

Comments on the 2017-19 Economic Outlook Presentation to the

Tax Seminar--North East State Tax Officials Association

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Harvey/Irma—Storms of Economic Significance...

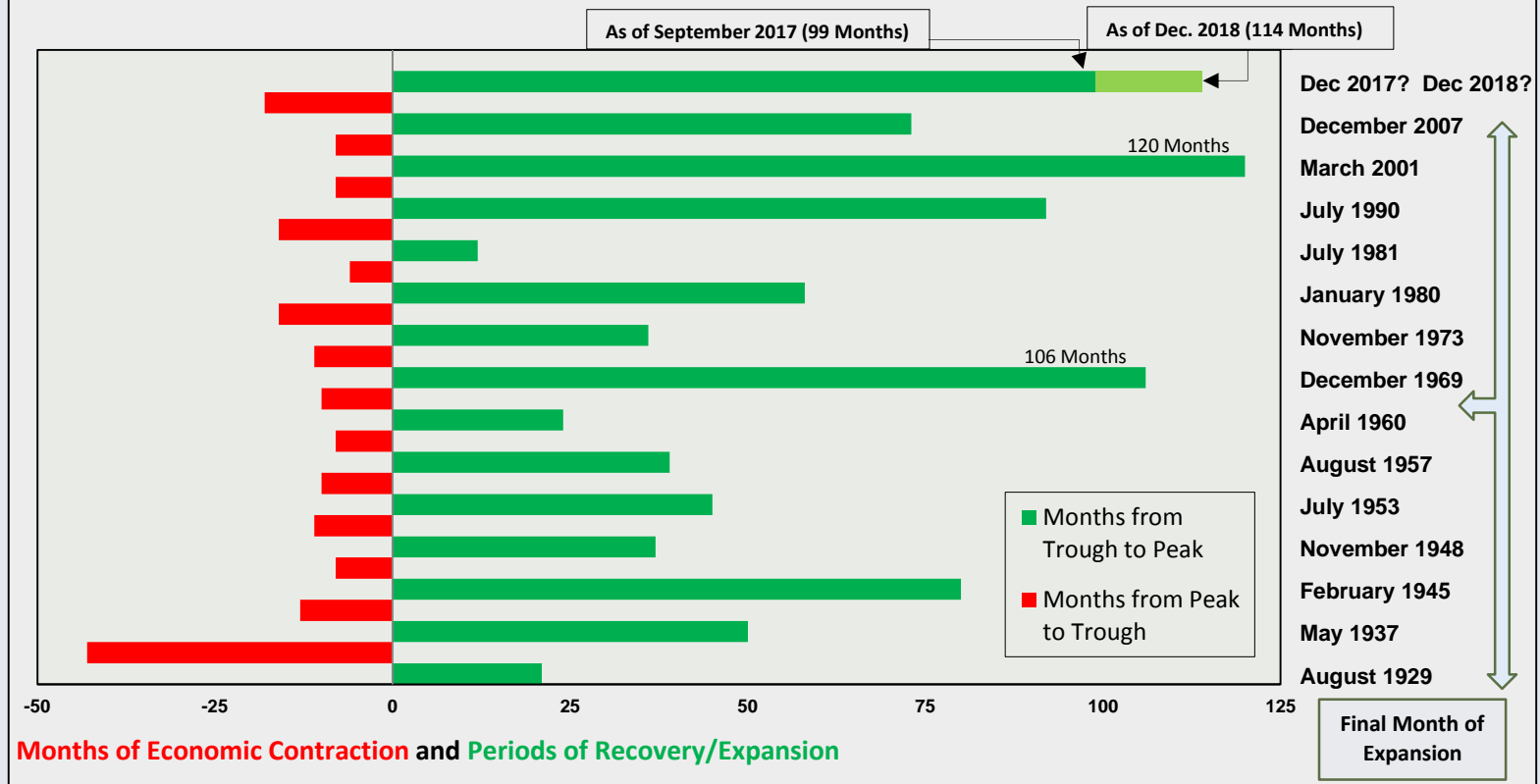
- Although it is still being calculated, “early” damage estimates of Hurricanes Harvey and Irma show that the two storms caused between \$150 billion and \$200 billion in damage to residential real estate, commercial real estate, autos, and infrastructure [Impacts of Jose (“Small”) and Maria (Maybe “Large” yet-to-come!)].
 - ✓ There was another estimated \$20 billion to \$30 billion in disruption of economic activity in two significant geographic areas of the U.S. economy (around \$3.9 billion per day between the two areas).
 - ✓ Harvey was a longer event in a key area (SE TX), while Irma was a shorter event affecting a much broader geographic area (FL SE U.S.).
 - ✓ Total damage-disruption make the two storms about a \$170 billion to \$230 billion event over two weeks—roughly equivalent to Hurricane Katrina.

- Harvey will have a more lasting impact due to gasoline price impacts. Each will result in a lot of repair/re-building activity that will boost future activity.
 - ✓ Both will likely turn out to have small macro economic impacts for the U.S. economy as a whole (though each are very tough on the areas impacts).
 - ✓ Federal aid and insurance payments will likely off-set \$ amount of damage-disruption over time.

Now the 3rd Longest "Up-Cycle" since WWII...

The Current Economic Upturn is "On Track" to be Among the Longest "On Record"...

Source: National Bureau of Economic Research

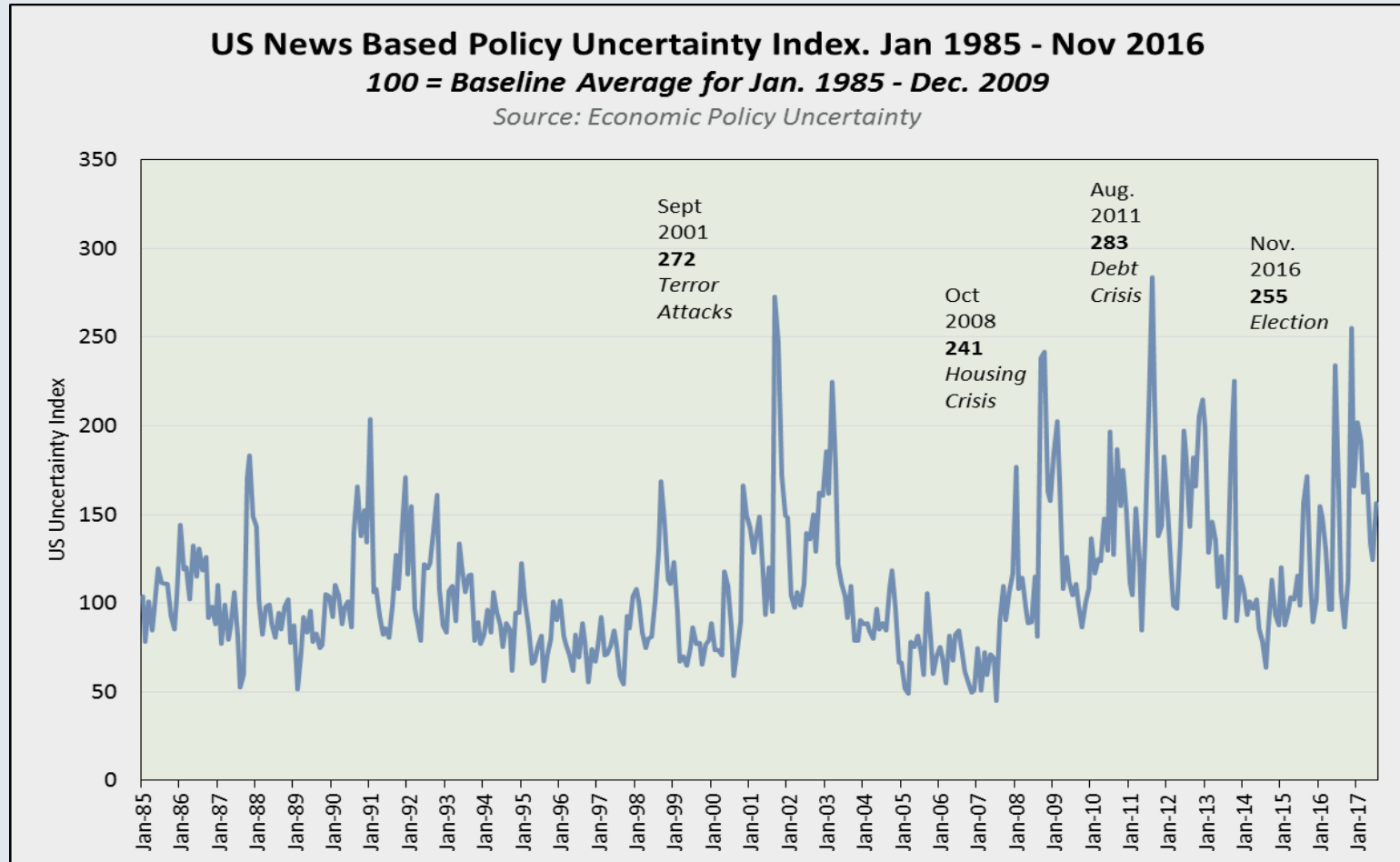


Takeaways...2016 Election

- The 2016 election was a “watershed” election in support of “change” —which likely means some “policy uncertainty” going forward.
 - ✓ Reflected voter distrust and rejection of the “status quo” and existing political institutions,
 - ✓ The electorate decided that the “risks” associated with change were lower than continuing the then current federal policy trajectory.
 - ✓ Probably too early to “rule out” modest policy package of federal tax (probably a small tax cut) and expenditure (e.g. infrastructure) package.
 - ✓ Regulatory changes have been significant and are “on-going.”

