

Connecticut Economic Outlook:
2010:Q3 to 2014:Q4

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The U.S. Economic Recovery: **Take (most of) these to the bank**

- **The “Great Recession” is over, no double-dip**
- **2010 will be a weak economic year**
- **Federal deficits & debt are big problems**
- **Interest rates will stay low to mid-2011**
- **Bucking structural headwinds (New Normal)**
- **Federal taxes will be increased, but when?**
- **Health care reform will need fixing, when?**
- **Self-sustaining recovery starting in mid 2011?**

CT Economic Recovery:

Take (most of) these to the bank

- **CT recovery to follow and match U.S. gains**
- **CT housing market still in recession**
- **CT Financial serv jobs – Better than expected**
- **CT state budget – Serious structural deficits**
- **CT competitiveness – Falling behind**
- **Taxes to rise + Services cut**
- **Local budgets – Bad shape**

The Case for a Bearish Outlook: **Potential for More Hard Times 2010**

- **More Unemployed + Rising Unemployment Rate**
 - 15.3 mil Unemployed + underemployed + discouraged = ↓ spending
- **Rising Home foreclosures + Pressure on Home Prices**
- **Commercial Real Estate Defaults = Regional Bank Ills**
 - 775 banks on FDIC watch/problem list
- **↓US Gov/FR Support → ↑ State & Local Fiscal Drag**
- **Lingering Credit Crisis – Sm Bus Loans Hard to Get**
 - Fannie, Freddy, FHA – Own/Insure 90% of new mortgages
- **Bus Risk/Uncertainty – Gov regulation, tax, spending**
- **European Sovereign Debt Problems – PIGS contagion**
- **Partisan Tensions = Political Paralysis**

Case for Optimism in 2010: The Worst is Behind Us

- ↑ Real GDP - The U.S. Economy Grows Slowly
- Inflation = Tame + Interest Rates Remain Low
- Initial Jobless Claims - Stubbornly high but ↓
- “Too Big to Fail” Banks = Are Making Money
- ↑ Hire + Industrial Activity - Firms Starting up
- Major Stimulus Spending ≈ \$400 bil in 2010
 - Added spending in the works - \$26B state + local aid
- Bus Balance Sheets - Strong + Flush With Cash
- Asian↑ = ↑U.S. Exports & domestic sales

U.S. Decade Retrospective + 2010: Six years of Excess Sandwiched by Fear

<u>Indicator</u>	<u>1999</u>	<u>2009</u>	<u>2010</u>
Real GDP %Δ	4.4%	-2.4%	2.0%
Employment	129 mil	131m	130m
Unemploy Rate	4.2%	9.3%	10.1%
CPI Inflation	2.2%	-0.3%	1.9%
New Home Starts mil	1.66	0.76	0.68
Home Sales mil	5.24	5.08	5.35
Median Home \$(000)	133	173	158
S&P 500 Ave	1,320	947	1,110

U.S. July 2010 Jobs Data: Two surveys: Firms & Households

- 7/10 Jobs: -131,000 Recession: -8.4m lost
 - Hope: Bus too lean when recovery → Quick ↑ hires
 - Fear: Bus learned to live w/o added workers
- UE rate 9.5%, Peak est 10.3%, Overall 16%
 - UE 15.3m, underemployed 8.3m, Discouraged 6.1m
 - HH survey = +1.76 mil workers 12/09-7/10; Census
 - New jobless claims = 470k 7/2010 stubbornly high
- Ave Duration of UE = 29 weeks, 46% > 24 wks
 - UE insur = 93-99 wks, limits search, unemployable?
 - 100k+ net new jobs per month to keep UE rate stable

GDP Drivers + Limitations

- **HH Consumption – 70% of GDP**
 - Jobs, depressed housing + 401k's + Stocks + (i)
- **Business Investment – Reg/Policy uncertainty**
 - Health care, Fin regulation, Taxes
- **Gov Spending – Federal + State+ Local**
 - ↑Fed offset ↓S+L, Tail end of stimulus package
- **Net Exports (X-M) – Trade deficit drag on GDP**
- -----
- **Recovery – Get 2011 Boost from Cons+ Invest**

WHY HAS THIS DECLINE FELT SO BAD IN CT?

