

# Economic Outlook: A Rock Perspective

*Presentation to:*

Greater New Haven Community Loan Fund

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# Overview

- *Global Events*
- *U.S. Trends*
- *Connecticut Indicators*
- *Real Estate Survey Results*

# *Anything in Common?*



# EUROZONE CRISIS - *In Another Land*

- *Eurozone GDP contracted by 0.6% from 2012 Q3 to 2012 4Q and is expected to contract by 0.3% in 2013.*
- *Emergence of new political group, the Five Star Movement, gains most seats in Italy's parliament elections.*
  - *Investors perceive the Five Star Movement as anti-austerity.*
  - *After elections, Italian bond yields increased by 0.65 percentage points and Fitch rating agency downgraded Italian debt.*
- *Increased pressure on France from the Eurozone to decrease its deficit.*
- *Cyprus banking crisis*
  - *Cyprus has reached an agreement with the European Union by liquidating its second biggest bank, Laiki.*
  - *Laiki bondholders will be wiped out as well as uninsured depositors.*

# EUROZONE AFFECTS CT – *Continental Drift*

- *In 2012, Connecticut exported 27% of its total exports to France, Germany, the Netherlands, Belgium and Italy.*
- *Developments in the Eurozone are important in terms of exchange rate movements and demand for Connecticut products from Europe.*

	2009 (\$Mil)	2012 (\$Mil)	2009 % Share	2012 % Share
Total CT Exports and % Share of U.S. Total	13,979	15,866	1.3	1.0
Top Eurozone Countries and % of State Total	11,418	14,115	81.7	89.0
France	2,217	1,906	15.9	12.0
Germany	1,306	1,497	9.3	9.4
Netherlands	234	510	1.7	3.2
Belgium	235	294	1.7	1.9
Italy	106	130	0.8	0.8
	4,098	4,337	29.3	27.3

# CANADA AFFECTS CT – *Continental Drift*

- *Canada's economy lost 54,500 jobs in March, pushing the unemployment rate up to 7.2% from 7%. It is Canada's biggest month of employment loss since the recession four years ago.*
- *Canada also reported a widened trade deficit mostly fueled by the unusually strong Canadian dollar.*
- *Connecticut's second top export destination is Canada. Will exports falter because of growing lack of demand, or will it increase due to a relatively cheaper U.S. dollar?*

	2009 (\$Mil)	2012 (\$Mil)	2009 % Share	2012 % Share
Total CT Exports and % Share of U.S. Total	13,979	15,866	1.3	1.0
Canada	1,445	1,907	10.3	12.0

# U.S. SEQUESTER – *As Tears Go By....*

- *Because of political stalemate in Washington, automatic spending cuts from the Budget Control Act of 2011 were enacted on March 1, 2013.*
- *Total spending cuts will be \$85 billion in 2013, and \$1.2 trillion over the next nine years.*
  - *Discretionary spending cuts (2013):\$71 billion*
    - *Includes cuts to defense spending and 5% across the board cuts to federal agency budgets.*
  - *Mandatory spending cuts (2013): \$14 billion*
    - *2% reduction in Medicare spending per year due to reduction in payments to Medicare providers.*

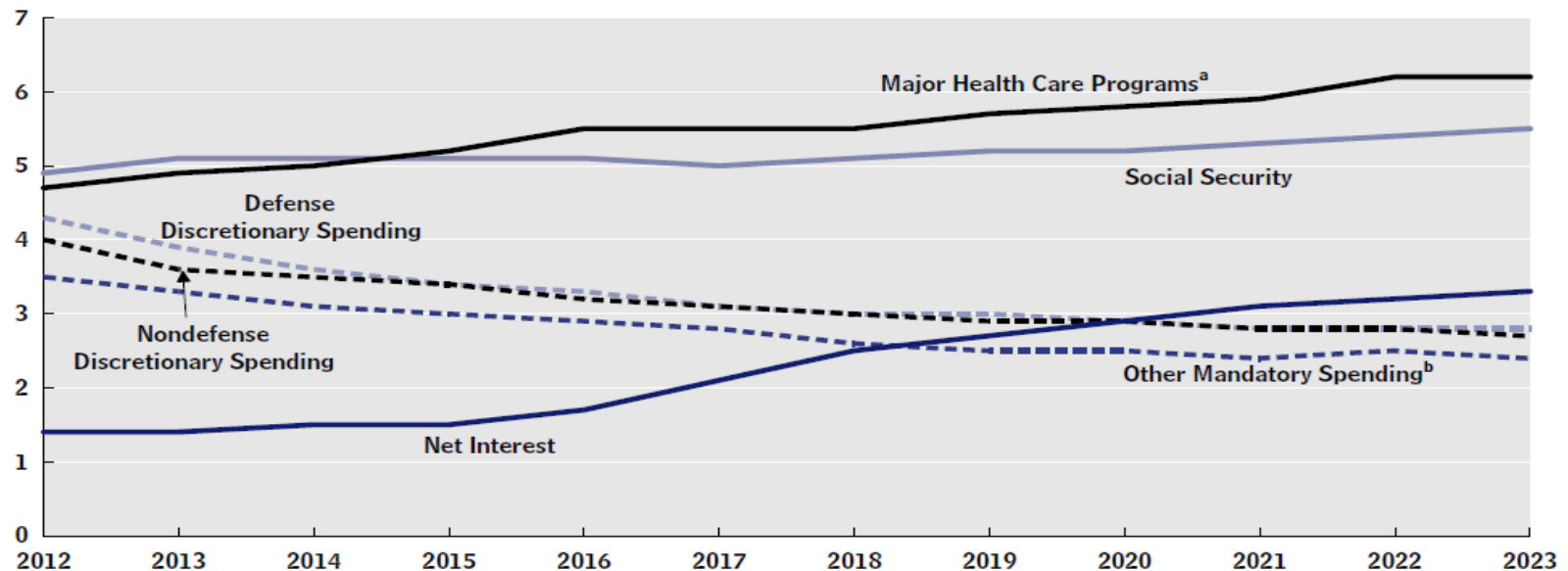
# U.S. DEBT – *Doom and Gloom*

- According to the Congressional Budget Office, despite sequester cuts, health care programs and social security are expected to outpace GDP growth, contributing to record debt levels.

**Figure 1-3.**

## Projected Spending in Major Budget Categories

(Percentage of gross domestic product)





