

ESTD 1984

VERMONT
CREAMERY®

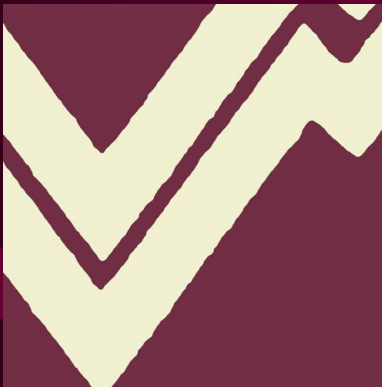
Now Hiring

802-479-9371

Economic and Revenue Review for the Vermont State Legislature

*Montpelier, Vermont
December 4, 2019*

Thomas E. Kavet, President
Dr. Nicolas O. Rockler, CEO
State Economist and Principal Economic Advisor
to the Vermont State Legislature

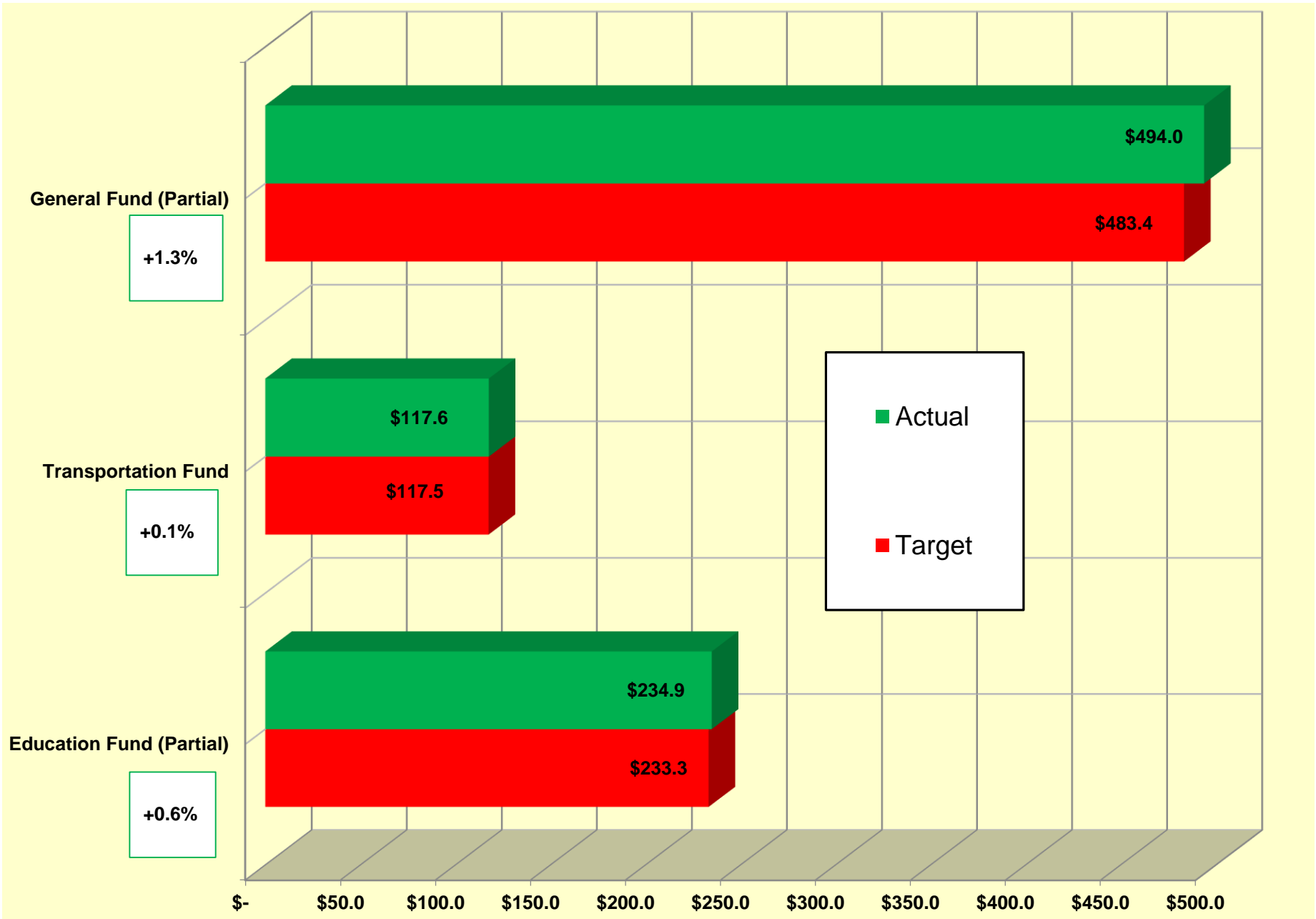


Kavet, Rockler & Associates, LLC
Economic and Public Policy Consulting

985 Grandview Road
Williamstown, Vermont 05679-9003 USA
Telephone: 802-433-1360
Facsimile: 866-433-1360
Cellular: 802-433-1111
Website: www.kavetrockler.com
E-Mail: tek@kavet.net

FY20 Revenues by Fund Through November 2019 (preliminary)

Actual Revenues (Green) vs. Targets (Red), Percent Variance by Fund in Box, Source: VT Joint Fiscal Office



Year-To-Date FY20 Revenues Are Slightly Above Expectations

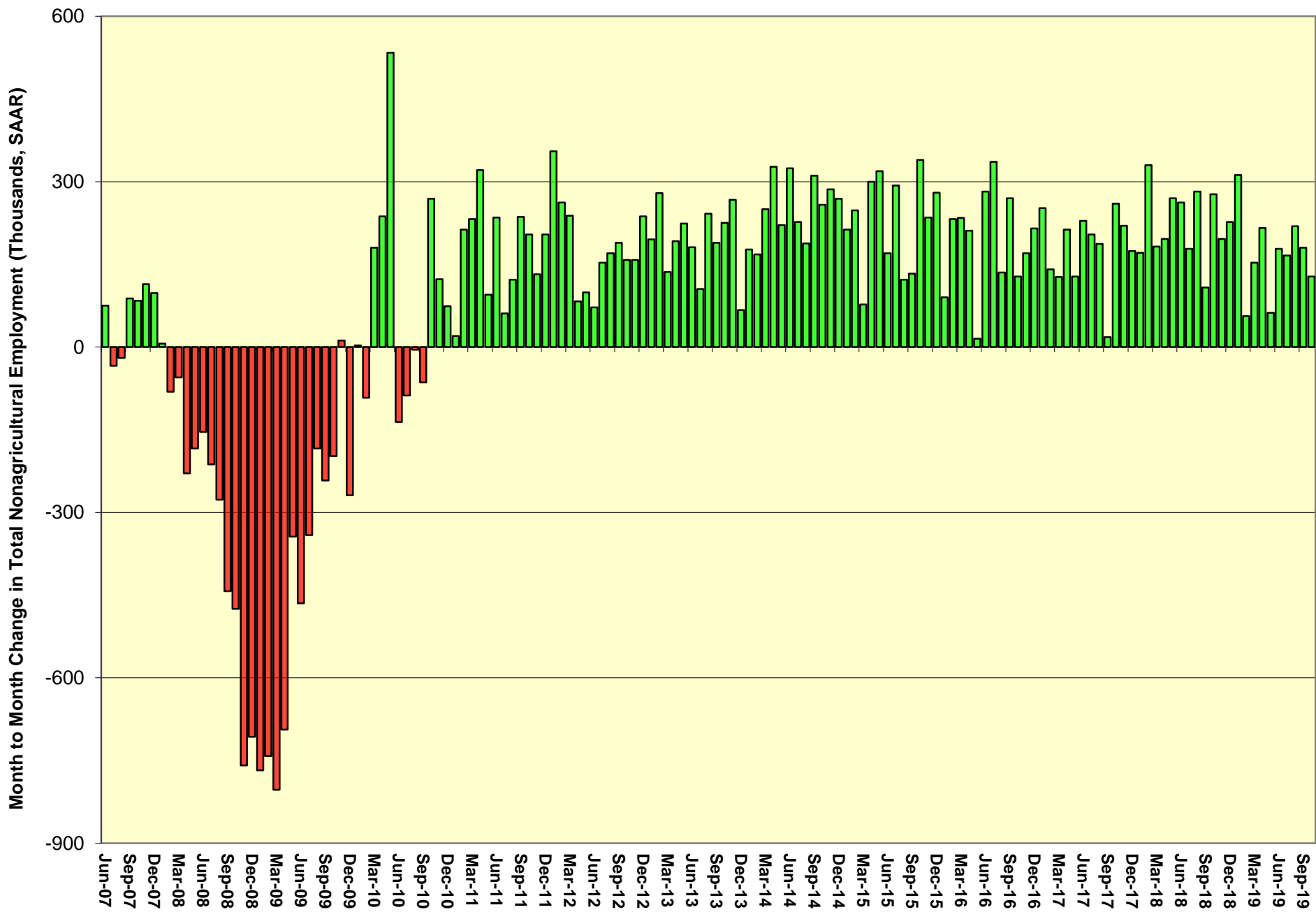
- Total Revenues through November (Partial General, Transportation and derived Education Funds) are about 1% above targets (about \$8M on a base of about \$834M), with most tax sources at or near expectations
- November revenues were skewed by a reporting anomaly that deferred some late November revenues into early December. While we do not at the time of this writing know the exact size of this November undercount in the G-Fund and E-Fund, early indications suggest a possible size of about \$4M, with most of this in the G-Fund. If so, total YTD revenues for all three funds would be about 1.5% above targets (+\$12M)
- Major consumption taxes (Sales & Use, Meals & Rooms, and Motor Vehicle Purchase & Use) were at or slightly above targets through the first five months of the fiscal year, with indications holiday shopping is off to a good start - especially for on-line sales. Tax receipts from e-commerce vendors have represented a significant boost to Sales & Use revenues, as anticipated
- Total Transportation Fund revenues through November were almost exactly at targeted levels (+0.1%), including a November adjustment of about \$1M, with offsetting category variances and some softness in gasoline sales as a result of weaker demand and continued efficiency gains in vehicles (including electric and hybrid).
- Personal Income tax revenues were the largest source of General Fund strength, up about 2-3% above targets through the first five months of the fiscal year. Although off to a good start, it is still too early to say whether these gains will persist through the end of the year - especially with provisions in the TCJA which have affected the distribution and timing of payments.

The Expansion Endures, But How Long Can it Last?

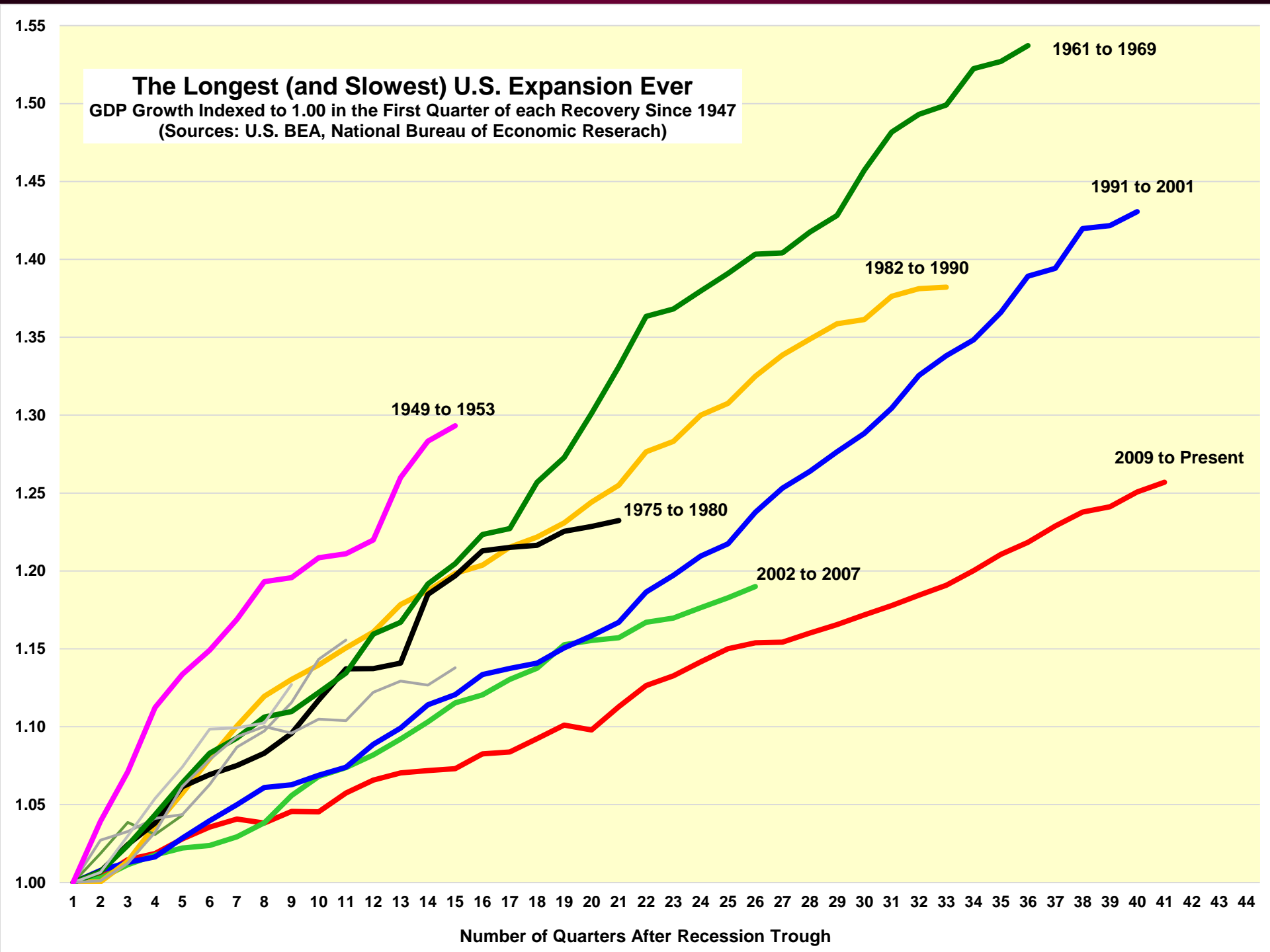
- Now in its 126th month, the current economic recovery is the longest expansionary period in U.S. business cycle history. Recent Fed interest rate cuts have been critical in extending the expansion.
- Massive deficit spending via unfunded tax cuts have also pumped the economy, but with longer-term costs, as the national debt has soared at a time in the business cycle it would be expected to recede. This could limit counter-cyclical fiscal policy in the event of another recession.
- Low inflation, interest rates and household debt, along with rising home and stock valuations, have supported steady consumer spending growth. With business investment weak and manufacturing and agricultural sectors contracting, continued consumer spending will be key to continuance of the expansion. Consumption of consumer electronics, telecommunication, healthcare and pharmaceuticals has been particularly strong. The top 10% of the population (by income) now accounts for more than half of all consumer spending - up from about a third of all spending 25 years ago. Consumer confidence remains elevated, but is now highly partisan!
- More than 22 million jobs have been added since February of 2010, pushing the U.S. unemployment rate to 3.6% in October, its lowest level in nearly 50 years. Vermont's unemployment rate was again the lowest in the nation, at 2.2% - just above the 2.1% record lows posted from May to August of this year. Despite this, real wage gains remain subdued.
- Escalating trade wars represent the greatest threat to continuation of the current economic expansion, along with vulnerable corporate debt and equity market valuations.

The Long Run: After 109 Consecutive Months, 22.2M New U.S. Jobs are Added

(Monthly Change in Total Payroll Employment, Seasonally-Adjusted, Source: U.S. Bureau of Labor Statistics)

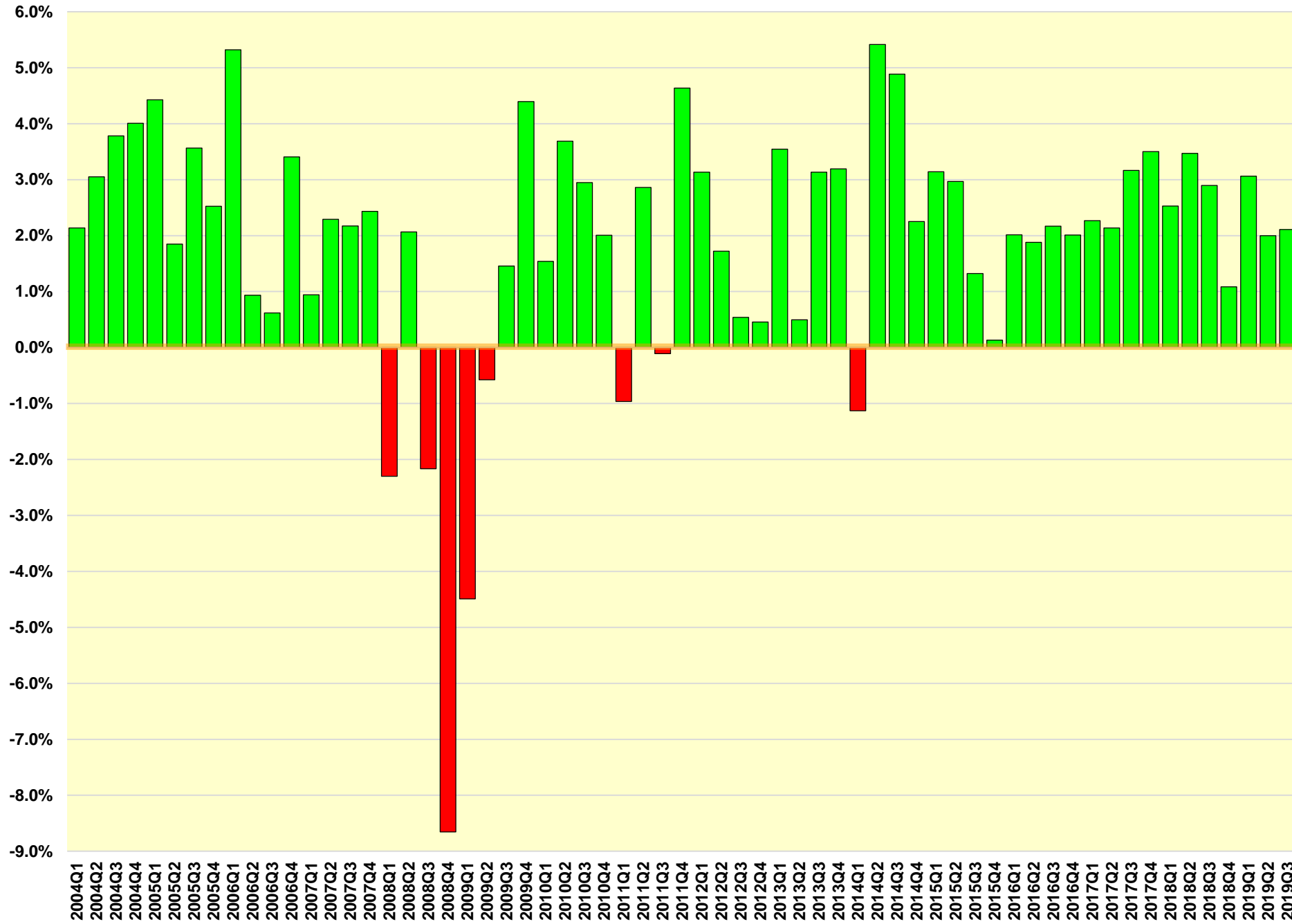


The Longest (and Slowest) U.S. Expansion Ever
GDP Growth Indexed to 1.00 in the First Quarter of each Recovery Since 1947
(Sources: U.S. BEA, National Bureau of Economic Reserach)