- **Stress** – Focused on households not business
- **Hit** – Home prices + retirement assets
- **Delinquencies** + Foreclosures + loss of home
- **Affected** high paying finance jobs
- **↑ Social Services** – State + local budgets cuts
- **Pain of debt** + unwinding of excesses
- **“Great Recession”** = Recession w/fiscal crisis

CT Decade Economic Performance: 1999-2009 with 2010 Forecast

<u>Indicator</u>	<u>1999</u>	<u>2009</u>	<u>2010</u>
Employment	1.699m	1.628m	1.620m
Unemploy Rt	2.7%	8.3%	9.1%
Real PC Inc	\$39.3k	\$50.0k	\$49.8k
Home Pmts	10.6k	3.5K	3.4k
Sales Existing	50.8k	34.4k	45.4k
Med sale \$	\$146k	\$260k	\$243k
Real GSP	\$154B	\$173B	\$175B

CT Economy in Recession

Current Status July 2010

- **Jobs**: Peak 3/08=1.712m 7/10=1.620m -92k, +12k
 - 6/9 LMAs ↓ v 7/09: Htfd: -2.6k, NH: +0.8k, ST-BP: -0.9k
 - %Δ yag: Const -4%, mfg 0%, Prof/Bus +0.9%,
Trade -0.5%, Educ/Health +1.7%, Leis/Hosp +4.2%
- **UE Rate**: 1-6/07=4.4% 7/10=8.9% v. 8.5% yag; US 9.5%
 - 9/9 LMA's ↑ yag, Htfd=9.5% NH=9.7% ST-BP=8.7%
 - #UE=167.3k, ↑6.8k yag, ↑1.3k v. 6/10
- **State Deficit**: Budget band-aid 2011, Moody's CT neg rating
 - Casino handle + hold down 11%, Foxwoods bond default
 - Priorities: ↑CT tax revenue + ↓Spending – New Governor
- **New wkly UE claims**: 5,325 -19.8% yag, peak=7.5k 3/09

Source: CT DOL

CT New Home Permits

Jan-July 2004-10 (128 Towns)

<u>Year</u>	<u>Total</u>	<u>% Change</u>
2004	5,628	n.a.
2005	5,508	-2.1
2006	4,825	-12.4
2007	4,155	-13.9
2008	3,096	-25.5
2009	1,880	-39.5
2010	1,622	-13.7

Connecticut Begins Recovery

- *CT is in the early stages of a modest recovery from the U.S. Recession.*
- **CT jobs peaked at 1,711,500 jobs in March 2008, and hit bottom in December 2009 with a total loss of 103,400 positions, 40,300 of them in goods production. From 1989-93 156,000 jobs were lost.**
- **Peak to trough CT job losses appeared in construction (15.4k), finance (8.6k), professional & business services (27.2), manufacturing (20.4k), and trade (24.9k). Education & health services showed job ↑ (13.1k).**
- **The CT job total rose by 12,000 from Jan-July 2010, but the 10:Q2 average of 1,620,000 only equals that for 1997:Q4.**

The CT Recovery (2)

- **CT jobs should ↑ steadily with big gains in 2012 (25k) & 2013 (30k), with 1,701,100 in 14:Q4, still 6.2k < 2008:Q1.**
- **The CT unemployment rate should peak at 9.4% in 10:Q4 up from 4.3% in 06:Q2, falling to 6.4% in 14:Q4.**
- **Budget deficits for fiscal 2010 + 2011 have been lifted.**
 - **CT will borrow nearly \$1 bil. to balance the 2011 budget.**
- **But a \$3+ bil structural deficit remains for 2012 & 2013.**
- **Casino revenues ↓ 5.3% this fiscal year, & 16.9% from \$430 mil peak in fiscal 2007.**

Housing in CT:

A More Restrained Recovery

- Median home sale prices peaked at \$326.8k in 07:Q2, ↓ to \$266.1k in 09:Q4. They may average \$243k in 2010 before ↑ towards \$290k in 2014. Distressed sales will ↓ prices.
- Home permits (saar) hit 12,269 in 2005:Q3 falling to 2,914 in 2009:Q1. Permits totaled 3,516 in 2009, with 3,355 units expected in 2010, 7,882 in 2012, & 9,041 in 2013.
- Sales of existing homes peaked in 2005:Q1 at 61.3k, falling to a rate of 28.8k in 2009:Q1, totaling 34.4k units in 2009.
- Gains are expected in 2010 (45.3k), and 2011 (50.2k), holding in the 48-50,000 unit annual range for 2012-2014.