U.S. Uncertainty Indeed Looked "High" after the November 2016 Election...

3rd Highest in 30 Years, but has since calmed down...

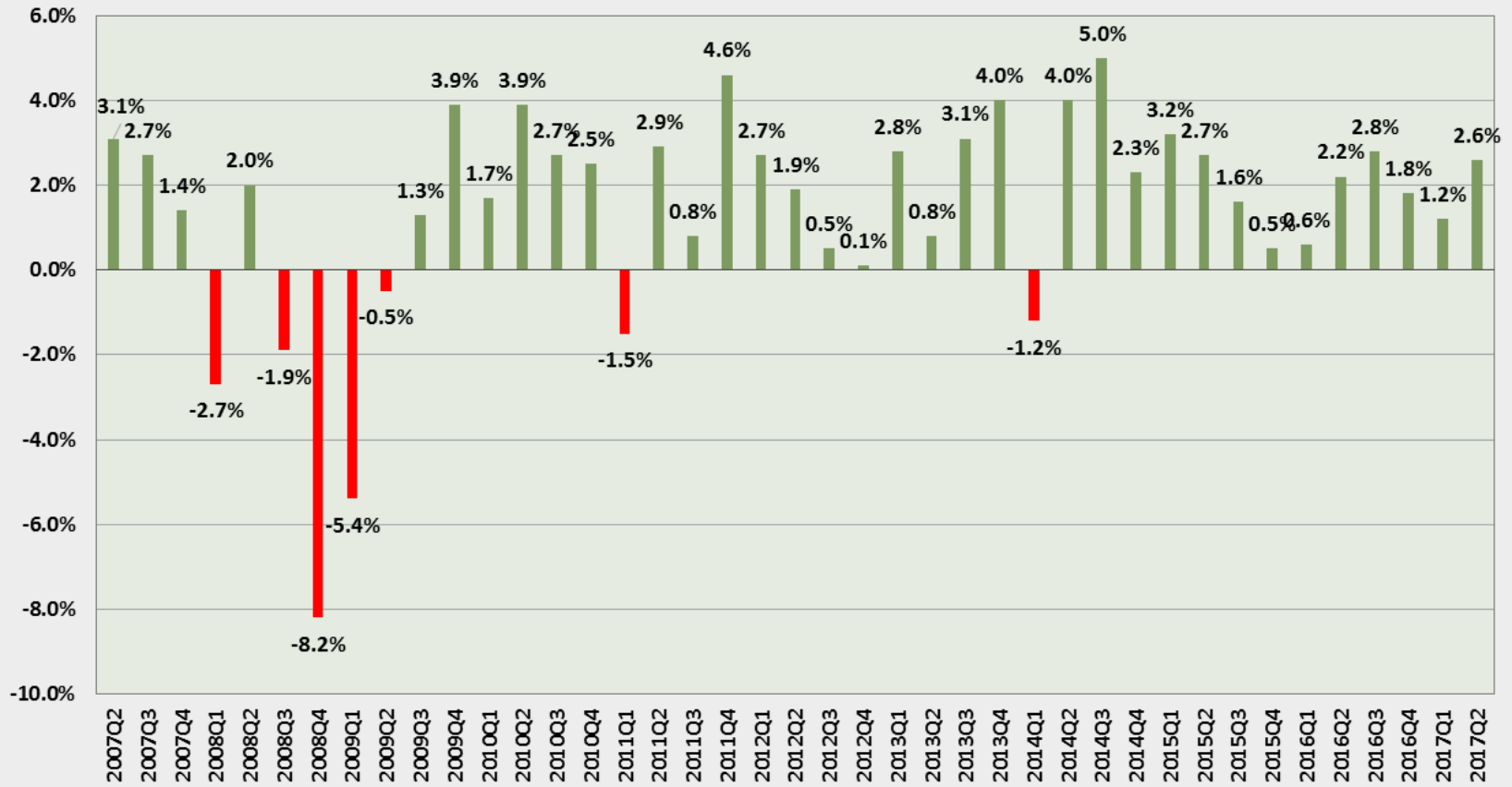


7 Years of Output Gains Has Had Its Benefits...

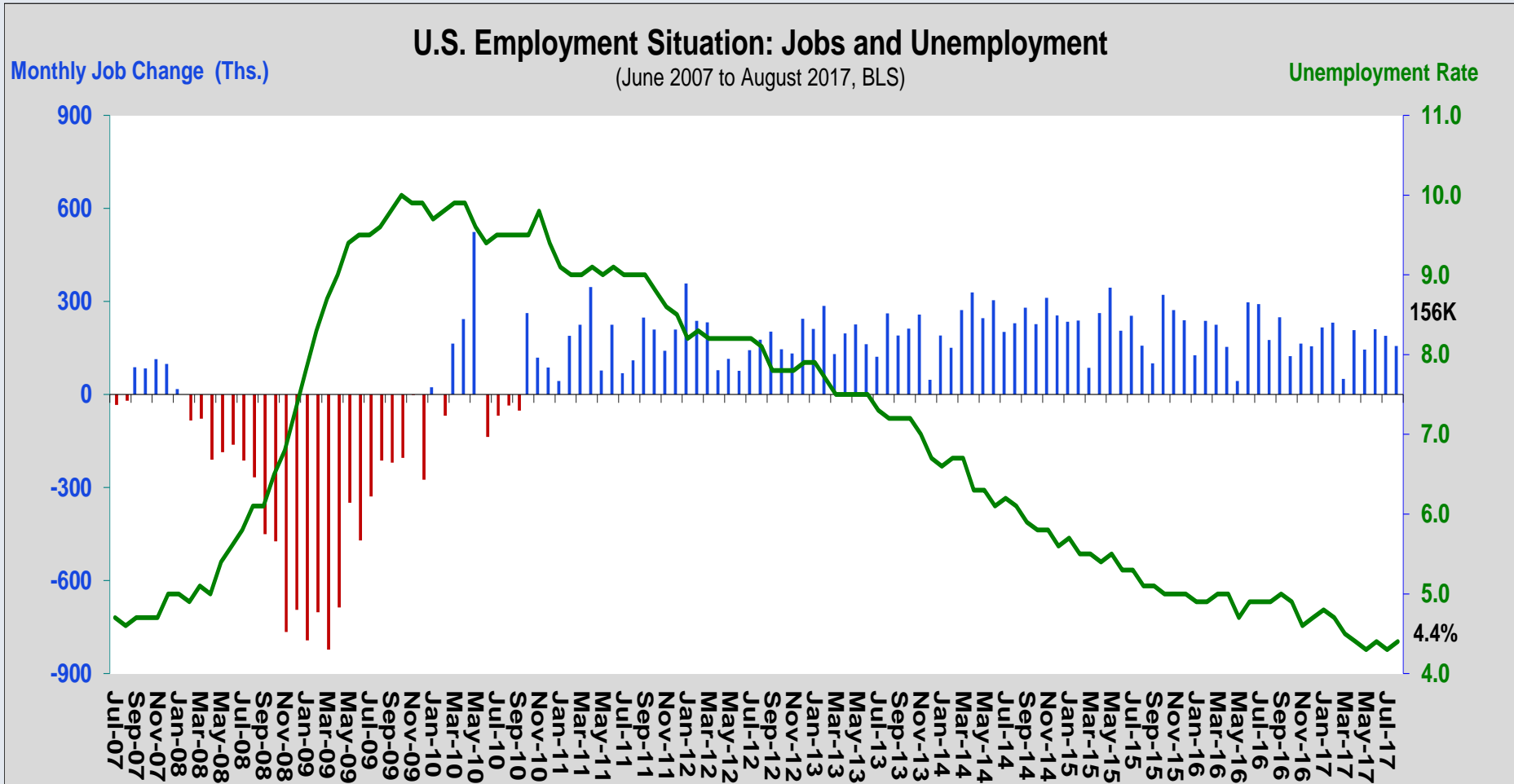
Change in Gross Domestic Product (GDP), Adjusted for Inflation.

