

# *Observations of the U.S. and Vermont Economic Outlook*

*Jeffrey B. Carr*

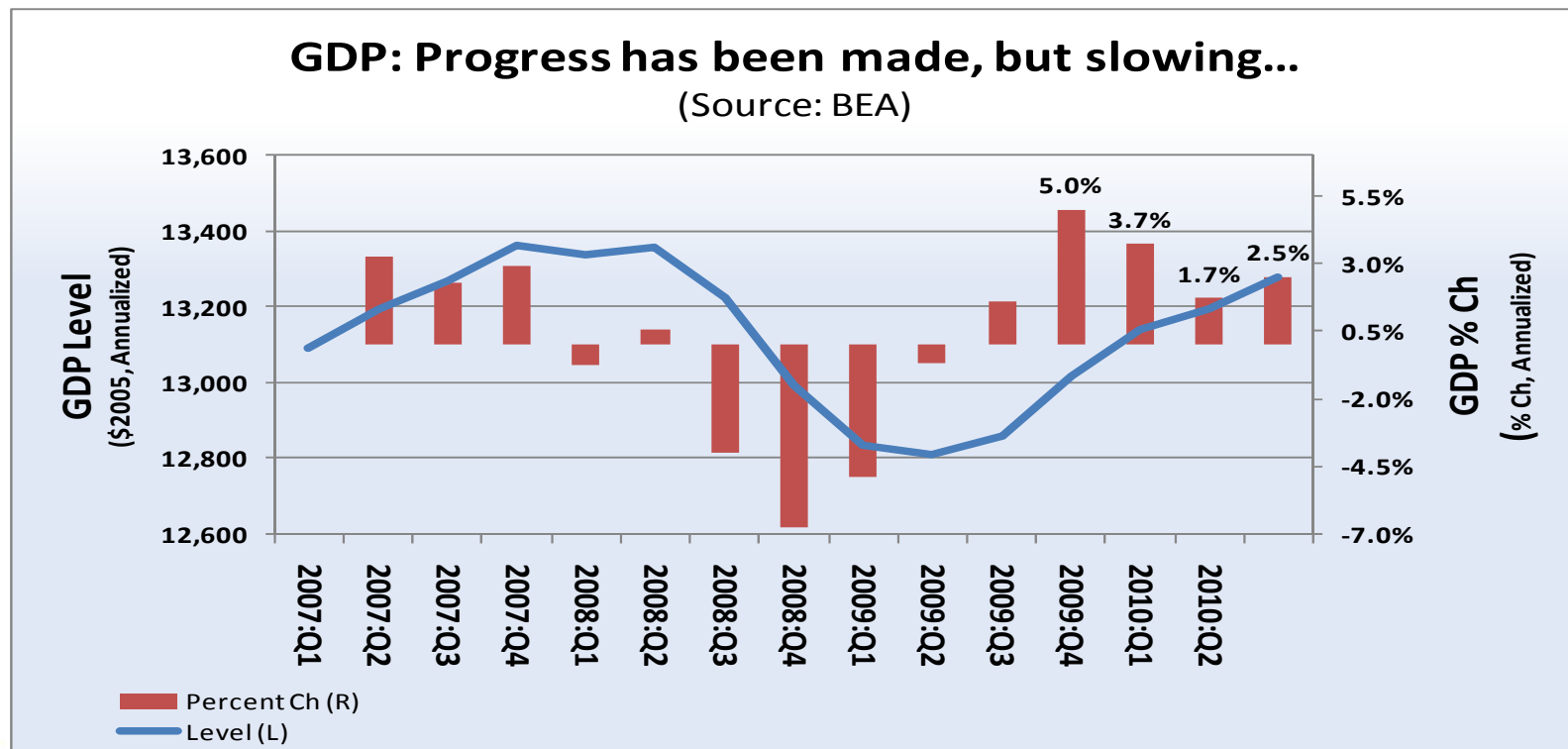
**Vermont Tax Seminar**

**December 9, 2010**

*Adapted from the November 2010 NEEP Forecast Revision [11/10]*

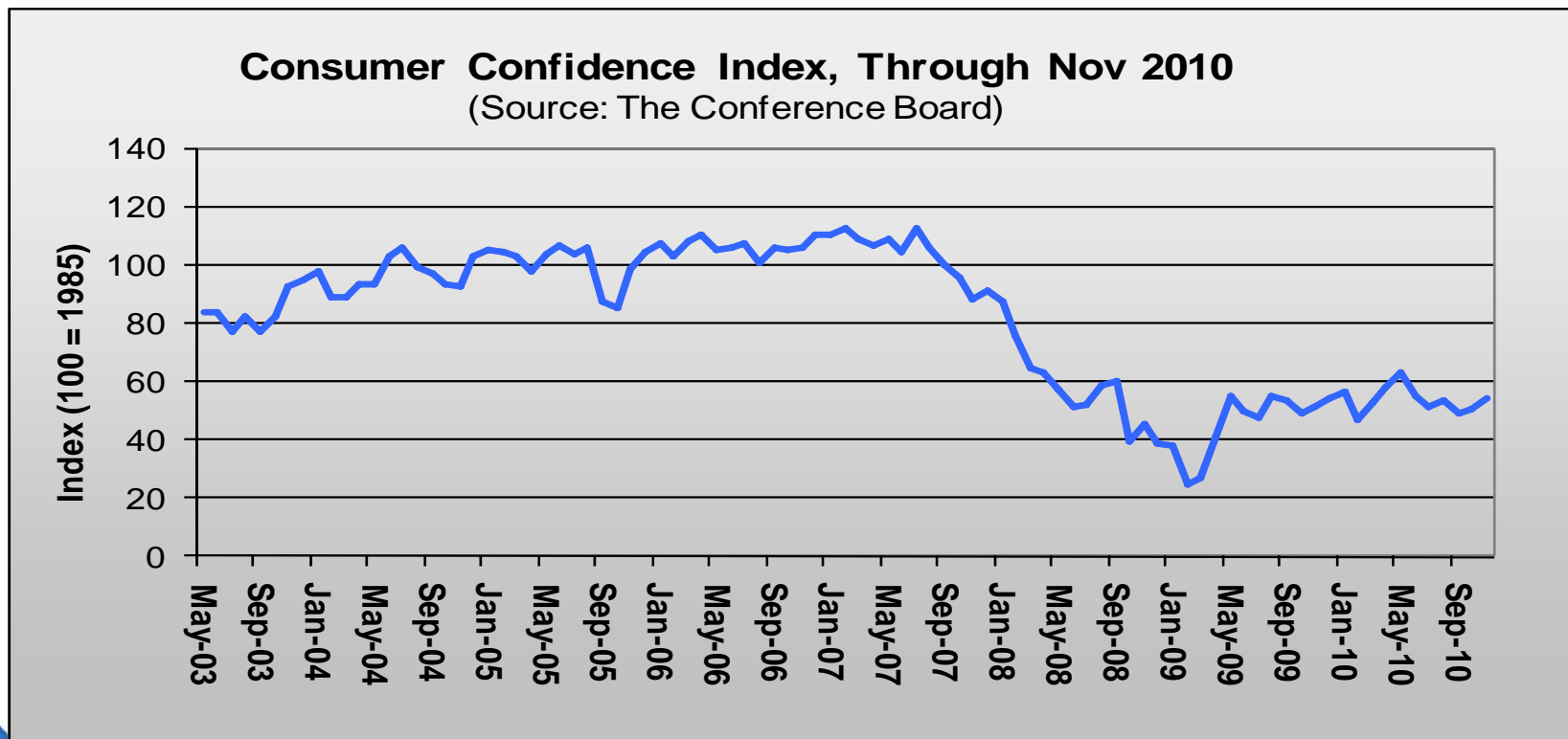
# The U.S. Situation

☒ Still unusually slow, mixed character to the recovery as the "Stimulus" fades...