CT Housing Sales Jan-June 2010: Prudential CT Realty and The Warren Group

	<u>1-Family</u>	<u>%Δ</u>	<u>Condo</u>	<u>%Δ</u>
YTD Sales	12,635	32.3	3,774	36
Med \$	\$245k	3.6	\$180k	2.9

Q2 Sales		29		36
Med \$		5.4		1.7

Fld Cty Sales		52		44
Med \$		11		4.0

CT Recession & Recovery: Peak – Trough – Forecast End

VARIABLE	Q:BEST & TOTAL	Q:WORST & TOTAL	2010 & % CHG	2011 & % CHG	2014:Q4 & % CHG
JOBS	2008:Q1 1,710,200	2010:Q2 1,610,700	1,612,700 -0.92	1,625,600 0.8	1,703,900 0.18
UNEMPLOY RATE %	2006:Q2 4.3	2010:Q4 9.56	9.3	8.85	6.35
REAL PER CAPITA INCOME	2007:Q3 \$52,865	2009:Q1 \$49,518	\$49,762	\$50,762	\$56,984
PERMITS	2005:Q3 12,269	2009:Q1 2,914	4,156 18.2	5,014 20.6	9,004 -0.8
EXISTING HOME SALES	2005:Q1 61,300	2009:Q1 28,800	45,400 32.0	50,300 11.0	50,600 -0.1
MEDIAN 1-FAM PRICE	2007:Q2 \$327,100	2010:Q2 \$234,900	\$243,000 -6.5	\$254,500 4.8	\$297,400 1.6

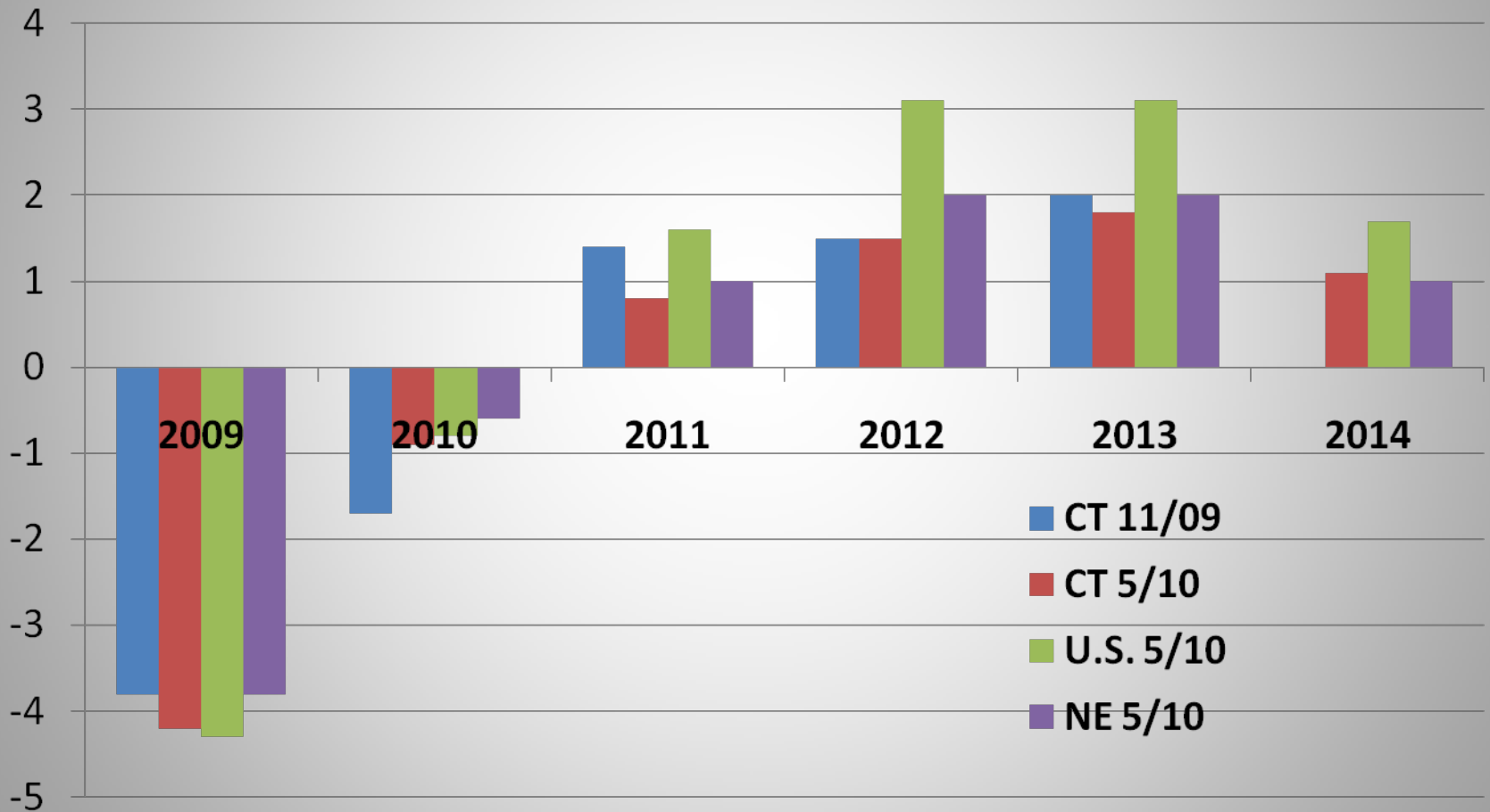
ME.com CT v. NEEP CT:

