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

- **Job Loss/Regain** – Loss 8.8m  Gain 2.7m  30%
  - 12/11 – 200k net job ↑, +125k monthly ave in 2011
  - Private ↑212k & Govt ↓12k – Need 200k+ per month
  - Above stall speed – Double dip vs. Escape velocity

- **Real GDP** – Recession ↓5.1%  sizable loss
  - Q3/11 = +1.8%, 1st half = 1%,  Q4/11= 3% est

- **U.S. Vulnerable** to external/domestic shocks
  - Euro sovereign debt  - Energy/food costs
  - Natural disaster – Jap  - Political deadlock
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 - ↓1/3rd & falling
U.S. Economic Condition

• **Federal Reserve** – Monetary Policy
  – S-T (i) low, QE2 over, dissention 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 $** - $\uparrow$ U.S. mfg, $\downarrow$ imports + $\uparrow$ exports
- **Business Balance Sheets** – Flush w/cash
  - $\downarrow$(i) $\rightarrow$ refi $\downarrow$ costs + $\uparrow$ profits w/o hiring workers
- **Household Balance Sheets** – Improving
  - $\uparrow$savings, $\downarrow$mgt debt w/defaults = $\uparrow$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

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Jobs</strong></td>
<td>-0.7%</td>
<td>1.0%</td>
<td>1.2%</td>
<td>1.3%</td>
</tr>
<tr>
<td><strong>Unempl Rt:</strong></td>
<td>9.6%</td>
<td>8.9%</td>
<td>8.7%</td>
<td>8.4%</td>
</tr>
<tr>
<td><strong>Real GDP:</strong></td>
<td>3.0%</td>
<td>1.5%</td>
<td>2.0%</td>
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</tr>
<tr>
<td><strong>Real Income:</strong></td>
<td>1.8%</td>
<td>2.2%</td>
<td>3.2%</td>
<td>2.2%</td>
</tr>
<tr>
<td><strong>Home pmts:</strong></td>
<td>0.6m</td>
<td>0.6m</td>
<td>.87m</td>
<td>1.3m</td>
</tr>
<tr>
<td><strong>Sales Existing:</strong></td>
<td>4.9m</td>
<td>4.9m</td>
<td>5.7m</td>
<td>5.9m</td>
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<tr>
<td><strong>Med Home $:</strong></td>
<td>$172.8</td>
<td>$164.0</td>
<td>$160.9</td>
<td>$161.5</td>
</tr>
</tbody>
</table>
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%
- **Unemplopy 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
    - **DOM**  Price  Sales
      - 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: 2nd 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

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<td>3,112</td>
<td>3,783</td>
<td>5,283</td>
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<td><strong>Sales Existing:</strong></td>
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<td>32.2k</td>
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<td>47.8k</td>
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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: 2nd 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