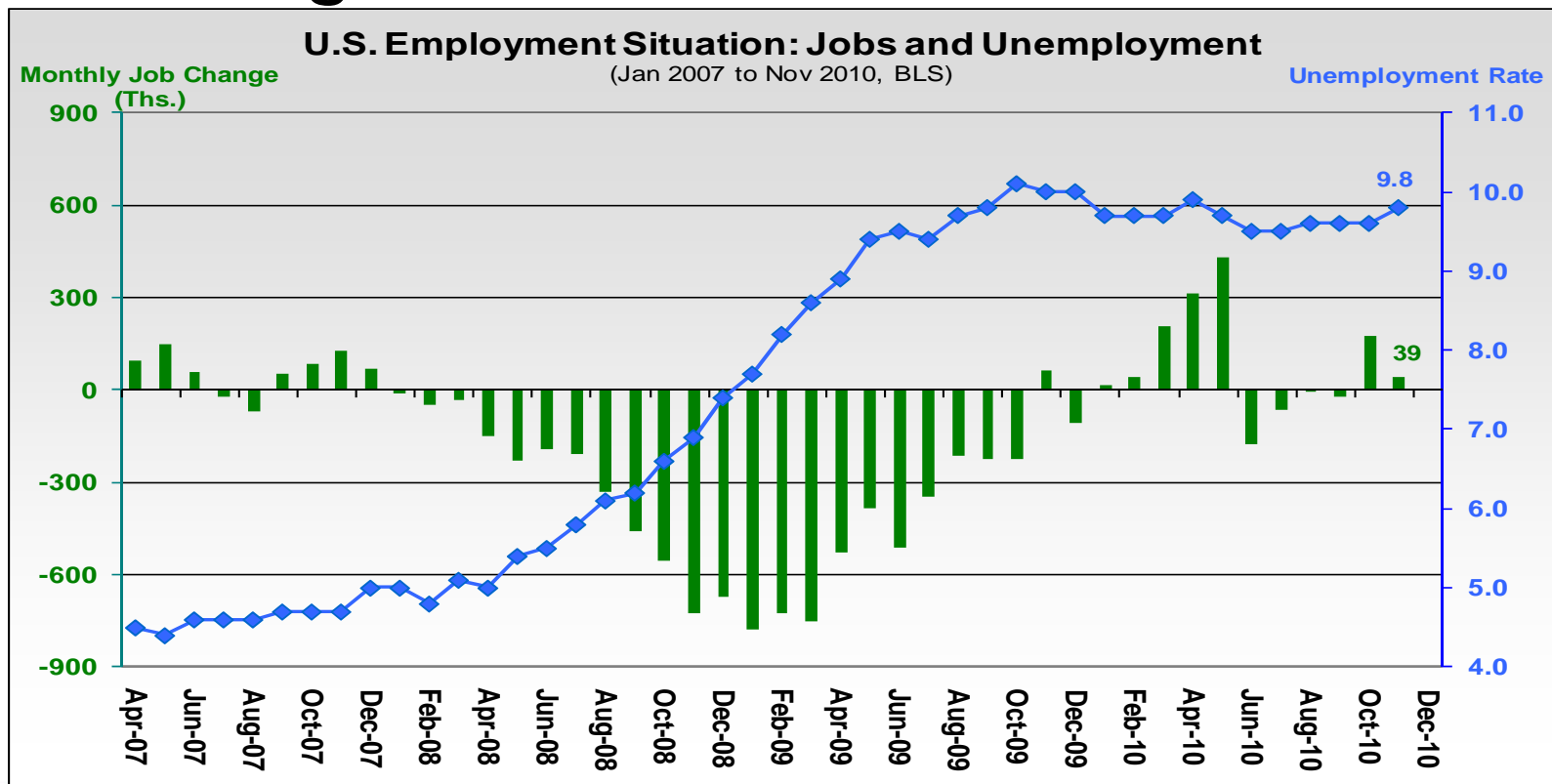
# The U.S. Situation

☒ The economy remains “on edge” because it is “on the edge”...especially confidence-wise.