NEEP Ad-factoring Results

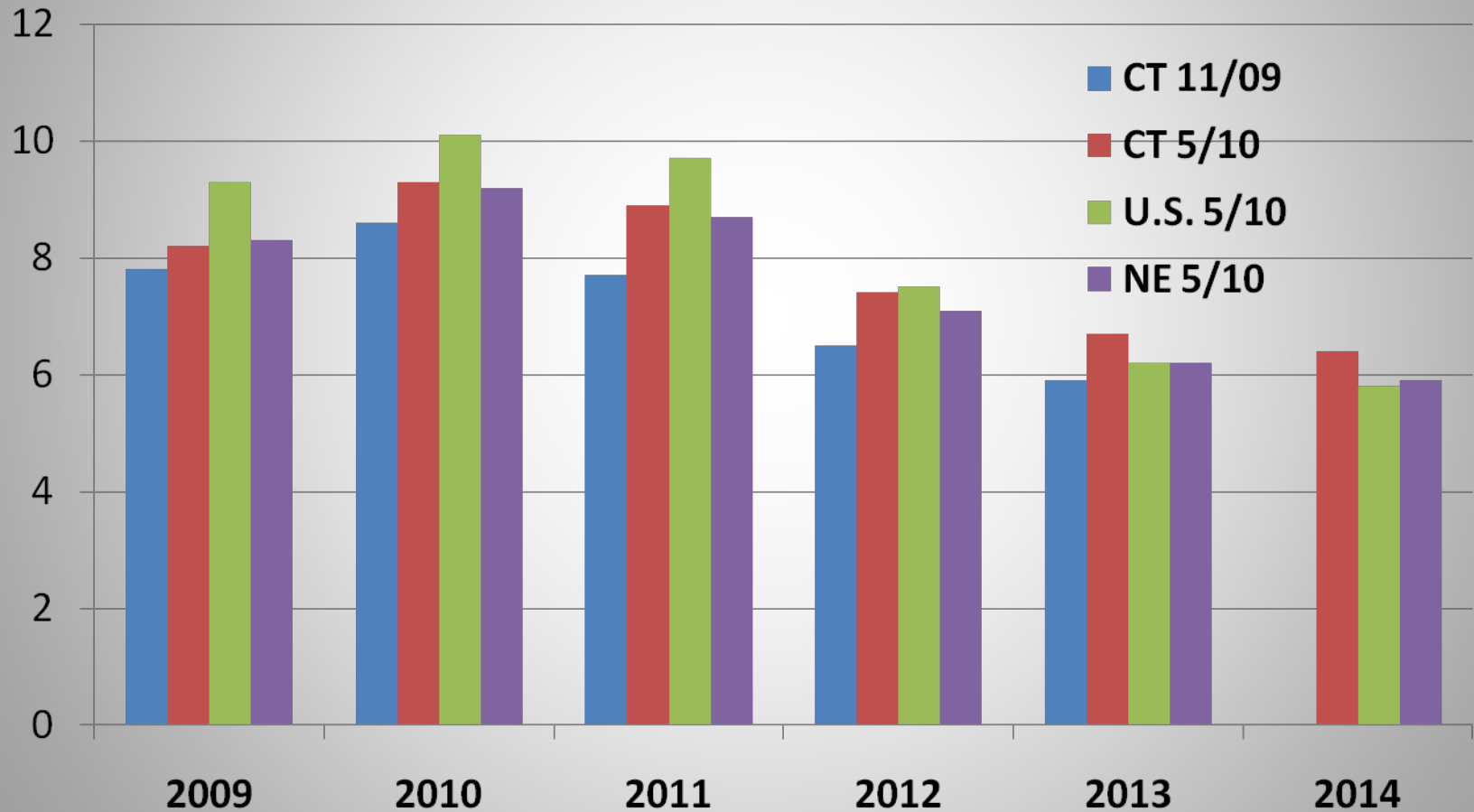
VARIABLE	2010 ME.c	2011 ME.c	2012 ME.c	2013 ME.c	2014 ME.c
	2010 NEEP	2011 NEEP	2012 NEEP	2013 NEEP	2014 NEEP
	DIFF	DIFF	DIFF	DIFF	DIFF
JOBS	1,608,500	1,620,600	1,658,700	1,701,600	1,719,300
	1,612,700	1,625,600	1,650,800	1,680,900	1,699,100
	+4,200	+5,000	-7,900	-20,700	-20,200
UNEMPLOY RATE %	9.1	8.8	7.0	5.8	5.4
	9.3	8.9	7.4	6.7	6.4
	+0.2	+0.1	+0.4	+0.9	+1.0
NOM PERSONAL INCOME 00\$BIL	\$195.940	\$202.760	\$214.200	\$227.980	\$240.080
	\$196,203	\$203.060	\$213.840	\$226.980	\$239.160
	+\$0.263	+\$0.300	-\$0.360	-\$1.000	-0.920
PERMITS	3,547	5,703	9,848	10,642	10,415
	4,156	5,014	7,907	9,085	9,082
	+609	-689	-1,941	-1,557	-1,333
SALES EXISTING	48,300	51,200	50,200	48,800	50,200
	45,400	50,300	49,900	49,100	50,600
	-2,900	-900	-300	+200	+400
EXISTING SALE PRICE	\$241,900	\$254,600	\$272,600	\$290,100	\$303,000
	\$243,000	\$254,500	\$264,200	\$274,900	\$290,400
	+\$1,100	-\$100	-\$8,400	-\$15,200	-\$12,600

