

U.S. & Connecticut Economic Outlooks: 2014-18

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The U.S. Outlook: 2014-2018

- ☒ **Federal Reserve Policy – Only game in town**
 - Delicate handoff – Timing: Balance econ ↑ v. ↓FR stimulus
 - Job, income, housing, GDP ↑ 2015-16, Weaker ↑ 2017-18
 - Modest CPI inflation - \$4.2T FR money outstanding
 - Fear – Too rapid expansion of bank lending, FR acts late
- ☒ **Pres/Congress – Dysfunctional/Destructive**
 - No help from fiscal policy or constructive D.C. action
- ☒ **Positives – ↑Jobs, strong \$, low inflation**
 - ECB + Bank of Japan liquidity?, ↓Energy costs
- ☒ **Econ Risk – Burst bubbles + asset volatility**
 - DOW stock/bonds, land values – How much risk tolerate?



Connecticut Economic Outlook: 2014:Q3 to 2018:Q4

⏏ **Job Δ**: 2013=15.7k, 8/14 -3.6k, +5.6k v. 8/13
- 2014 +14.1k, '15 +25.1k, 2014-18 = 86.0k **To 8/14**: ↑71.4k of 119.1k lost=60%

⏏ **UE Rate**: 2013=7.8%, 8/14=6.6%, 2010 **Peak** 9.3%
- 2014=6.8%, 2015=6.4 %, 2018= 5.7% **Lost jobs recovered** April/2016

⏏ **New Homes**: 2013=5,424 +16%, 2005 **Peak**=11,885
- 2014=6,033, to 8/14 +17%, 2016=9,028, 2018=8,268 Pent-up demand

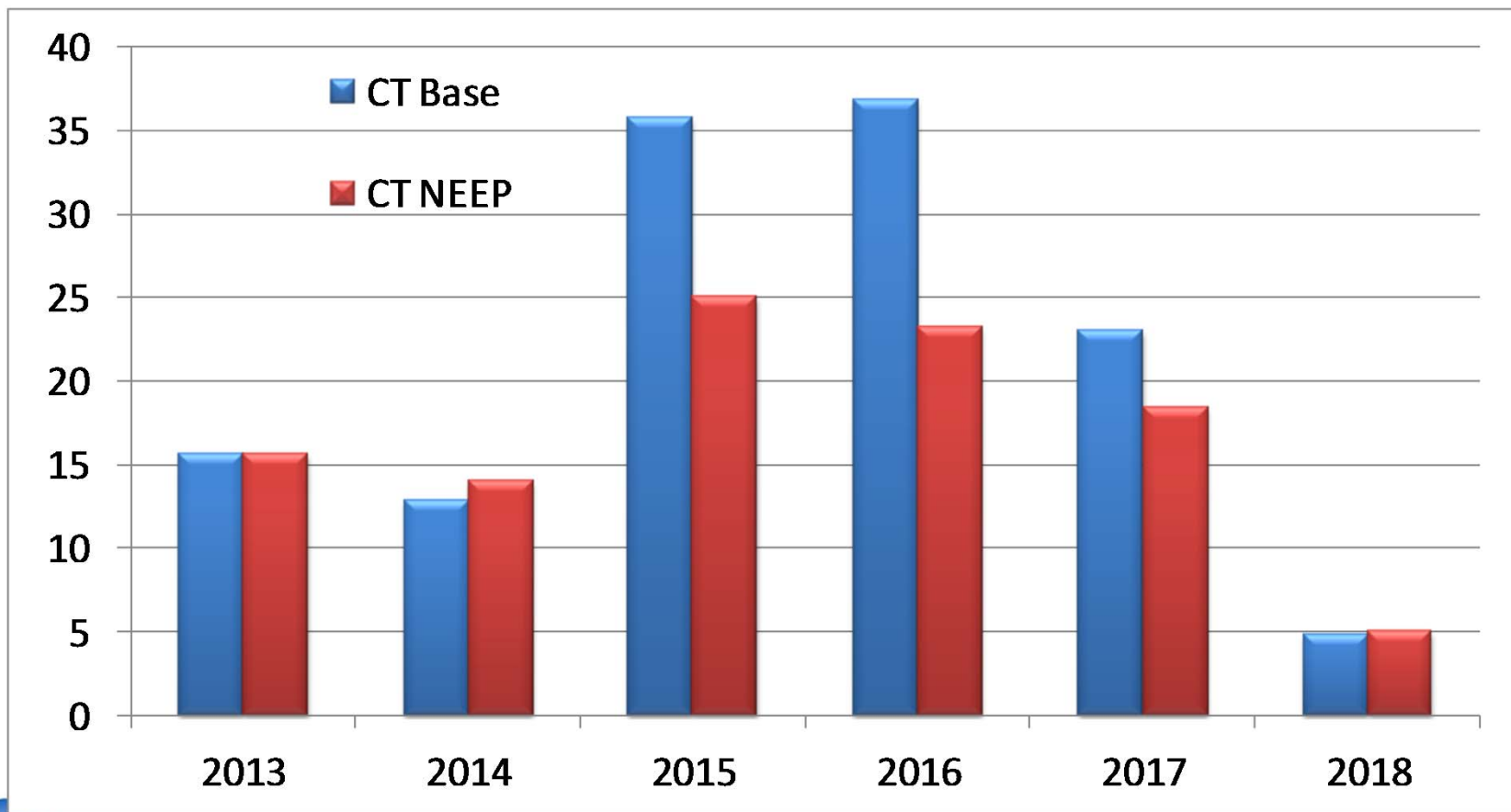
⏏ **Home Sales**: 2013=38.1k +7.5%, 2005 **Peak**=61,300
- 2014=38.3k +0.7%, 2015=45.6k **Peak**, 2016=47.7k b/c ↑ mgt (i) & population