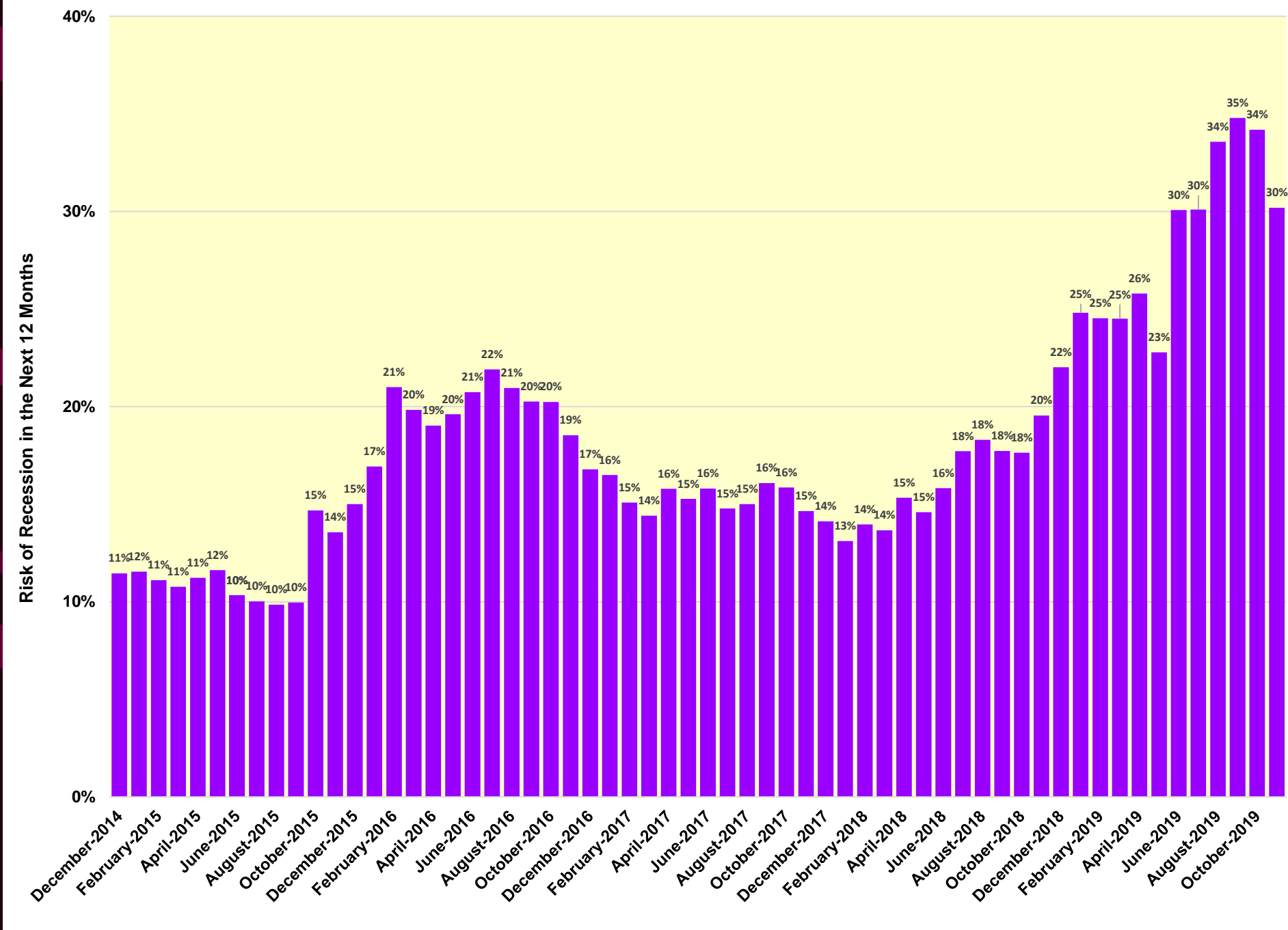
As Tax-Cut Stimulus Fades, Real U.S. GDP Growth Throttles Back to About 2%

(Annualized Quarterly Percent Change, Source: U.S. Bureau of Economic Analysis)



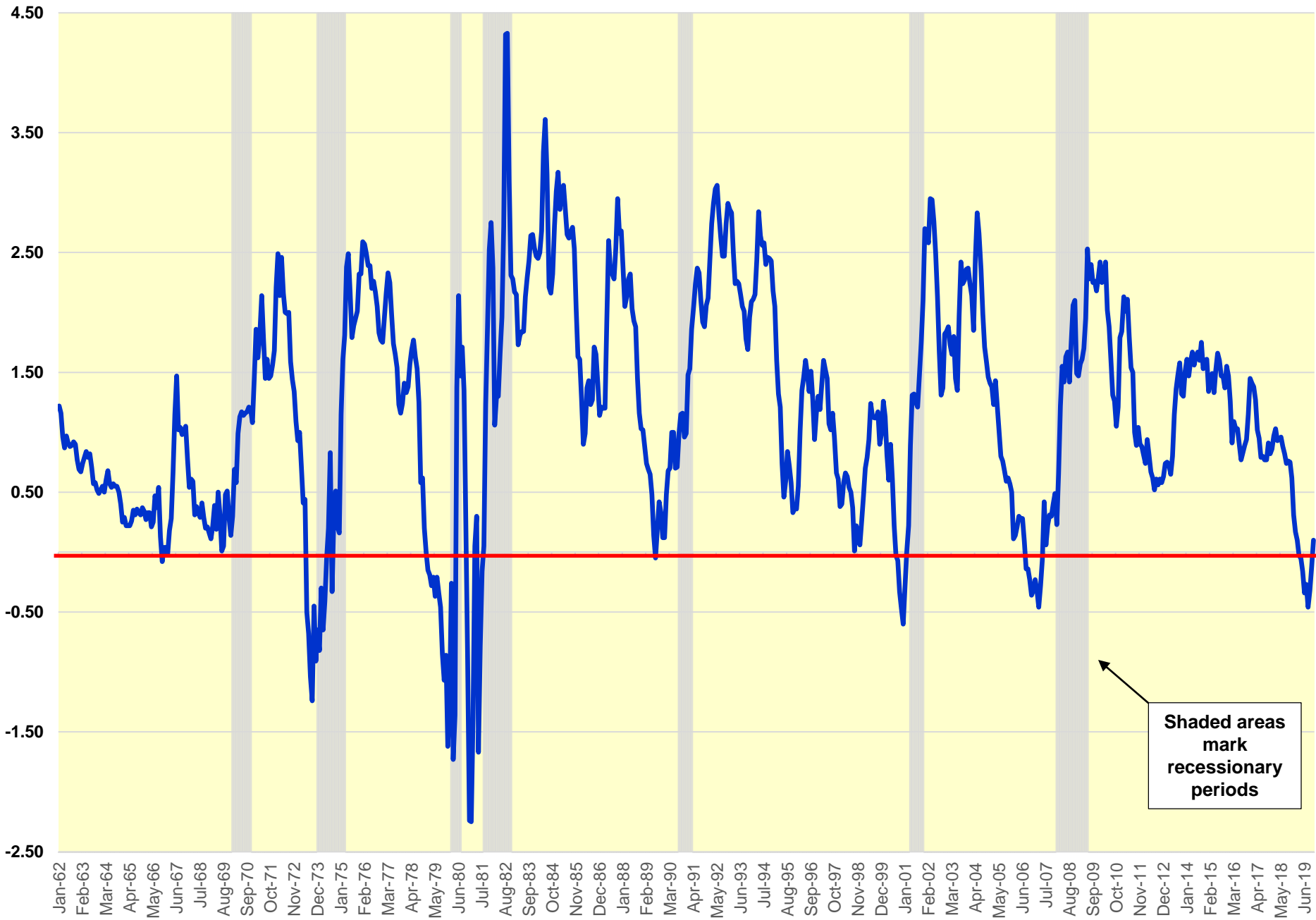
As Trade War Threats Heat Up, Year-Ahead Recession Risks Rise to About 1 in 3

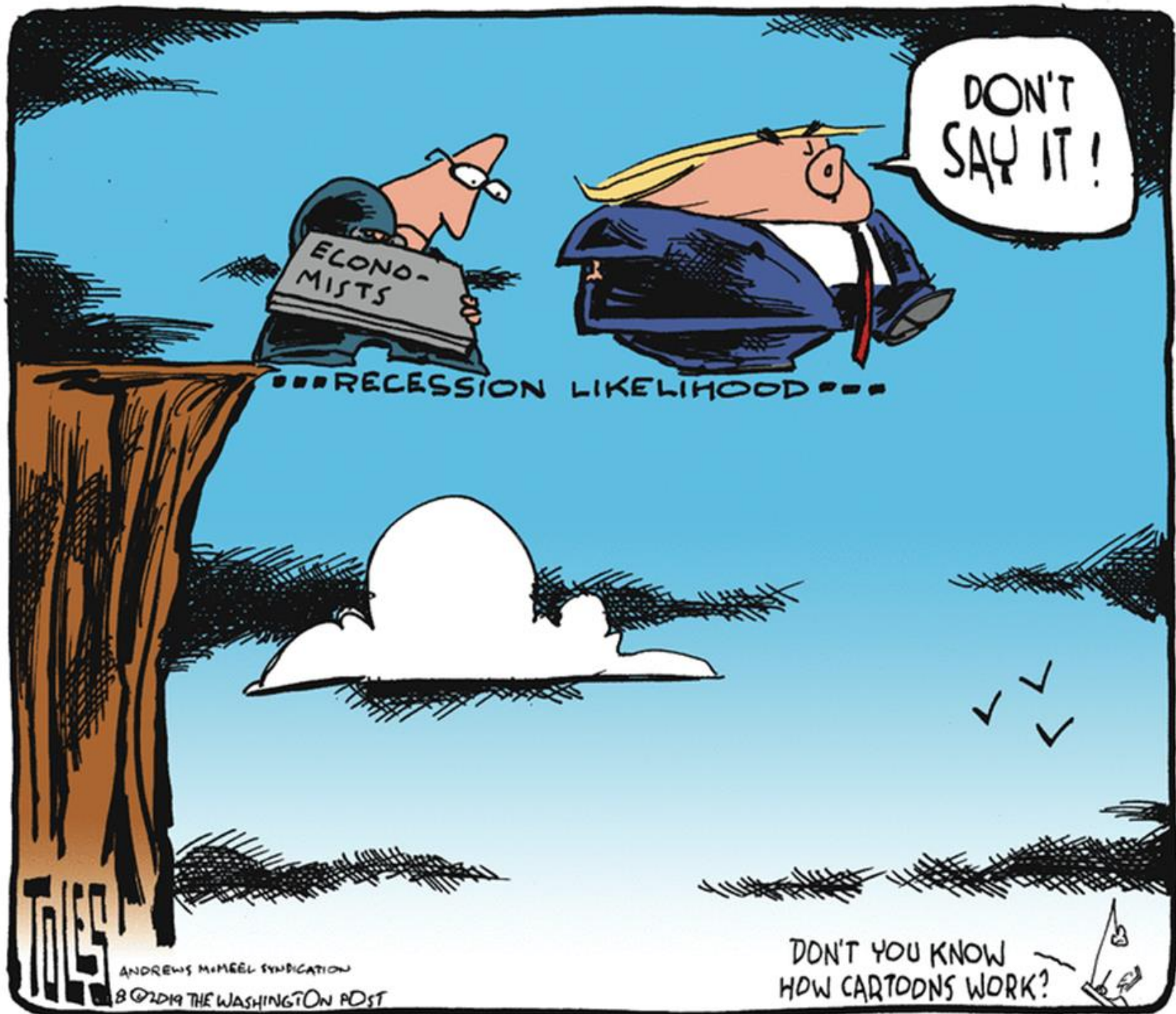
(Risk of Recession in the Next 12 Months - Source: Wall Street Journal Survey of 75 Economists)



Inverted Yield Curve Highlights Recession Risks

5 Year Treasury Yield Minus 90 Day Treasury Yield





DON'T
SAY IT!

ECONOMISTS

... RECESSION LIKELIHOOD ...

DON'T YOU KNOW
HOW CARTOONS WORK?

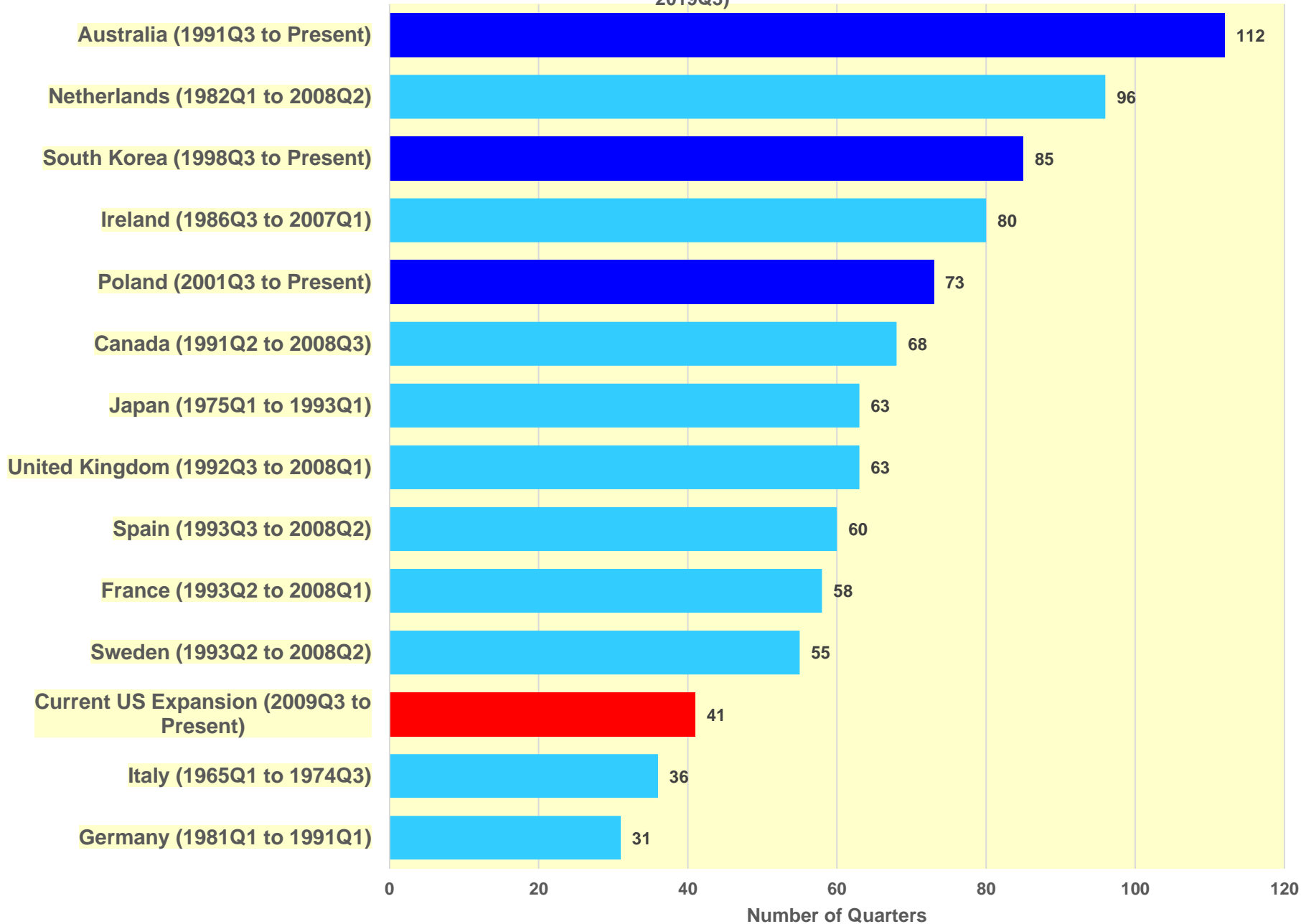
TMS

ANDREWS McMEEL SYNDICATION
8 @ 2019 THE WASHINGTON POST

Long, But Not the Longest...

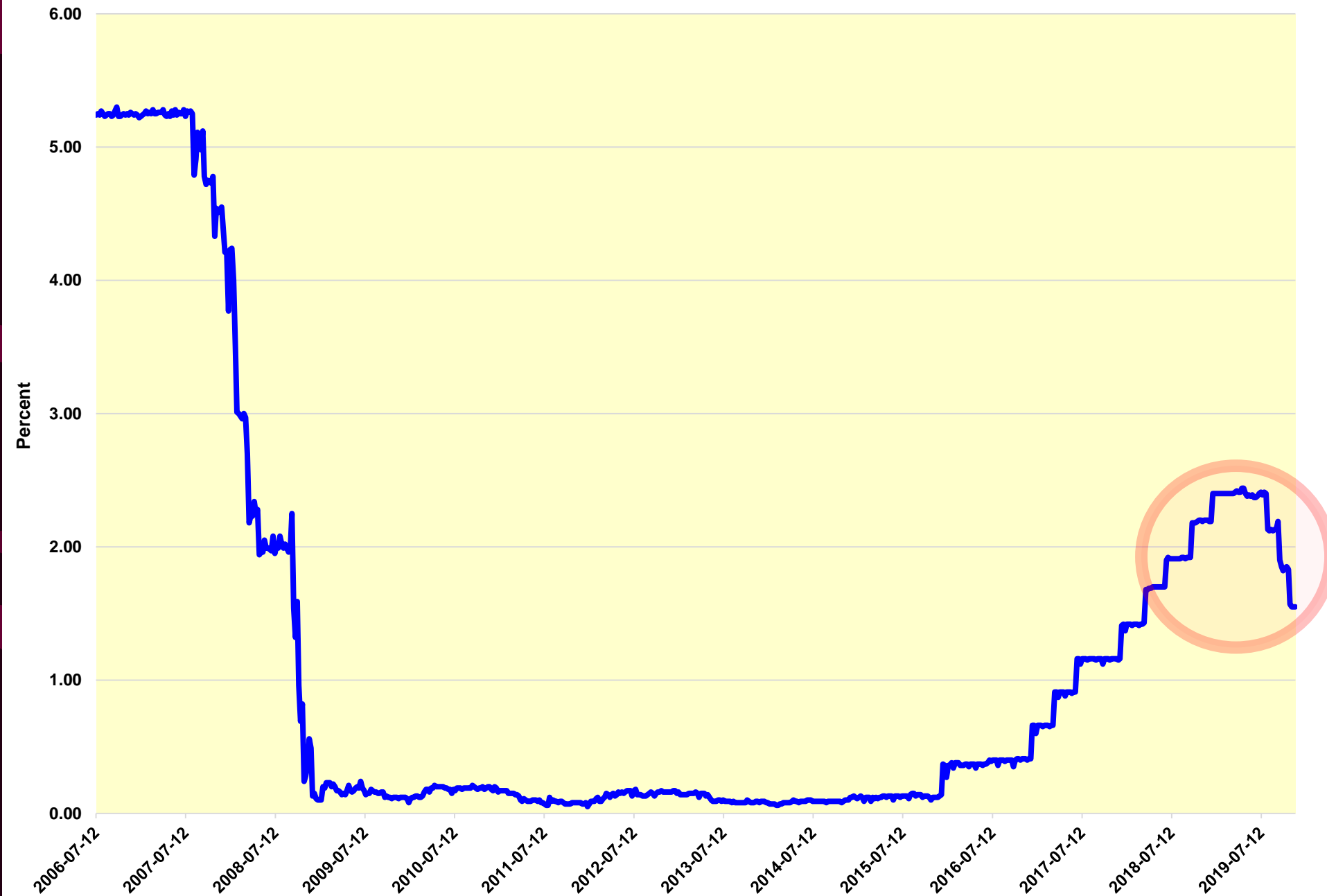
Selected Economic Expansion Periods by Nation, Past and Present