2007 (Q2) - 2017 (Q1)

Source: Bureau of Economic Analysis



Over 16 million Jobs Added, and... The Lowest Unemployment Rates since the "Great Recession"...



Some Volatility in Equity Prices-Now Mostly Up...

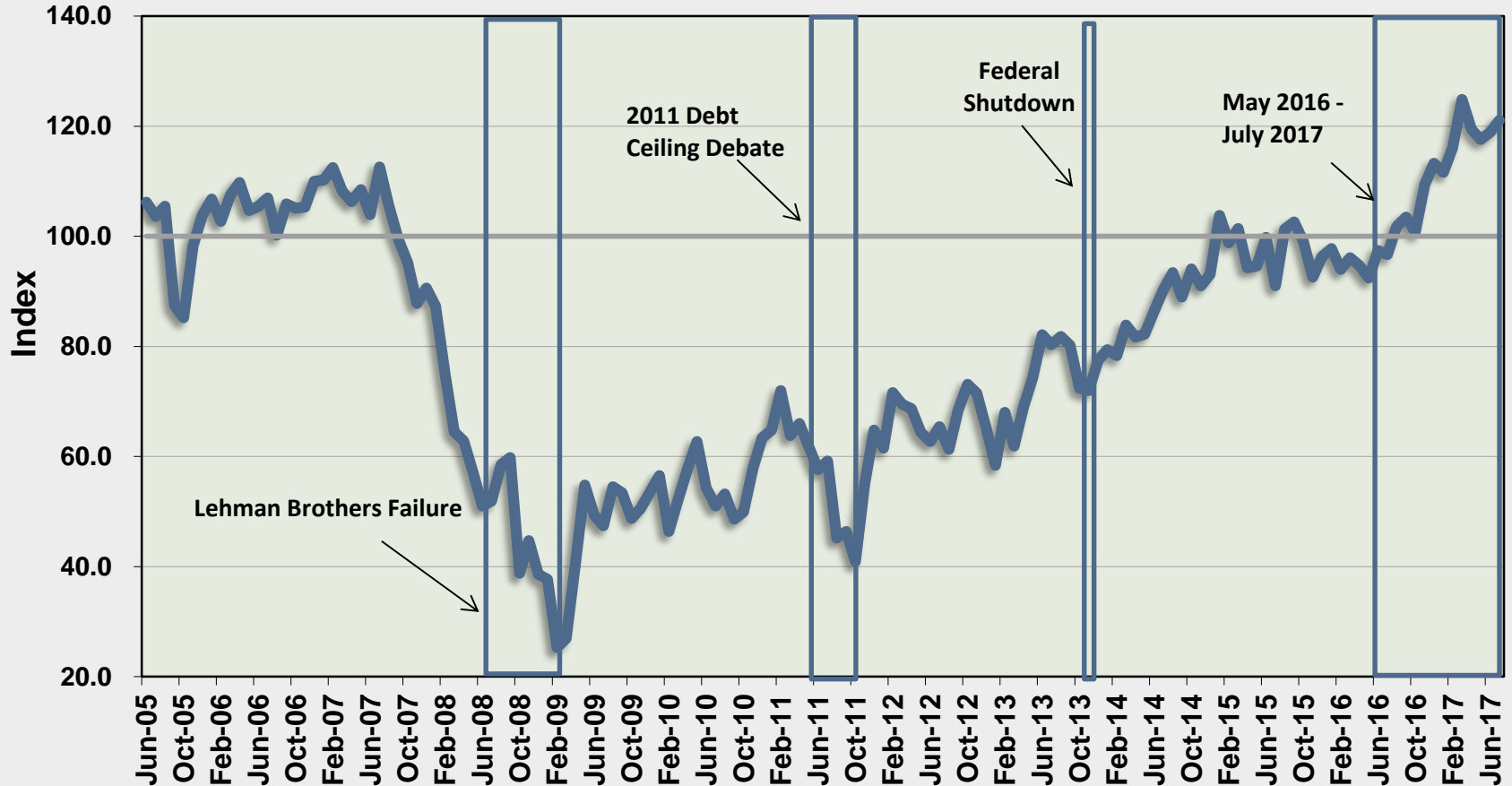
Volatility has increased in the U.S. stock market...stocks in 2016 had a “bad” year (Worst performance since CY 2008)...but are now “trending mostly up”...



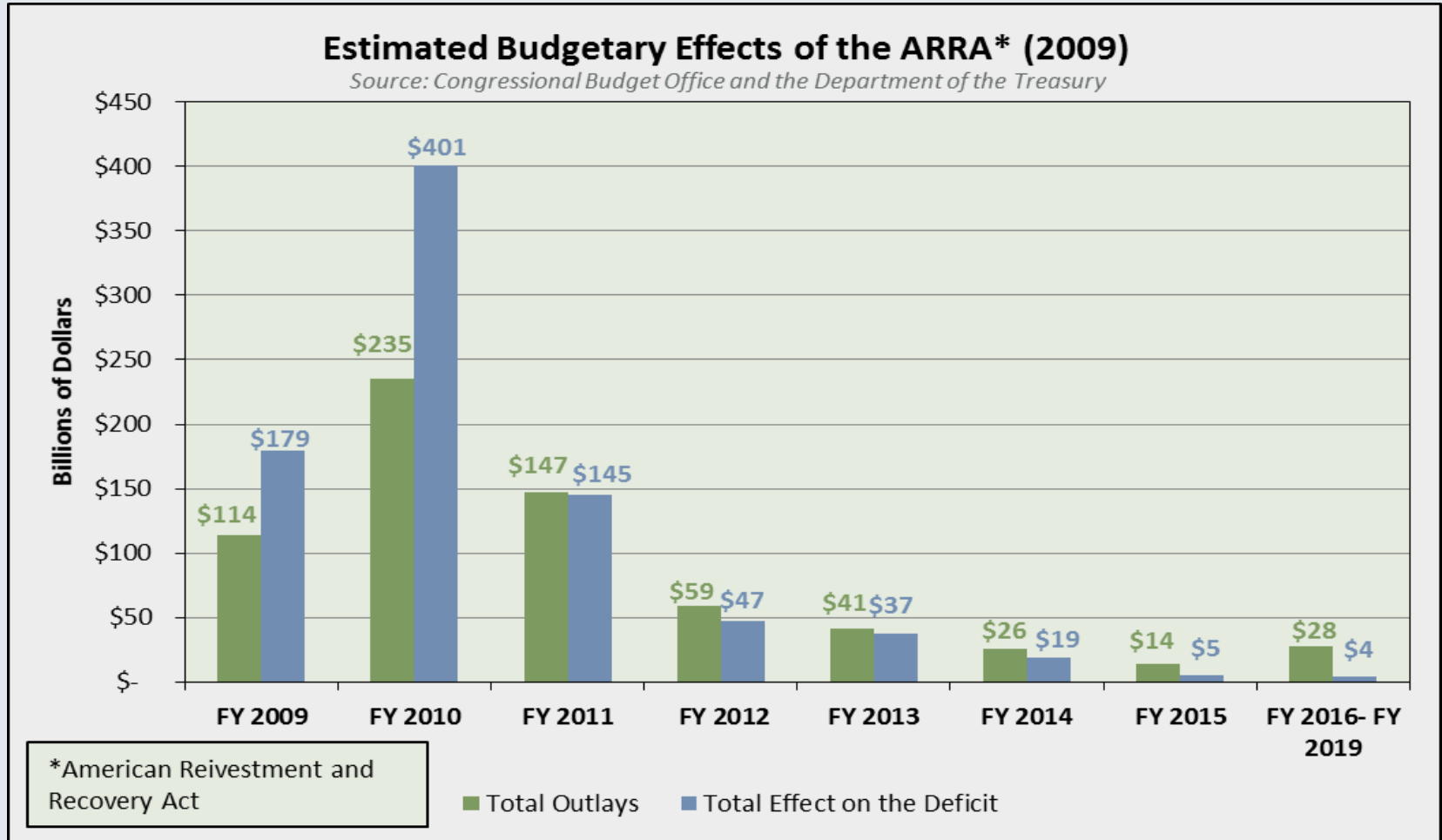
Consumer Confidence has also regained its stride...