⏏ **Median home\$**: 2013=\$258k +3%, 2007 **Peak**=\$321k
- 2014=\$259k +0.3%, 2015=\$273k, 2018=\$293k Slow ↑ w/shadow inventory

⏏ **Real Income**: 2013=\$204B +0.7%, 2007 **Peak**=\$203B
- 2014=\$208B +2.2%, 2015=\$216B, 2018=\$233B, Slow ↑ in spending/taxes



Employment Comparison Job Chg #s: Moody's Base vs. CT Forecast 2013-18



Extent of & Causes for CT Revisions

☒ **Job Change 2013:Q4 to 2018:Q4**

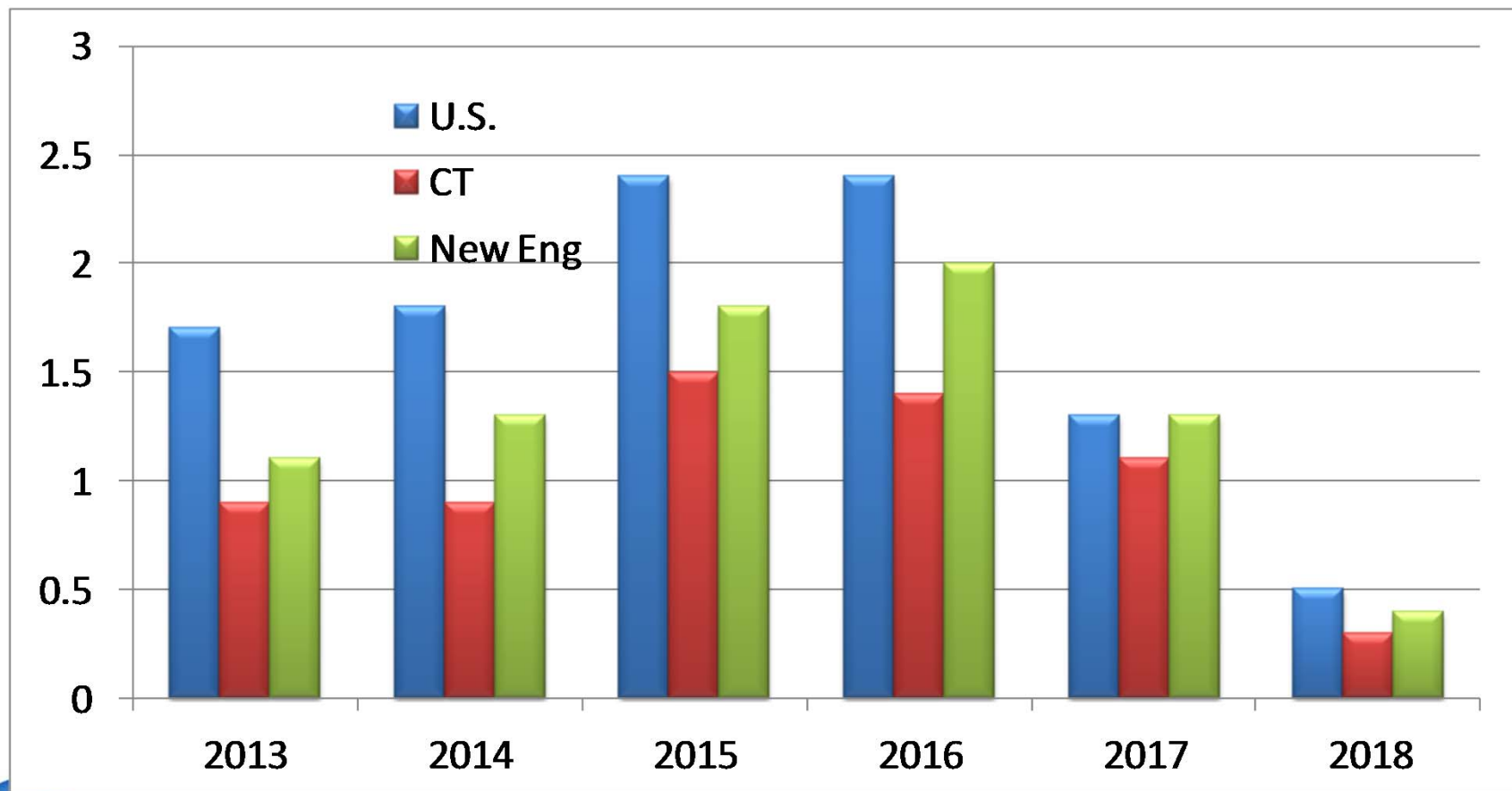
- **Base: 1.661m → 1.769m = +108k**
- **Revised: 1.661m → 1.741 = +80k Diff: 28k jobs**

