The 2016 Economic Outlook

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This annual outlook article focuses on the economic prospects for the U.S. and Connecticut economies in 2016 through an analysis of a variety of recent data and trends.

The Nation

The outlook for the U.S. economy in 2016 remains mostly positive. The U.S. Gross Domestic Product (GDP), except for Q1-2011 and Q1-2014 (when it slipped 1.5% and 0.9%, respectively), has now grown for six years since the “Great Recession” ended in Q2-2009. Real Gross Domestic Product (RGDP), or the constant dollar value of all goods and services produced by labor and capital located in the U.S., since Q2-2009 has averaged a 2.2% annual increase from the preceding quarter (Figure 1). After growing 2.5% in 2010, 1.6% in 2011, 2.2% in 2012, 1.5% in 2013, 2.4% in 2014, and an estimated 2.1% in Q3-2015, RGDP growth near 3.0% is likely in 2016.1 The New England Economic Partnership (NEEP), based on Moody’s Analytics underlying macroeconomic forecast, sees RGDP growth at 3.4% in 2016,2 a little less than last year’s forecast of 3.7%. The National Association of Business Economists (NABE) outlook panel consensus is, on an average annual basis, 2.7% in 2016, “a small downgrade compared to the previous survey’s forecast [of 2.9%] for next year.”3

Total seasonally adjusted nonfarm payroll employment since the end of the recession has increased by 11.4 million jobs (1.8 million through September in 2015 alone), after averaging

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In November...

Nonfarm Employment
- Connecticut: 1,699,700
  Change over month: +0.3%
  Change over year: +1.6%
- United States: 142,900,000
  Change over month: +0.15%
  Change over year: +1.9%

Unemployment Rate
- Connecticut: 5.1%
- United States: 5.0%

Consumer Price Index
- United States: 237.336
  Change over year: +0.5%
Monetary Policy

The Federal Reserve Bank’s Open Market Committee (FOMC) was expected to hike interest rates in 2015. In its October statement the FOMC again did not raise rates, saying it “reaffirmed its view that the current 0 to 1/4 percent target range for the federal funds rate remains appropriate...toward its objectives of maximum employment and 2 percent inflation. ...The Committee anticipates that it will be appropriate to raise the target range for the federal funds rate when it has seen some further improvement in the labor market and is reasonably confident that inflation will move back to its 2 percent objective over the medium term.” The FOMC has a dual mandate to promote only: 1) maximum employment, and 2) price stability – a mandate that is consistently referred to in each post-meeting FOMC statement. Yet, European, Japanese, and Chinese central banks announced credit-easing policies, particularly in late 2015, and apparently had some influence by the FOMC’s own acknowledgement that it “is
monitoring global economic and financial developments.”

**U.S. Growth Prospects**

U.S. growth prospects remain positive for several reasons: The Manufacturing ISM Report on Business® reported the 77th consecutive monthly expansion of the overall economy into November 2015, noting “Comments from the panel reflect concern over the high price of the dollar and the continuing low price of oil, mixed with cautious optimism about steady to increasing demand in several industries.” October’s PMI [Purchasing Managers Index] registered 50.1 percent, “a decrease of 0.1 percentage points from September’s reading of 50.2 percent, indicating growth in manufacturing for the 34th consecutive month.” A reading above 50% indicates that the manufacturing economy is generally expanding; below 50% indicates that it is generally contracting.

Consumer spending also saw gains with average monthly increases of 3.3% in 2015 through October, up from 2.3% from the same period a year ago. The Thomson Reuters/University of Michigan final Index of Consumer Sentiment advanced to 93.1 in November 2015, have exceeded 2014 for every month in 2015, except January 2016. As forecasted by the state’s fiscal outlook was tempered in 2015 as evidenced by a FY 2014-2015 deficit of $113.2 million, based on Generally Accepted Accounting Principles (GAAP). That deficit represented six-tenths of one percent of budgeted spending and was addressed by drawing from the Budget Reserve (“Rainy Day”) Fund bringing its balance down from $519.2 to $406 million, just 2.2 percent of annual operating costs. A newly revised budget for

**Connecticut**

Connecticut’s economy should continue to experience modest growth in 2016. Connecticut’s real state gross domestic product (SGDP), the broadest measure of the state’s economic health, increased 0.6% in 2014 (the last year available). This growth followed a 0.3% gain in 2012 and a 1.0% growth rate in 2013. While we are still awaiting data for 2015 we expect to see positive growth into 2016. Connecticut personal income grew 1.2% in Q2-2014, seasonally adjusted at quarterly rates, increased by only 0.6% in Q3-2014, gained 1.2% again in Q4-2014, but increased only 0.1% in Q1-2015, and 1.1% in Q2-2015, all relative to the preceding quarter. The latter gain ranked Connecticut 14th for personal income growth among the states. As forecasted by the Connecticut Department of Labor, personal income for Q1-2016 will increase by 2.5% from Q1-2015. Increases in personal disposable income indicate stronger growth in consumer spending which can lead to additional gains throughout the economy.

