m 30-day del
 - Existing prices - ↓1/3rd but rising 3.5% v. yag

U.S. Economic Condition

- Federal Reserve – Monetary Policy
 - S-T (i) low, QE2 over, dissent on FOMC policy
 - QE3, L-T(i)↓, \$85B mortgage securities per month
 - riskier assets, limited tangible effect
 - Low (i), hurts savers + retirees
- Congress/Pres – Fiscal Policy
 - Self-inflicted pain w/deficit ceiling, S&P downgrade
- Banks – Top 10 w/75% of U.S. bank assets
 - Flush w/cash, lim mgt loans, need Basel capital
- Stock Market – Steady gains but vulnerable
 - Losses: Undermines consumer demand + confidence

U.S. Economic Positives

- Low (i) rates + Stock Mkt Recovery
- Business Balance Sheets – Flush w/cash
 - ↓(i) → ↓costs + ↑profits but w/o hiring workers
- Household Balance Sheets – Improving
 - ↑savings, ↓mgt debt w/defaults=↑spend income
- Housing – Painfully slow recovery
 - Low prices + low fixed rates
 - Time to buy/refinance if can get loan

CT Economy: December 2012

- **Jobs** – Lost 117.5k 3/08-2/10 Low 1,593.5k
 - 12/12 = 1,623k = -100 yag +28.7k total = +24.4% regain
 - 12/12 v. 11/12 -1,800 3/12 revisions +8-10,000
- **Unemployment Rate** – Low 4.3% in Mar-May/06
 - Peak 9.2% Feb-Mar/10, 12/12 = 8.6% 12/12 = 8.1%
- **Ave Initial New Claims** – Low 1/06 = 3.7k
 - Peak Mar/09 = 7.4k 11/12 = 7,530k
- **Super-sector Job Changes:** 12/12 v. 12/11 -100 jobs
 - **Gainers:**
 - Ed/Health Serv 10.8k
 - Trade -2.2k
 - Leisure/Hospital 0.8k
 - Information 0.4k
 - **Losers:**
 - Prof & Bus Services -4.2k
 - Government -2.9k
 - Manufacturing -1.0k
 - Financial Activities -2.4k
 - Construction -100

CT Economy

- LMA UE Rate – 12/12 (nsa)

- Bpt-Stfd 7.2% NH – 8.1% Willi-Dan 9.0%
- Htfd 7.8 % Waterbury 10.3%

- Housing – CT Depression

- Permits 11/12 YTD 3,616 +40% v. 11/11, Pk 11/04 9,455
- Sales Existing – Prudential 1-fam 2012 vs. 2011 Q4

• <u>DOM</u>	<u>Price</u>	<u>Sales</u>
• CT 155 +3.3%	\$247.5 -1.0%	24.9k +16%
• Fld 156 +1.3%	\$455k -1.8%	6.4k + 13.5%
• Months supply CT 1-fam = 4.6 months -36% v. Q4/11		

- CT Outlook – 12-24 months 6-12k jobs per year

- U.S. sluggish w/Fiscal standoff; state + local job cuts
- CT job threats: Defense, finance, casinos, insurance

Connecticut Economic Outlook: Jobs: 2012:Q3 to 2016:Q4

- Job Δ : 2011=16k, 11/12= -100 0.0% vs. 11/11
 - 2012 +4.9k, 2013 +5.6k, 2012-16 = 83.4k
 - Revision: 3/13 = +8-10k jobs added to 2012
 - **Lost jobs recovered 2016:Q3**
- UE Rate: 2011=8.8%, 11/12=8.8%, 2010 Peak 9.3%
 - 2012=8.2 %, 2013=7.7%, 2016= 6.3%
- Real Income: 2011=\$182B +2.7%, 2007 Peak=\$187B
 - 2012=\$183B +0.5%, 2013=\$186B, 2016=\$212B
 - Slow \uparrow in tax revenue

Connecticut Economic Outlook: Housing: 2012:Q3 to 2016:Q4

- New Homes: 2011=3,173 -19.3%, 2005 Peak=11,885
 - 2012=3,616 to 11/12 +40%, 2012 = 4,682 +48%
 - 2013=5,173, 2016=8,557 Pent-up demand
- Home Sales: 2011=32.1k -5.6%, 2005 Peak=61,300
 - 2012=36,300, 2013=45,100, Peak 2015=51,500
 - 2016=50,600 b/c↑ mgt (i)
- Median home\$: 2011=\$258k -3%, 2007 Peak=\$321k
 - 2012=\$247k -5.5%, '13=\$249k, '16=\$285k Slow ↑

CT Outlook Influences: Headwinds & Tailwinds

- Headwinds:

- Fiscal drag: D.C standoff + Local budget deficit/layoffs
- CT budget deficit estimates: \$365m now, \$1.2B fiscal 2014
- Potential DOD cuts/delays: Helicopters, F-35, submarines
- Fin serv jobs: Wall St, CT banks + hedge funds, insurance
- Hospital/medical practice mergers
- The “Graying” of CT: Workers, retirees, housing, spending
- Job cuts: UTC, UBS, Casinos, TurboCare, Oche, CIGNA

- Tailwinds:

- Gov/Legislature funding for education reform
- DOD funding in advance of 2013 “fiscal cliff”
- Gov/Legis funding for job stimulus fiscal 2012-13 – Jackson Labs
- CT Housing/auto recovery + DOW ↑ & Gains in real income