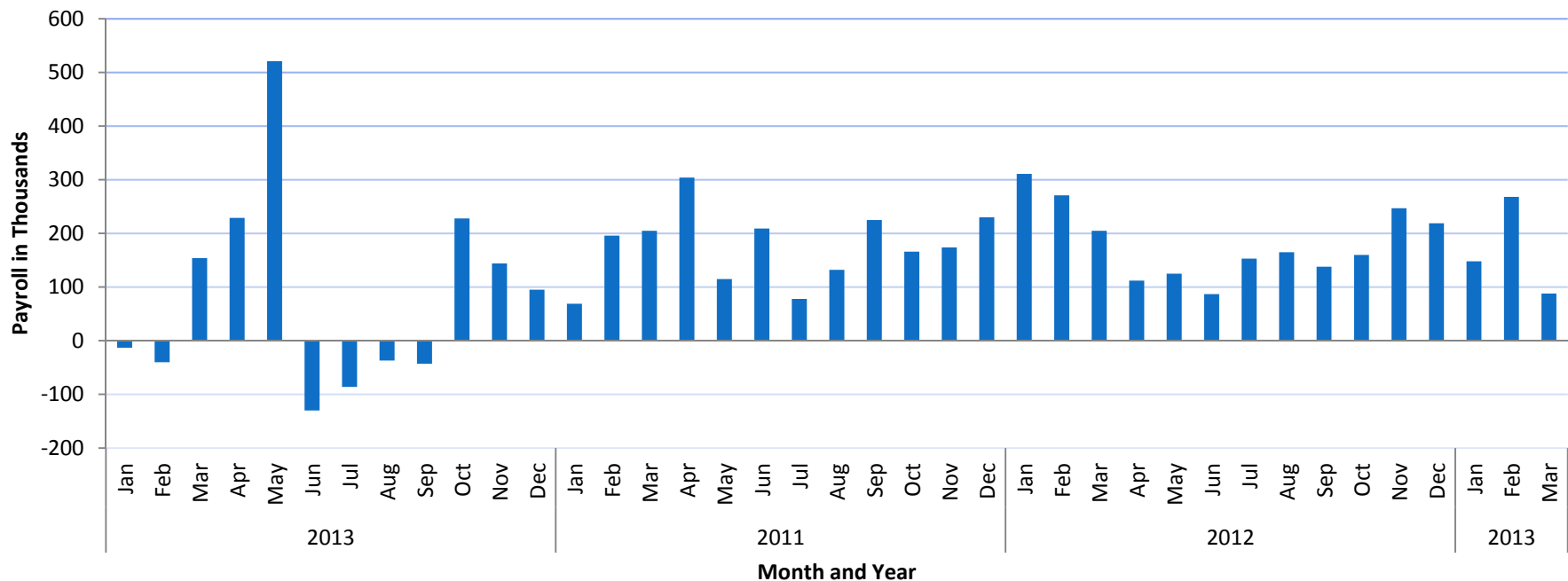
# U.S. SEQUESTER AFFECTS CT – *Torn and Frayed*

- *The Congressional Budget Office estimates 0.6% reduction in GDP in 2013. Growth should return in the second half of 2013 and continue into 2014.*
- *Connecticut will lose \$56 million in funding for education, job training, and other workforce programs.*
- *3,000 Connecticut civilian defense workers could be furloughed as the Department of Defense cuts \$46 billion in spending.*
- *Connecticut's \$25 billion dollar defense industry supports 42,000 jobs and 60,000 indirect jobs.*
- *Cuts include the loss of \$15 million in defense related payroll, \$1.6 million in cuts to Army base operations and the loss of \$13 million for two demolition projects in New London.*

# EMPLOYMENT - *Sway*

- *Non-farm employment in March increased by 88,000 and the unemployment rate decreased to 7.6%. Jobs gain in March was the lowest in 9 months.*

**United States Non-Farm Payroll**



Source: Trading Economics, Bloomberg

# U.S. STOCK MARKET - *Heaven*

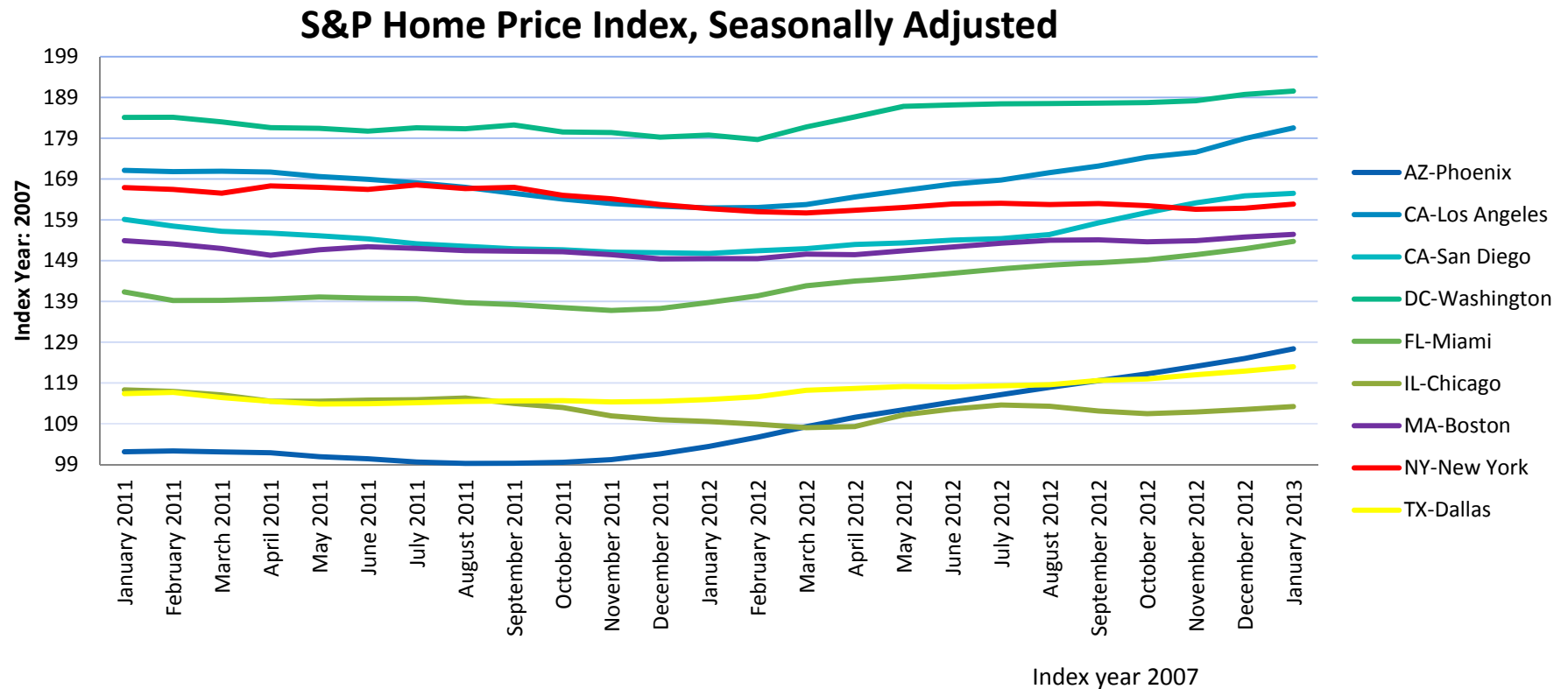
- *S&P reached record level closing of 1567.78 on March 28. Last highest level was October 9<sup>th</sup> 2007 with close of 1565.15.*
- *However, the past week was the worst for the S&P all year due to depressing job numbers*