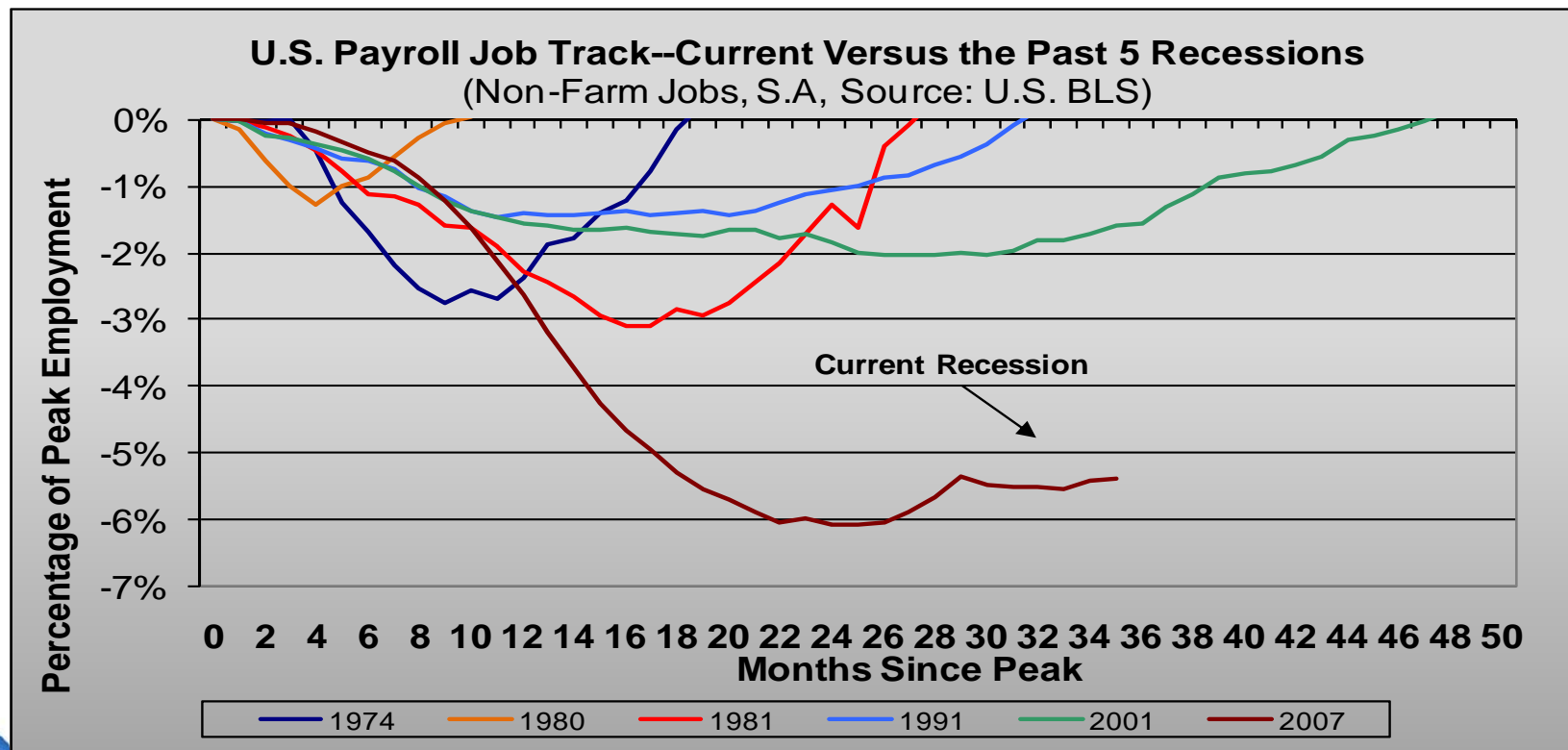
# The U.S. Situation

☒ Most of the problems are tied to the under-performing labor market...



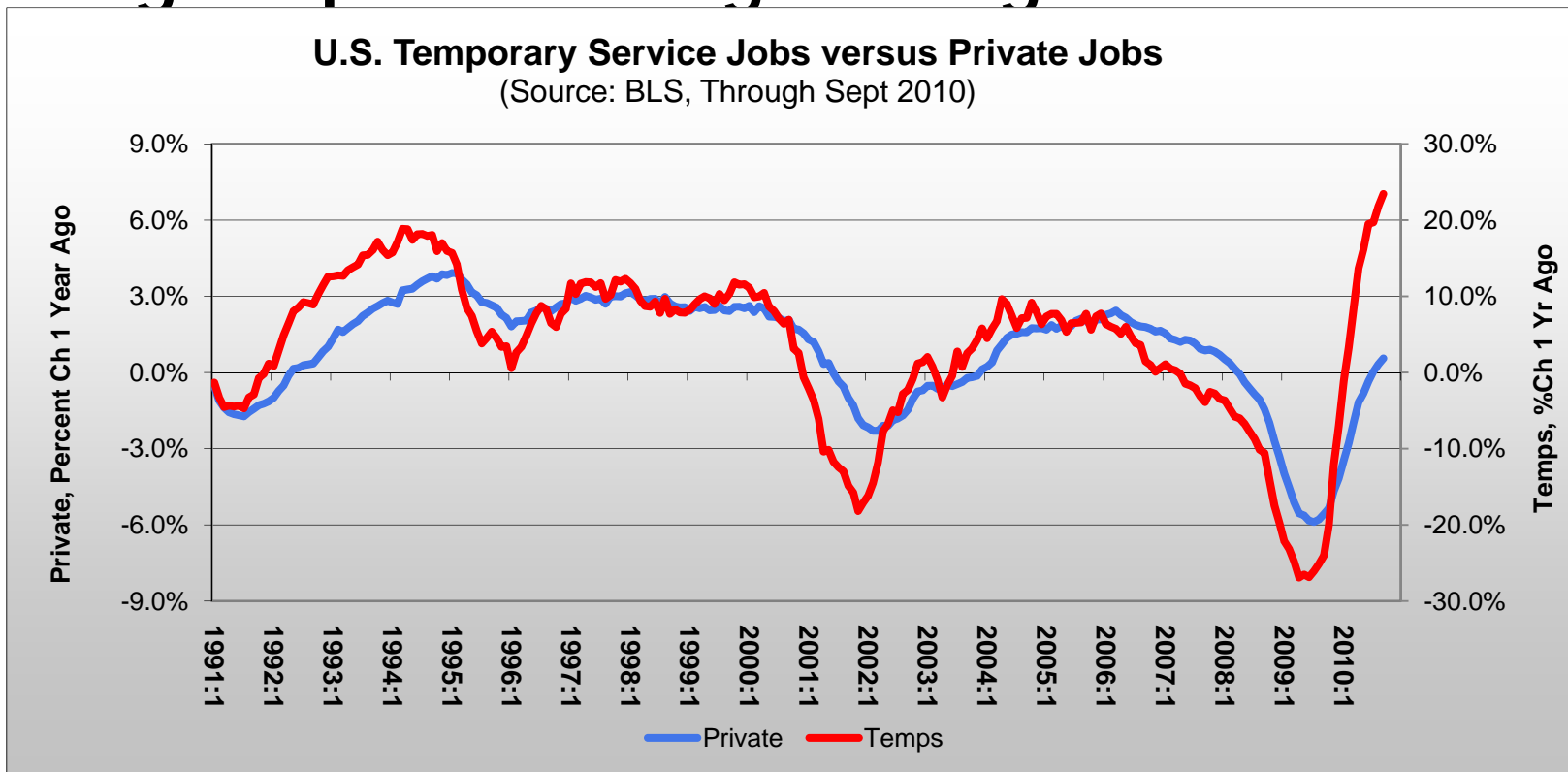
# The U.S. Situation

☒ Another lousy performance in November, and jobs have been flat for 6 months...