Consumer Confidence Index, from June 2005 to July 2017
(*"100" baseline from Year 1985*)

Source: The Conference Board

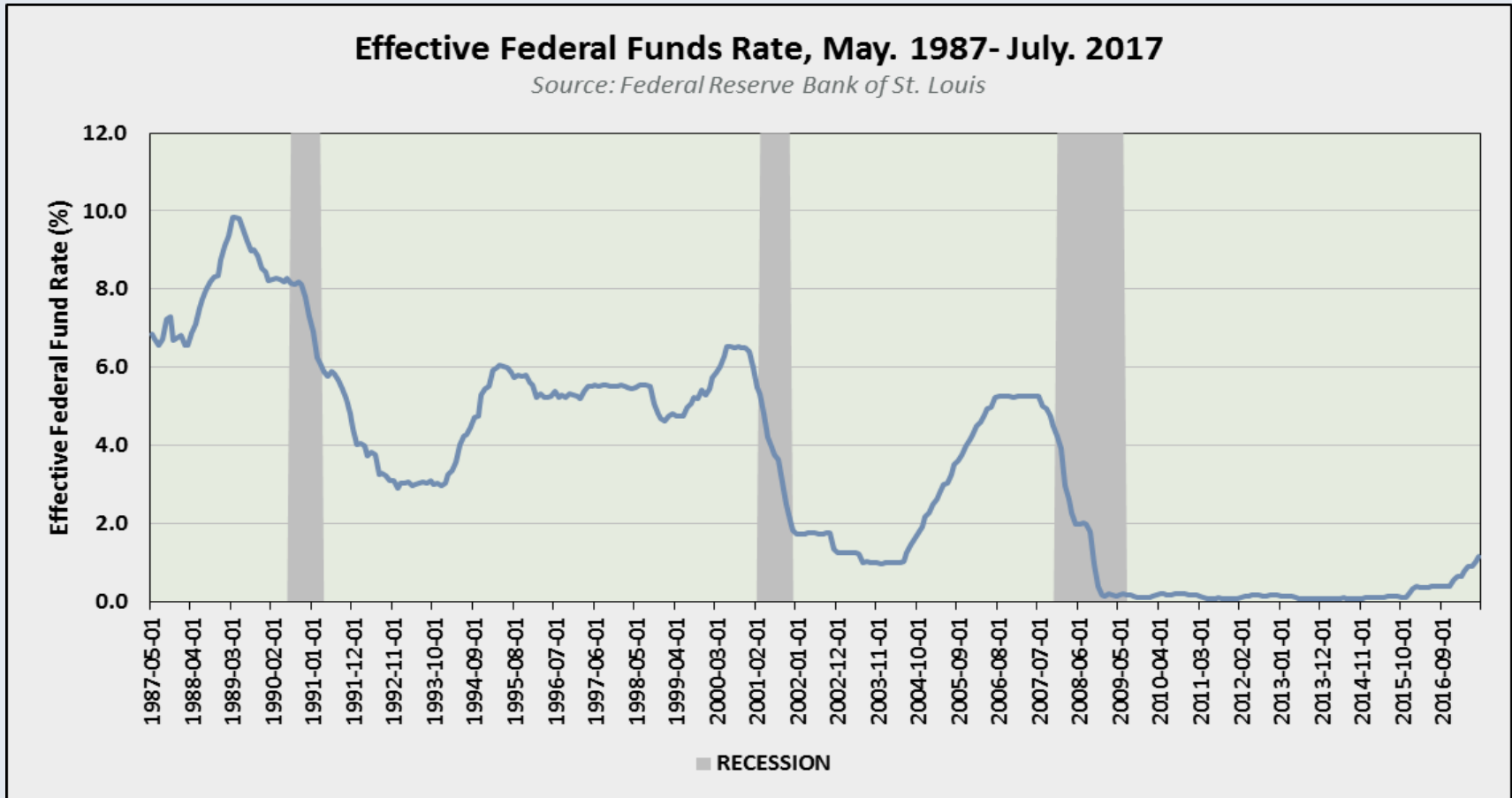


Supported by Unprecedented Stimulus...with More to Come...?



An Unprecedented Period of Low I-Rates

Dec. 2008 – Nov. 2015: A period of roughly “zero percent” Federal Funds Rate...Dec. 2015 Fed Raises ST-Rates; June 2017... 3rd Rate Hike in 6 Months, with more likely on the way...



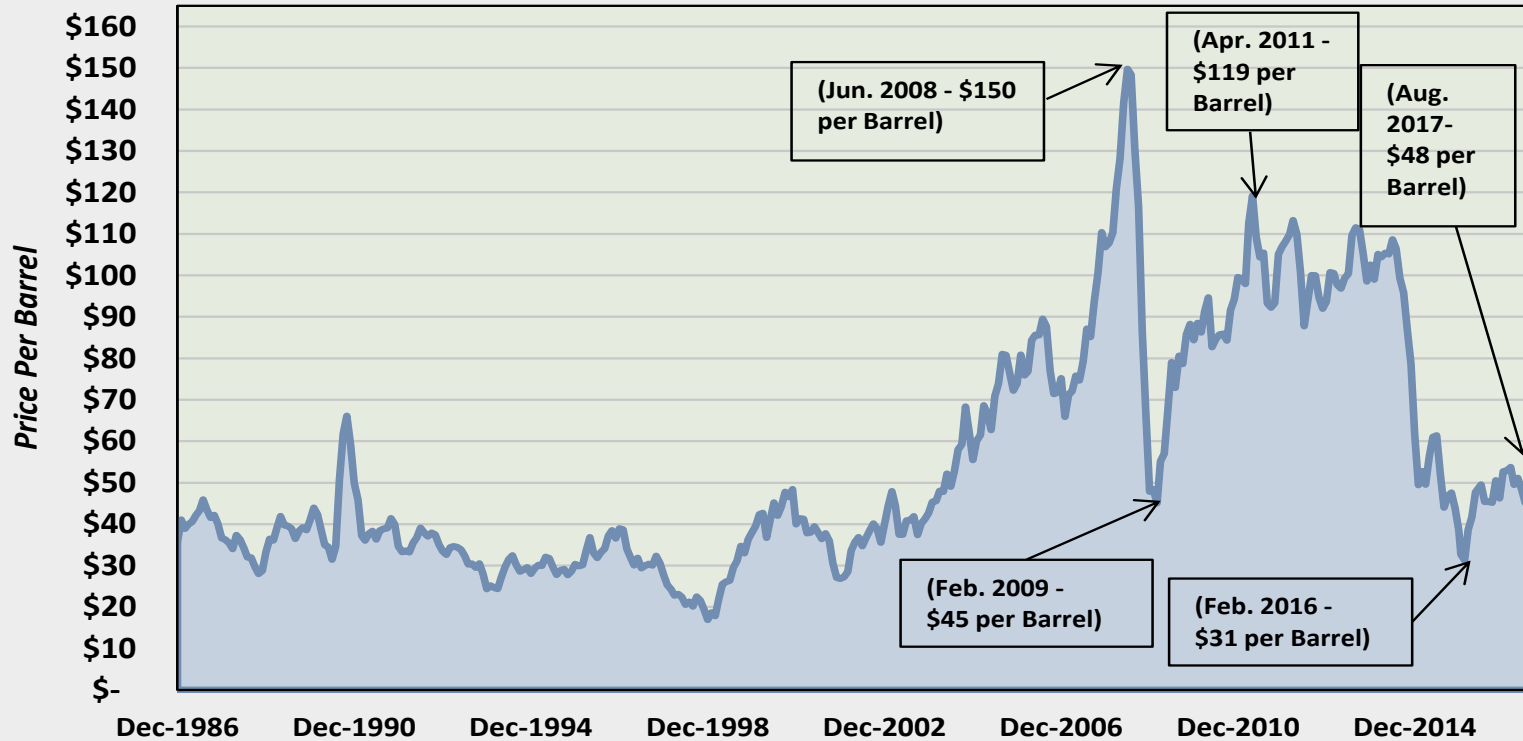
A Revolution in Energy Production

Resulting in large NRG price declines which have continued through the Summer...

