

2015 Midyear Mortgage Update Conference:
“New Perspectives on the CT
Economy and Regional Housing
Markets”

entrepreneurial efficient dynamic versatile responsive trusted creative progressive visionary

Presented by:

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TOPICS:

-) 1. OVERVIEW OF THE U.S. & CONNECTICUT ECONOMIES
-) 2. OUTLOOK FOR INTEREST RATES
-) 3. SECTORAL ANALYSIS: THE U.S. AND CT. HOUSING MARKETS
-) 4. SUMMARY & CONCLUSIONS

1. OVERVIEW OF THE **U.S. AND CT ECONOMIES:**

**“ THE GOOD NEWS IS THAT ECONOMIC RECOVERY HAS
BEEN REALIZED AFTER ONE OF THE WORST RECESSIONS
DATING BACK TO WWII”!**
(...but this isn't your father's economy recovery!)



TWO KEY QUESTIONS:

-) THE U.S. ECONOMIC RECOVERY WILL BE SIX YEARS OLD THIS COMING SUMMER ACCORDING TO NATIONAL BUREAU OF ECONOMIC RESEARCH (NBER), WITH MOST ECONOMIC INDICATORS NOW POINTING TO “POSITIVE BUT MODERATE” ECONOMIC GROWTH.**
-) Q1. HOW DOES THIS RECOVERY COMPARE TO PRIOR EXPANSIONS, SEPARATING THE HARD DATA FROM THE HYPE?**
-) Q2. WHAT ARE THE PERCEPTIONS ABOUT THE CURRENT EXPANSION?**

U.S. BUSINESS CYCLE EXPANSIONS AND CONTRACTIONS, 1945-PRESENT

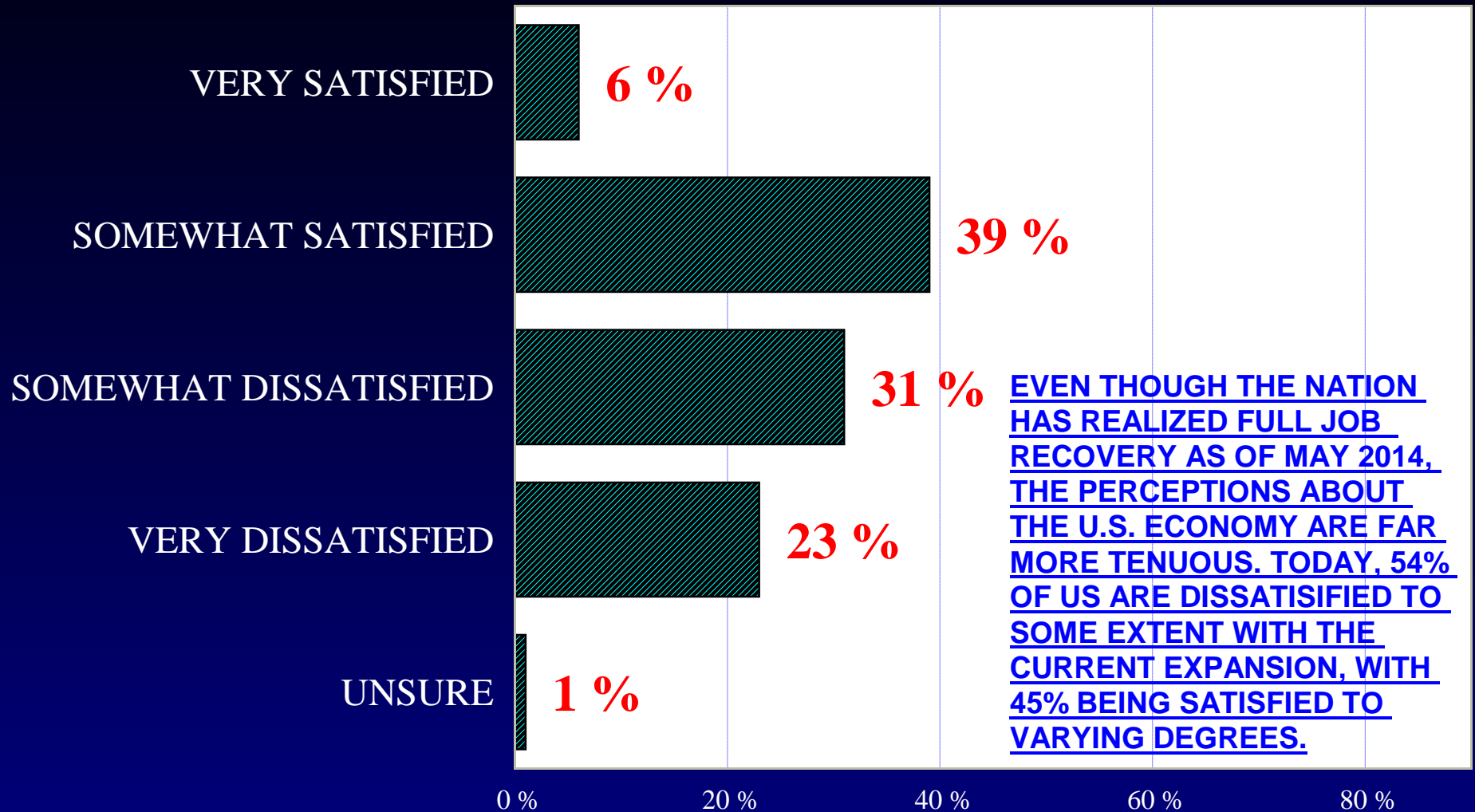
“The current recovery will be 6 years old this coming summer, besting the length of avg. postwar expansion (5 yrs). The prior contraction was longer than average at 18 months.”.