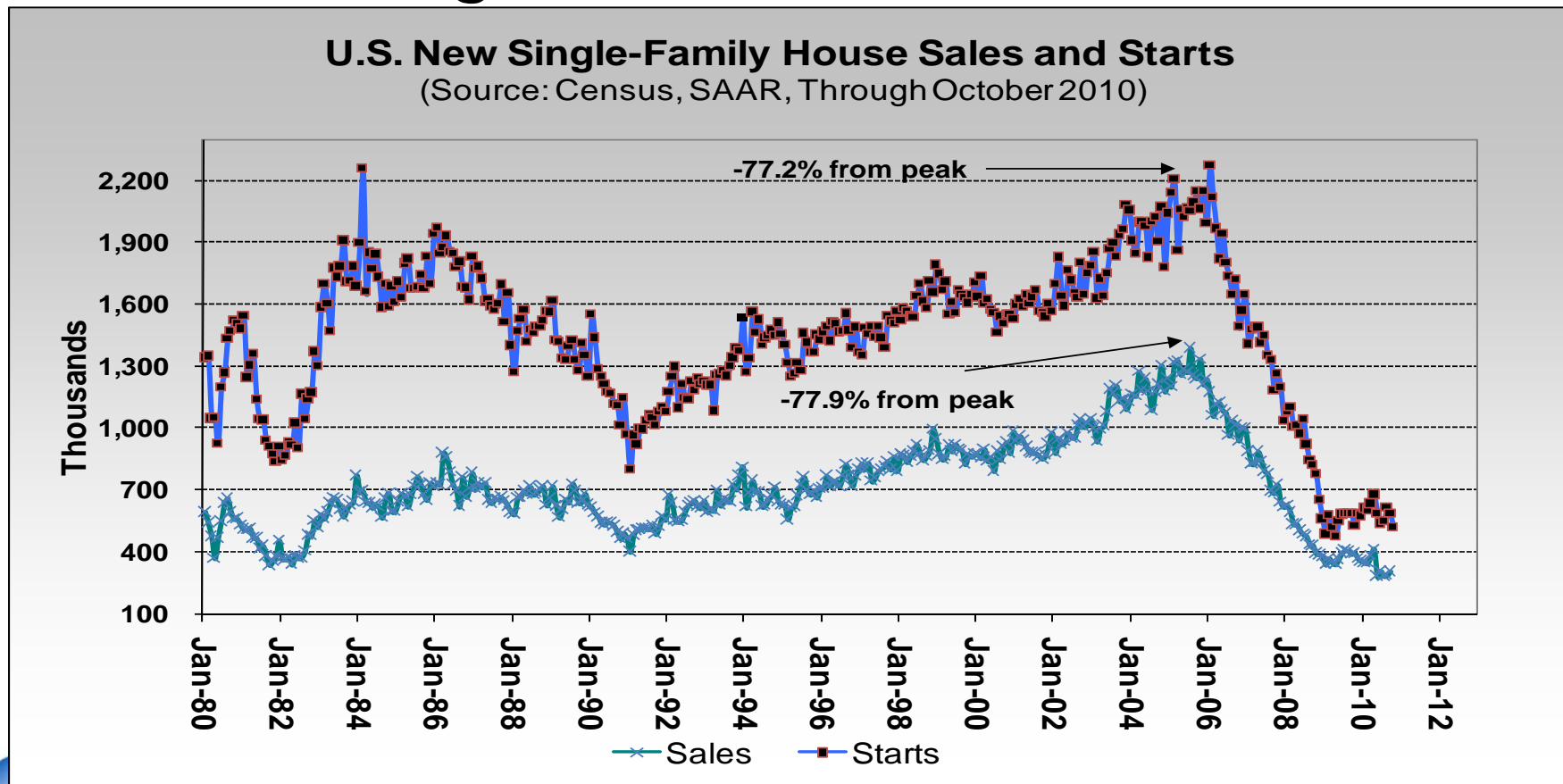
# The U.S. Situation

☒ Still too many unemployed due to lack of hiring despite a strong leading indicator...