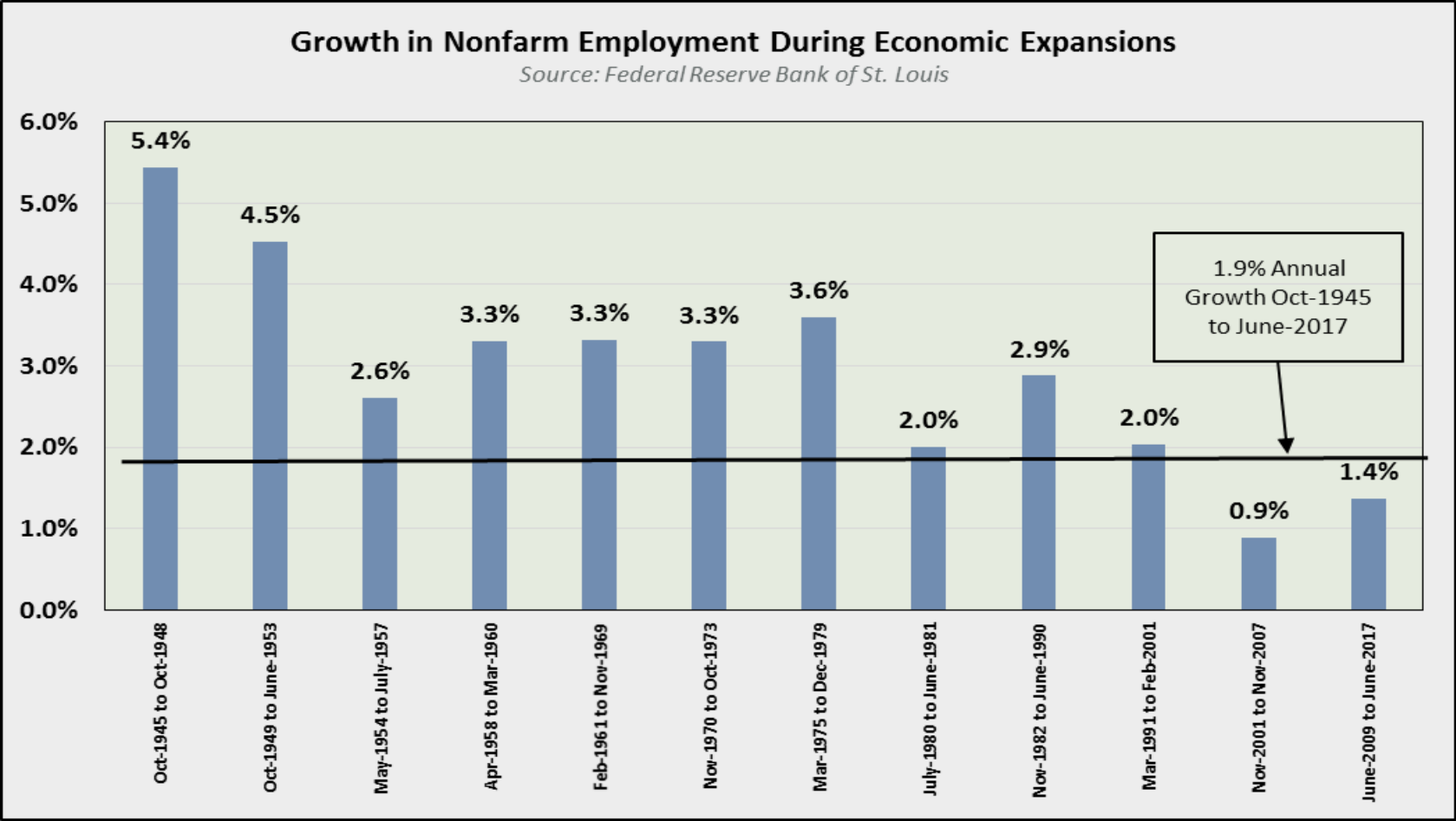
Price Per Barrel of Crude Oil, West Texas Intermediate (WTI)

Dec. 1986 - Aug. 2017 [Aug. 2017 Constant U.S. Dollars]

Source: U.S. Energy Information Administration.



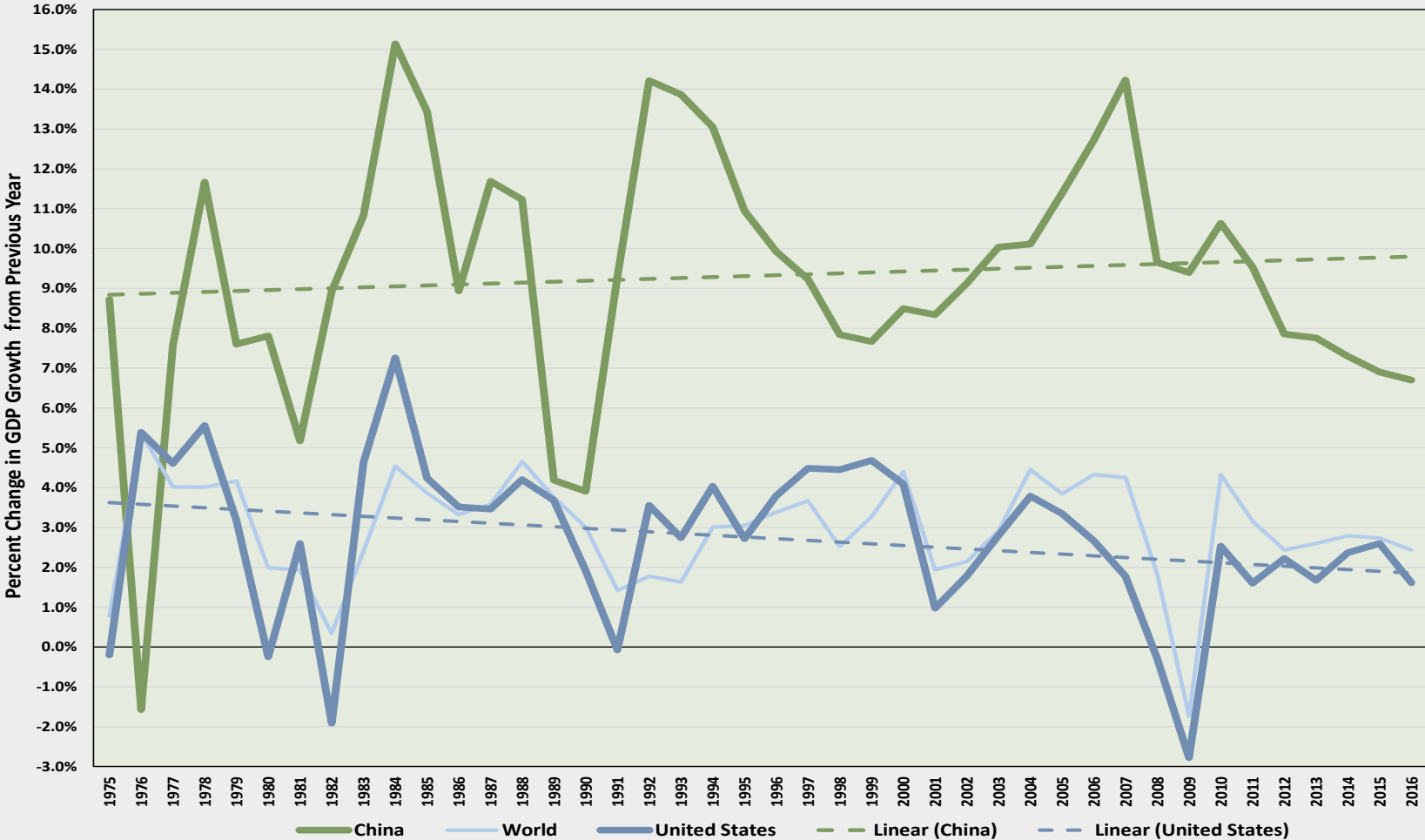
It has Been One of Slowest U.S. Recoveries Ever...



And, Output Growth Overall has Disappointed...

GDP Growth by Country and World, 1975-2016 (Preliminary)