(Periods in which there were no two consecutive quarters of real GDP decline, Source: OECD Statistics through 2019Q3)

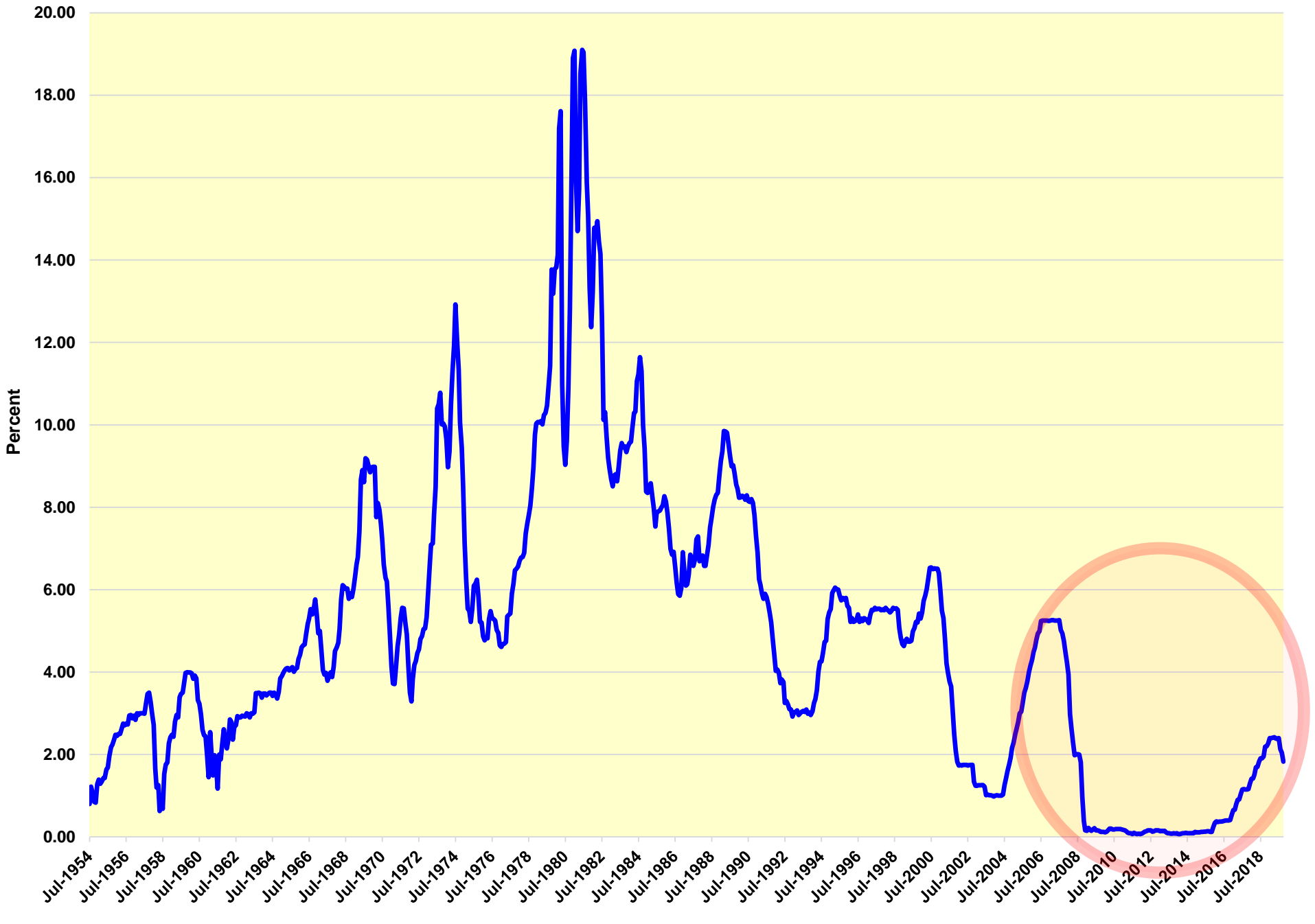


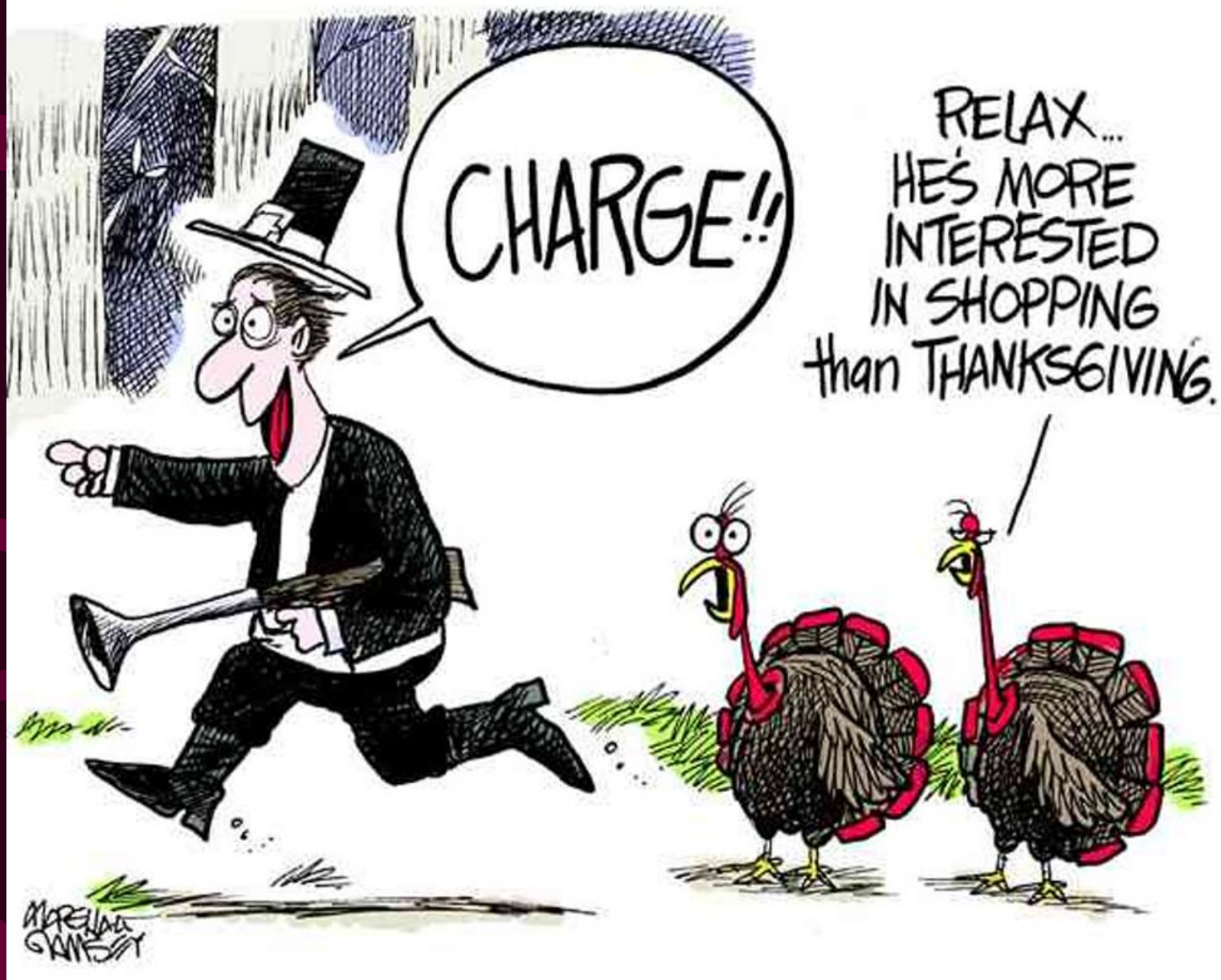
Lines That Matter: The Effective Federal Funds Rate

(Source: Board of Governors of the Federal Reserve System)



Effective Federal Funds Rate
(Source: Board of Governors of the Federal Reserve System)

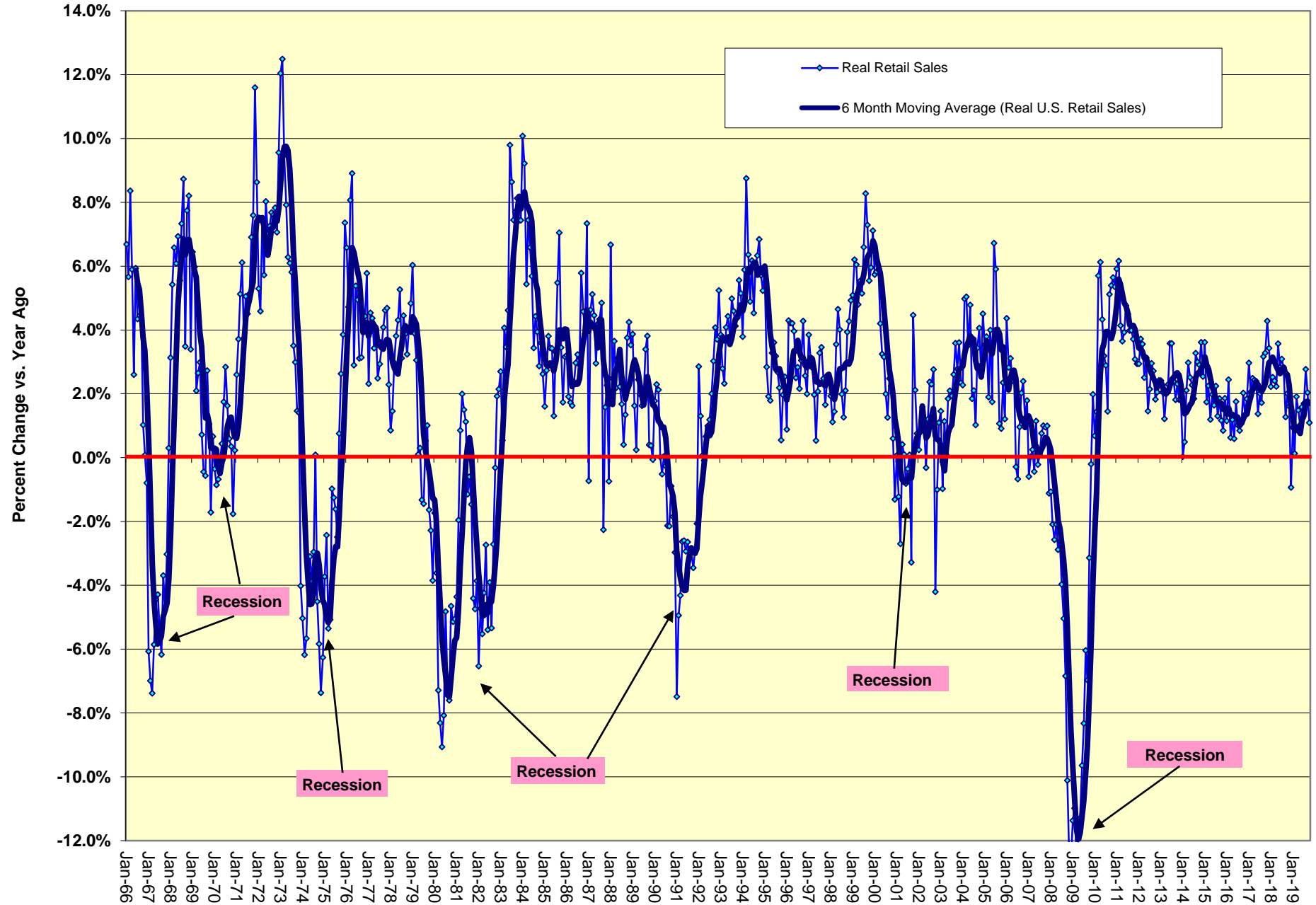




23% of State Sales and Use Tax Revenues are collected in December and January Filings

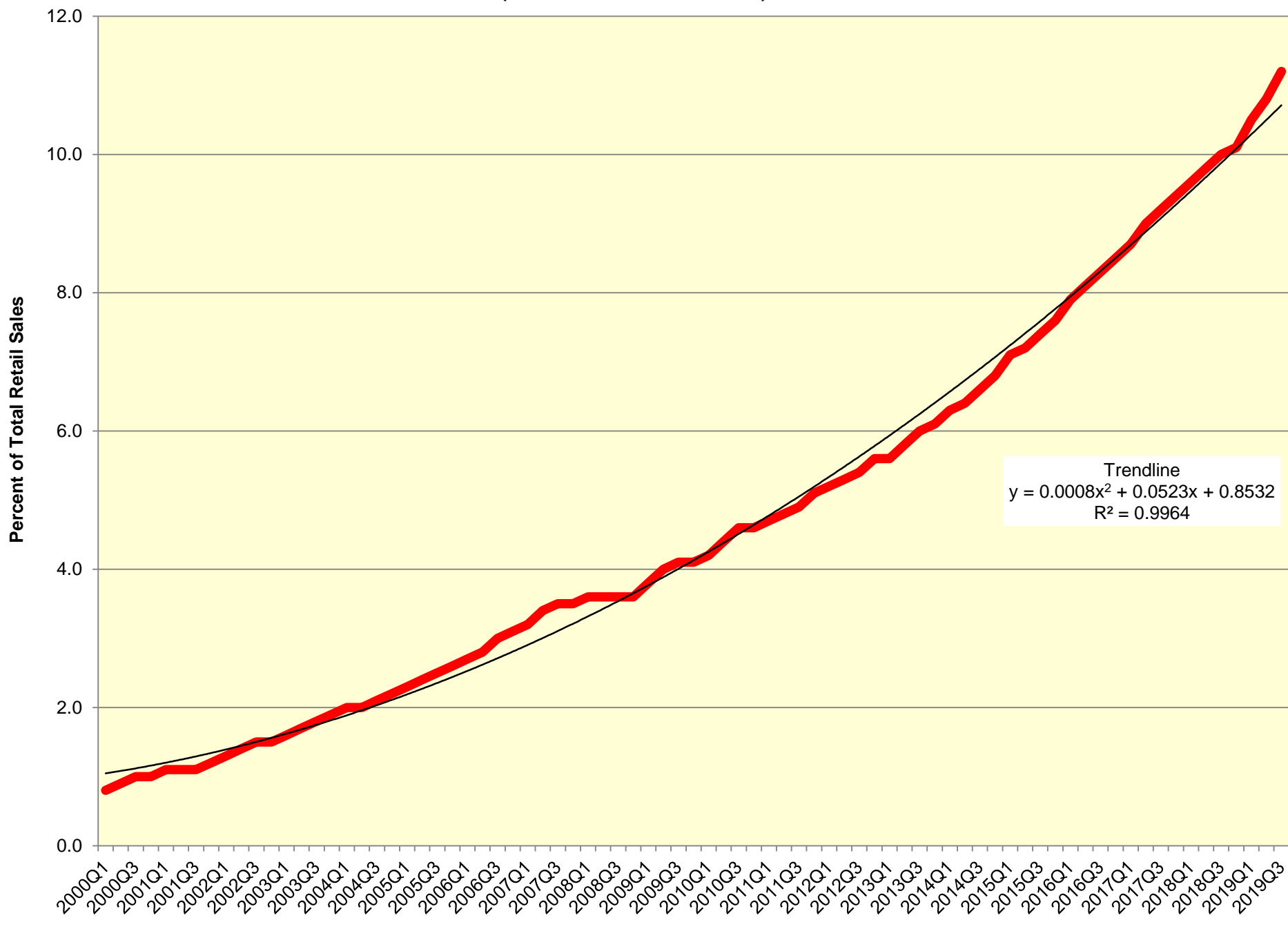
Consumers Drive Continued Economic Growth, as Investment and Job Growth Slow

Total Constant Dollar U.S. Retail Sales - Percent Change from Year Ago, Source: U.S. Census Bureau

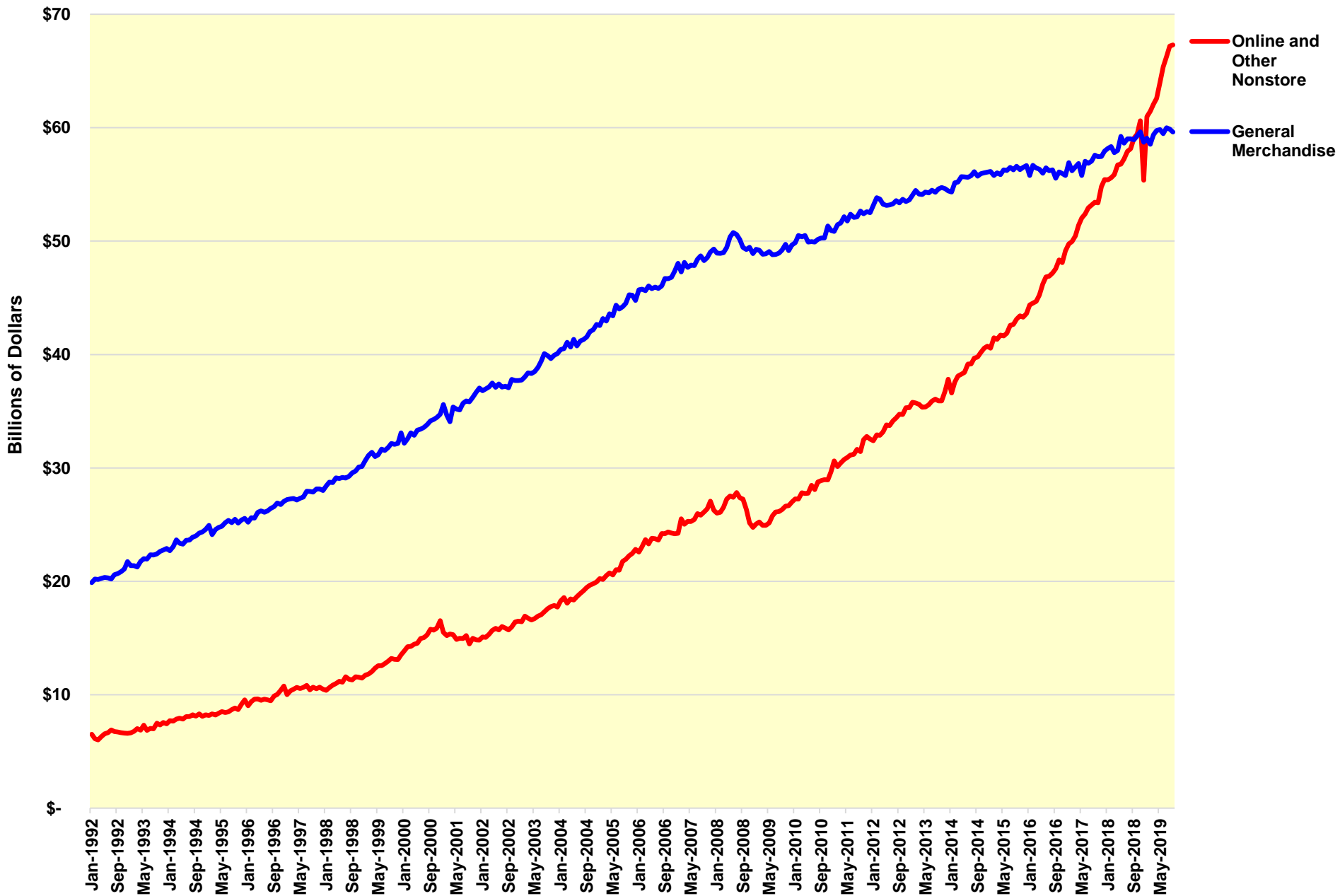


E-Commerce Share of Total U.S. Retail Sales Accelerates

(Source: U.S. Census Bureau)