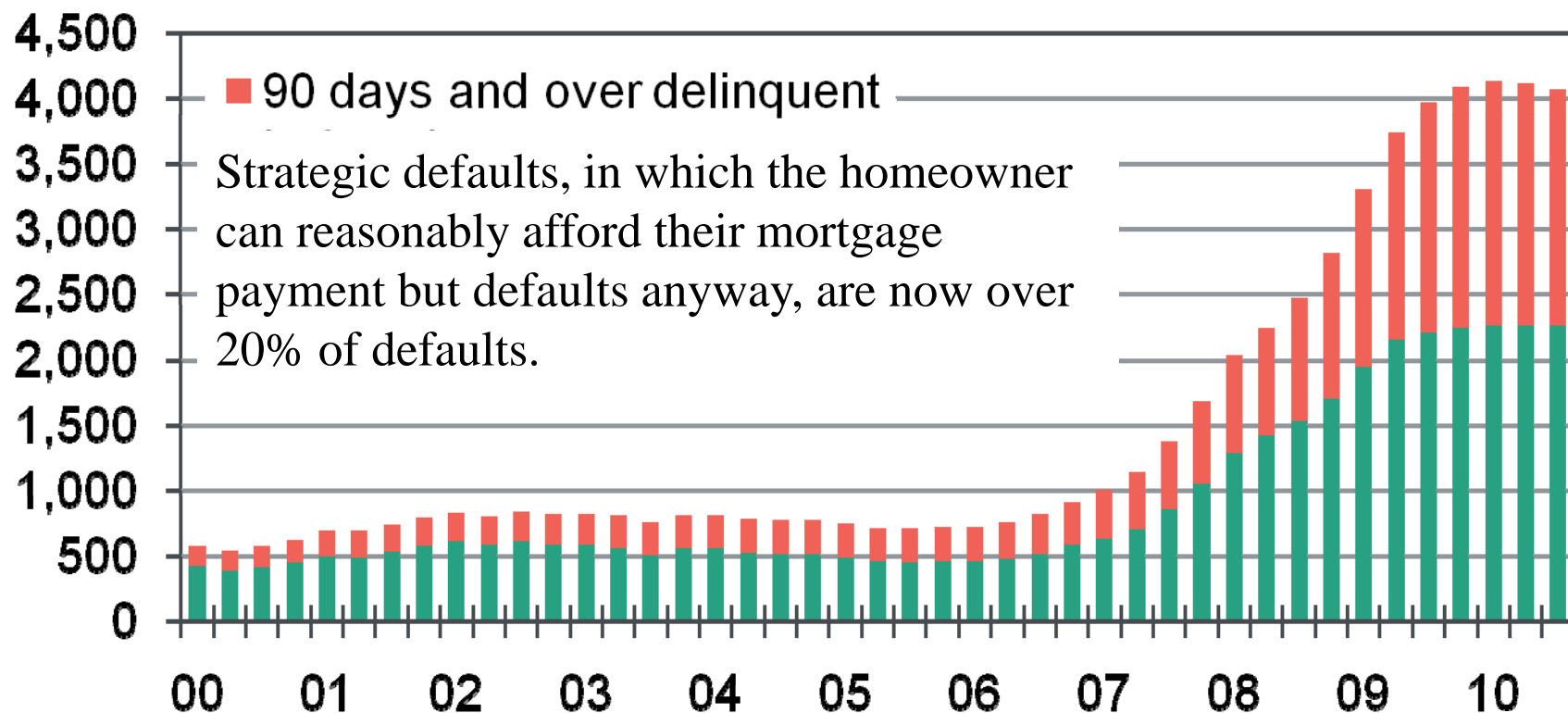
# The U.S. Situation

## ☒ U.S. Housing remains in the doldrums...



# ...And the Foreclosure Crises Continues on...

First mortgage loans, ths

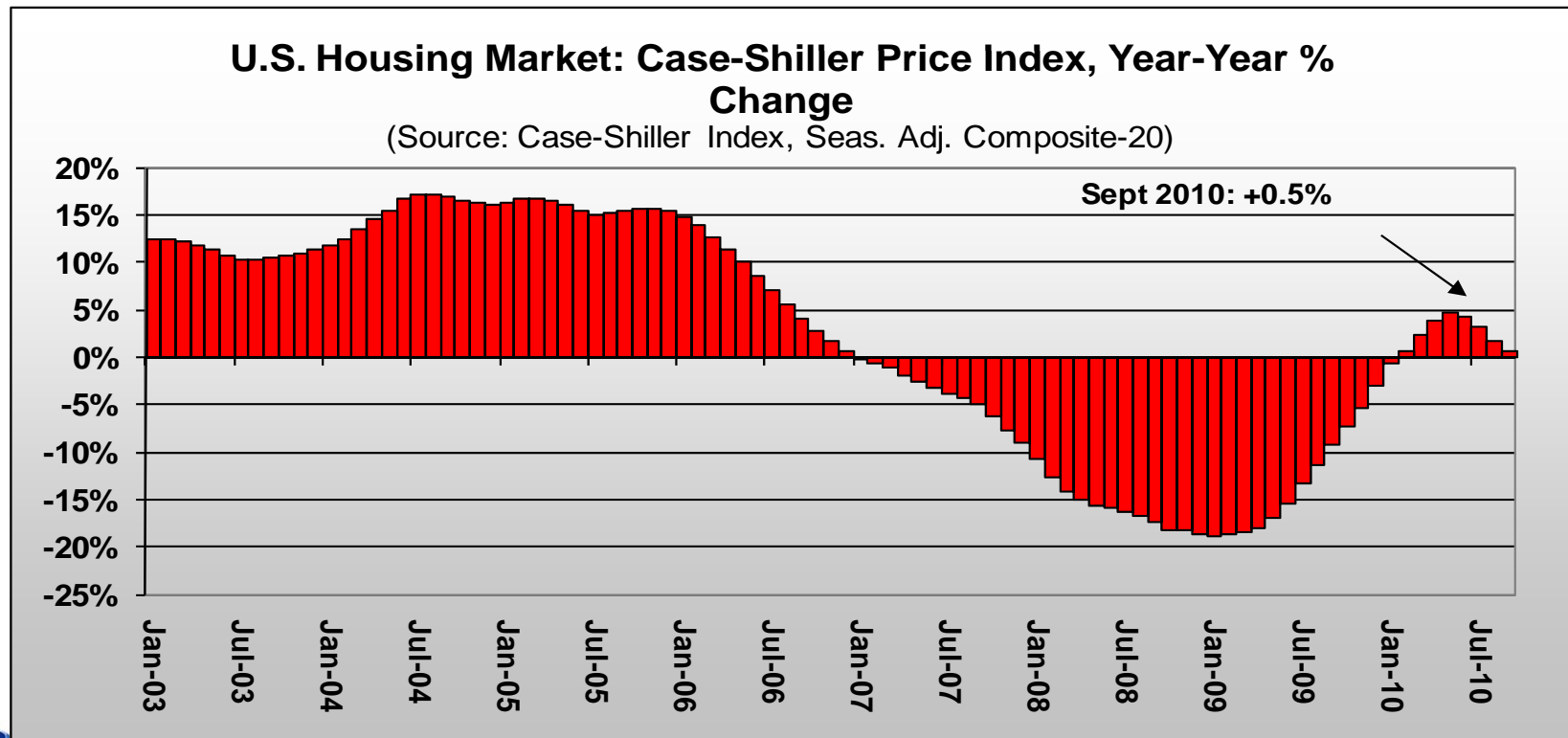


■ 90 days and over delinquent  
Strategic defaults, in which the homeowner can reasonably afford their mortgage payment but defaults anyway, are now over 20% of defaults.

Sources: Equifax, Moody's Analytics

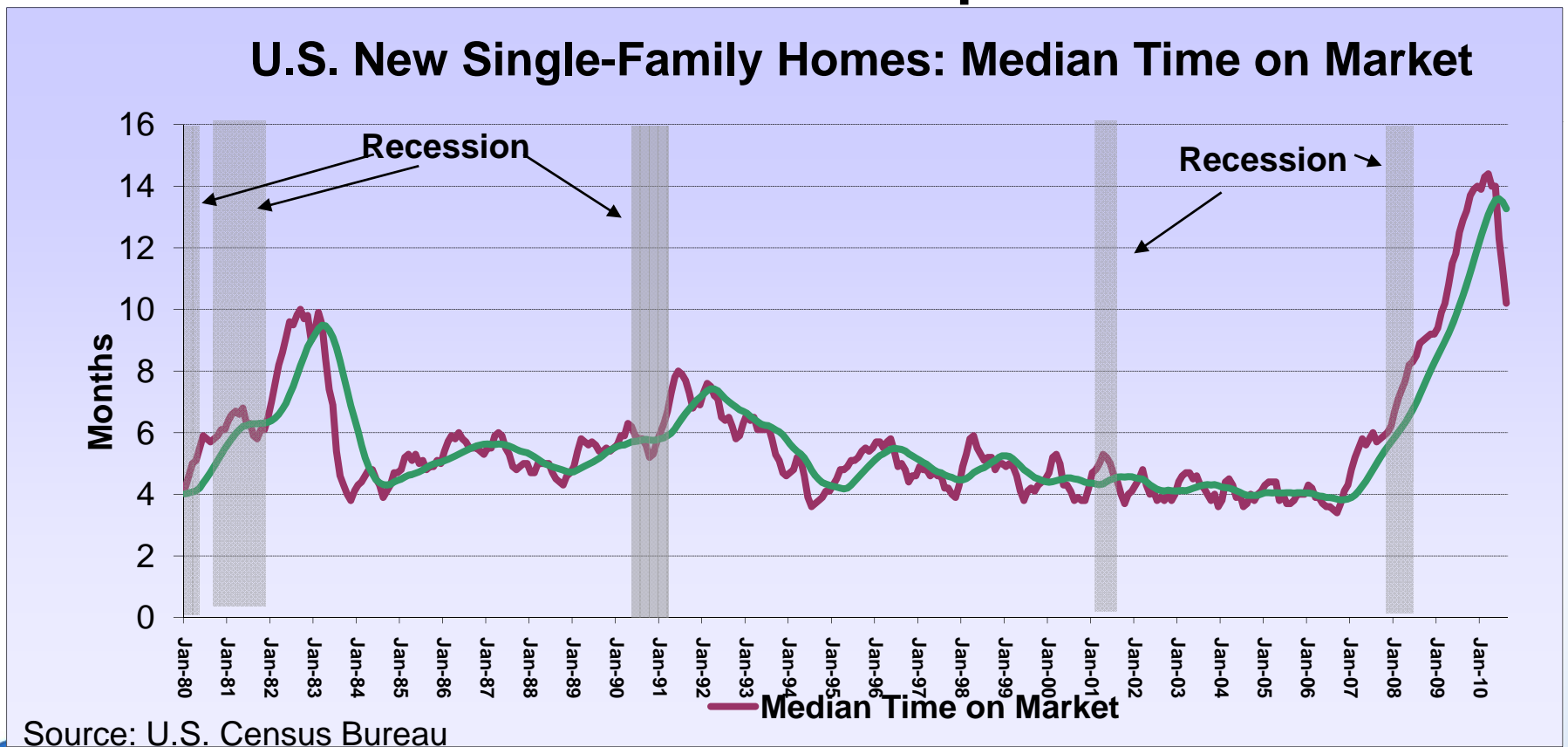
# The U.S. Situation

- ☒ Delinquencies are still a problem, and a **HUGE** risk for further price declines!



# The U.S. Situation

☒ But there has been some improvement...



# The Vermont Situation

## ☒ Still very much a mixed character to the “apparent” recovery in Vermont.

- The recovery in VT is only limping along and has failed to gain any real traction—particularly in labor markets.
- Unemployment rate is low and has declined by a full percentage point over the last year, but has been accompanied by a survey-indicated payroll job loss.
- Housing markets are weak, but stabilizing, and VT has seen only relatively modest price declines.
- Manufacturing is actually up on a year-over-year basis.