Source: OECD and World Bank

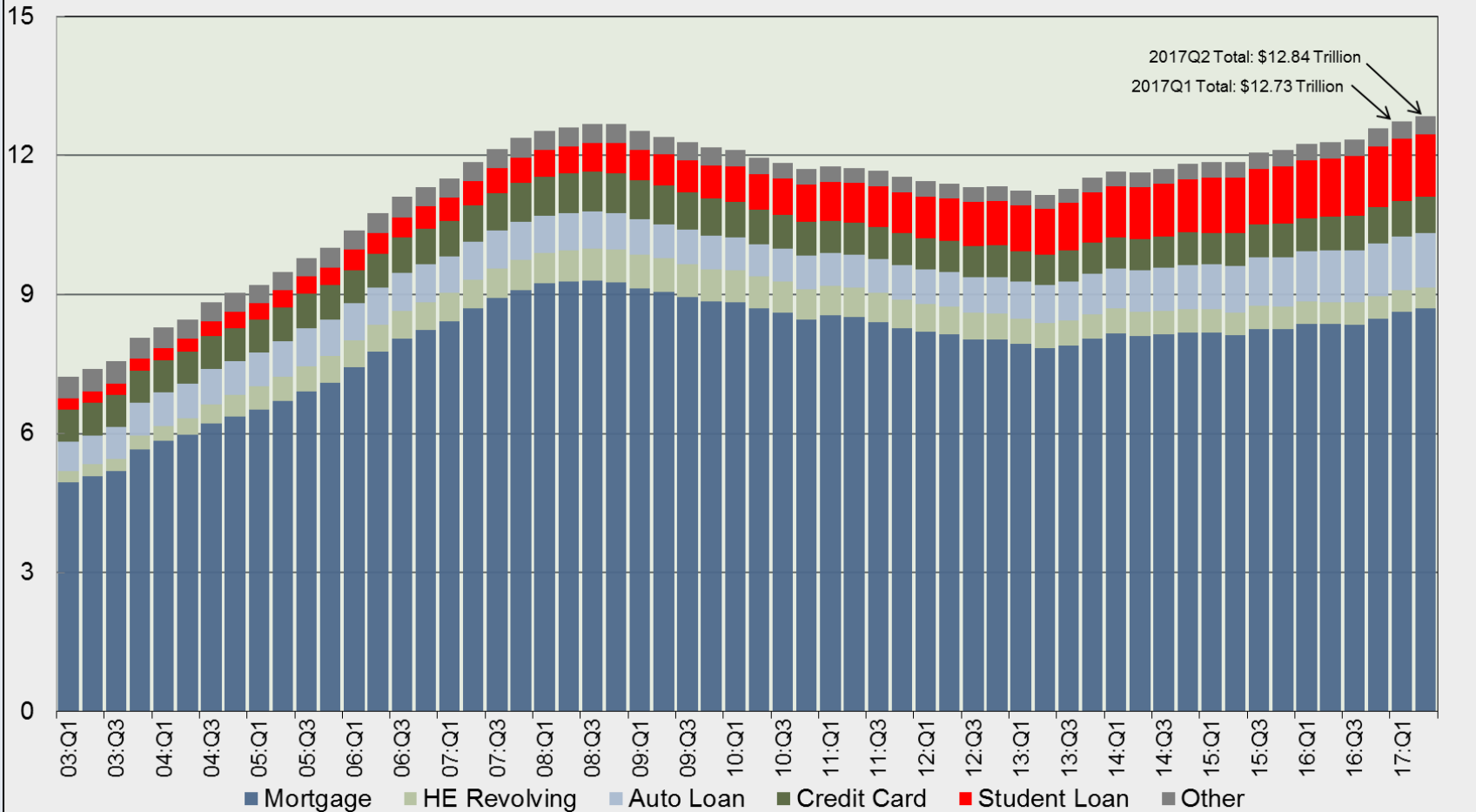


“Student Loan Debt” Has Exploded...Since 2003

Total Debt Balance and its Composition

Source: New York Fed Consumer Credit Panel/Equifax

Trillions of Dollars

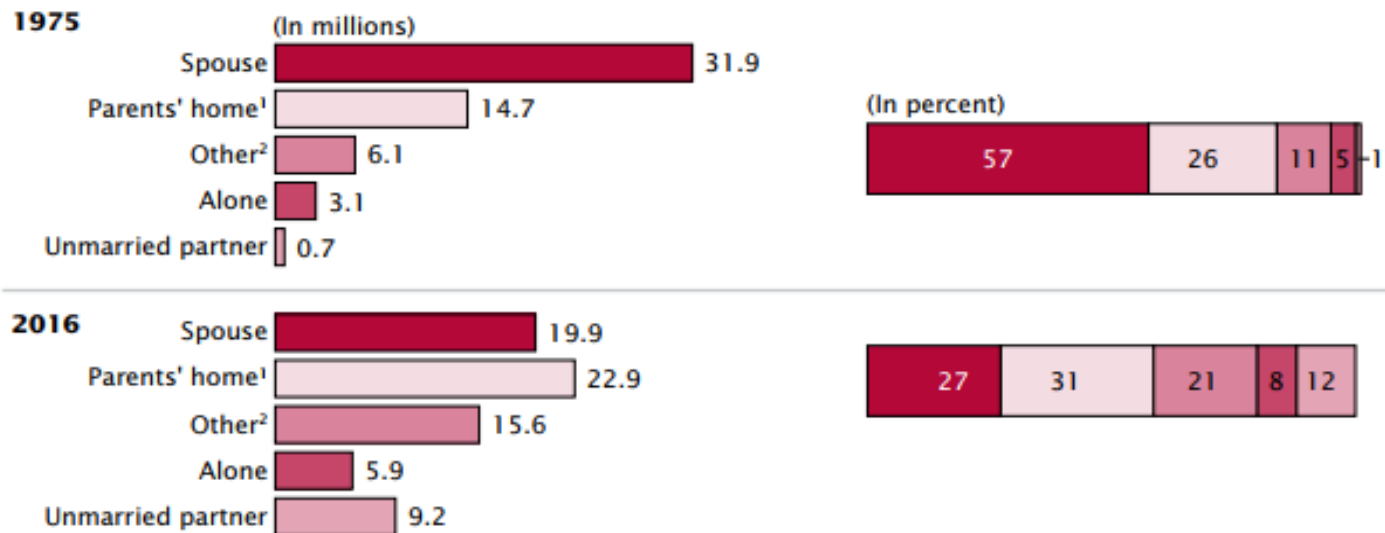


More 18-34 Year Olds Are Now Living With Their Parents vs. With a Spouse!

Figure 3.

More Young Adults Lived With Parents Than a Spouse in 2016

Living arrangements among adults aged 18 to 34: 1975 and 2016



¹ College students who are living in dormitories are counted as living in the parents' home.

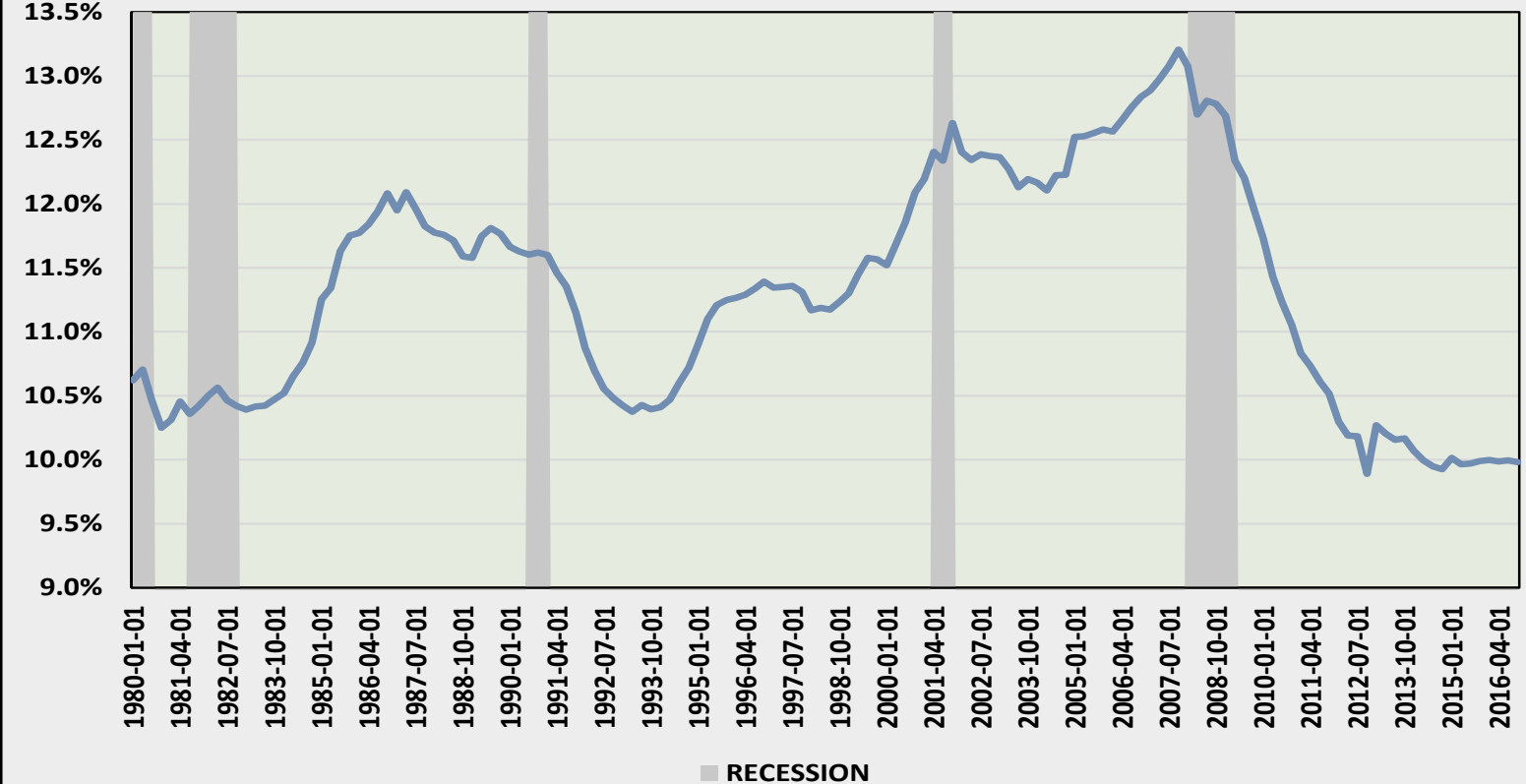
² "Other" includes people who are living with relatives besides a spouse, such as siblings or grandparents, and nonrelatives such as roommates.