Annual Job Change %:

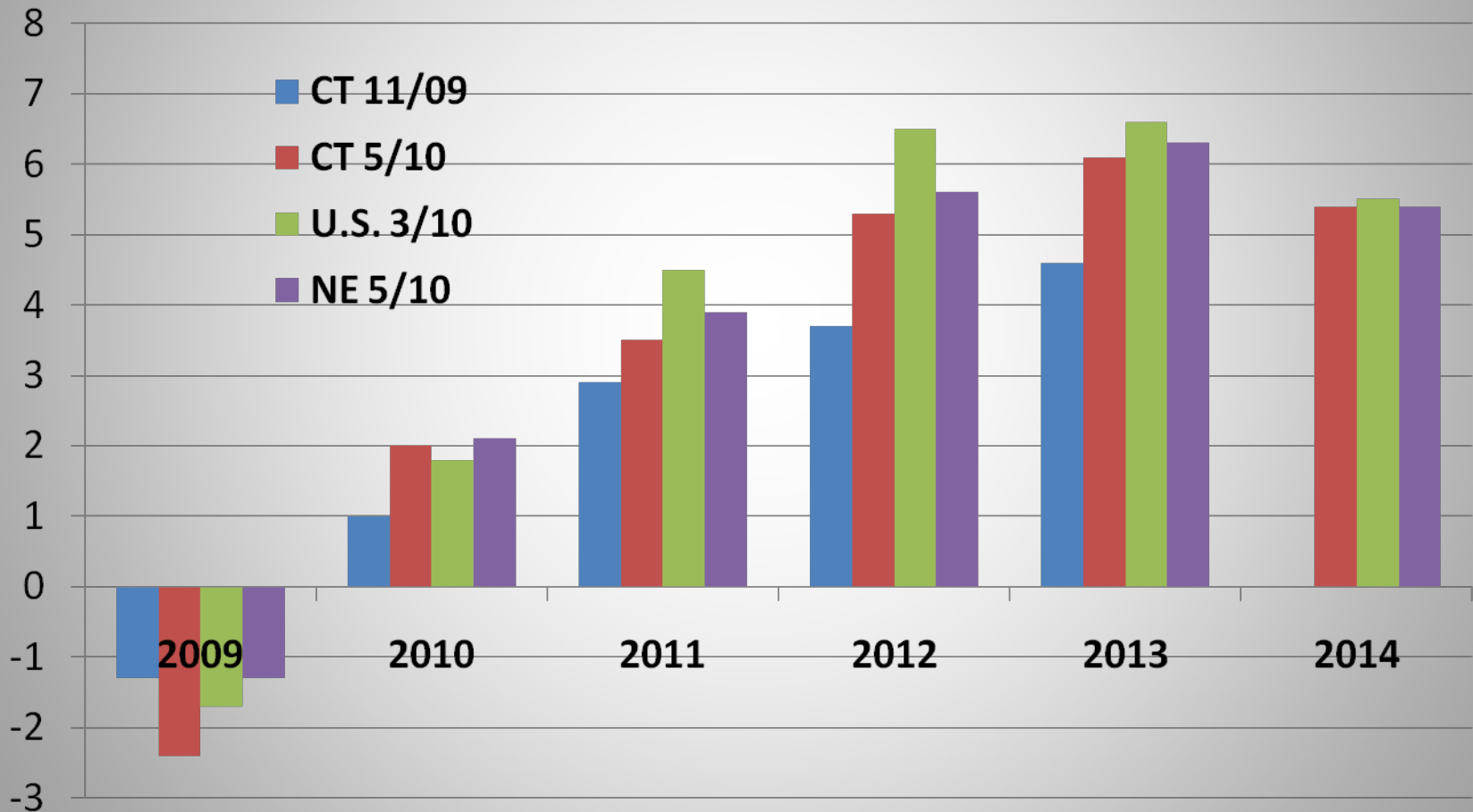
CT v. U.S. v. New England 2009-14