The Connecticut recession from March 2008 through February 2010 saw the loss of 119,000 seasonally adjusted nonfarm jobs (Figure 3). By late November 2015, jobs regained numbered 100,100 (84.1%), or 1,472 jobs per month since February 2010 when the recovery began. The private sector has recovered somewhat faster and has regained 107,700 (96.5%, 1,584 per month) of the 111,600 private jobs that were lost during the same period. NEEP forecasts Connecticut will gain about 24,100 jobs or 1.4% in 2016. The state’s unemployment rate, after peaking at 9.2% in October 2010 declined to 5.1% in October 2015, a seven-year low. In a forecast prepared well in advance of this data, NEEP had forecasted Connecticut’s unemployment rate would be 5.5% in 2016. Seasonally adjusted average weekly initial claims for unemployment insurance peaked at 7,077 in February 2009, but declined to 3,756 (-46.9%) by October 2015. Connecticut’s total nonfarm employment was up every month over the same month a year ago for the last four years.

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the fiscal year ending in 2016 was passed in June and revisited late in 2015 to address a FY 2016 shortfall. In October 2015, the Governor called for bipartisan meetings on the state budget. A legislative special session in December modified taxes and cut $350 million in spending. The state potentially faces a $552 million to $1.7 billion deficit in FY 2017 and FY 2018.

In November 2015, the state comptroller wrote, “The Office of Policy and Management (OPM) is projecting that the General Fund will close Fiscal Year 2016 with a deficit of $118.4 million, after accounting for $102.8 million in rescissions announced on September 18th.”

“Consensus Revenues” for FY 2016 were estimated to be $17,944.9 million. The Connecticut legislature’s Office of Fiscal Analysis (OFA) projects a $254.4 million deficit for FY 2016.

The state’s housing market recovery that began in 2012, slowed in 2014, and remained uncertain in 2015. The U.S. Census-based residential permit data for adjusted count of only 104 towns reported monthly by the Department of Economic and Community Development (DECD) through September 2015 could not be directly compared to the same period a year ago when data on 128 towns were reported. The Census Bureau’s estimate of permits year-to-date through August 2015 indicated a decline of 6.6 percent from 3,766 to 3,517 for the same period. However, the 2015 housing review in the Digest seems to indicate that “an improved economy, historically low mortgage rates, and strong consumer confidence should take the state’s housing recovery to a higher level in the years ahead.”

NEEP expects Connecticut housing permits that hit an annual cyclical peak of 11,885 in 2005 and reached bottom at 3,173 for all of 2011 will show a relatively modest rise to 6,152 in 2015, and see further gains to peak at 7,108 in 2016, up by 15.5%. According to NEEP, existing Connecticut single family median home prices peaked at $320,800 in 2007, but fell to a low of $251,100 in 2012, and are expected to average $254,800 for 2015 and $260,900 in 2016. Existing home sales might show a gain from 42,600 in 2015 to 46,700 in 2016.

**Initiatives**

The Connecticut economy continued to benefit from an aggressive campaign to

**Conclusion**

The U.S. economy – and indirectly Connecticut’s — could

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**Figure 3: Connecticut Seasonally Adjusted Nonfarm Payroll Employment Monthly Change**

- **Connecticut recovery begins**
- **Source: BLS**
- **Note BLS does not allow adjustments, hence appearance of volatility**

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be impacted by future Fed interest rate hikes, immigration reform, Eurozone debt, and China’s growth prospects, as well as geopolitical risks to the global economy in the Middle East, Europe, and Japan. While long-term budgetary concerns remain, continued growth in total output coupled with an ever-strengthening housing market in Connecticut should result in positive economic gains in 2016.

8 Note 7.
18 Table extracted from OFA, “Fiscal Accountability Report to the Appropriations and Finance Committees as required by CGS Sec. 2-36b,” November 13, 2015, p. 2.
20 NEEP, See Note 2, p. 28.

GENERAL ECONOMIC INDICATORS

<table>
<thead>
<tr>
<th>General Drift Indicator (1996=100)*</th>
<th>3Q 2015</th>
<th>3Q 2014</th>
<th>CHANGE NO.</th>
<th>% 2015</th>
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<tbody>
<tr>
<td>Leading</td>
<td>114.8</td>
<td>112.5</td>
<td>2.3</td>
<td>2.0</td>
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<tr>
<td>Coincident</td>
<td>117.3</td>
<td>114.2</td>
<td>3.1</td>
<td>2.7</td>
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<tr>
<td>Farmington Bank Business Barometer (1992=100)**</td>
<td>134.3</td>
<td>131.0</td>
<td>3.3</td>
<td>2.5</td>
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<tr>
<td>(Seasonally adjusted)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Connecticut</td>
<td>170.07</td>
<td>163.45</td>
<td>6.62</td>
<td>4.1</td>
</tr>
<tr>
<td>United States</td>
<td>176.43</td>
<td>171.05</td>
<td>5.38</td>
<td>3.1</td>
</tr>
</tbody>
</table>

Sources: *Dr. Steven P. Lanza, University of Connecticut **Farmington Bank ***Federal Reserve Bank of Philadelphia

General Drift Indicators are composite measures of the four-quarter change in three coincident (Connecticut Manufacturing Production Index, nonfarm employment, and real personal income) and three leading (housing permits, manufacturing average weekly hours, and initial unemployment claims) economic variables, and are indexed so 1996 = 100.

The Farmington Bank Business Barometer is a measure of overall economic growth in the state of Connecticut that is derived from non-manufacturing employment, real disposable personal income, and manufacturing production.

The Philadelphia Fed’s Coincident Index summarizes current economic condition by using four coincident variables: nonfarm payroll employment, average hours worked in manufacturing, the unemployment rate, and wage and salary disbursements deflated by the consumer price index (U.S. city average).