Source: U.S. Census Bureau, 1975 and 2016 Current Population Survey Annual Social and Economic Supplement.

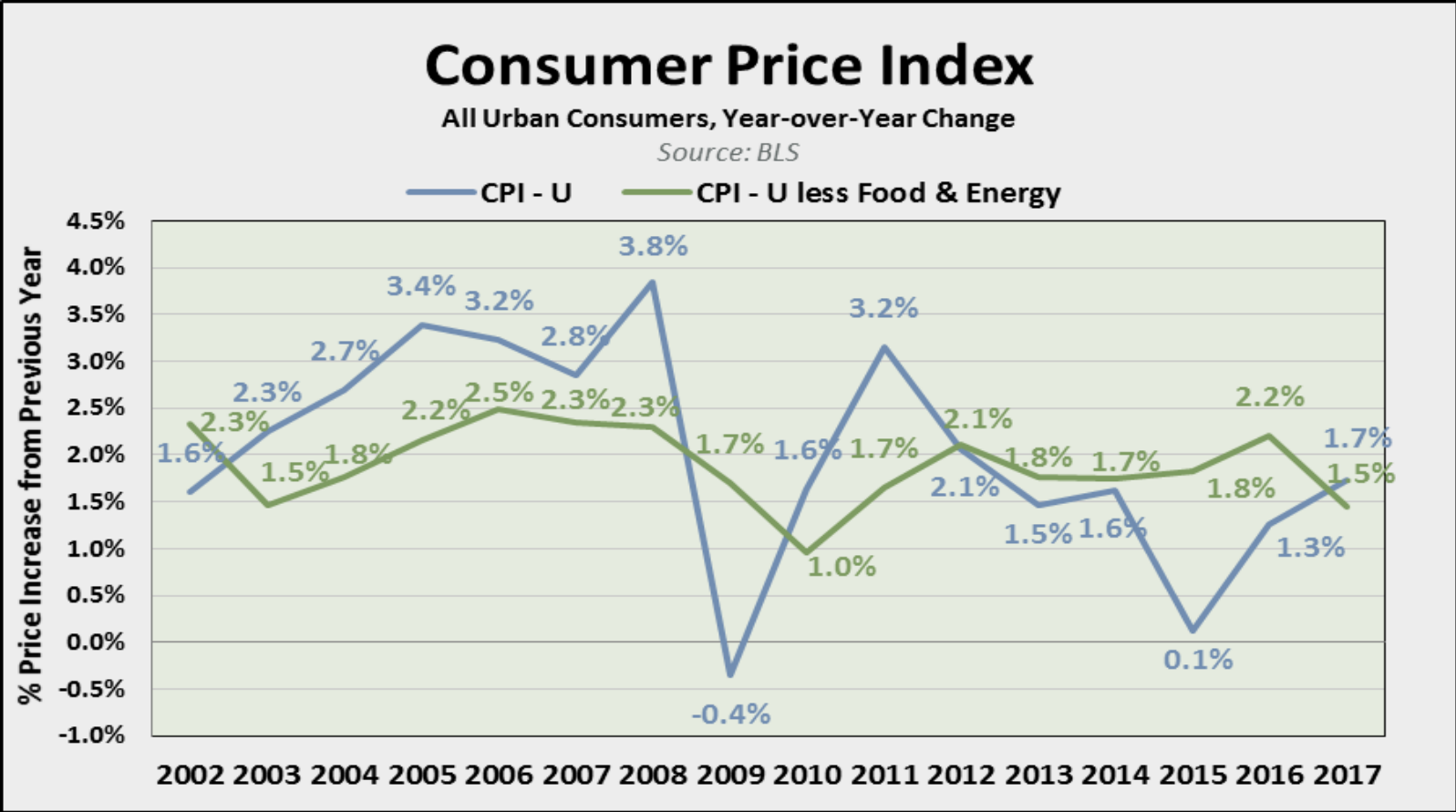
HH Debt Service is still lower than the early 1980's...

Household Debt Service Payments as a Percent of Disposable Personal Income (Thru Q1:2017)

Source: Federal Reserve Bank of St. Louis



Inflation is Well Under-Control...



There are Differences among the Northeastern States in Year-over-Year Job Change...

Payroll Job Performance By NAICS Supersector June 2016 to June 2017

Industry Supersector	Highest Ranked Northeastern State	# of States Reporting States Reporting Job Losses	# of States Reporting States Reporting Job Losses in NE
Total Nonfarm	MD (11th)	1 (WY)	0
Total Private	MD (13th)	1 (WY)	0
Construction	RI (3rd)	7	1 (VT)
Manufacturing	RI (12th)	20	6 (MA,ME,PA,NY,VT,MD)
Information	MA (10th)	30	9 (CT,NH,ME,RI,VT,NJ,NY,PA,MD)
Financial Activities	NH (6th)	4	2 (ME,VT)
Trade, Transportation, Utilities	MD (17th)	7	1 (DE)
Leisure and Hospitality	PA (8th)	2	0
Education and Health Services	MA (10th)	0	0
Professional and Business Services	MD (4th)	6	3 (CT,ME,DE)
Government	MD (6th)	13	3 (CT,NJ,PA)

Notes:

NAICS means North American Industry Classification System

Source: U.S. Bureau of Labor Statistics

Jobs Remain “Flat” Across the Northeast...

Payroll Job Performance By NAICS Supersector June 2016 to June 2017

Industry Supersector	% Change No. NE	Rank if a State	% Change So. NE.	Rank if a State	% Change Mid-Atlantic	Rank if a State	% Change Northeast	Rank if a State
Total Nonfarm	1.3%	37th	1.9%	20th	1.7%	28th	1.7%	28th
Total Private	1.5%	37th	2.1%	22nd	1.9%	29th	1.9%	30th
Construction	6.1%	12th	3.1%	25th	2.5%	27th	2.8%	27th
Manufacturing	-0.9%	38th	0.2%	27th	-1.7%	41st	-1.3%	41st
Information	-2.0%	30th	0.5%	16th	-1.3%	27th	-1.0%	26th
Financial Activities	0.4%	40th	2.4%	22nd	0.7%	36th	1.1%	35th
Trade, Transportation, Utilities	0.5%	34th	0.8%	30th	0.4%	35th	0.5%	34th
Leisure and Hospitality	3.7%	16th	2.0%	37th	3.9%	13th	3.3%	21th
Education and Health Services	2.0%	32nd	2.6%	24th	3.0%	16th	2.9%	20th
Professional-Business Services	1.6%	38th	1.7%	37th	3.7%	18th	3.2%	22nd
Government	0.2%	29th	0.3%	28th	0.4%	26th	0.4%	26th