<u>RECOVERY PERIOD</u>	<u>EXPANSION</u>	<u>PRIOR CONTRACTION</u>
OCT45-NOV48	37	8
OCT49-JUL53	45	11
MAY54-AUG57	39	10
APR58-APR60	24	8
FEB61-DEC69	106	10
NOV70-NOV73	36	11
MAR75-JAN80	58	16
JUL80-JUL81	12	6
NOV82-JUL90	92	16
MAR91-MAR01	120	8
NOV 01- DEC 07	73	8
<u>JUN 09 - ???</u>	-	<u>18</u>
AVERAGE LENGTH	58	11

SOURCE: NATIONAL BUREAU OF ECONOMIC RESEARCH

Q: HOW SATISFIED ARE YOU WITH THE STATE OF THE U.S. ECONOMY?

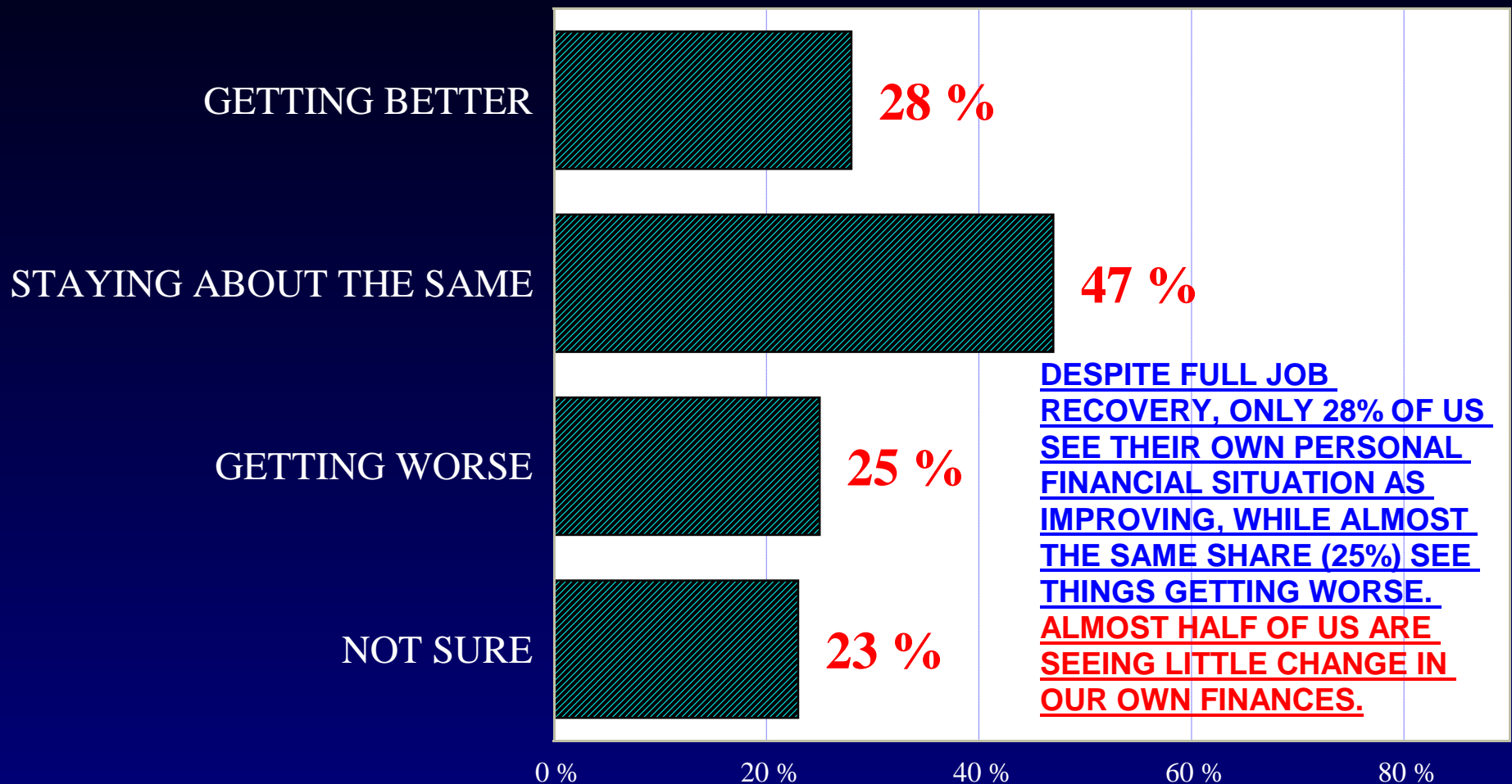
JAN 2015 NBC News/WSJ Poll



SOURCE: NBC News/WSJ Poll, January 2015. N=800 adults nationwide. Margin of error $\pm 3.5\%$.

Q: HOW WOULD YOU CHARACTERIZE YOUR OWN FINANCIAL SITUATION?

JAN 2015 NBC News/WSJ Poll



SOURCE: NBC News/WSJ Poll, January 2015. N=800 adults nationwide. Margin of error $\pm 3.5\%$.

"PUBLIC FAITH IN CONGRESS HAS BEEN FALLING STEADILY, REACHING A HISTORIC LOW IN 2014"