☒ **Basis for Downward Job Revisions**

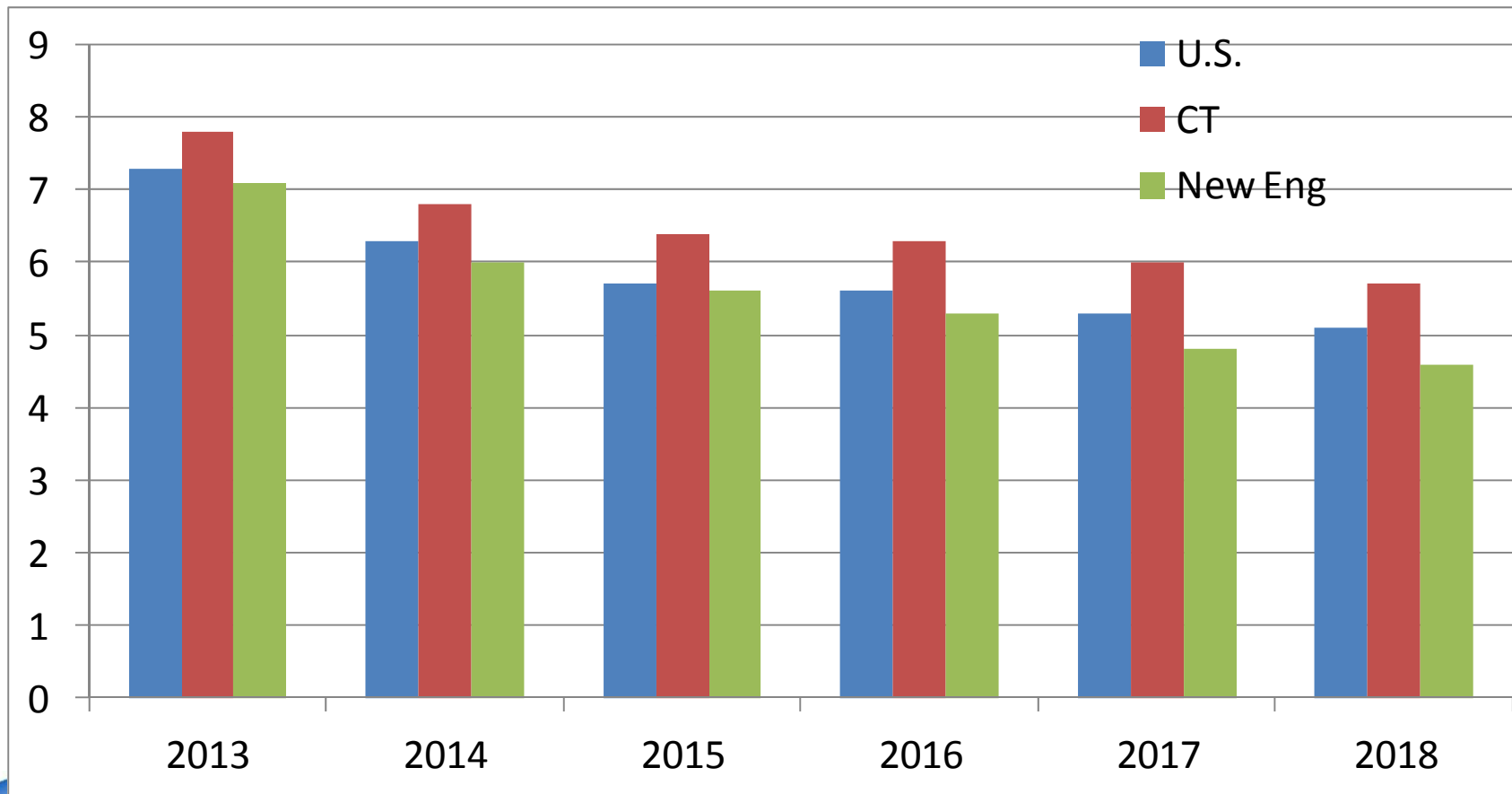
- **Older CT demographics & large income gaps**
- **Retail – More Internet & Less Mall purchases**
- **Construction – Less residential/commercial construction**
 High commercial RE vacancy (20%) in Fld + Htfd – No cranes
- **Financial – Fewer insur, banking, RE, hedge fund hires**
- **Educ & Health Serv – Cost cut: Merger & elec data/record**
- **Prof & Bus Serv – More p/t, but fewer f/t support hires**
- **Manufacturing – More F-35, but fewer Europe exports**