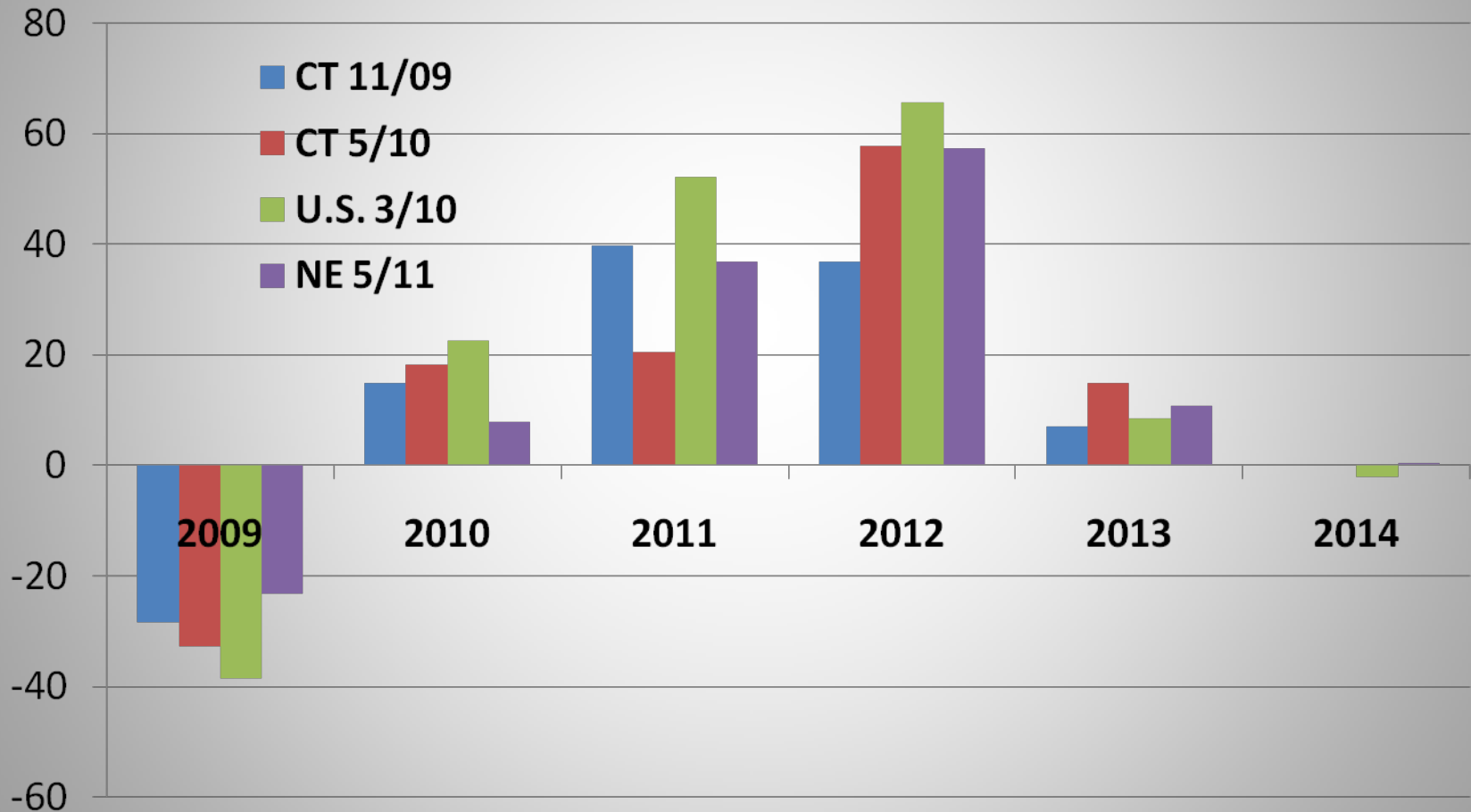
Annual Unemployment Rate %: CT v. New England v. U.S. 2009-14