U.S TRENDS

# HOUSING MARKET – *Start Me Up*

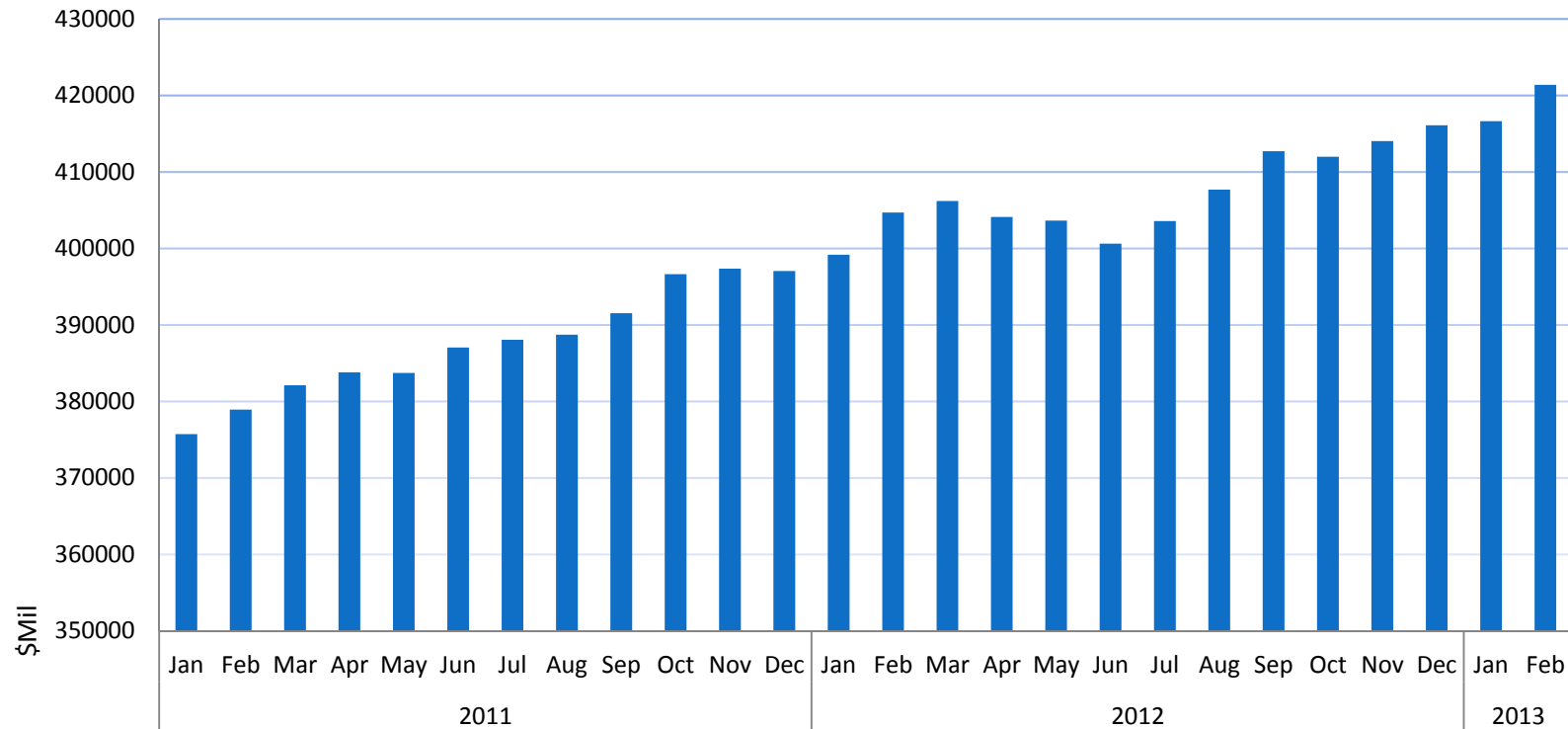
- *S&P Index showed an average home price increase of 7.3% for its 10 city composite and 8.1% increase for its 20 city composite in the 12 months ending January 2013.*



# RETAIL SPENDING – *Prodigal Son*

- *U.S. real sales have been improving – perhaps the return of the American shopper?*

**U.S. Retail Sales**



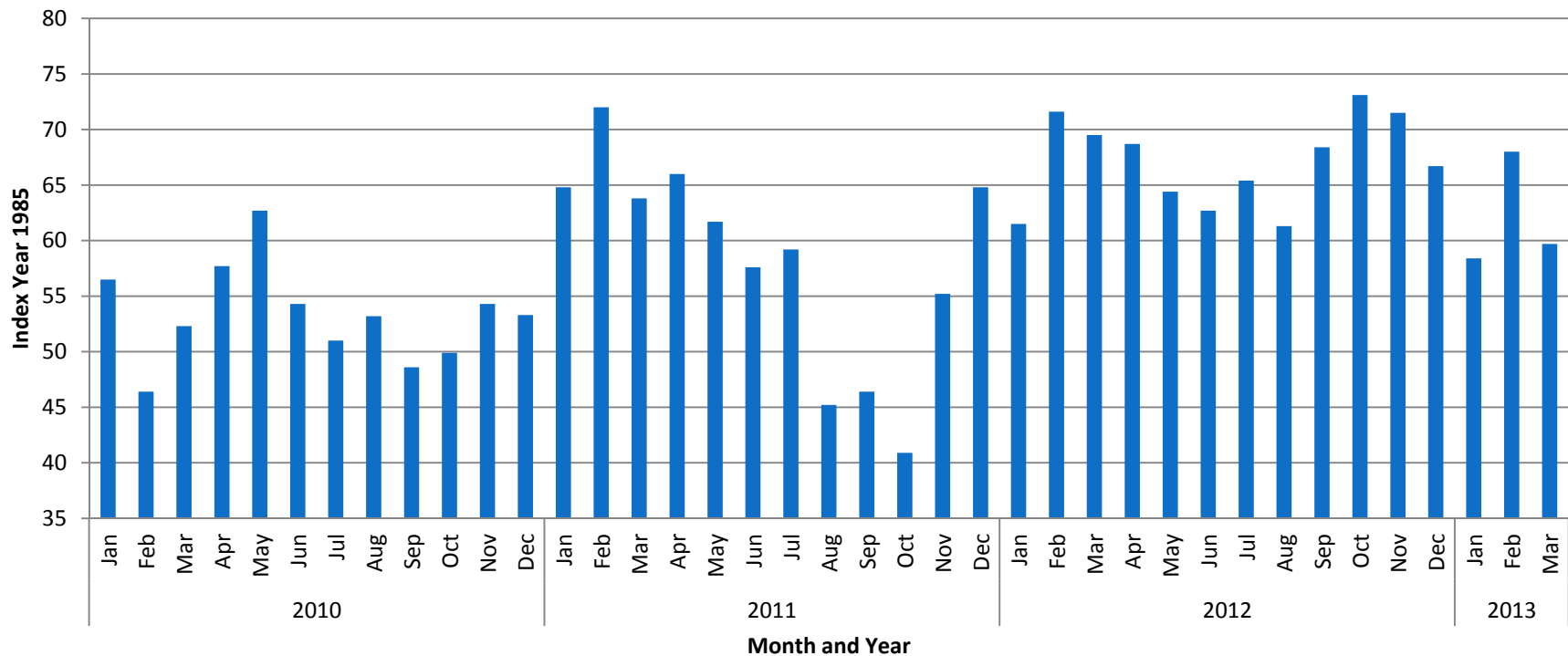
Source: Bloomberg, BLS

U.S TRENDS  
U.S TRENDS

# CONSUMER CONFIDENCE – *Coming Down Again*

- *Consumer confidence decreased in March to 59.7 from a high of 68 in February. Consumers are more pessimistic due to the sequester and weak increases in jobs.*