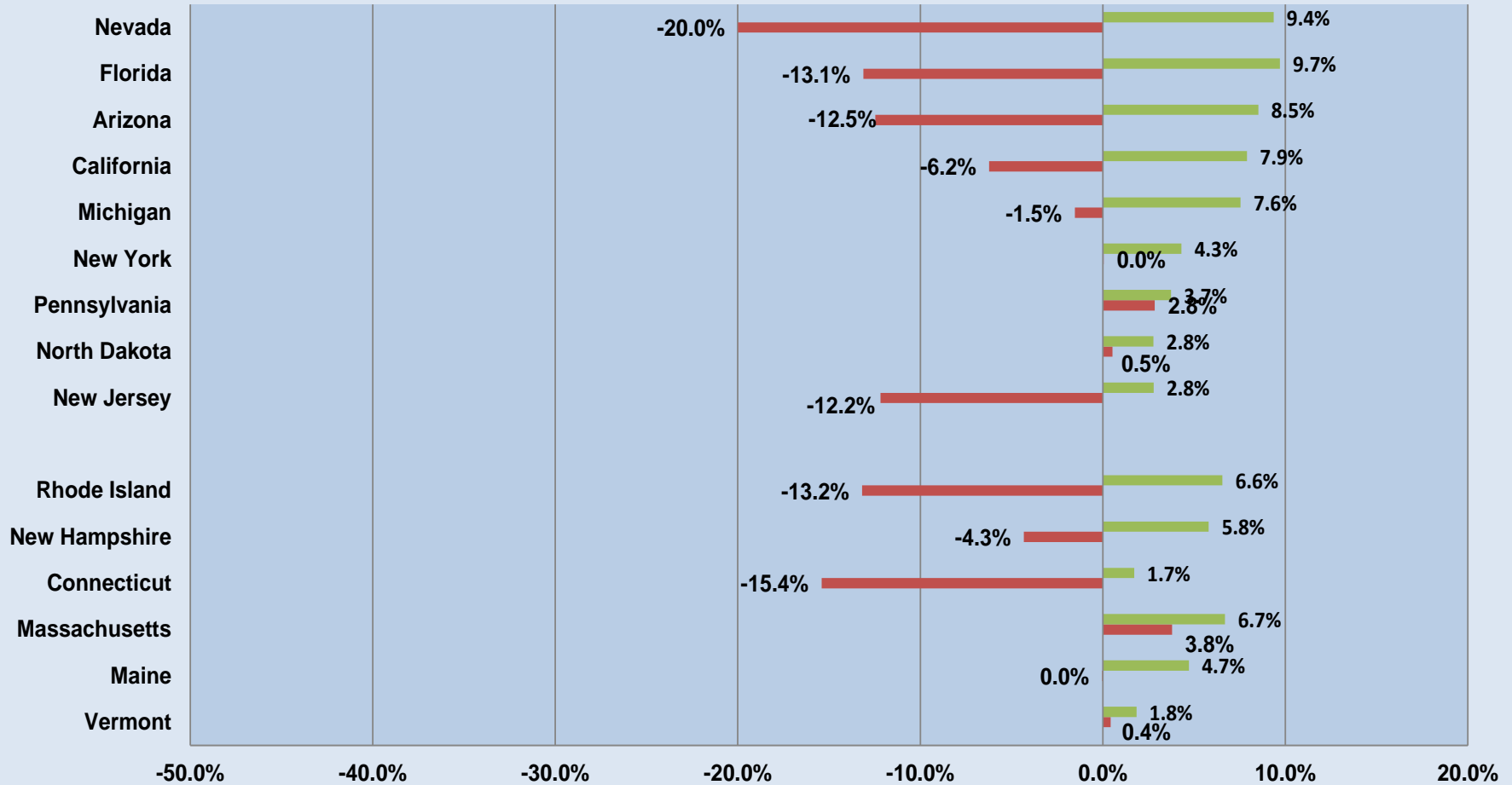
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“House Values” are near full recovery from the mid-2000s peak for many states [Needs updating for Q2]...

Change in House Prices "From Peak [RED]" and "Last 4 Quarters" [Green] FHFA Data--Thru Q2: 2017 [All Transactions]



“Slow-As-You Go” U.S. Outlook Per the “Fed”

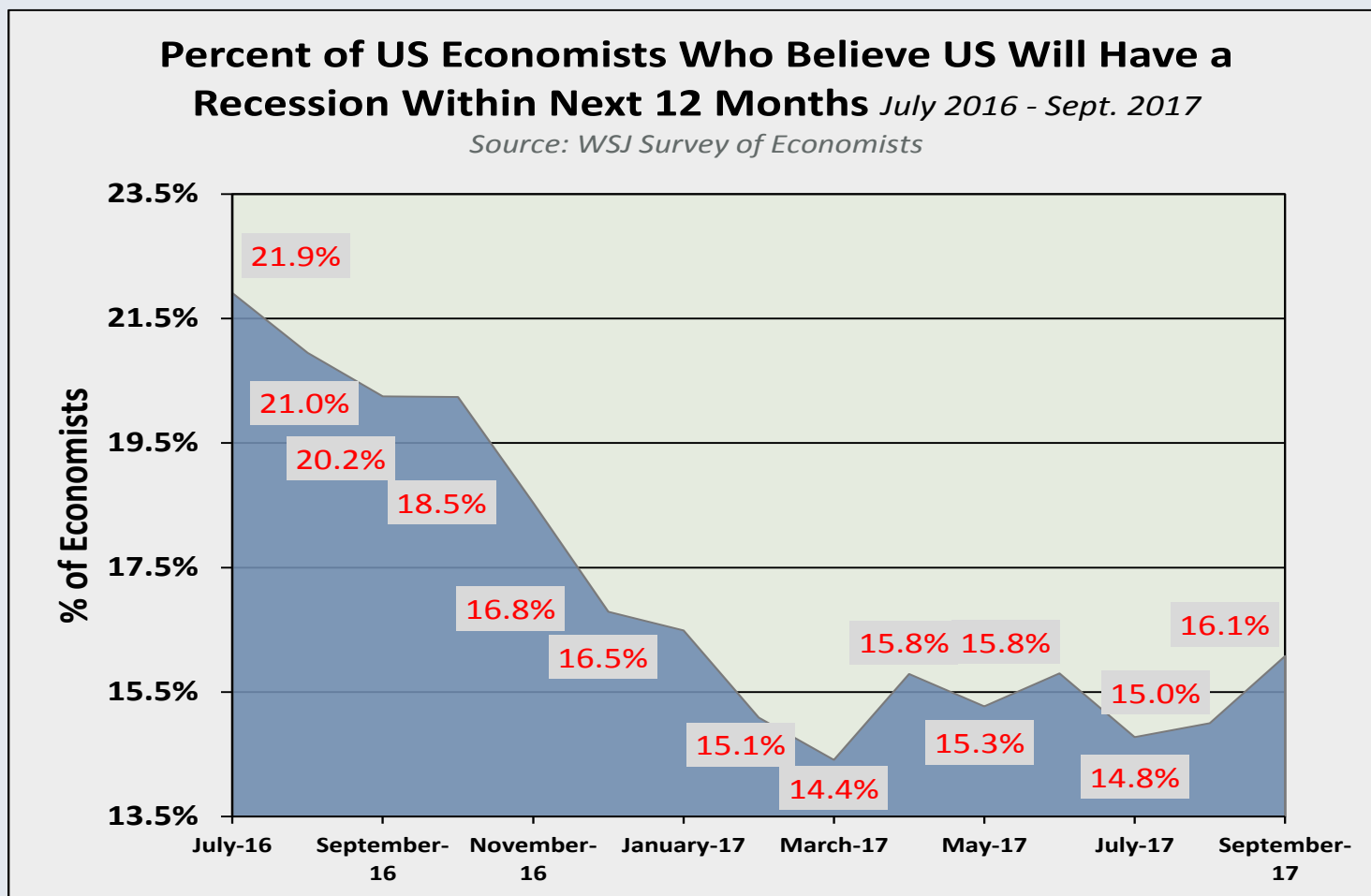
According to the Fed’s Latest Mid-Year Forecast (from June 14, 2017 Release)

Percent

Variable	Median ¹				Central tendency ²				Range ³			
	2017	2018	2019	Longer run	2017	2018	2019	Longer run	2017	2018	2019	Longer run
Change in real GDP	2.2	2.1	1.9	1.8	2.1–2.2	1.8–2.2	1.8–2.0	1.8–2.0	2.0–2.5	1.7–2.3	1.4–2.3	1.5–2.2
March projection	2.1	2.1	1.9	1.8	2.0–2.2	1.8–2.3	1.8–2.0	1.8–2.0	1.7–2.3	1.7–2.4	1.5–2.2	1.6–2.2
Unemployment rate	4.3	4.2	4.2	4.6	4.2–4.3	4.0–4.3	4.1–4.4	4.5–4.8	4.1–4.5	3.9–4.5	3.8–4.5	4.5–5.0
March projection	4.5	4.5	4.5	4.7	4.5–4.6	4.3–4.6	4.3–4.7	4.7–5.0	4.4–4.7	4.2–4.7	4.1–4.8	4.5–5.0
PCE inflation	1.6	2.0	2.0	2.0	1.6–1.7	1.8–2.0	2.0–2.1	2.0	1.5–1.8	1.7–2.1	1.8–2.2	2.0
March projection	1.9	2.0	2.0	2.0	1.8–2.0	1.9–2.0	2.0–2.1	2.0	1.7–2.1	1.8–2.1	1.8–2.2	2.0
Core PCE inflation ⁴	1.7	2.0	2.0		1.6–1.7	1.8–2.0	2.0–2.1		1.6–1.8	1.7–2.1	1.8–2.2	
March projection	1.9	2.0	2.0		1.8–1.9	1.9–2.0	2.0–2.1		1.7–2.0	1.8–2.1	1.8–2.2	
Memo: Projected appropriate policy path												
Federal funds rate	1.4	2.1	2.9	3.0	1.1–1.6	1.9–2.6	2.6–3.1	2.8–3.0	1.1–1.6	1.1–3.1	1.1–4.1	2.5–3.5
March projection	1.4	2.1	3.0	3.0	1.4–1.6	2.1–2.9	2.6–3.3	2.8–3.0	0.9–2.1	0.9–3.4	0.9–3.9	2.5–3.8

✓ Seems like a “reasonable outlook” for the Northeast as well...

Odds of a Recession Still Remain “Low...”



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