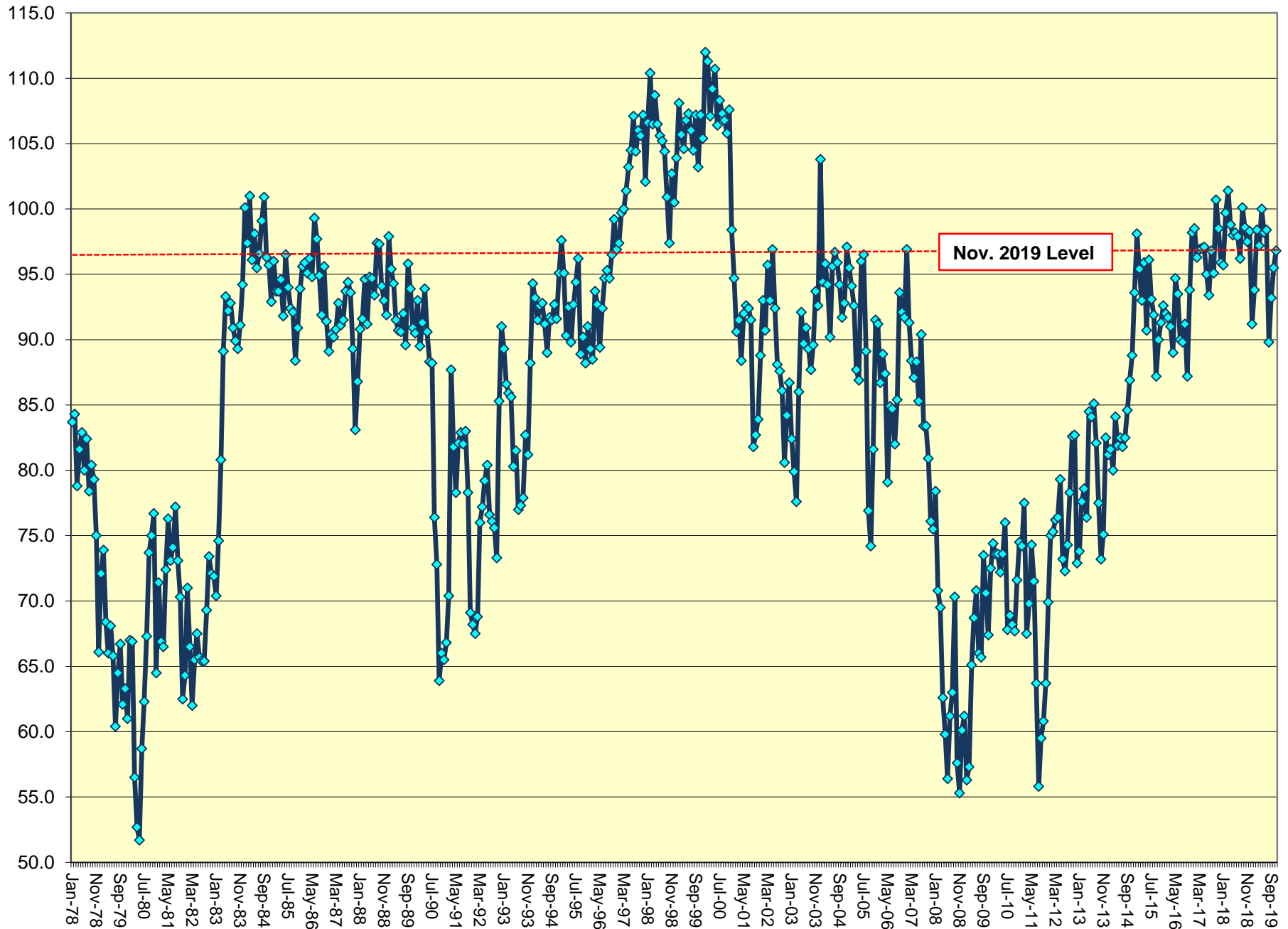
Nonstore Sales Now Exceed General Merchandise Brick and Mortar Store Sales



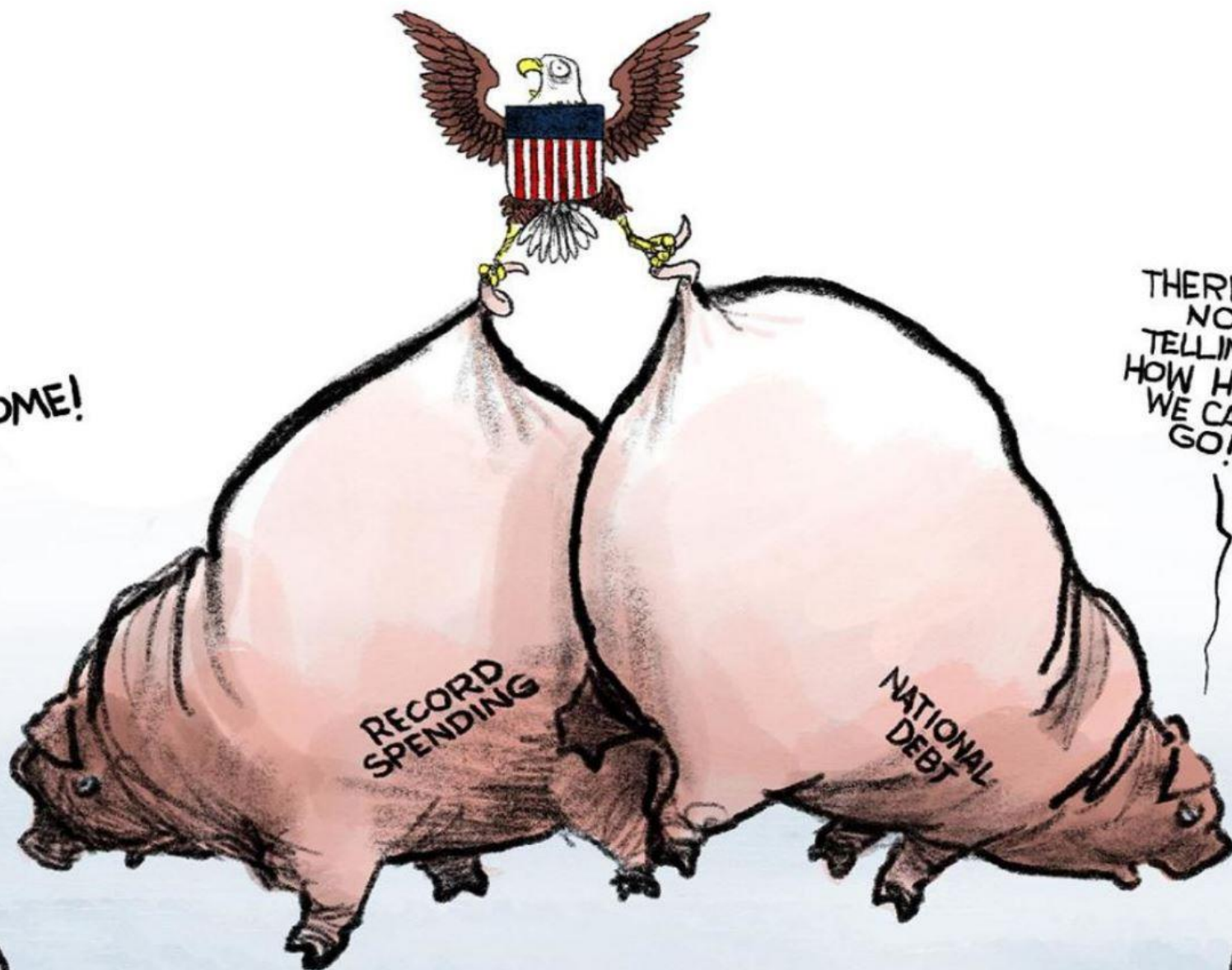
Source: U.S. Department of Commerce

Consumer Sentiment Remains Bouyant, But Trade Wars are a Concern

(University of Michigan Survey, Index of Consumer Sentiment)



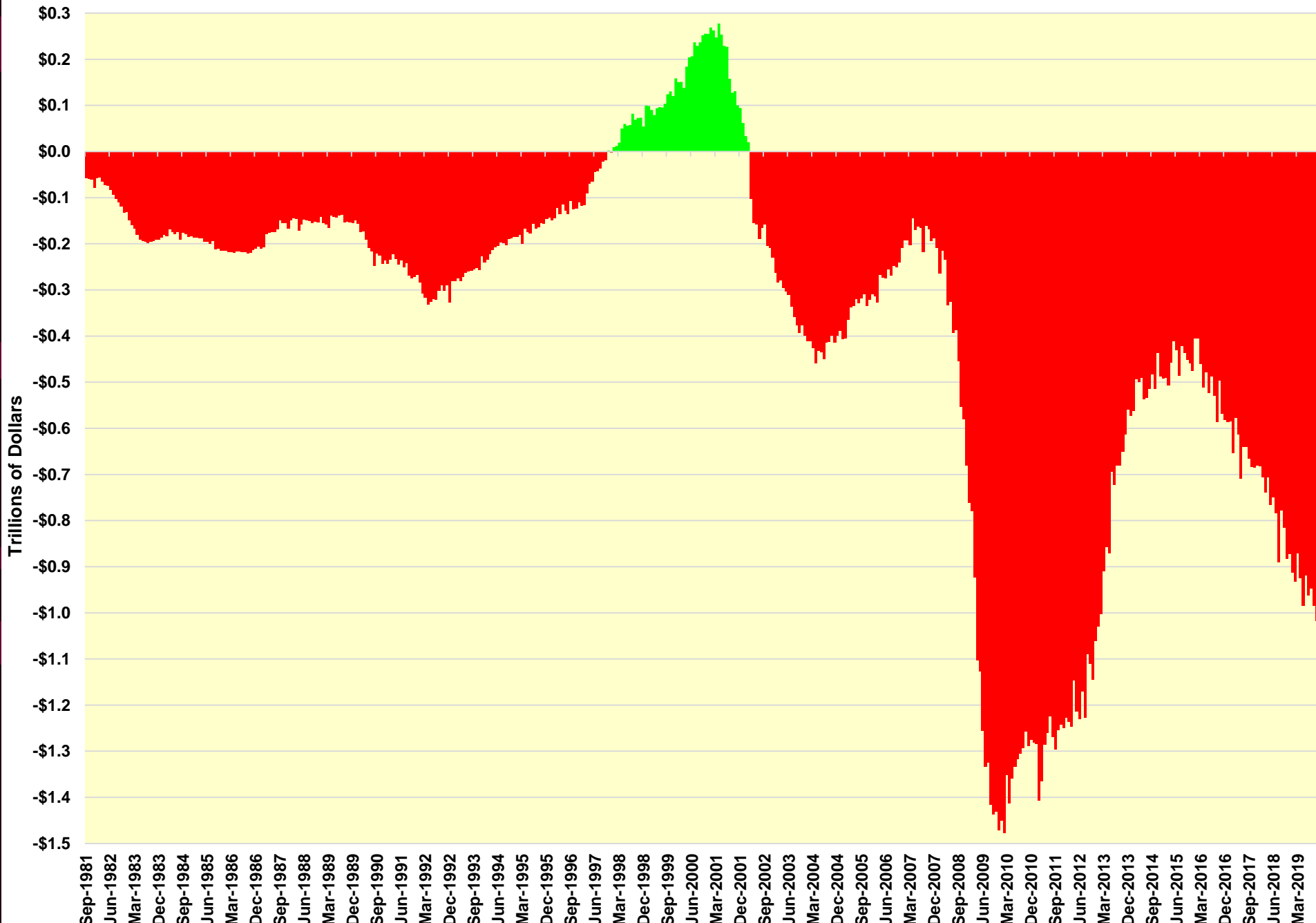
THIS
IS
AWESOME!



THERE'S
NO
TELLING
HOW HIGH
WE CAN
GO!!!

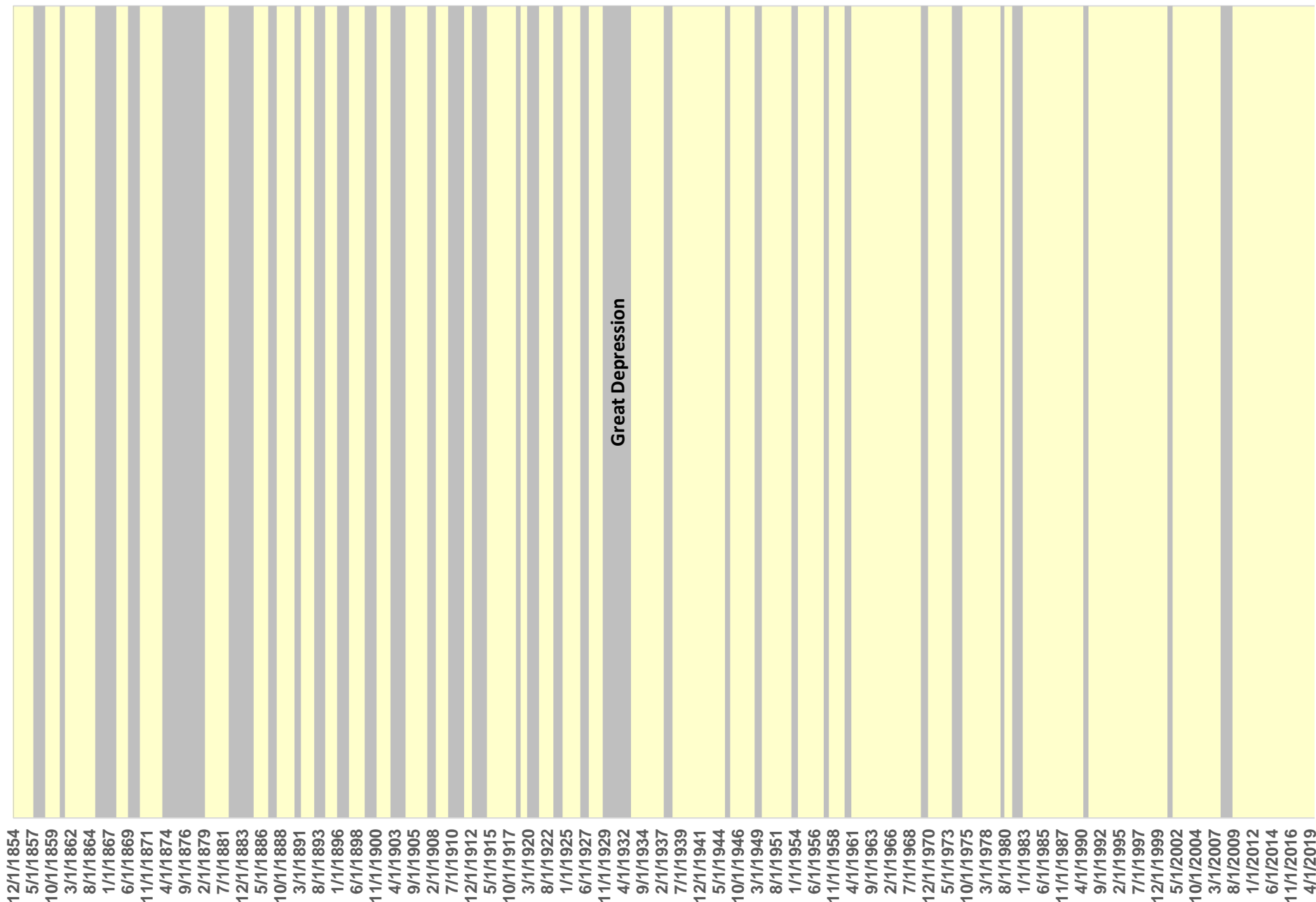
Economic Malpractice: Massive Deficit Spending During Peak Expansion Years

(Federal Budget Deficits and Surpluses, 12 Month Moving Totals, Source: U.S. Treasury)

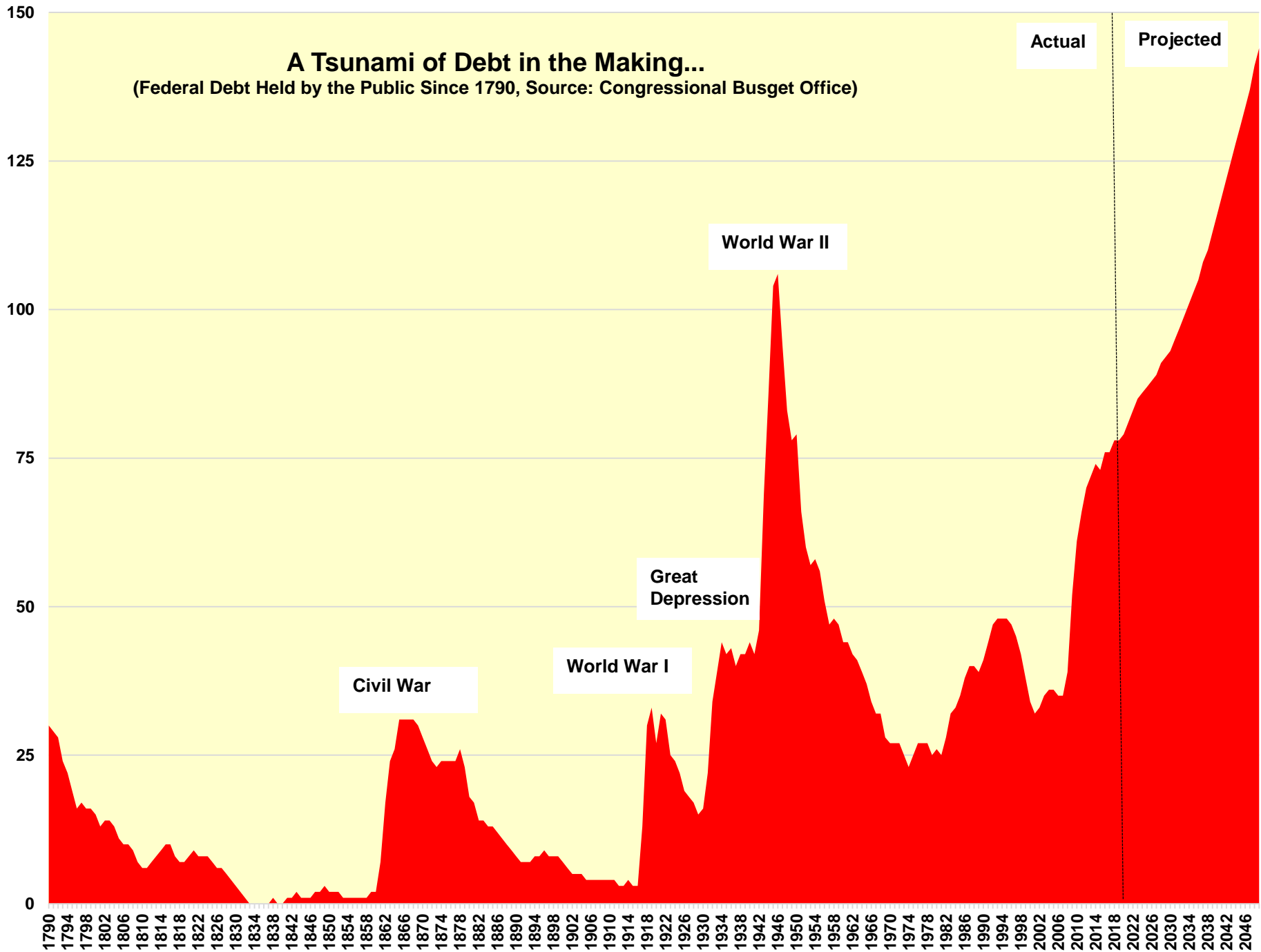


Economic Policy Makes a Difference: U.S. Business Cycles Since 1854

(Recessionary Periods in Grey - As Defined by the National Bureau of Economic Research)