**U.S. Consumer Confidence**



Source: Conference Board, Trading Economics, Bloomberg

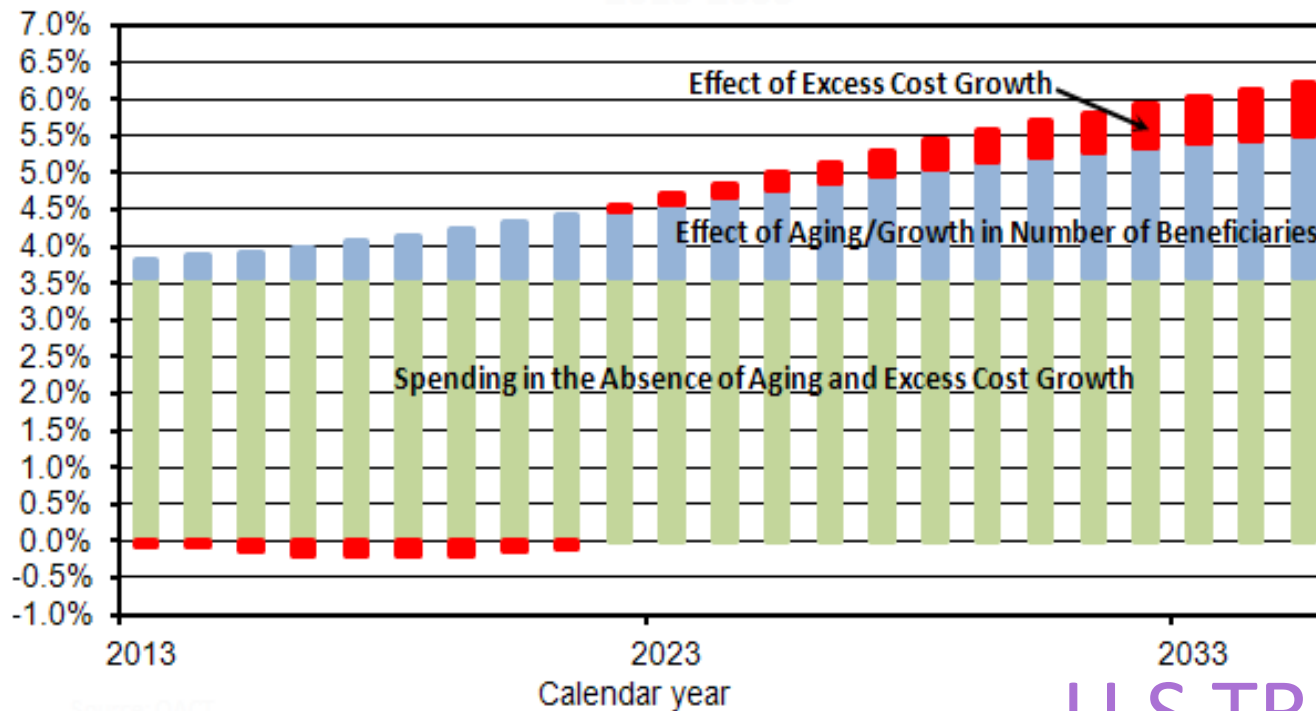
# HEALTH CARE – *Heart of Stone*

- *The U.S. Patient Protection and Affordable Care Act (Public Law 111-148) signed into law in 2010 will expand health care coverage to an estimated 34 million Americans by 2021.*
  - *About 95% of nonelderly Americans will have health insurance.*
- *CBO (Congressional Budget Office) and JCT (Joint Committee on Taxes) estimate that the Patient Protection and Affordable Care Act would yield a net reduction in federal deficits of \$210 billion over the 2012-2021 period.*
- *CBO predicts that health care costs will significantly increase the federal debt after 2023 when the impacts of the aging population are realized.*

# HEALTH CARE – *Out of Time*

- *The growth of the aging population is expected to double Medicare growth rates between 2013 and 2033.*

**Exhibit 3. Culmulative Contribution of Aging and Excess Cost Growth to Medicare Spending Under OACT's Alternative Scenario, 2013–2035**



Source: OACT

Source: U.S. Dept. of Health and Human Services

U.S TRENDS



# ENERGY – *Play With Fire*

- *Recent developments in “fracking” technology has enabled the U.S. to exploit oil and shale gas reserves. The U.S. Energy Information Administration estimates that natural gas deposits can supply the U.S. for 100 years.*
- *U.S. oil imports are declining. Imports totaled about 7.7 million barrels per day in February 2013, down 1.2 million barrels per day from the same time last year.*
- *Despite forecasted boom, there are short-term constraints that have caused tight supply. Will need public infrastructure investments to meet growing demand.*
  - *Up for political debate is the proposed Keystone XL pipeline that would link deposits in Canada to refineries in the Gulf of Mexico.*

# ENERGY – *She Was Hot*

- *U.S. natural gas prices are at historic lows but creeping up due to increasing demand and supply constraints.*

**U.S. Natural Gas Wellhead Price (Dollars per Thousand Cubic Feet)**



Source: U.S. Energy Administration

U.S TRENDS

# ENERGY IN CT – *Hot Stuff*

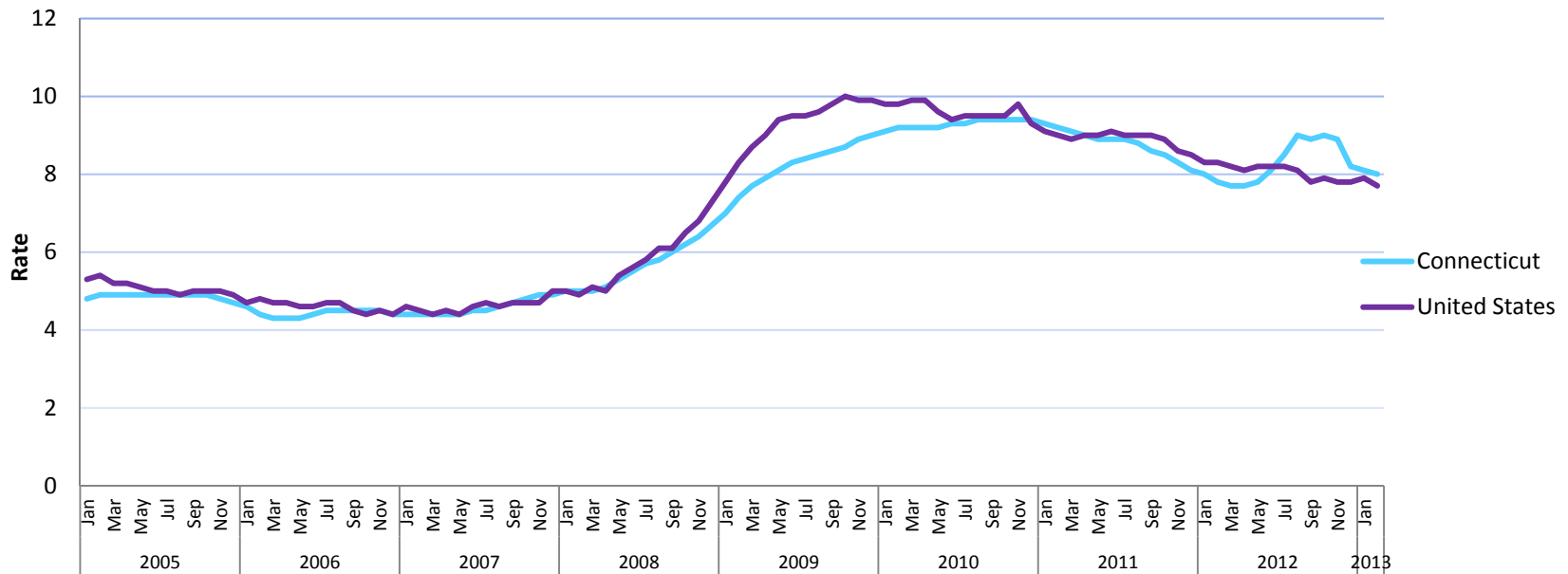
- *Governor Malloy introduced a Comprehensive Energy Strategy.*
  - *Lower-cost natural gas options to more than 250,000 residents and 75% of businesses in the next seven years.*
    - *Only 31% of homes in Connecticut have natural gas in comparison to 47% of Massachusetts homes and 48% of Rhode Island homes.*
    - *Investing in natural gas will potentially reduce energy costs for residents in the long term.*
  - *Looming argument that potential savings realized with natural gas installations will not make up for large investments in natural gas lines that many residents need.*
  - *Malloy argues that some manufacturers left Connecticut because of lack of affordable energy sources.*

# EMPLOYMENT

## – *Doo Doo Doo Doo Doo (Heartbreaker)*

- *Payroll losses of 5,700 jobs in February for Connecticut; unemployment rate declined to 8% from 8.1% in January.*