## ☒ But downside risks are not “trivial,” CES jobs suggest a “double dip” in labor markets.



# The Current Vermont Situation

## Comparative Payroll Job Change Performance (10/09-10/10)

Table 3. Payroll Job Performance By NAICS Supersector Oct 2009 vs. Oct 2010

Industry Supersector	% Change in VT	VT Rank in New England	VT Rank in U.S.	Highest Ranked New England State	# of States Reporting Job Losses
<b>Total Nonfarm</b>	<b>0.1%</b>	<b>3rd</b>	<b>36</b>	<b>NH (1st)</b>	<b>13</b>
<b>Total Private</b>	<b>0.2%</b>	<b>3rd</b>	<b>34</b>	<b>NH (1st)</b>	<b>8</b>
Construction	-12.2%	6th	48	NH (5th)	39
Manufacturing	2.3%	3rd	16	NH (7th)	20
Information	-3.7%	6th	38	RI (7th)	33
Financial Activities	5.7%	1st	1	VT (1st)	36
Trade, Transportation, Utilities	0.0%	4th	29	NH (4th)	21
Leisure and Hospitality	1.0%	3rd	21	CT (4th)	19
Education and Health Services	1.0%	4th	36	NH (14th)	4
Professional and Business Services	1.3%	4th	33	NH (4th)	9
Government	-0.5%	4th	28	MA (10th)	32

**Notes:**

NAICS means North American Industry Classification System

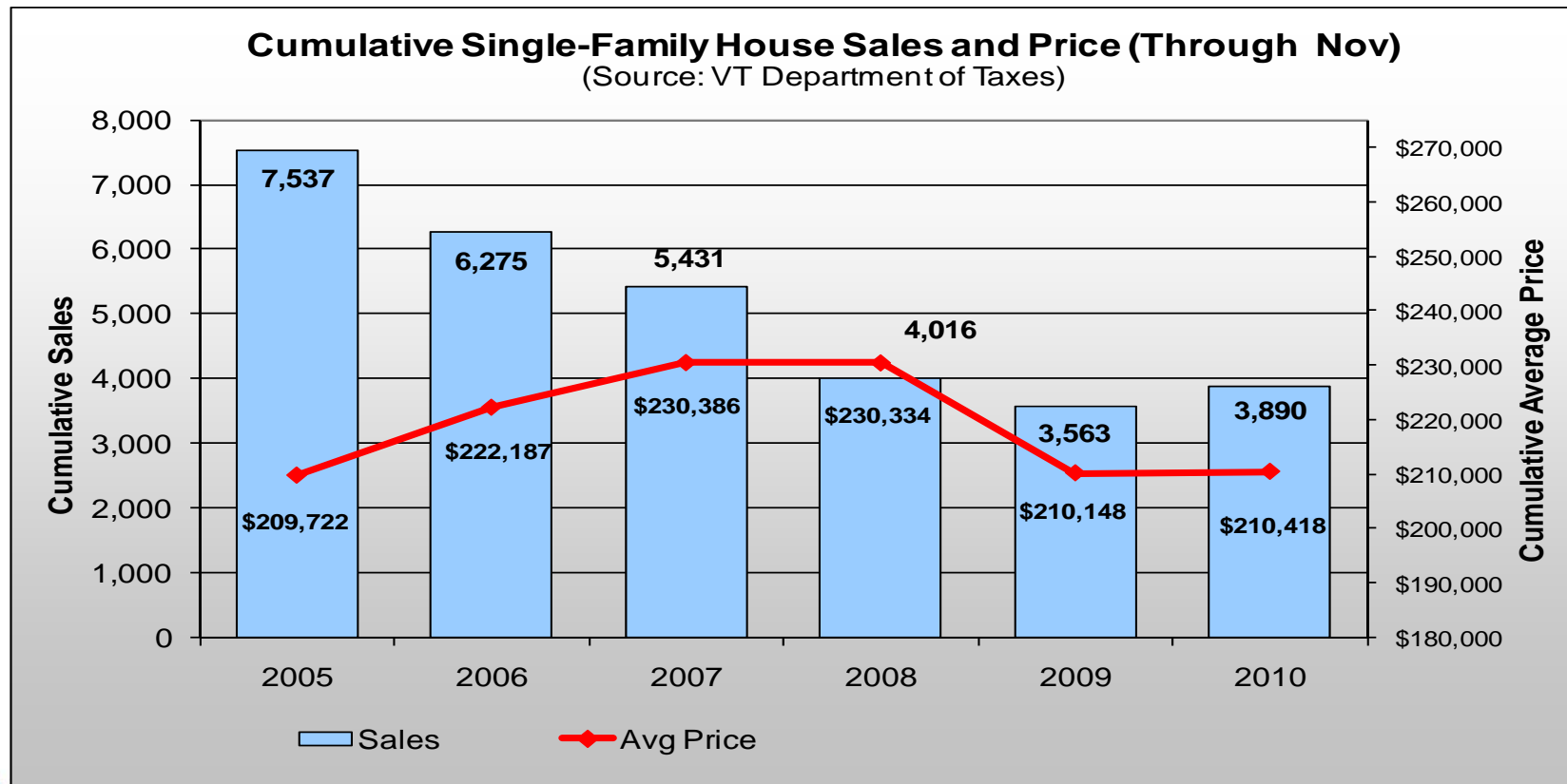
Source: U.S. Bureau of Labor Statistics

Prepared by: Economic & Policy Resources, Inc.