Debt as a Percent of Gross Domestic Product



NOW **HIRING** SCHOOL BUS **DRIVERS**

› SIGN-ON BONUS › PAID TRAINING
› FLEXIBLE SCHEDULES (AM or PM)

(802) 433-5144

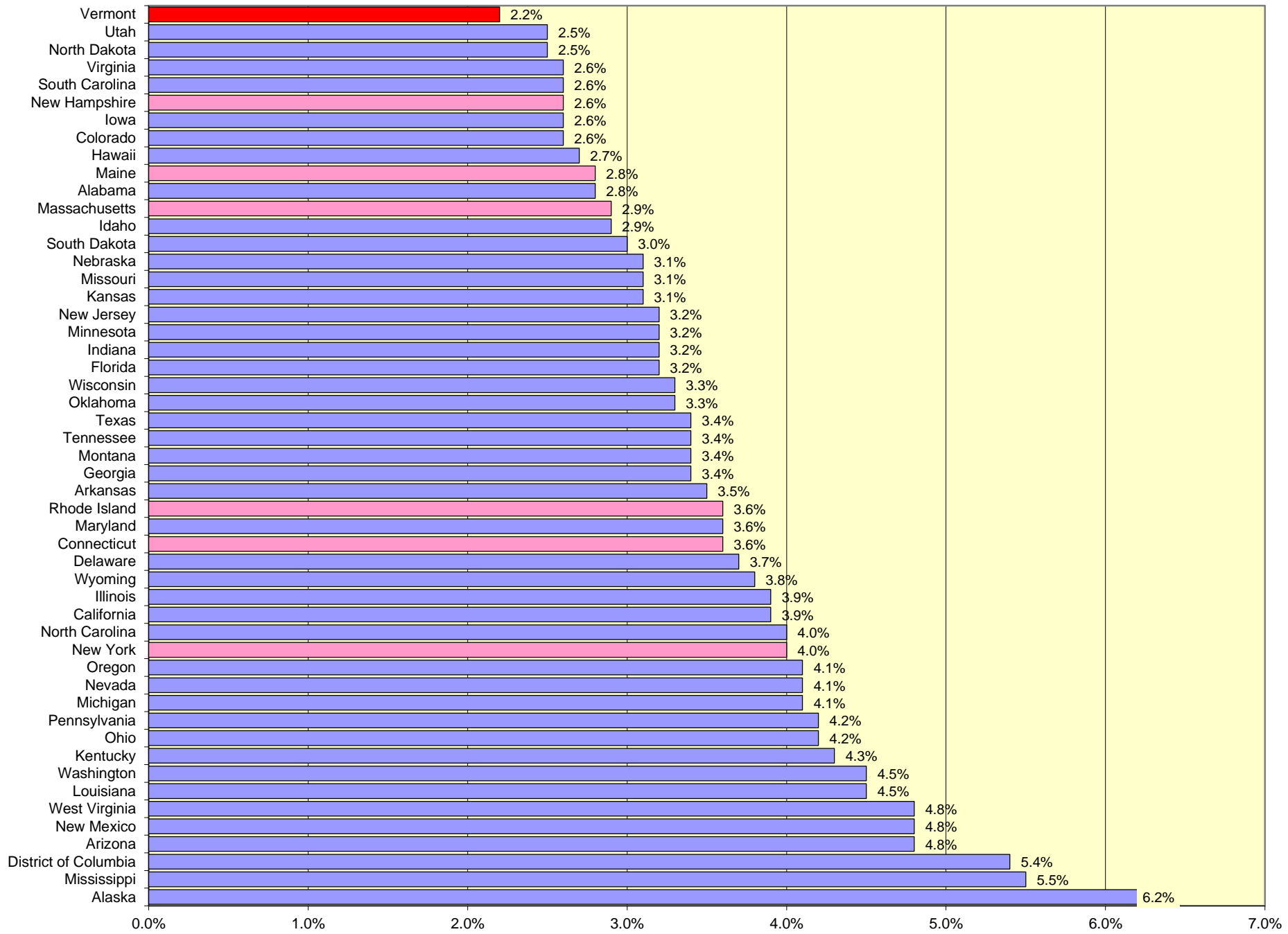
STICAREERS.COM

STA OF VT



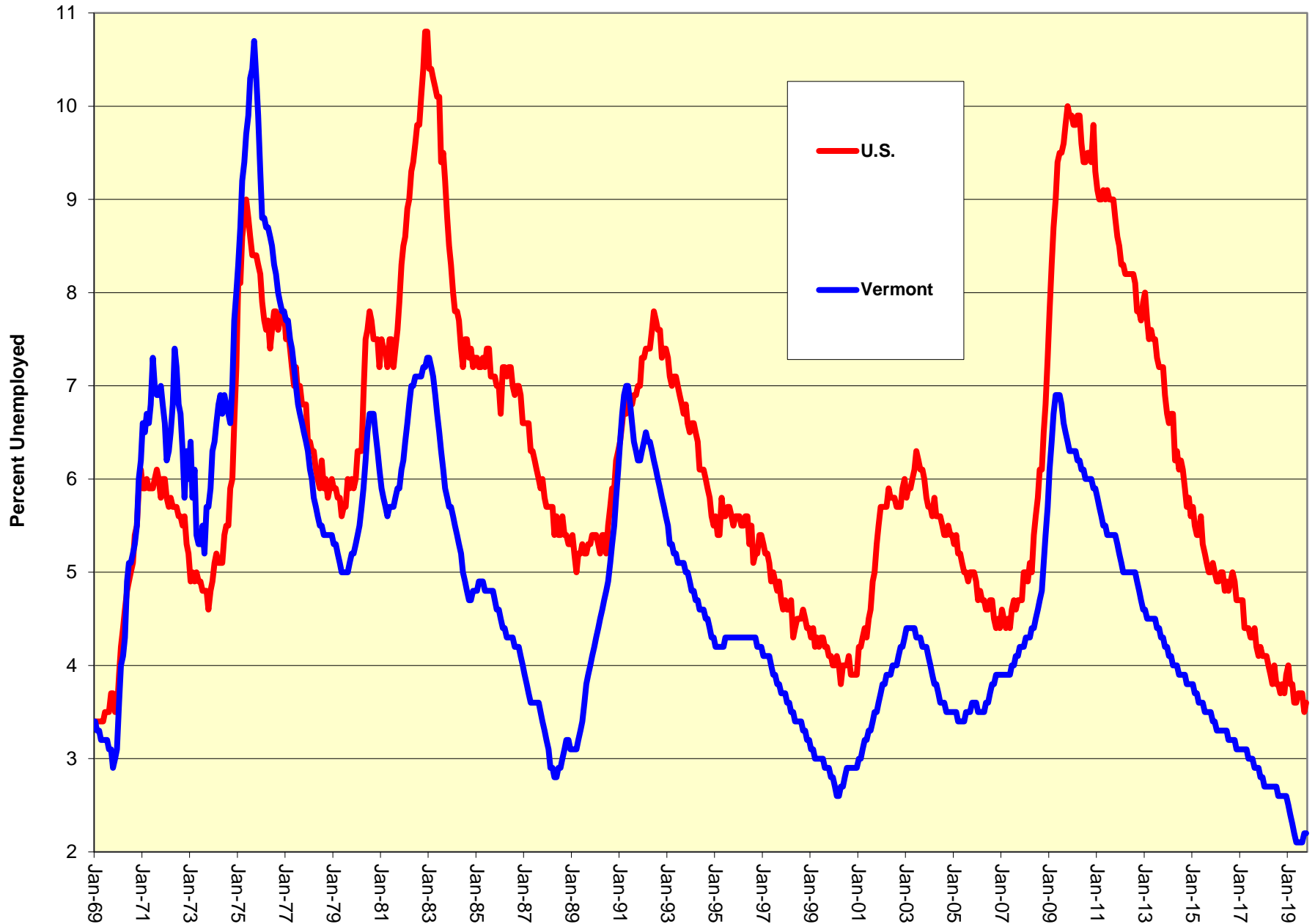
Unemployment Rate by State - November 2019

Seasonally Adjusted Data, Source: U.S. Bureau of Labor Statistics



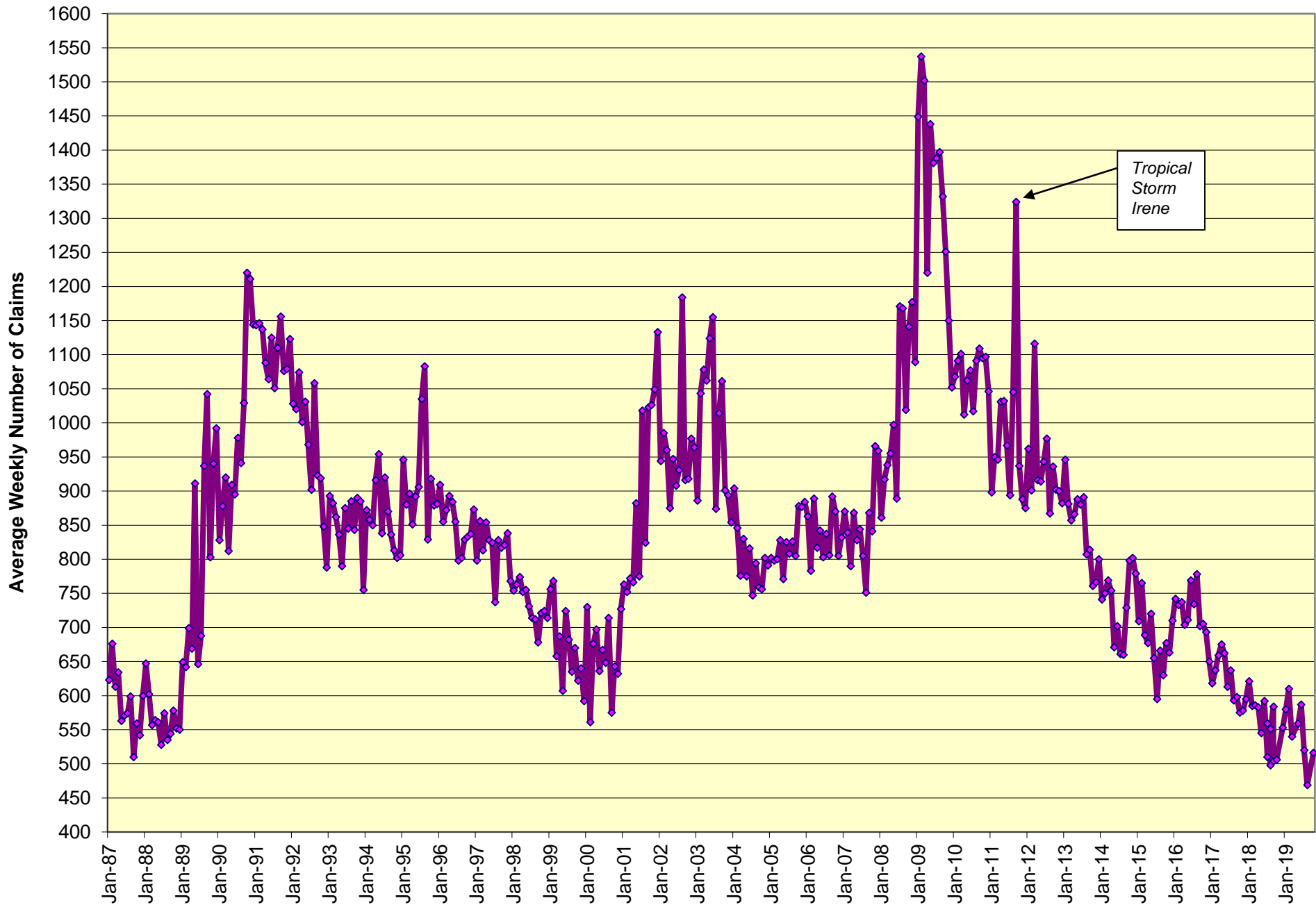
Vermont Unemployment Rate Drops to Lowest Ever, While U.S. Nears 50 Year Low

(Seasonally adjusted data, Source: Bureau of Labor Statistics, U.S. Department of Labor)



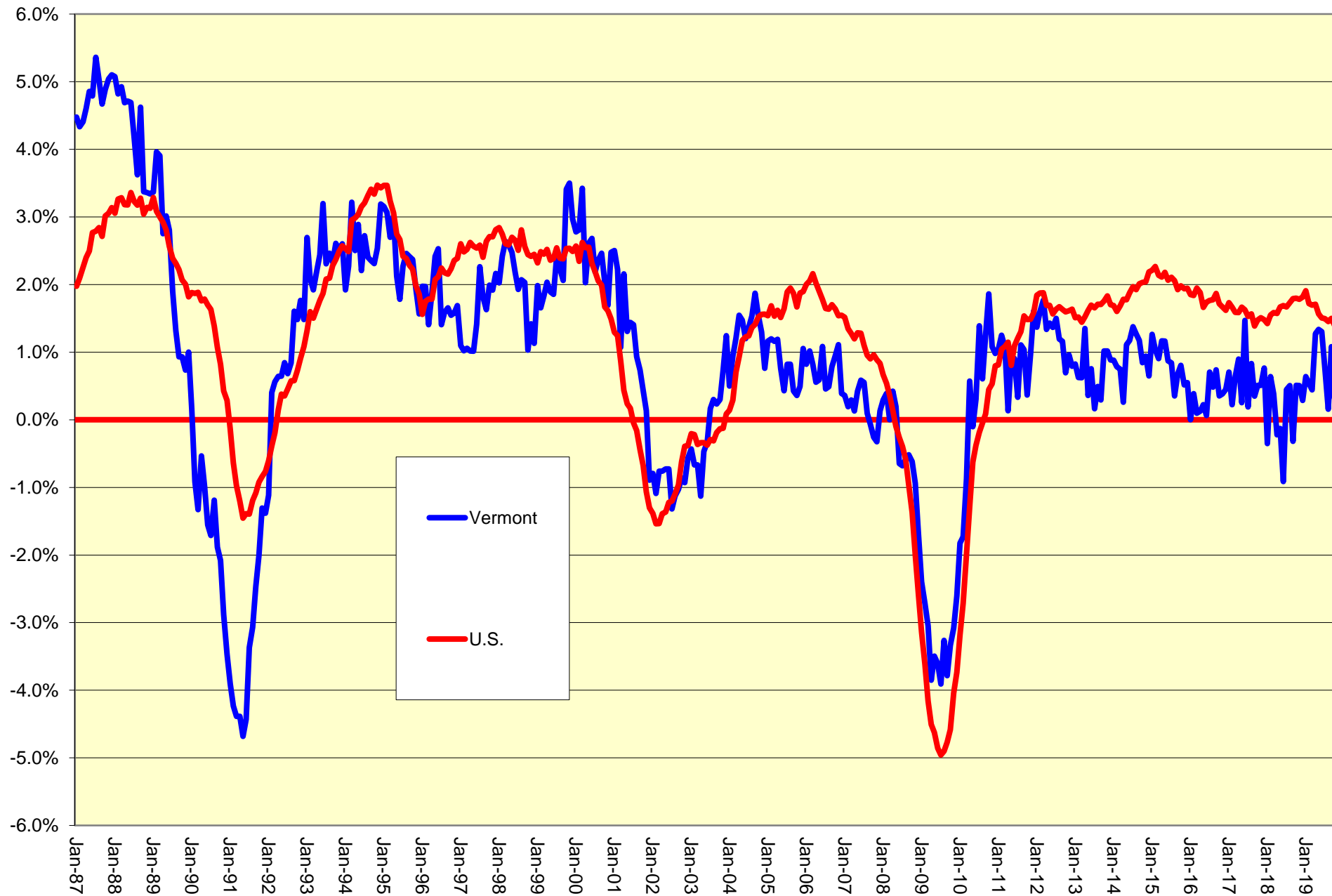
Vermont Unemployment Insurance Claims Drop to Record Lows

(Average Weekly Initial Claims for Unemployment in Vermont, Seasonally Adjusted, Source: BLS and Boston Fed)



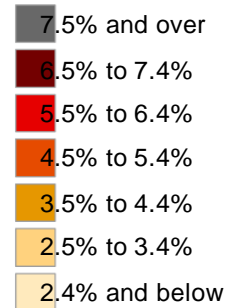
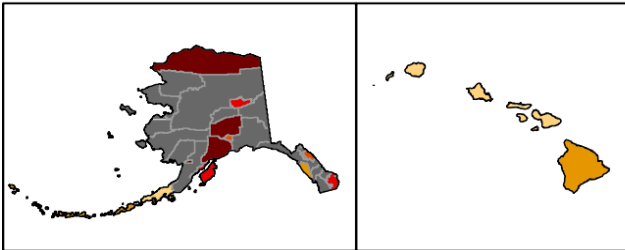
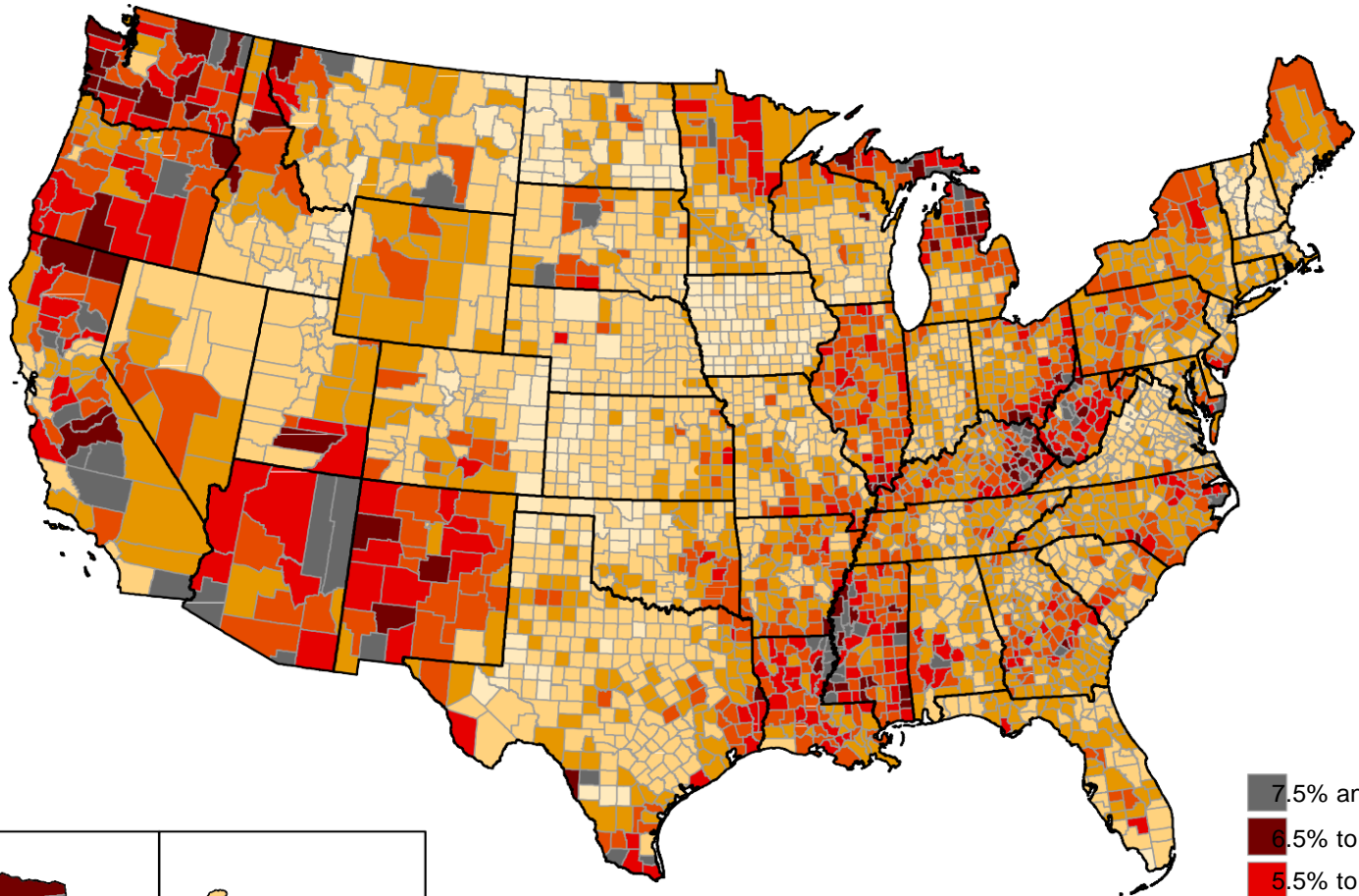
Vermont Employment Growth Lags U.S. but Remains Positive