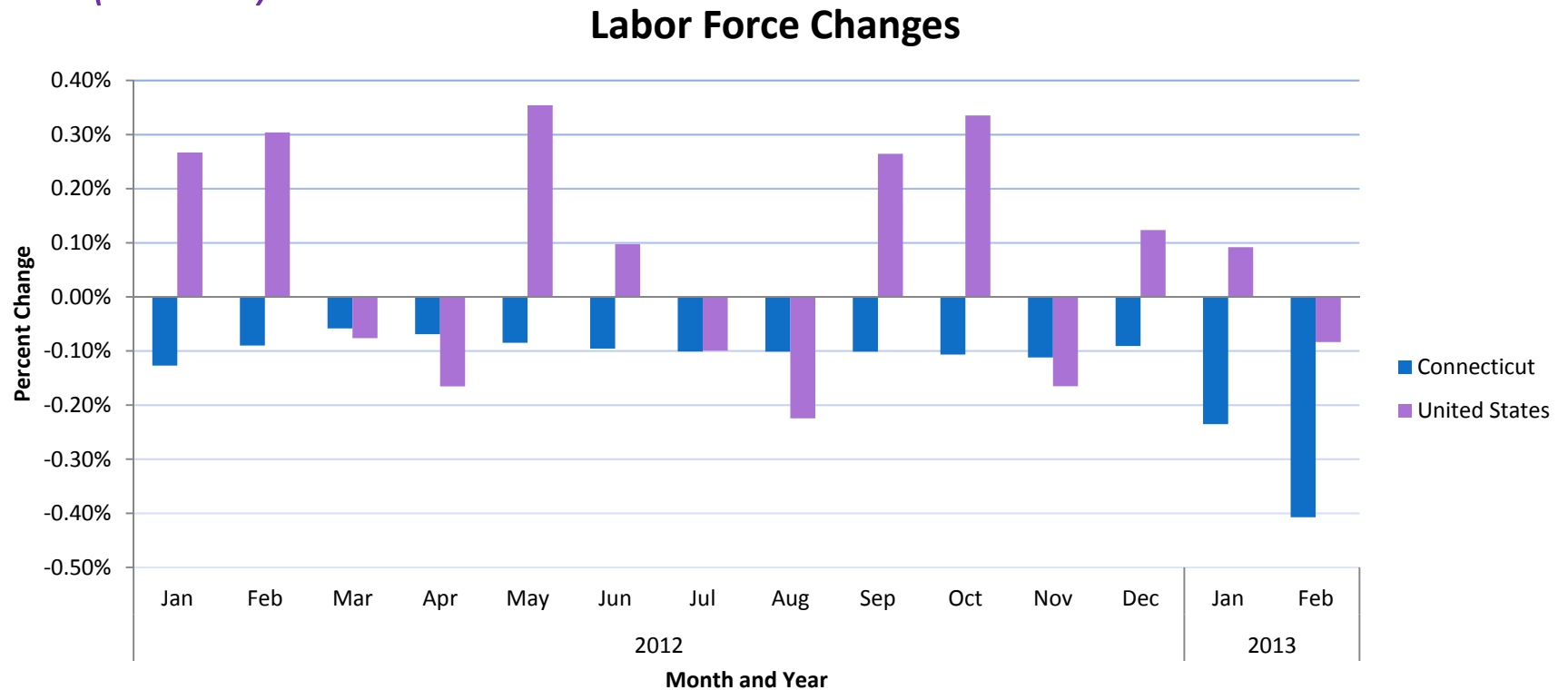
**National and Connecticut Unemployment Rate**



Source: US BLS

# LABOR FORCE – *I Got the Blues*

- Workers have left the labor force market in recent months in Connecticut. The largest percent decline occurred in February (-0.41%).



# INDUSTRY CHANGES – *Mixed Emotions*

Industry	Employment 2011			
		'05-'07	'07-'09	'09-'11
Health care and social assistance	250,782	+	+	+
Retail trade	180,203	-	-	+
Manufacturing	166,279	-	-	-
Finance and insurance	114,561	+	-	-
Accommodation and food services	113,309	+	-	+
Professional and technical services	87,831	+	-	+
Administrative and waste management	80,721	+	-	+
Wholesale trade	63,470	+	-	-
Educational services	54,719	+	+	+
Construction	51,493	+	-	-
Management of companies	28,616	+	+	+
		+	-	-
Total Private	1,611,519	+	-	-
Total Government	237,498	+	-	-