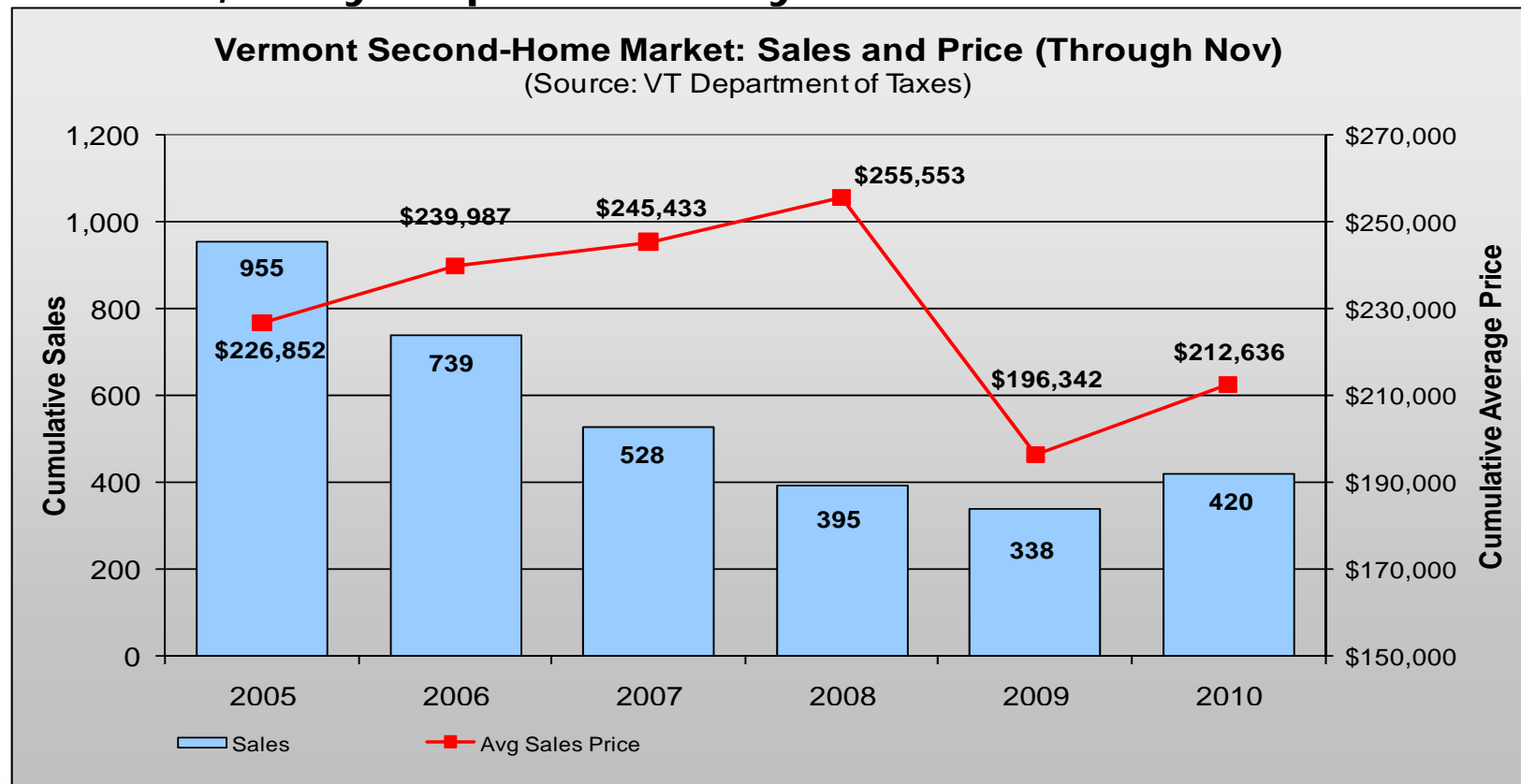
# The Current Vermont Situation

## A stabilization in Vermont housing?



# The Current Vermont Situation

## A small, early step of recovery in the 2<sup>nd</sup> home market?



# The Vermont Outlook by the Numbers

## Vermont Forecast In Perspective (November 2010 Update)

	Actual					Forecast				
	2005	2006	2007	2008	2009 [2]	2010	2011	2012	2013	2014
<b>Real Output (\$2000-% Change)</b>										
U.S. Gross Domestic Product	3.1	2.7	1.9	0.0	-2.6	2.7	3.1	5.0	4.2	2.8
N.E. Gross Domestic Product	1.3	2.5	2.3	1.1	-2.6	3.3	3.7	5.2	4.0	2.4
Vermont Gross State Product	2.2	1.3	1.7	1.7	-1.2	3.4	3.5	5.4	4.2	2.7
<b>Non-Farm Payroll Jobs (% Change)</b>										
U.S.	1.7	1.8	1.1	-0.6	-4.3	-0.5	1.0	2.5	3.3	2.3
New England	0.6	0.9	0.9	0.0	-3.8	-0.3	0.7	1.8	2.5	1.7
Vermont	0.8	0.7	0.2	-0.4	-3.3	-0.9	0.4	1.8	2.7	1.8
<b>Inflation-Adjusted Personal Income %Change (2000 Dollars)</b>										
U.S.	2.5	4.6	2.9	0.7	-1.9	0.8	2.6	4.8	4.7	3.8
New England	0.8	5.0	2.6	-0.6	-1.7	0.2	1.8	3.9	4.6	3.7
Vermont	-0.7	5.1	2.0	-0.6	0.1	0.8	1.5	3.9	4.4	3.6
<b>Unemployment (Percent)</b>										
U.S.	5.1	4.6	4.6	5.8	9.3	9.7	9.9	8.3	6.5	5.6
New England	4.7	4.5	4.4	5.4	8.3	8.8	8.6	7.5	6.1	5.5
Vermont	3.5	3.7	3.9	4.5	6.9	6.2	6.2	5.2	4.1	3.9
<b>FHFA Housing Price Index [3]</b>										
U.S.	11.4	7.2	1.7	-3.1	-4.0	-4.4	-2.3	0.1	2.5	5.6
New England	10.7	3.1	-1.2	-3.7	-4.1	-3.3	-1.8	0.8	2.3	2.9
Vermont	13.9	8.3	3.1	0.3	-1.4	-1.7	-0.3	0.5	1.5	1.9

**Notes:**

[1] U.S. data reflect the Mmoody's Analytics Control Forecast for September 2010.

[2] 2009 variables are subject to further revision, and 2010 through 2014 values in this table reflect projected data as of November 2010.

[3] FHFA refers to the Federal Housing Finance Agency (formerly the Office of Federal Housing and Enterprise Oversight).

Sources: Moody's Economy.com (U.S.), New England Economic Partnership November 2010 Forecast Update (New England, Vermont)



# The Vermont Outlook by the Numbers

## Peak to Trough Comparison The "Great Recession" v. Early 90s

Length in Quarters--Peak to Trough Nonfarm Jobs	8	9	<b>Worse</b>
Length in Quarters of Recovery--Nonfarm Jobs [Actual vs. Projected]	12	13	<b>Worse</b>
Change in Gross State Product (% Change)	-5.9%	-2.3%	<b>Better</b>
Change in Real Personal Income (% Change)	-5.4%	-0.8%	<b>Better</b>
Change in Payroll Jobs (% Change)--Subject to Revision	-5.4%	-5.0%	<b>Better</b>
Change in Construction Jobs (% Change)	-43.2%	-29.4%	<b>Better</b>
Change in Single Family Housing Permits (% Change)	-65.5%	-78.8%	<b>Worse</b>
Change in Retail Jobs (% Change)	-7.8%	-10.2%	<b>Worse</b>
Change in Manufacturing Jobs (% Change)	-11.7%	-17.7%	<b>Worse</b>
Change in FHFA Index [1980=100] Index (% Change)	-1.9%	-5.0%	<b>Worse</b>
"Cyclical High" in Statewide Unemployment Rate (Change in Pct. Points)*	4.0	3.9	<b>Better</b>