Total Nonagricultural Employment, Percent Change vs. Year Ago, Seasonally Adjusted Data)



Unemployment rates by county, October 2018-September 2019 averages

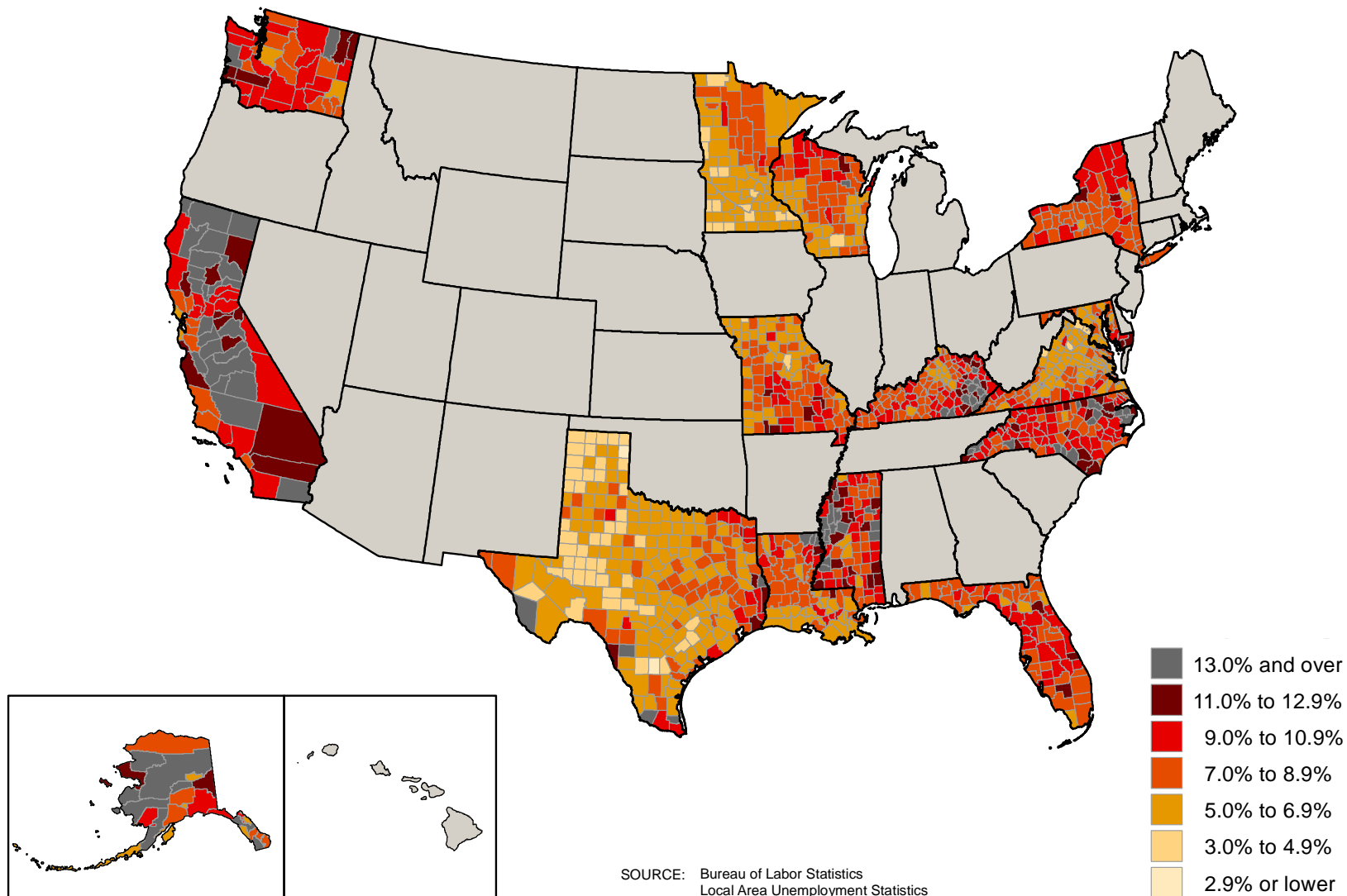
(U.S. rate = 3.7 percent)



SOURCE: Bureau of Labor Statistics
Local Area Unemployment Statistics

Unemployment rates by county, 2012 annual averages

(U.S. rate = 8.1 percent)



Job Quality Index



Note: Readings below 100 indicate a greater concentration in lower quality positions, and a reading above 100 greater concentration in high quality positions.

Source: Daniel Alpert, Jeffrey Ferry, Robert Hockett and Amir Khaleghi

HIRING BONUS

\$7500

CDL Drivers Wanted

Black  **River**

P R O D U C E

Your Fresh Connection

PLEASE CALL
1-802-886-6280

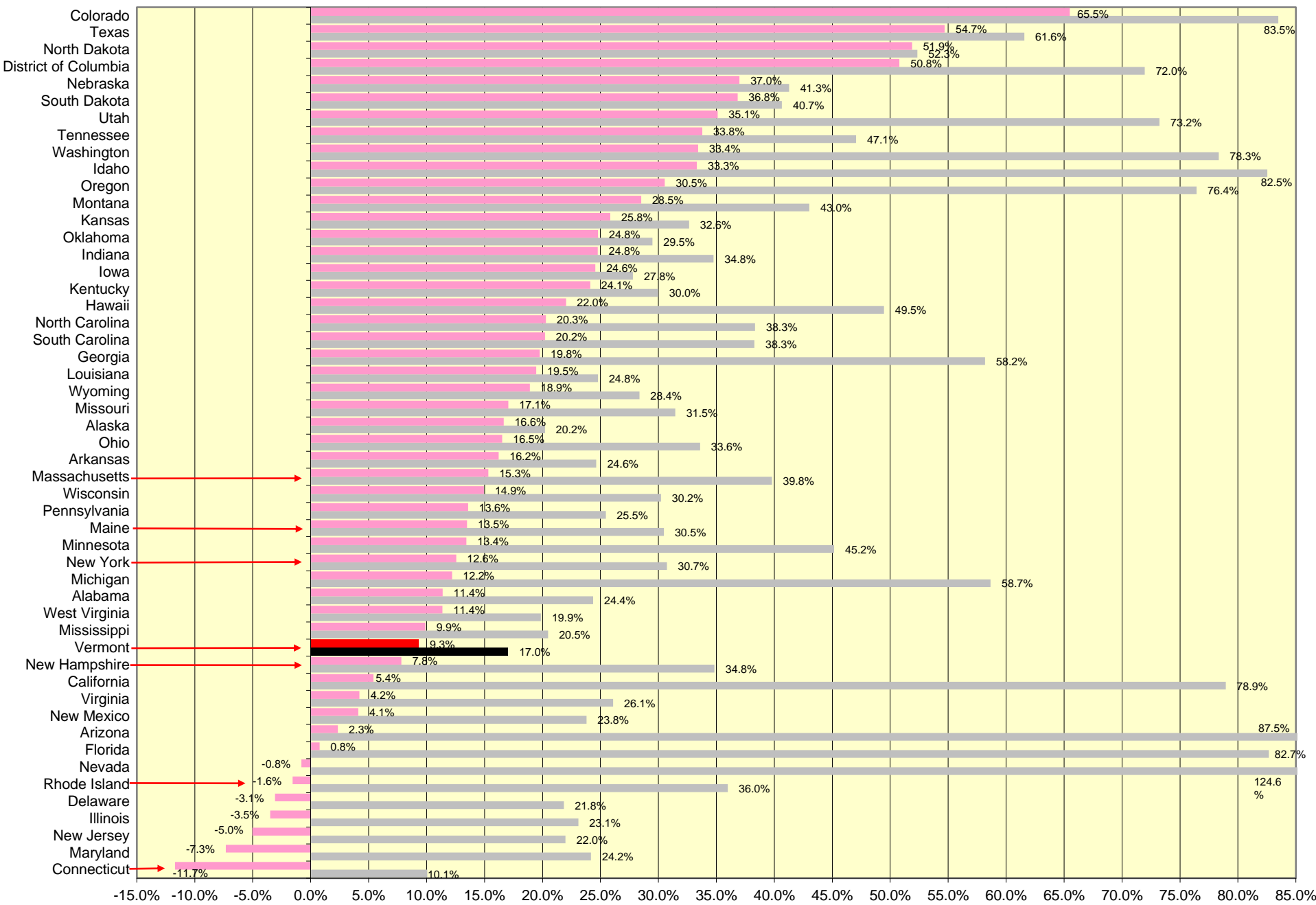
jobs.rfsdelivers.com

Real Estate Markets Strengthen, but with Wide (and More Typical) Regional Variation

- Real estate markets are characterized by pronounced cyclicity and regional variation
- For the 22nd consecutive quarter, housing prices increased on a year over year basis in virtually every U.S. state. As of the third quarter of 2019 (the most recent available), 43 states equaled or exceeded their pre-recession peak levels. Only 7 states were still below their pre-recession peak prices: NV, RI, DE, IL, NJ, MD and CT
- Notably, Connecticut has the worst housing market in the nation, with prices still almost 12% below pre-recession levels. Rhode Island (-1.5%) is close to pre-recession levels, with Vermont at +9.3%, NH at +7.8%, NY at +12.6%, Maine at +13.5% and MA at +15.3%.
- After more than 10 years, VT real estate prices outside the Burlington MSA exceeded their pre-recession peaks (+2.2%). Meanwhile, the Burlington MSA - like many urban areas - has had price increases that are nearly 20% above prior peaks. Through 2018, the counties with the worst housing markets have been in the southern part of the State - where second home ownership is most heavily weighted to CT residents
- In 2019, the Vermont Property Tax base (Grand List) is expected to show real (inflation-adjusted) growth for the first time in almost a decade

Real Estate Update: Housing Values Relative to Last Peak (pink) and Trough (grey)

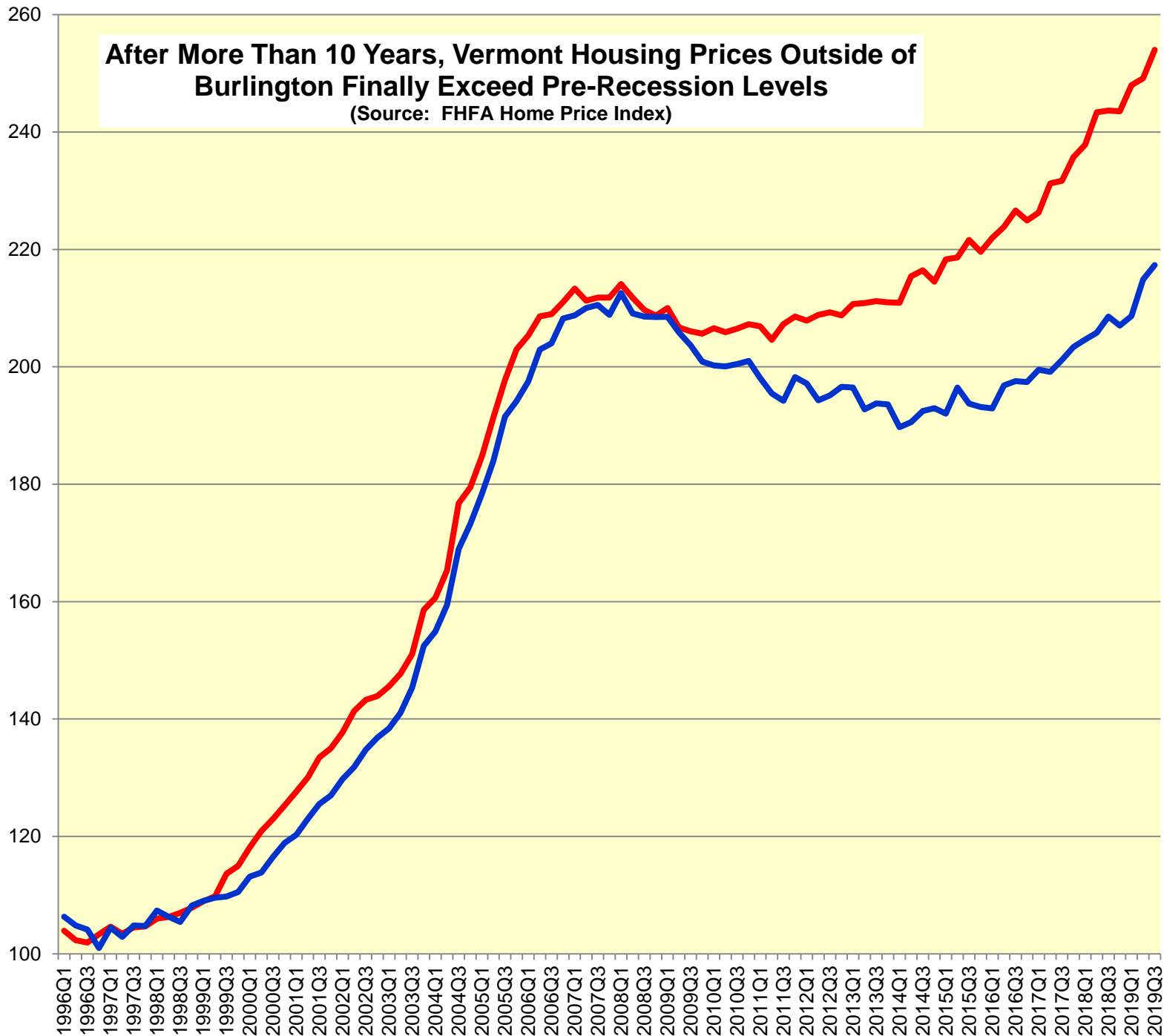
Percent Change, 2019Q3 vs. Peak Price by State Reached Between 2005Q3 and 2009Q3 - Pink and 2019Q3 vs. Trough Price Reached Between 2009Q3 and 2014Q1 - Grey
Source: FHFA



After More Than 10 Years, Vermont Housing Prices Outside of Burlington Finally Exceed Pre-Recession Levels

(Source: FHFA Home Price Index)

