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

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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, dissention 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
    • **DOM**              **Price**       **Sales**
      • 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 ↑ 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