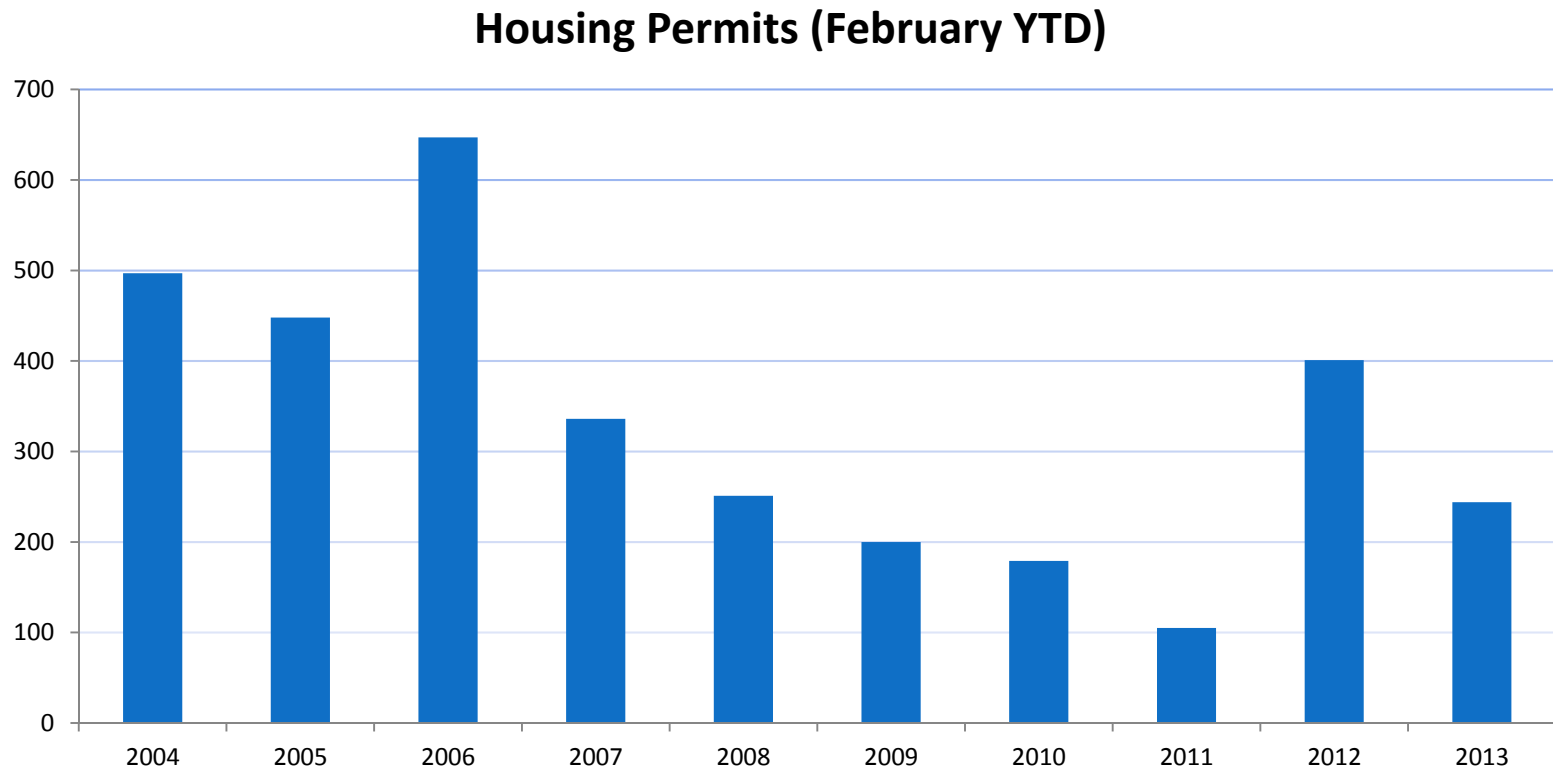
Source: CT DOL

# HOME VALUES – *Gimme Shelter*

- *According to the February 2013, Warren Group Report, sales of single-family houses in Connecticut fell for the first time in more than a year.*
- *Sales fell by nearly 8% to 1,149 in February from 1,245 for the same month a year ago.*
- *The median sale price rose more than 7% in February to \$225,000 from \$210,000 from the same month in 2012. Higher prices are a result of lower inventory.*
- *Median sale prices rose in five out of eight counties. The largest jump came in New Haven – prices increased by 28%. In Hartford, prices increased by 5.7%.*

# HOUSING PERMITS - *Neighbors*

- *Connecticut approved 244 housing permits in February 2013, which is down 39% year-over-year.*

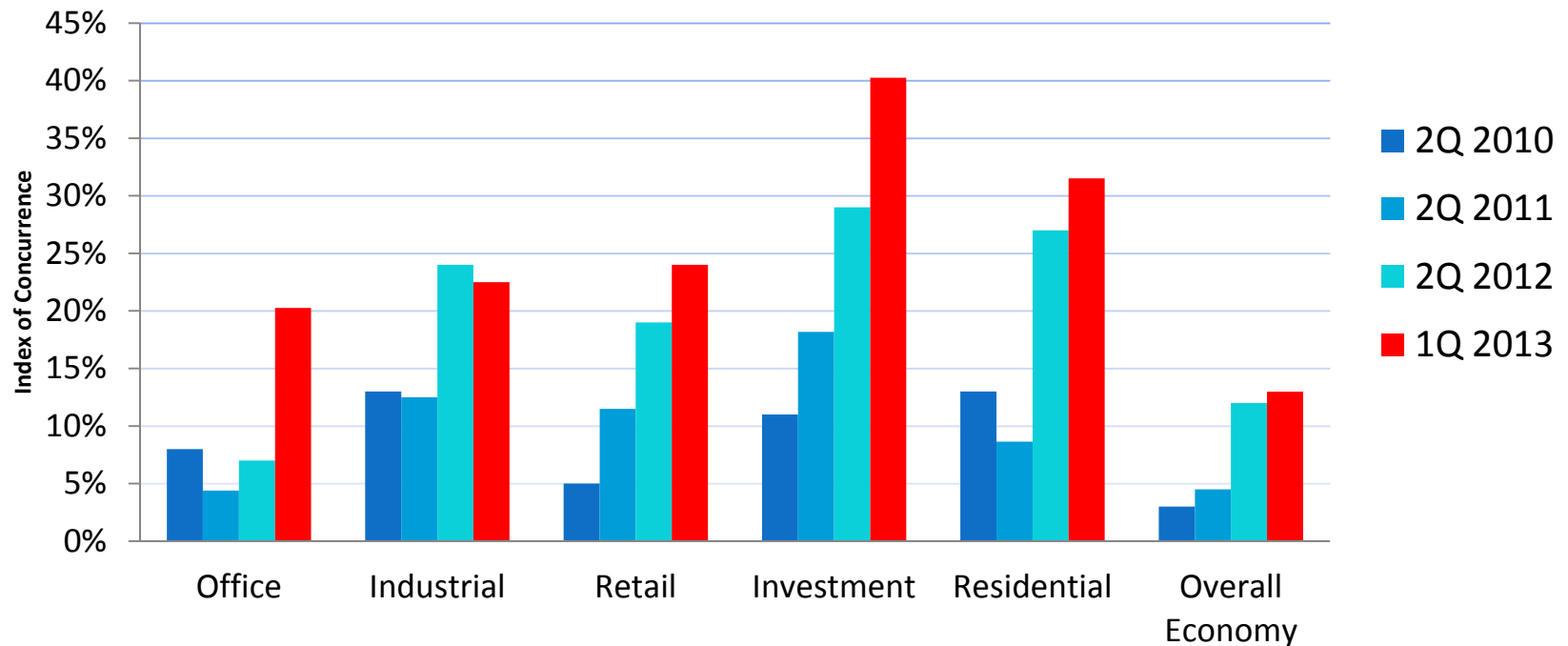


Source: DECD



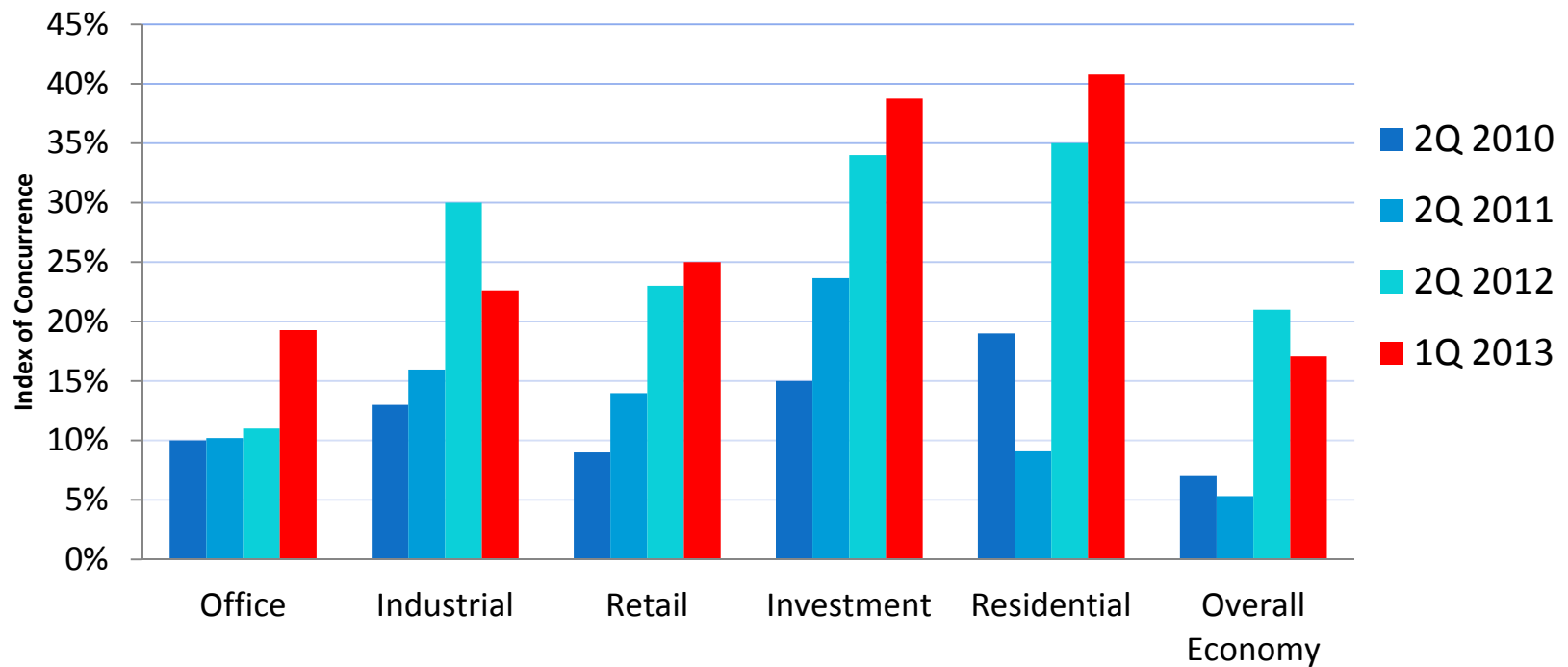
# REAL ESTATE SURVEY CURRENT CONDITIONS – *Jumpin' Jack Flash*

What are your impressions of Connecticut's *current* market conditions for the following sectors?