FHFA Home Price Index, 1995Q1 = 100

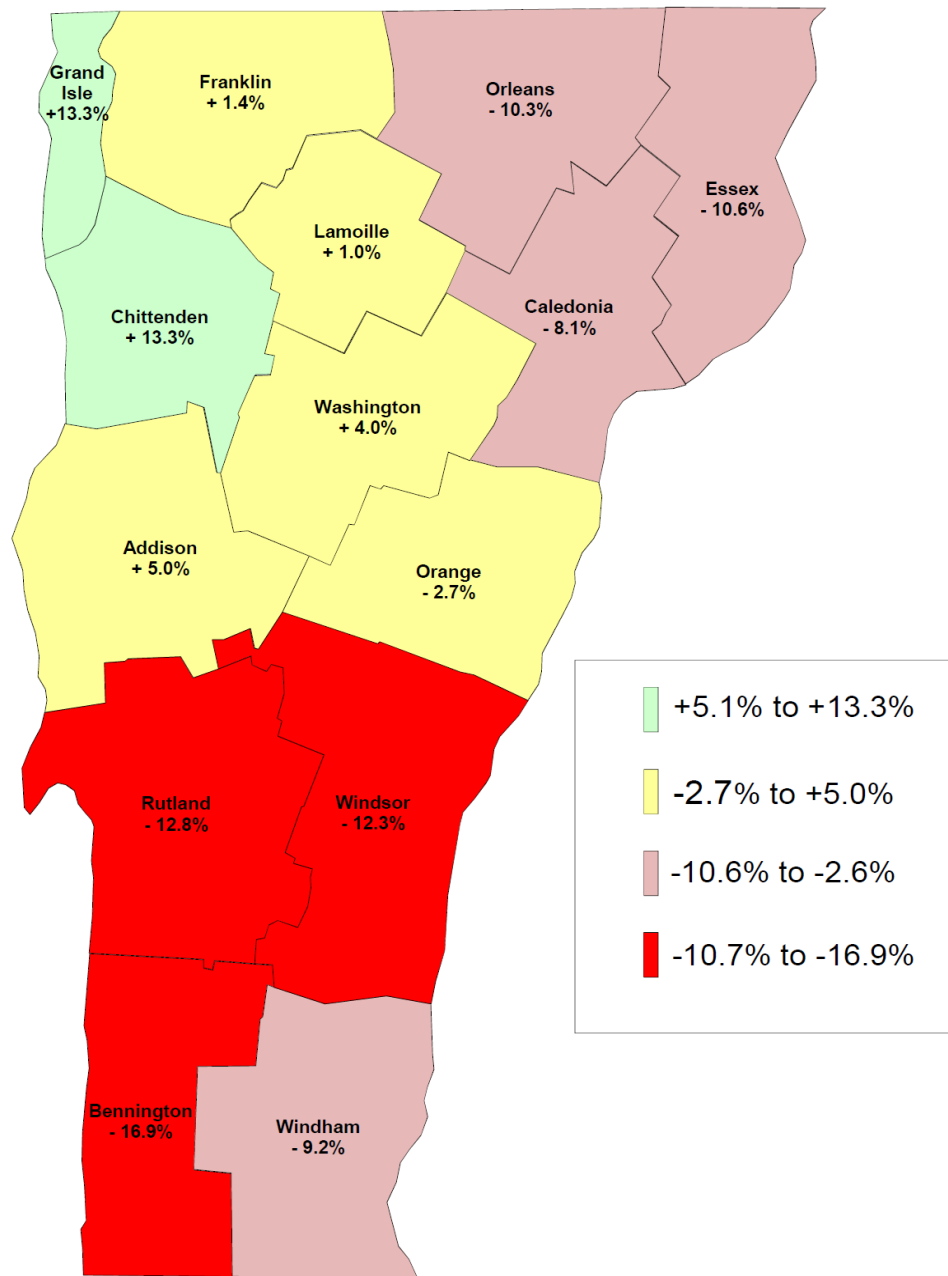


Burlington-South
Burlington, VT
Metropolitan
Statistical Area

**+18.6% since
prior peak**

State of
Vermont Index
for Houses not
in Metropolitan
Statistical
Areas

**+2.2% since
prior peak**



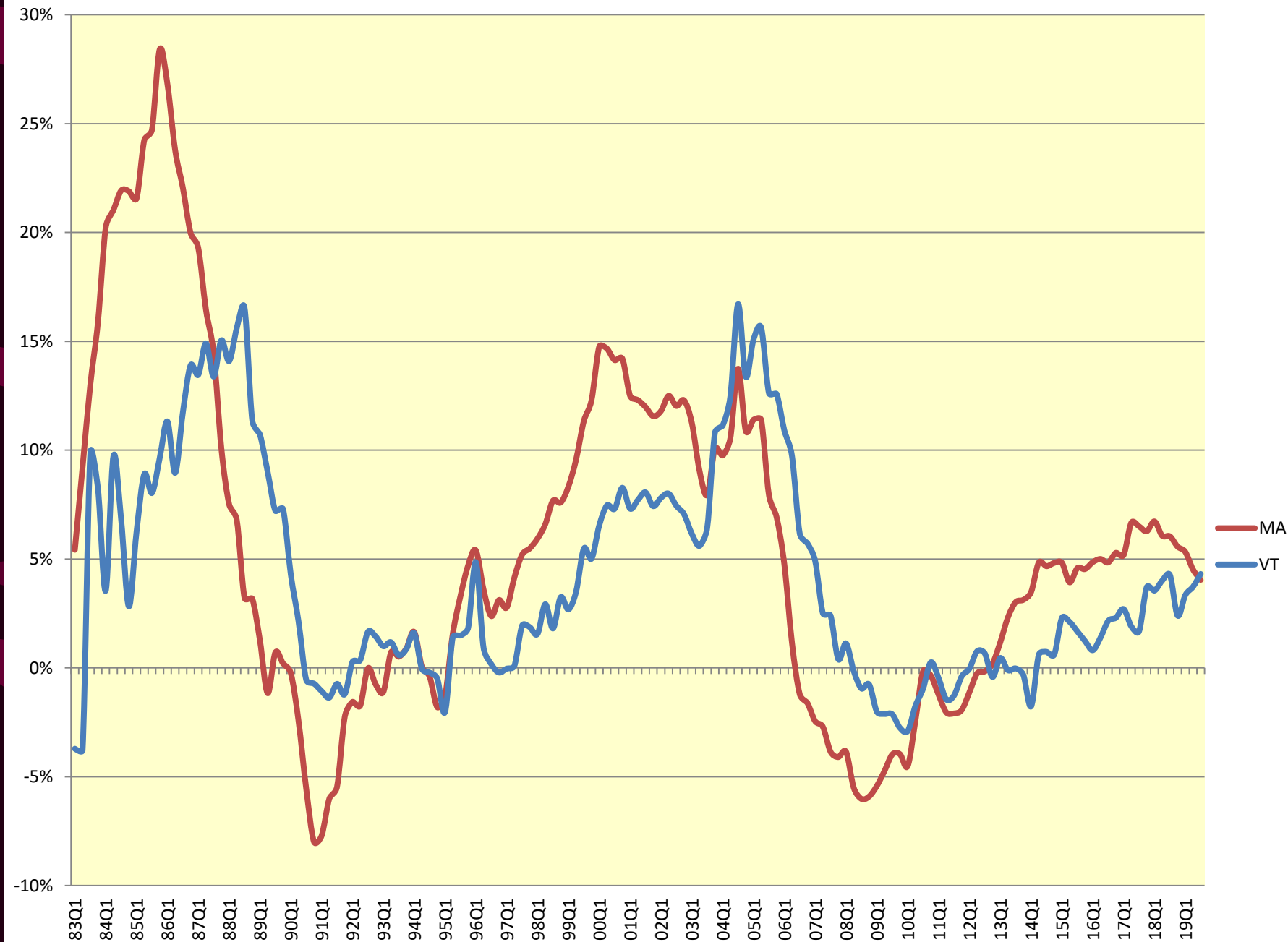
2018 VT Home Prices vs. Prior Peak by County

2018 FHFA Home Price Index versus Peak Price During 2007-2008

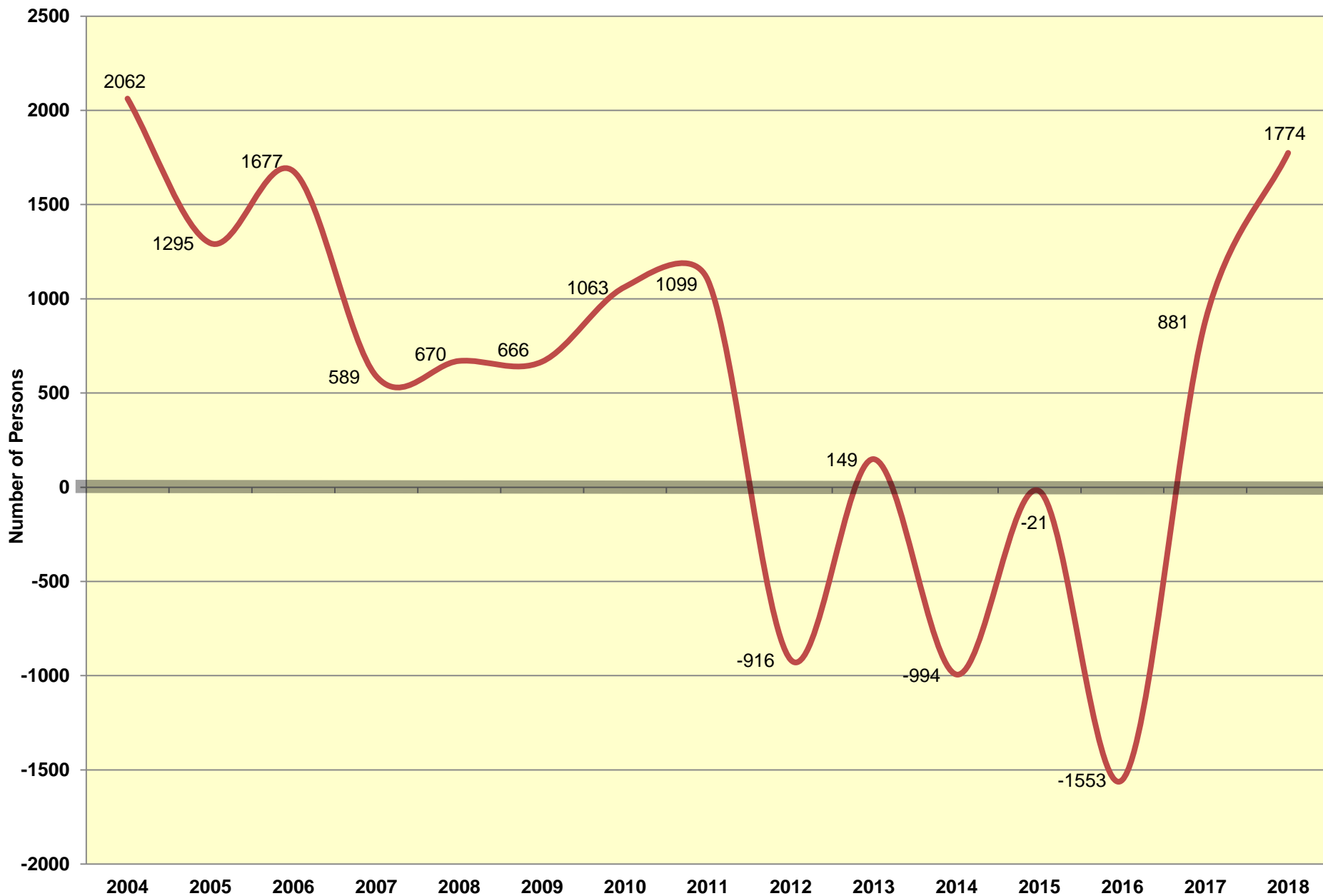
Source: FHFA Home Price Index - All Transactions, Developmental Index

Massachusetts Real Estate Markets Often Lead Those in Vermont

(Percent Change Year Ago in Home Prices, FHFA All Transactions Index)

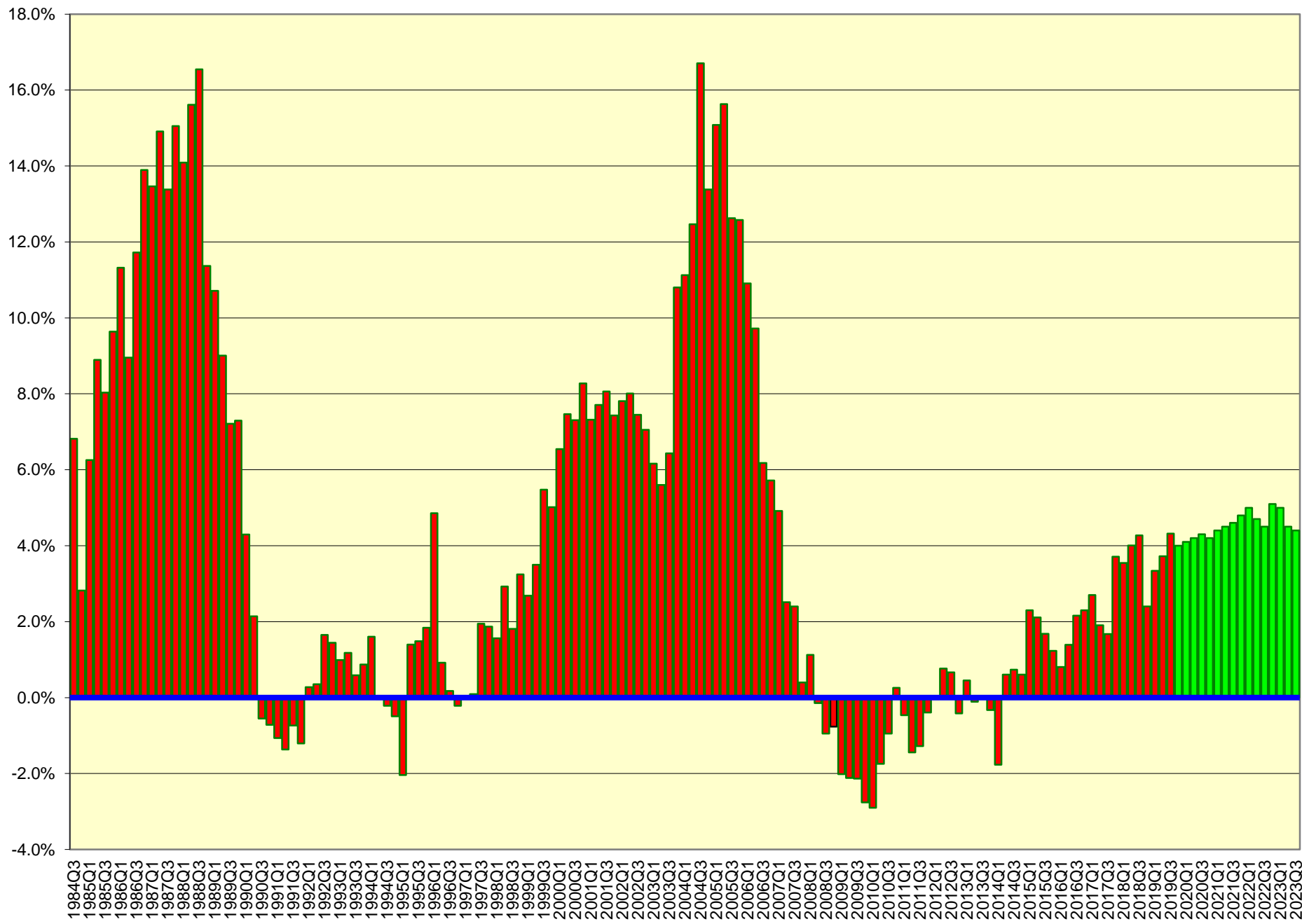


1774 in 2018:
Thawing Regional Real Estate Markets Revive Migratory Flows to Vermont
Annual Population Change in Vermont, Source: U.S. Census Bureau



VT Home Prices Will Grow Well in Excess of Inflation and Could Accelerate

(FHFA Vermont Housing Price Index Percent Change Vs. Year Ago)



GAME OF THRONES

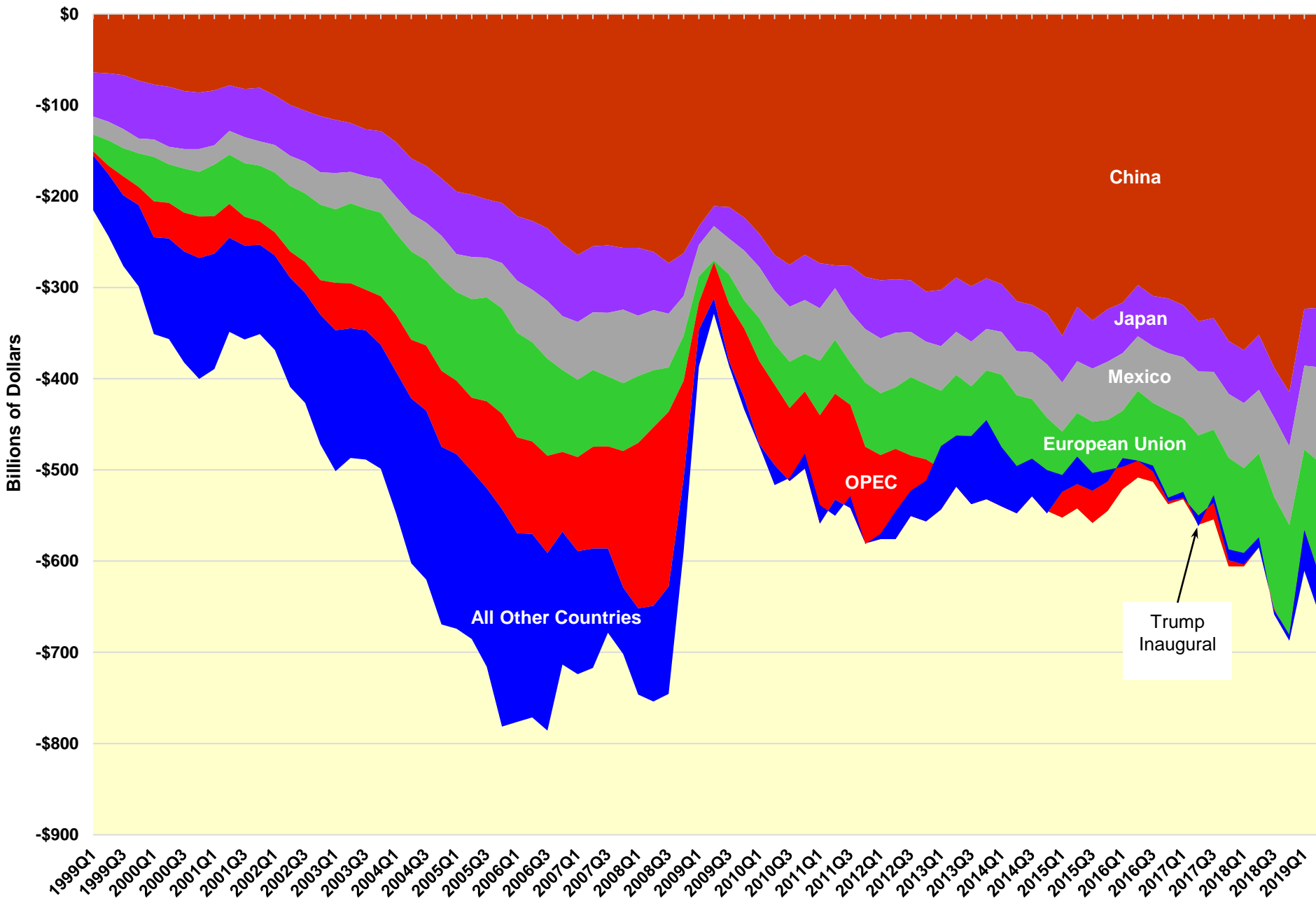


Trade Wars: What Are They Good For?

- Uncoordinated, capricious tariffs have prompted quick retaliatory actions that have caused US exports to decline as quickly as imports and left the US with no balance of trade advantage
- Tariffs targeted to specific countries have resulted, for the most part, in larger imports from other countries, not greater domestic production (to wit, the steel and aluminum industries)
- The tariffs to date have been largely borne by US consumers - acting as a tax totaling about \$80 billion (annualized) at current rates
- Retaliatory tariffs and general ill-will from the use of tariffs for punitive political purposes, even among allies, has reduced US exports of services (where the US has a balance of payments surplus) as well as goods
- The dollar has strengthened as the trade wars disrupt global trade - further weakening US exports and balance of trade
- The business uncertainty caused by rapid tariff imposition, removal and rate changes has disrupted business investment and hiring

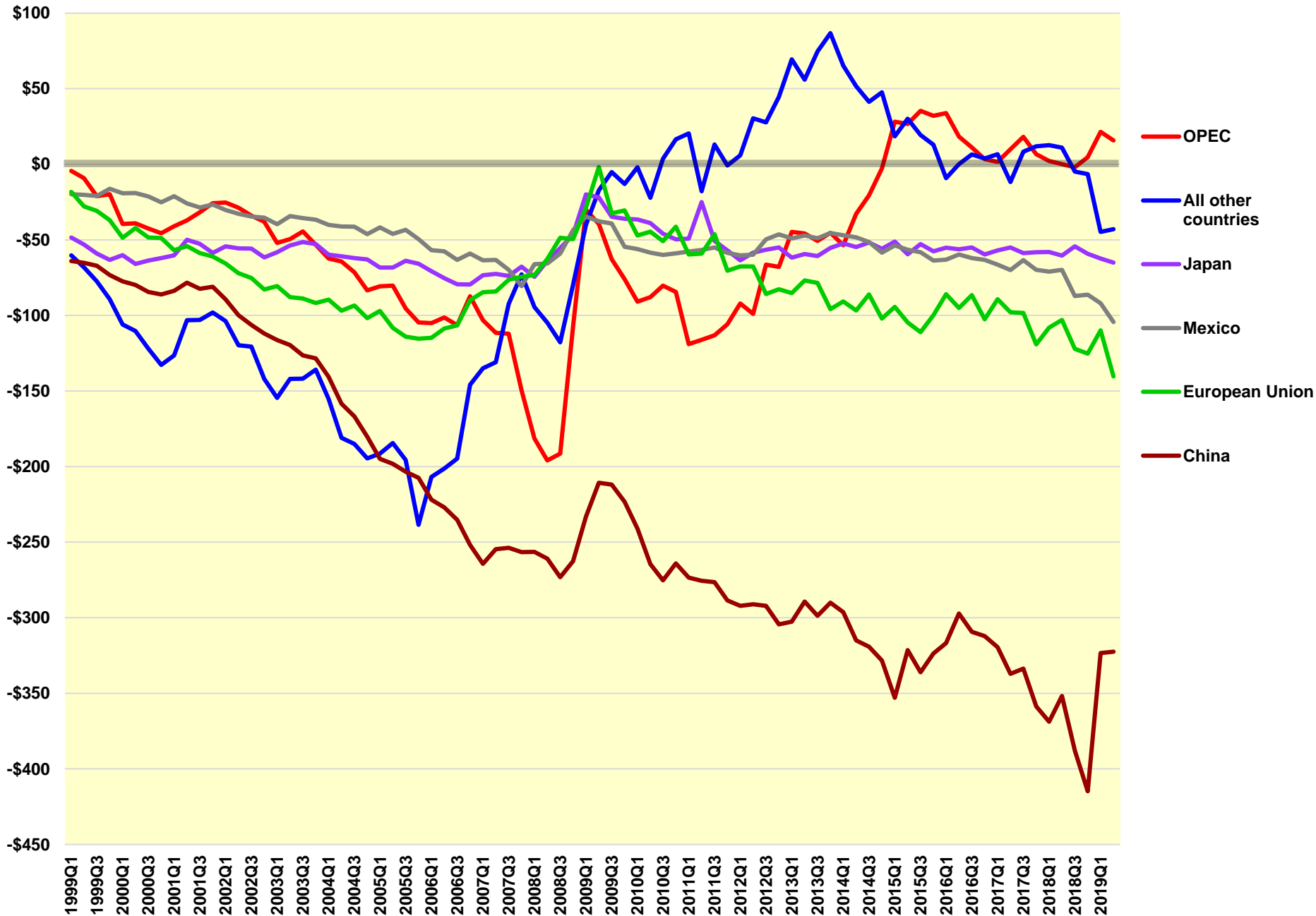
U.S. International Balance of Payments for Goods and Services

(Source: U.S. Census Bureau)