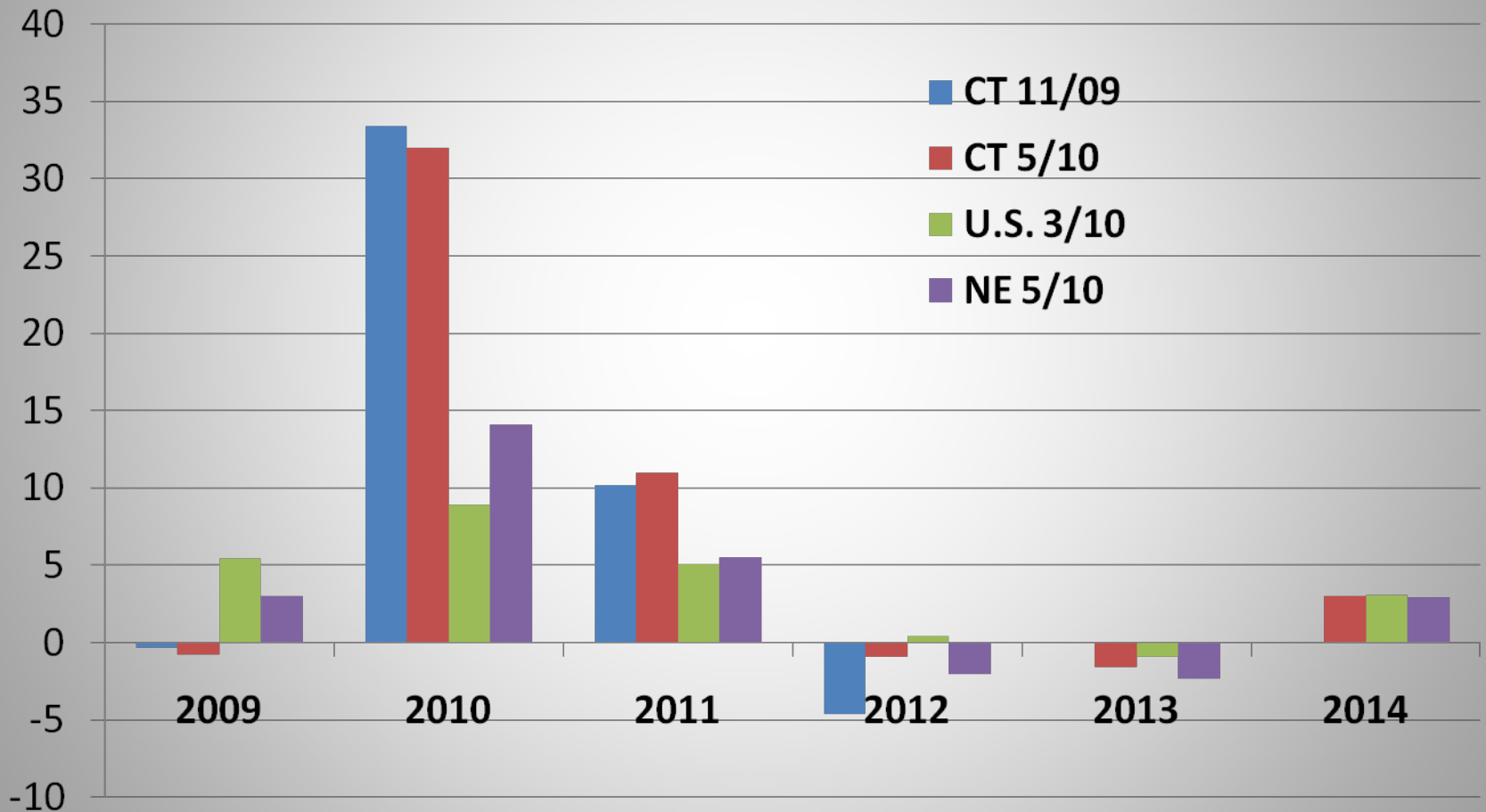
Annual Nom Per Income Chg %: CT v. U.S. v. New England 2009-14