# REAL ESTATE SURVEY FUTURE EXPECTATIONS – *Tell Me (You're Coming Back)*

**What is your impression of Connecticut's future (next three months) market conditions for the following sectors?**



# BUDGET CUTS – *Rough Justice*

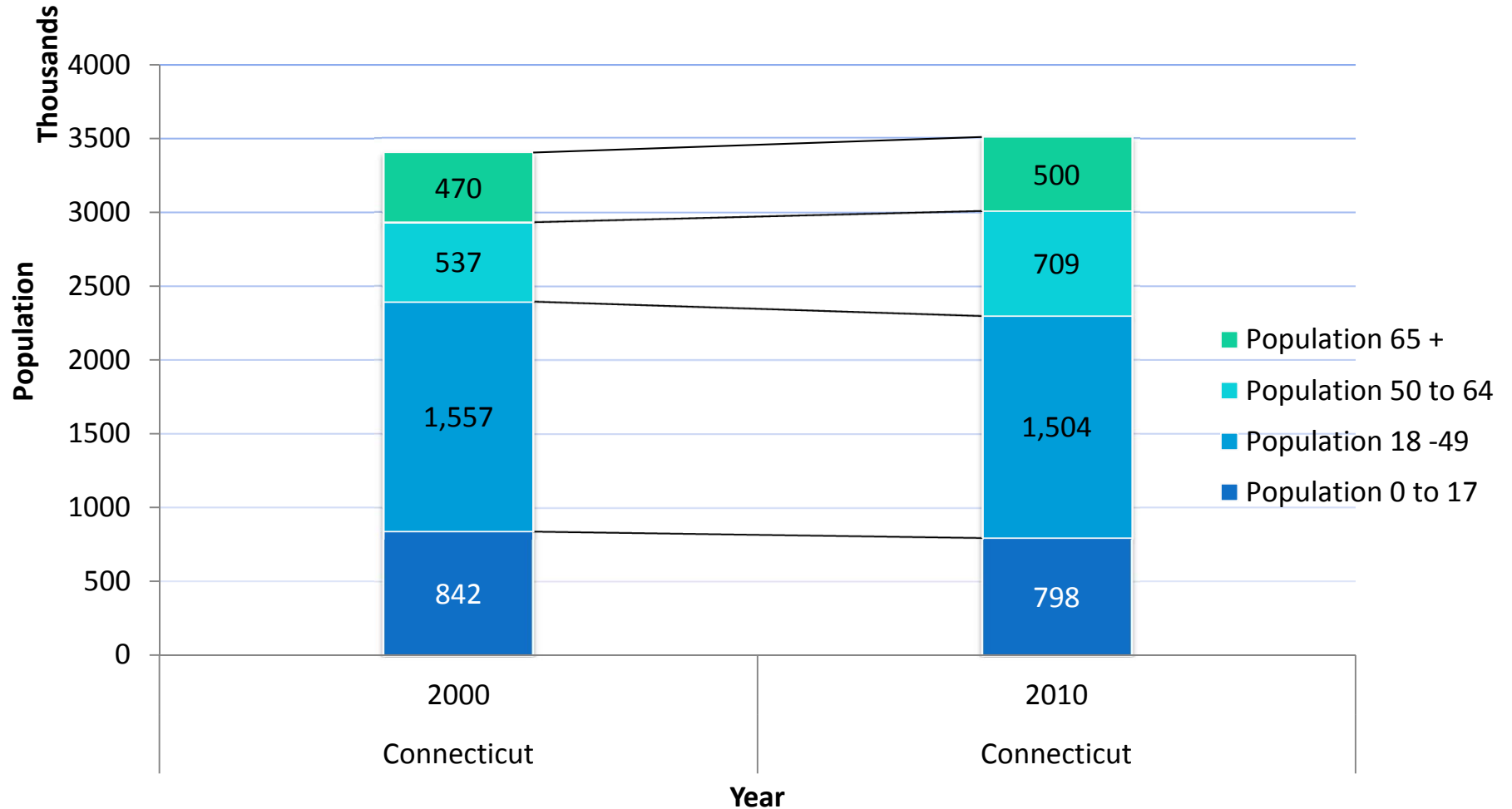
- *Connecticut faces a \$1.2 billion budget deficit for fiscal years 2013-2014. Governor Malloy announced \$43.8 million in budget cuts over next two years.*
  - *\$103 million reduction in aid to state hospitals.*
  - *Elimination of Medicaid coverage with expectation that Medicaid patients will be covered by the Affordable Care Act.*
  - *Reduction in state's Earned Income Tax Credit from 30% of the federal EITC to 25%.*
  - *\$56 million in cuts to education programs.*
- *Many cuts are to social and health care programs, which will disproportionately affect the poor in Connecticut.*

# INCOME – *You Got the Silver*

- *Per capita personal income for Connecticut residents increased by 1.9% from 2011 to 2012.*
- *Connecticut is still the richest state with a per capita income of \$58,908. National per capita income is \$42,693.*
- *Biggest losers of income in Connecticut were workers in the finance and insurance sectors – salaries and bonuses fell by \$1.8 billion.*
- *The amount paid to government employees and casino workers fell by \$328 million from 2011 to 2012.*