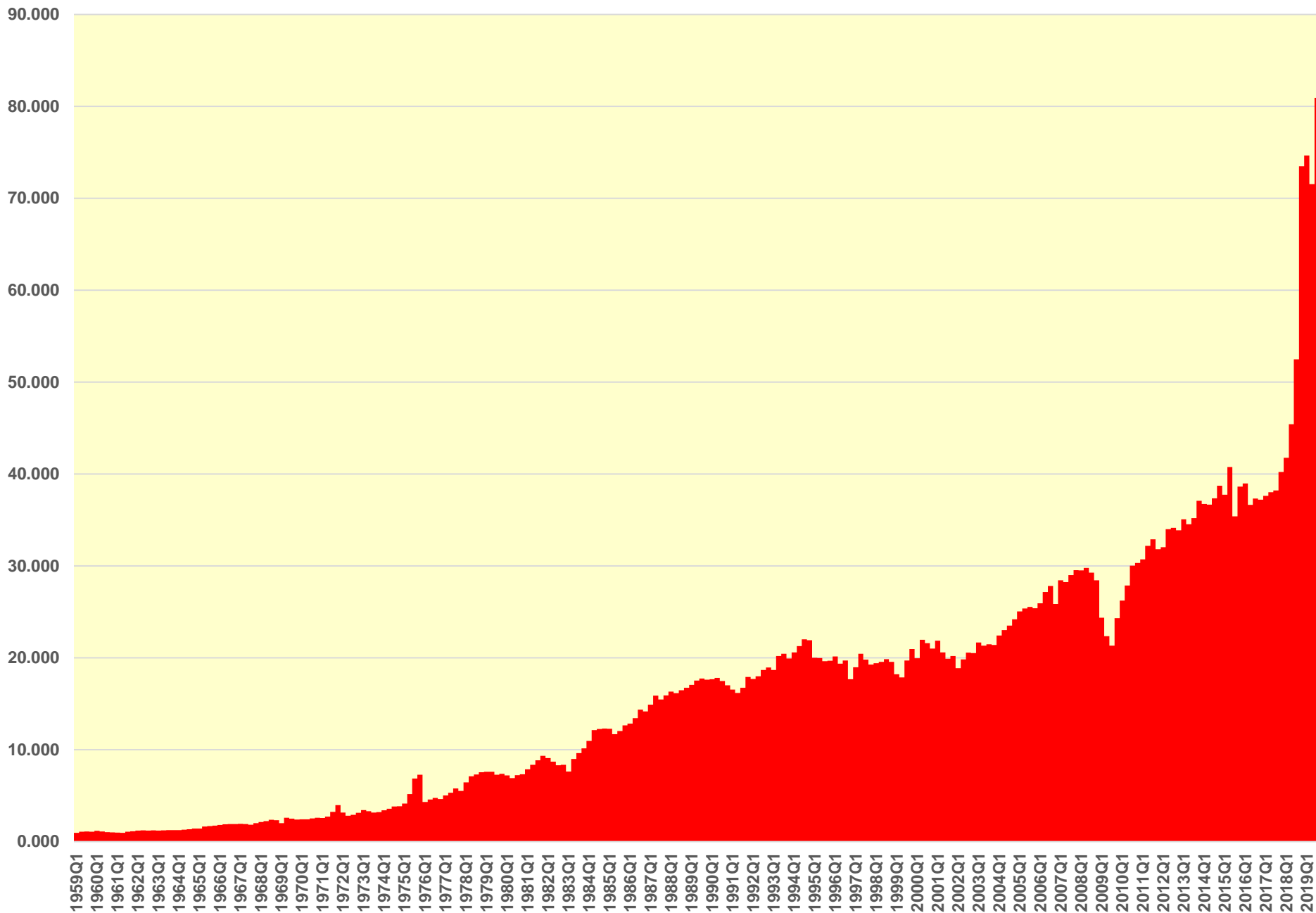
U.S. International Trade Balance on Goods and Services - Selected Regions

(Billions of U.S. Dollars, Seasonally Adjusted Annualized Quarterly Data, Source: U.S. Census Bureau)



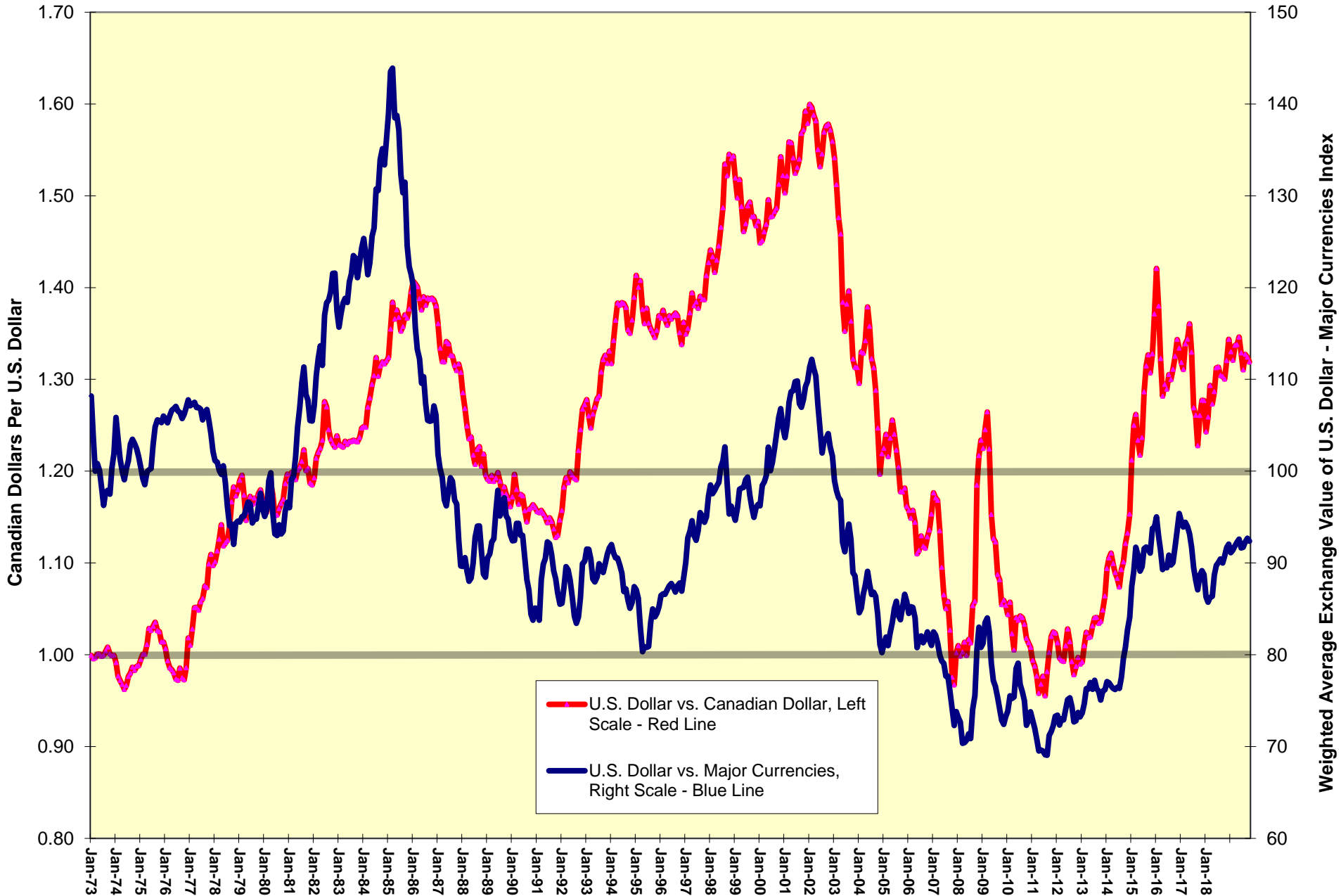
The Tariff Tax Burden - U.S. Customs Collections

(Billions of U.S. Dollars, SAAR, U.S. Treasury Department)



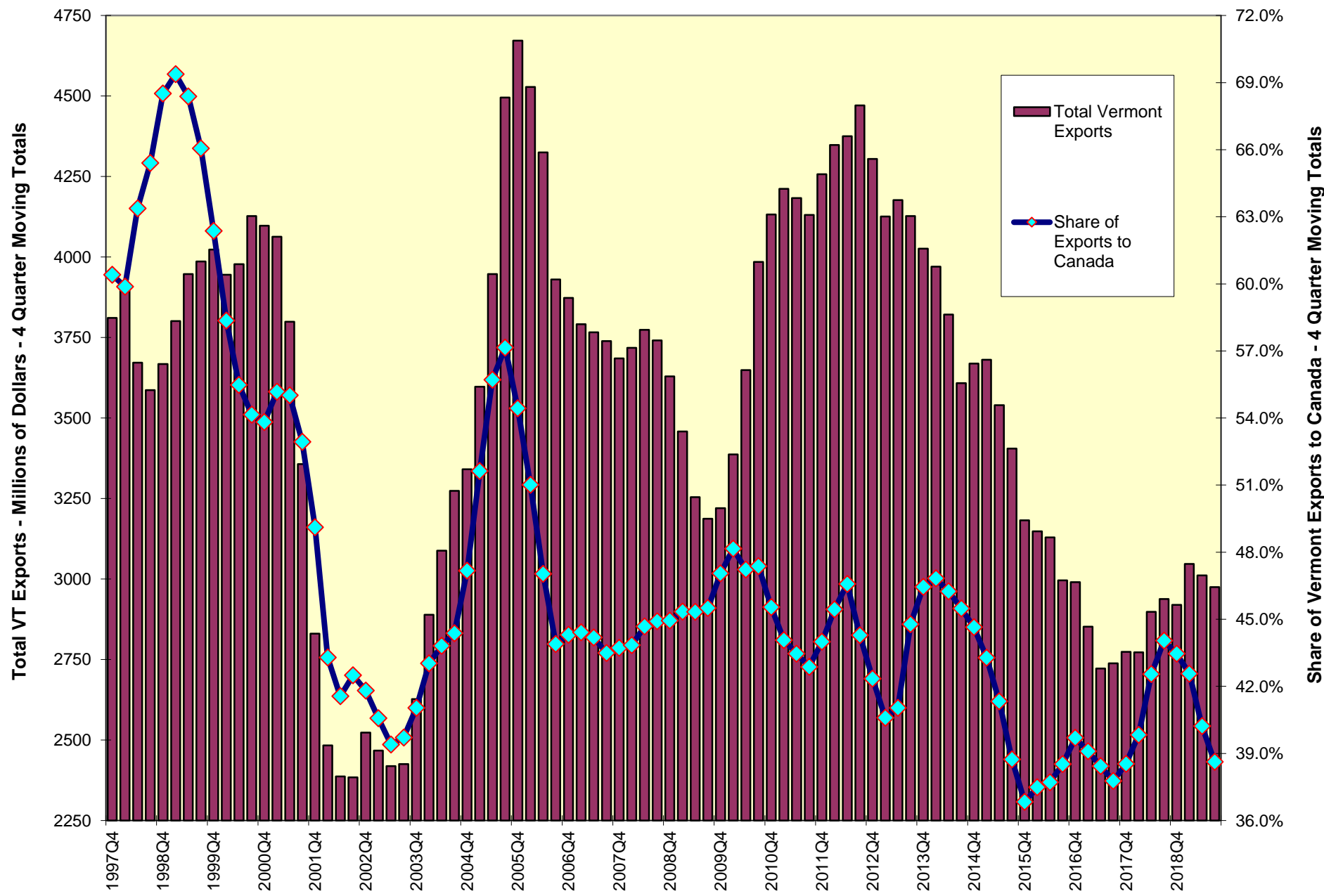
The Strengthening Dollar Further Disadvantages U.S. Exports

(Source: U.S. Federal Reserve Board)



Trade Tensions, Strong Dollar and Weak Canadian Economy Depress VT Exports

(Source: World Institute of Strategic Economic Research, Federal Reserve Bank of Boston)

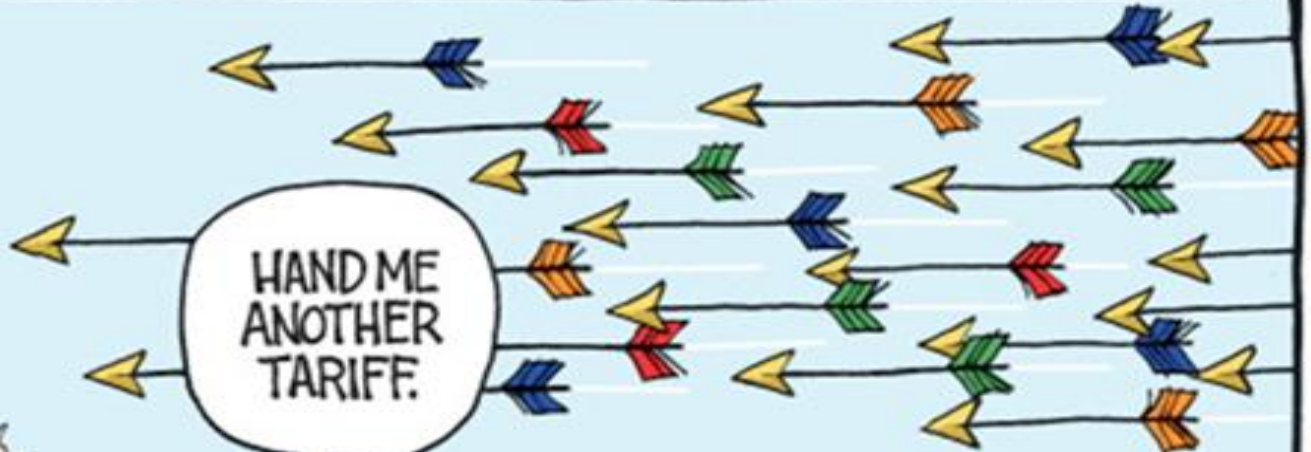


Lisa ©2018 3-7 Dist by Wash Post Writers Group

TRADE WARS
ARE EASY
TO WIN.



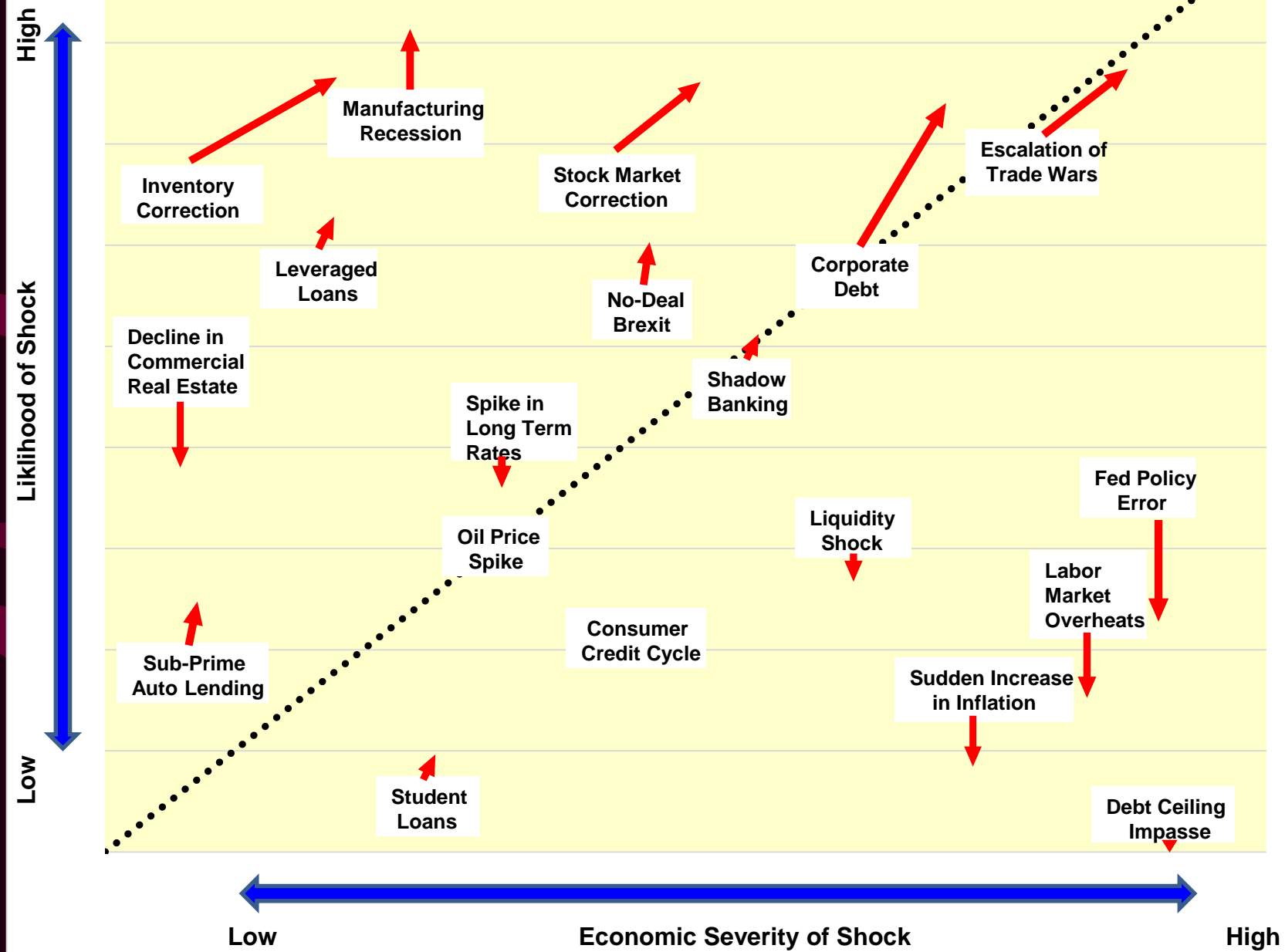
HAND ME
ANOTHER
TARIFF.



Forecast Risks

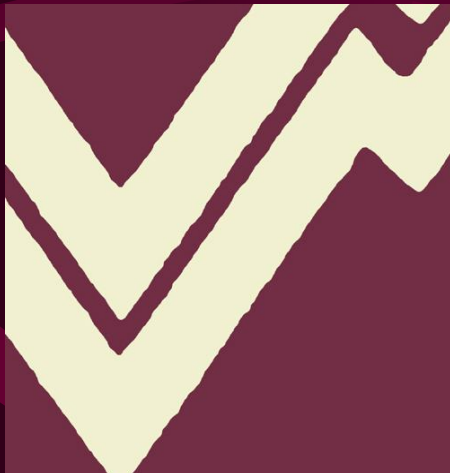
What Could Go Wrong?

Change in Relative Recession Risks Between November and July 2019, as Assessed by JFO and Administration Economists



For Further Information, Contact The Vermont Joint Fiscal Office or:

Thomas E. Kavet, President
Dr. Nicolas O. Rockler, CEO
State Economist and Principal Economic Advisor
to the Vermont State Legislature



Kavet, Rockler & Associates, LLC
Economic and Public Policy Consulting

985 Grandview Road
Williamstown, Vermont 05679-9003 USA
Telephone: 802-433-1360
Facsimile: 866-433-1360
Cellular: 802-433-1111
Website: www.kavetrockler.com
E-Mail: tek12@columbia.edu



JOIN THE 2020 CENSUS TEAM

APPLY ONLINE!

2020census.gov/jobs

2020 Census jobs provide:

- ✓ Great pay
- ✓ Flexible hours
- ✓ Weekly pay
- ✓ Paid training

For more information or help applying, please call **1-855-JOB-2020**

Federal Relay Service:
1-800-877-8339 TTY/ASCII | www.gsa.gov/fedrelay
The U.S. Census Bureau is an Equal Opportunity Employer.

United States
**Census
2020**

D-1099