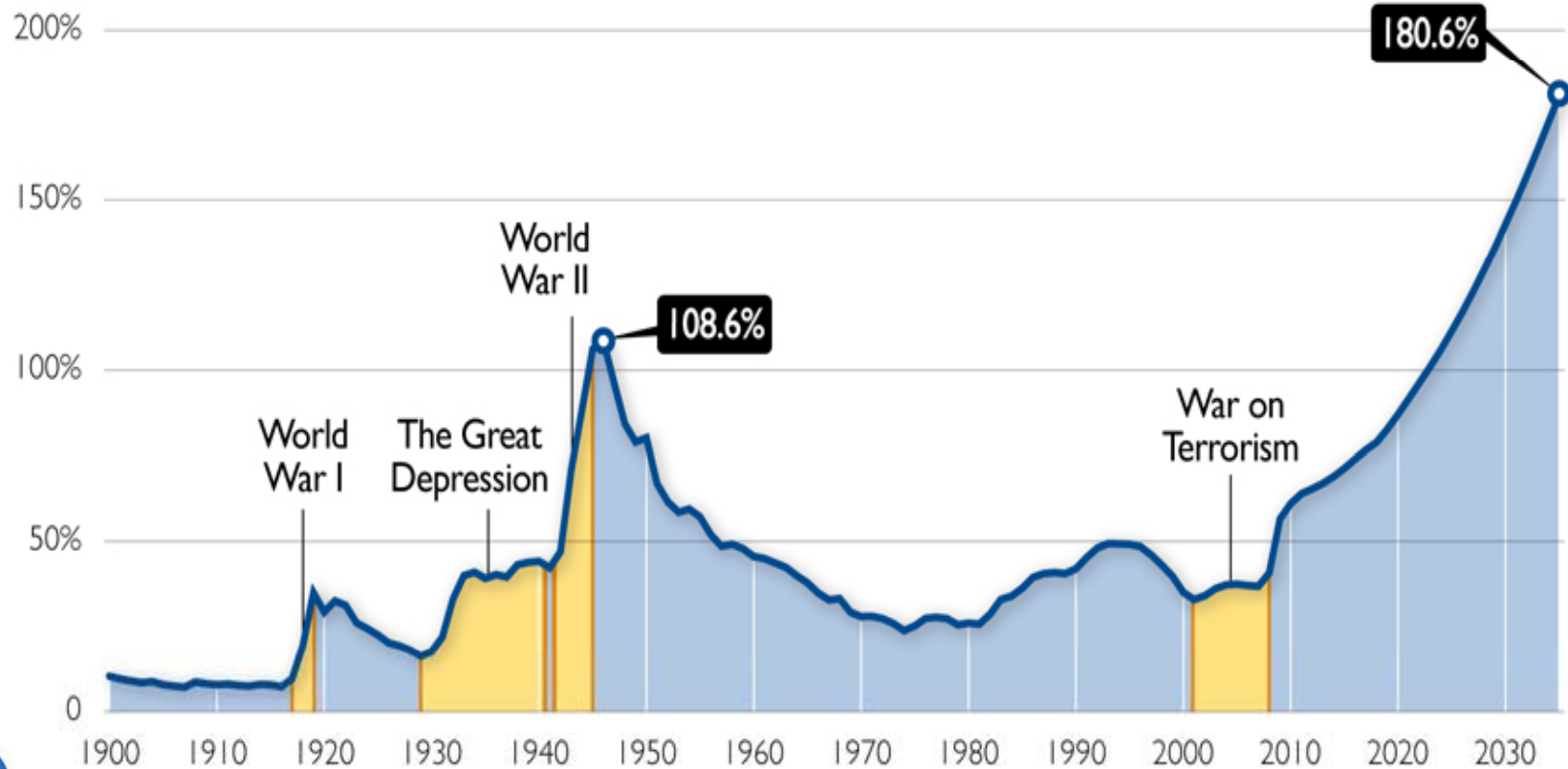
**\* But unemployment rate was higher than in the early 1990s recession.**



# The Federal Fiscal Challenge...

☒ The national debt is scary—Source: CBO

U.S. Debt Outstanding as a Percent of GDP (1940-2035)

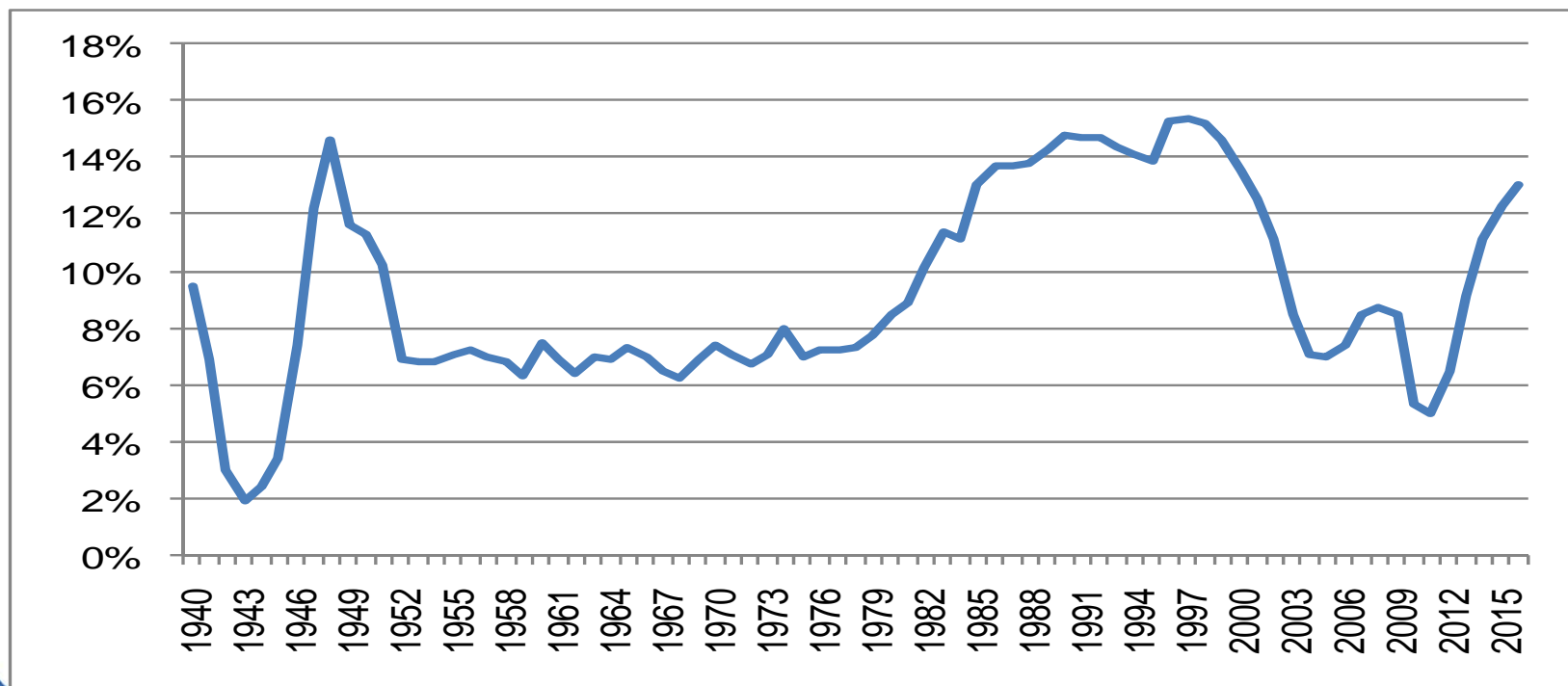


NEEP

# The Federal Fiscal Challenge...

⏏ It is net interest (or the cost of debt) that is key...still lower than the 1980s/1990s.

Net Interest as a Percent of Federal Outlays (1940-2019)



# The Federal Fiscal Challenge...

- ☒ **Federally, difficult course to negotiate without a real functioning “policy GPS.”**
  - Current fiscal situation has served both sides with “political fodder” for their respective bases.
- ☒ **Have to recognize there is no internal contradiction between alternatives.**
  - Actions to assist the economy today (when it is weak),
  - Actions to impose fiscal restraint as economy recovers to near its “potential.”
- ☒ **Requires a combination of policies.**
  - Maybe we do in fact have to widen the deficit today but impose policies to reduce it after the economy “recovers.”



# Vermont's Fiscal Challenge...

☒ In Vermont, latest projection is for a \$112 million budget gap for fiscal 2012—in line with the surveys (at 9%-10% of outlays).

–I call it a budget gap because the state has a long history of taking steps to address its fiscal challenges.

☒ The size of the gap is smaller than in past years, but certainly is no less challenging.

–Actions in past fiscal years have “picked” all the low hanging fruit even as other difficult decisions were made,

–Most future actions will be of the difficult kind.

☒ VT has and will continue to rise to the occasion—as NE's only “AAA” rated state 😊.