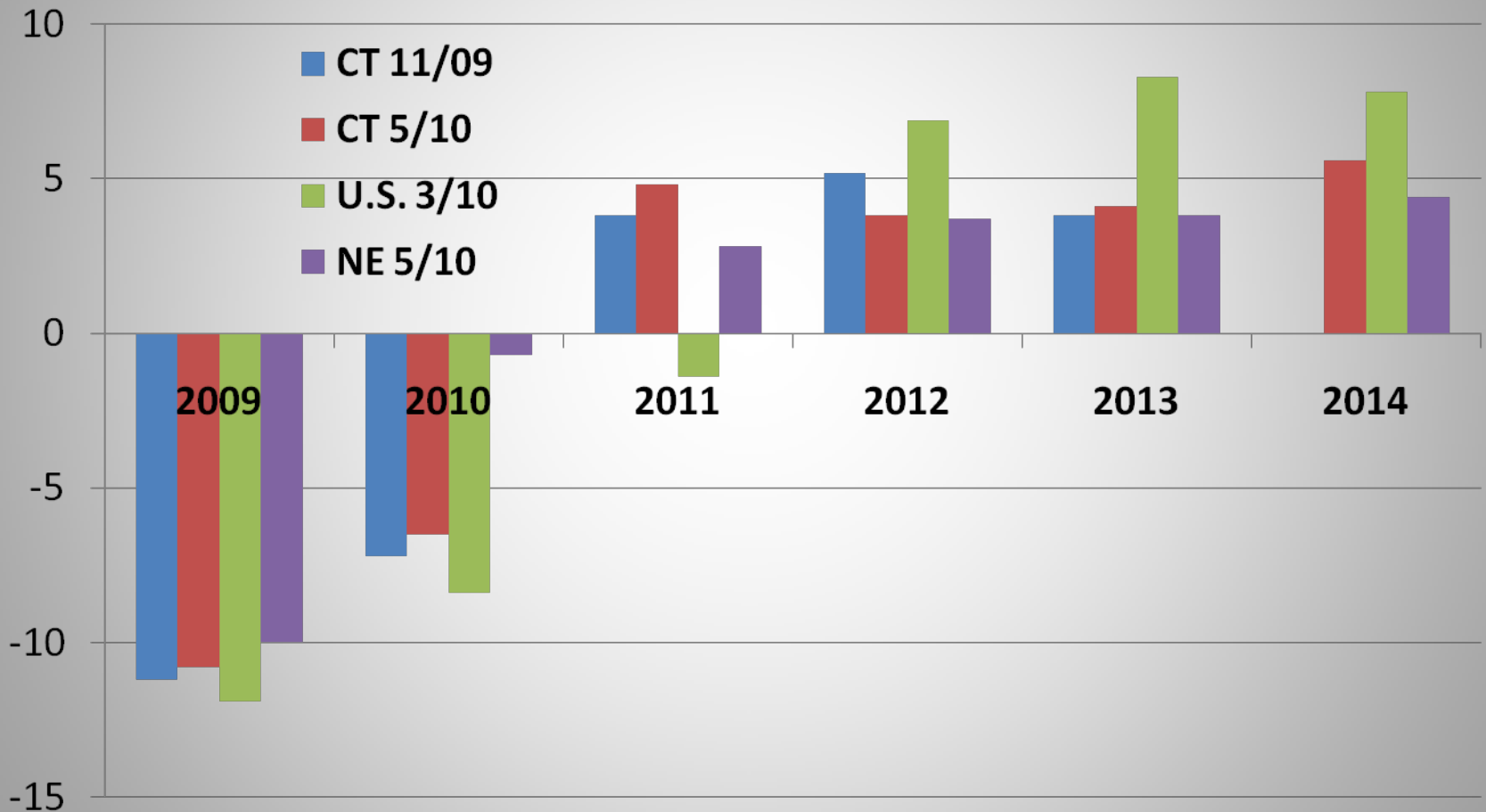
Annual Home Permits % Chg: CT v. U.S. v. New England 2009-14



Sales of Existing Homes % Chg: CT v. U.S. v. New England 2009-14



Median Sale Price Existing Home: % chg CT v. U.S. v. NE 2009-14



CT “Great Recession” Take-Aways

- **CT late to bottom slow to recover jobs + ↓UE**
- **Restructuring of Financial Services sector**
 - High wage job losses, less capital gains + bonus income
 - Weakened Hedge Fund + Insurance firms/jobs
- **Defense spending helps mfg**
 - Pending losses at Pratt & Whitney, HealthNet
- **State + Local Budget Deficits = Recovery drag**
- **Housing + Commercial RE – Slow to rebound**
 - Permits at depression levels, median prices falling
- **Aging pop + slow growth labor force**