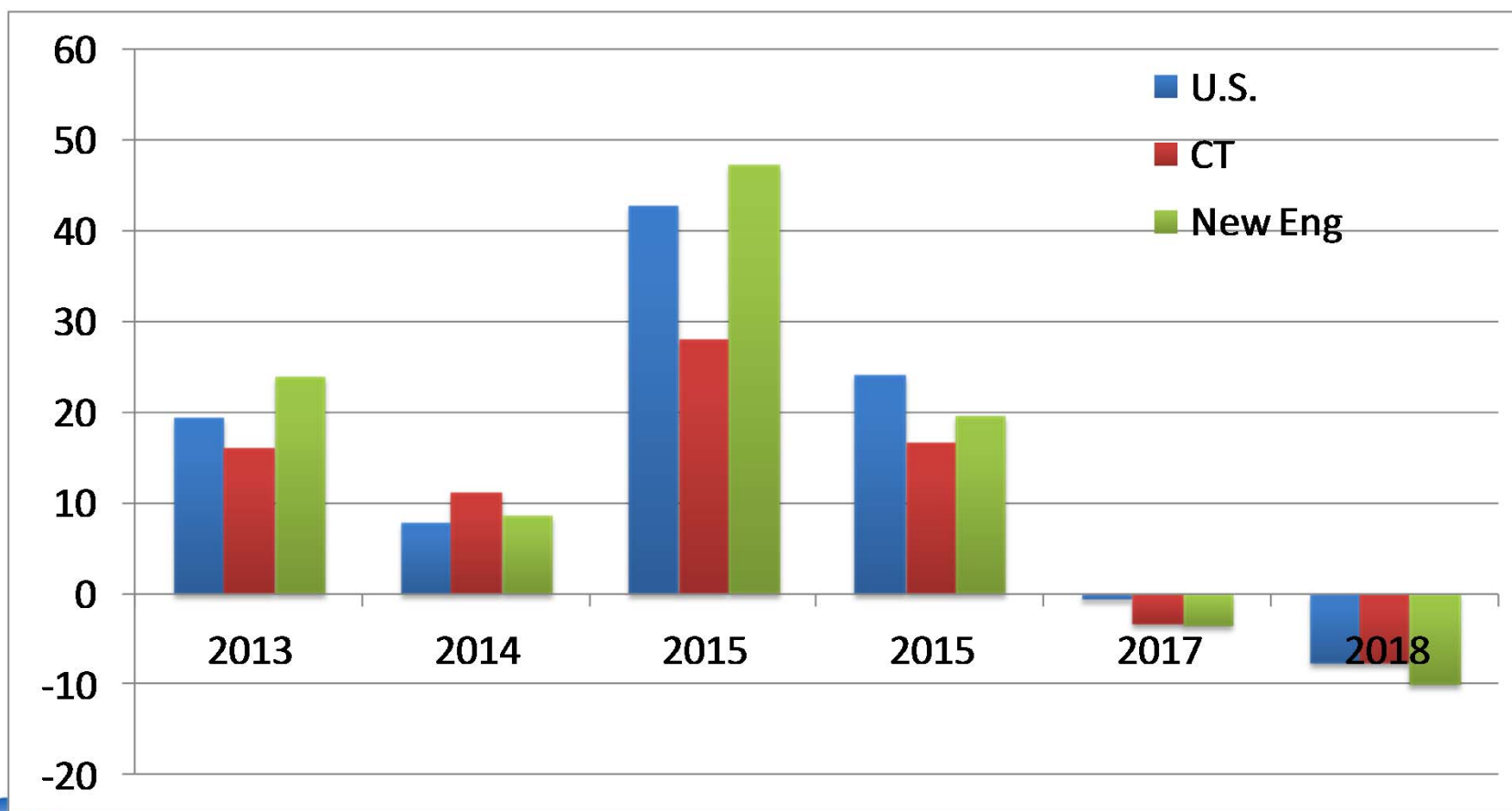
Employment Comparison % Chg: U.S., CT, New Eng, 2013-2018



Unemployment Rate %: U.S. vs. CT vs. NE 2013-18



Home Permit Comparison % Chg: U.S., CT, New Eng, 2013-2018



CT Outlook Influences: Headwinds & Tailwinds

Headwinds:

- CT fiscal drag: Local jobs↓, Weak tax↑; casino competition
- Fin serv jobs: Wall St, CT banks + hedge funds, insurance
- Bus/prof serv: Rising P/t > F/t support gains
- Hospital/medical: mergers, reimbursements, Obamacare
- High Commercial RE vacancy rts: Fairfield + Htfd Counties
- “Graying” of labor +↓LFPR: ↑retirees=↓housing +spending

Tailwinds:

- DOD funding F-35 + helicopter
- Gov/Legis funding for job stim + educ reform
- Sandy recovery/repair \$376m: Insurance + FEMA inflows
- CT construction recovery + Gains in nominal/real income



Economic Challenges Facing CT: 2014-2018 & Beyond

☒ **Est Budget Deficit Fiscal 2016: \$1.28B, Debt = \$65B**

- **FR Boston rept: Assessing the Affordability of State Debt 12/13**
<http://www.bostonfed.org/economic/neppc/researchreports/2013/rr1302.htm>

☒ **CNBC/Sm Bus Surv: CT # 46/50**

☒ **Unfavorable Demographics**

- **Population change (0.1% U.S.=0.8) & Age cohorts (65+ 2.1%)**
- **Household formation (0.7% U.S.=1.1) & net migration (-0.7%)**

☒ **Infrastructure, Education, Labor Force**

☒ **Income Inequality: Urban/suburb poverty**

- **FR Bos Rept: Hidden Struggles and Costs in the CT Suburbs 8/14**
http://www.bostonfed.org/commddev/community-outlook-survey/?wt.source=bfo_rco_nn
- **Struggling families – 181k < \$40k per yr, 81k in suburbs**