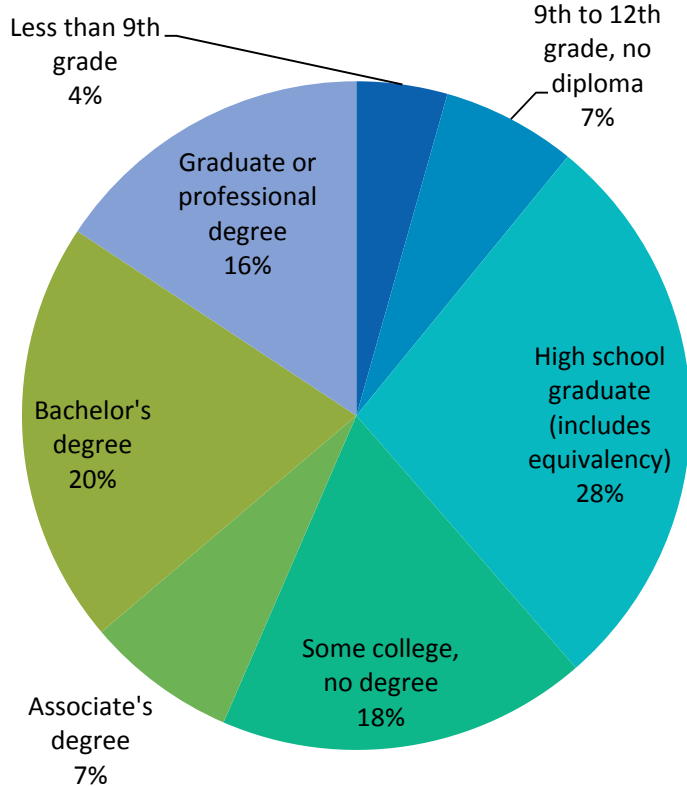
# POPULATION – *Live With Me*

## Connecticut Population by Age

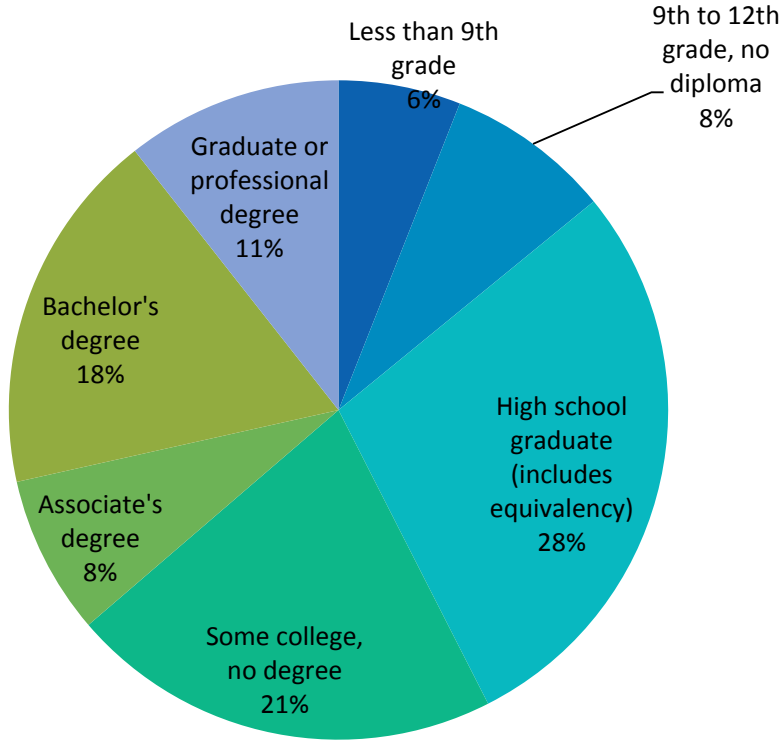


# EDUCATIONAL ATTAINMENT – *Schoolboy Blues ( Part 1 of 2)*

**2011 Connecticut (25 and older)**



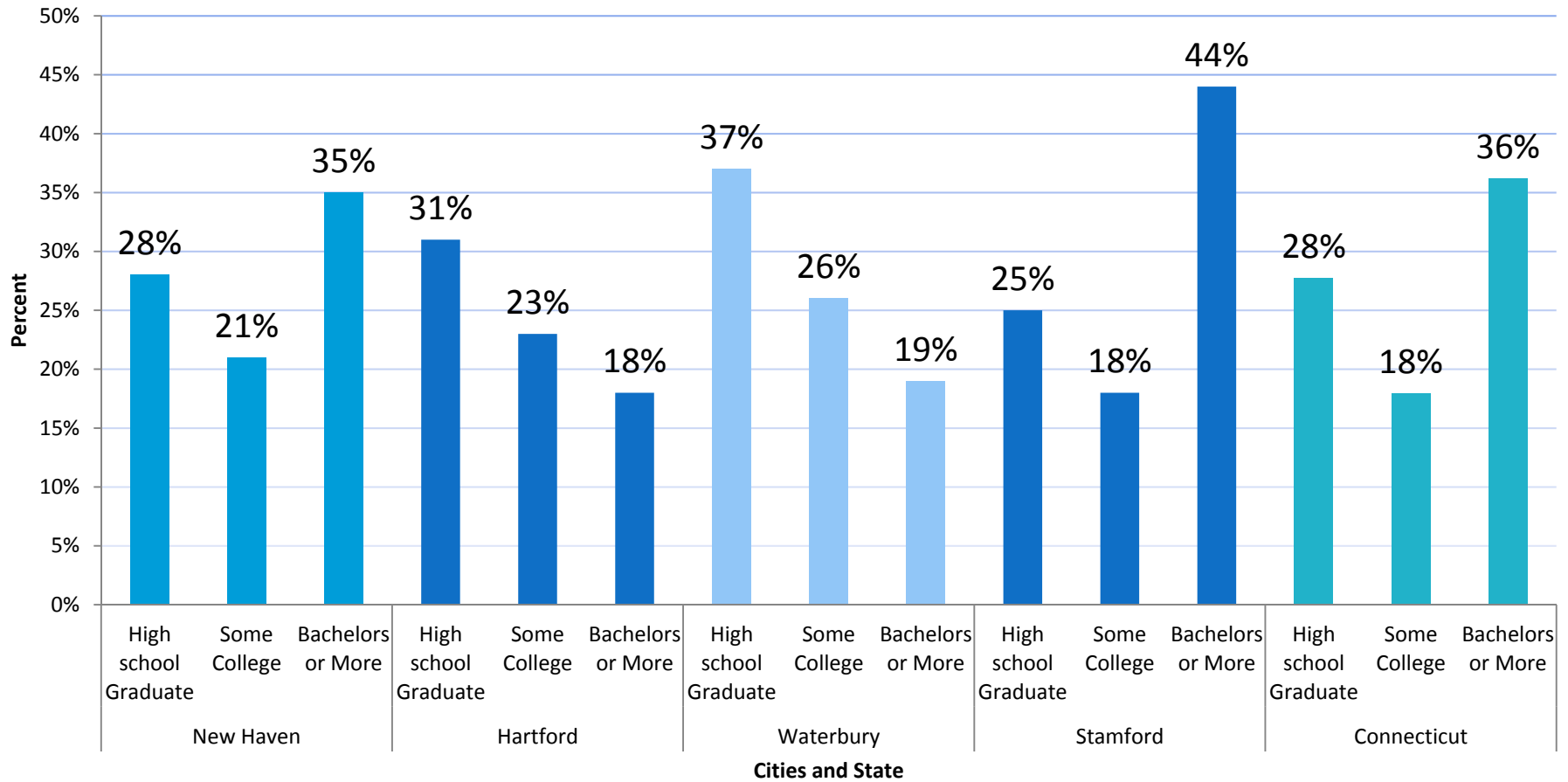
**2011 United States (25 and older)**



Source: U.S. Census American Community Survey

# EDUCATIONAL ATTAINMENT – *Schoolboy Blues ( Part 2 of 2)*

**2011 Educational Attainment by Cities and State**



# FUTURE CAREERS – *You Gotta Move*

- *Connecticut Department of Labor projects that there will be an increasing demand for health care and education jobs.*

Occupation	Employment in 2010	Employment Projections 2020	Percent Change	Annual Average Wage
Registered Nurses	37,404	44,550	19.10%	76,838
Landscaping and Grounds-keeping Workers	16,664	19,805	18.80%	31,194
Child Care Workers	15,534	18,984	22.20%	23,302
Elementary School Teachers, Except Special Education	15,779	18,310	16%	67,791
Home Health Aides	10,533	14,343	36.20%	28,799
Middle School Teachers, Except Special and Vocational Education	9,407	10,922	16.10%	69,635
Social and Human Service Assistants	8,706	10,401	19.50%	39,032
Preschool Teachers, Except Special Education	7,550	9,392	24.40%	31,171
Medical Assistants	6,642	8,267	24.50%	34,105



# CONCLUSION – *Under My Thumb*

- *“Start Me Up”*
  - *Housing market*
  - *Energy market*
- *“(I Can’t Get No) Satisfaction”*
  - *Federal and state deficits and debt*
  - *Connecticut employment and budget cuts*
  - *Eurozone*
  - *U.S employment*
  - *Consumer confidence*
- *“Hold On To Your Hat”*
  - *Healthcare*

# THANK YOU

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