Confidence in Congress

■ % A "great deal" and "quite a lot" of confidence

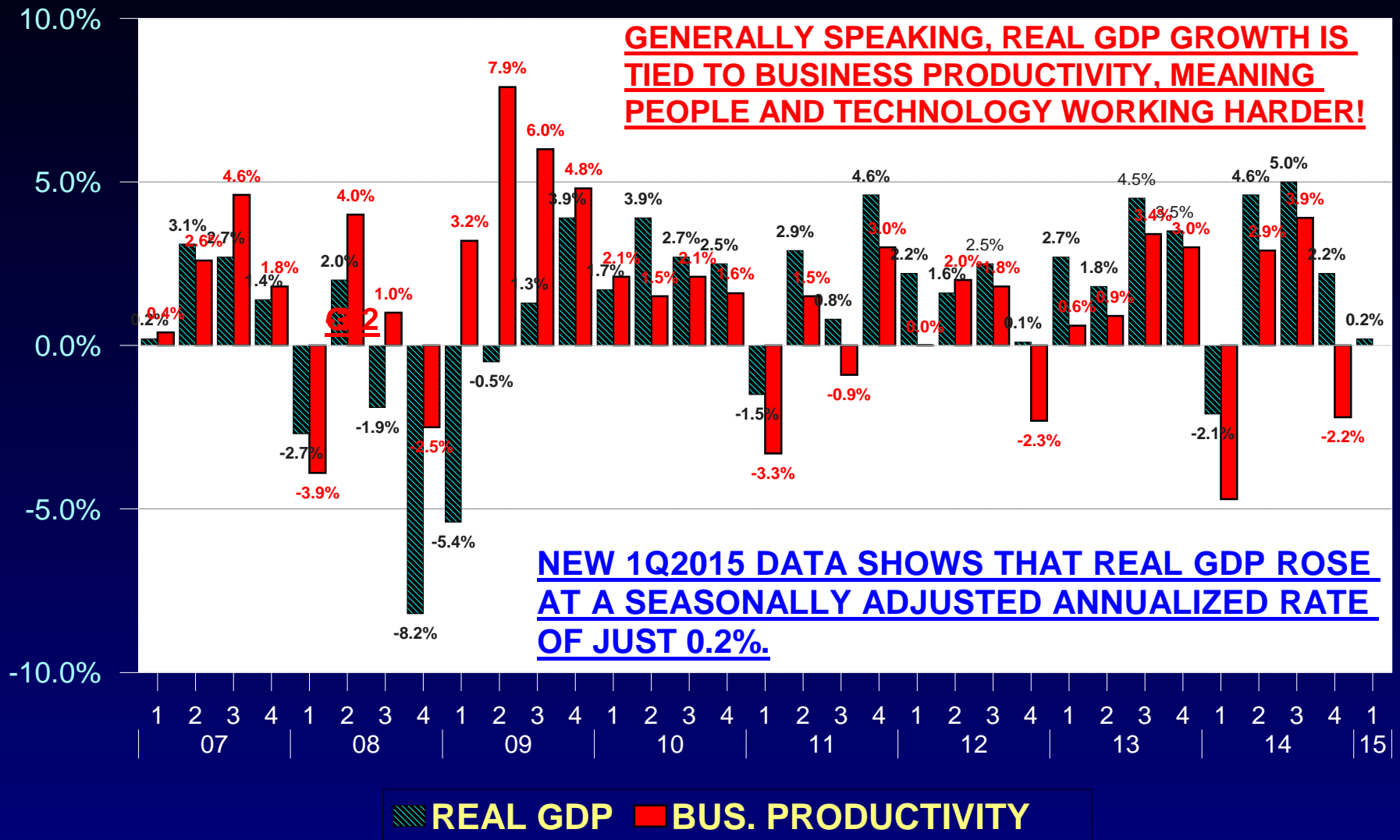


IN EARLY 2015, POLLS SHOW THAT CONGRESS HAS AN APPROVAL RATING OF JUST 16%. THE POLLS SHOW THAT THE TOP THREE WORDS USED IN DESCRIBING OUR NATION ARE: "DIVIDED", "RECOVERING" AND "TROUBLED".

KEY QUESTION: IF YOU HAD A 7% APPROVAL RATING, WOULD YOU STILL HAVE A JOB?

GALLUP

GROSS DOMESTIC PRODUCT VS. BUSINESS PRODUCTIVITY (SAAR % CHANGE, 2007Q1-2015Q1)



SOURCE: U.S. Bureau of Economic Analysis

DATA CORE ASSESSMENT OF THE U.S. ECONOMY: *“Subpar Growth in 2015.”*

"The good news is that the current U.S. expansion will be six years old this summer, slightly longer than the average post-war recovery of five years. Despite all the rhetoric and cheerleading, the domestic economy grew just 2.4% IN 2014, a half a percent below our long-term average. The economic fundamentals clearly argue for continued growth this year, but once again argue for below-average expansion. Importantly, the traditional tools for stimulating the domestic economy-monetary and fiscal policy- have either been exhausted, or are politically unpalatable as of 2015.

BOTTOM LINE:

With little means to stimulate the U.S. economy, the overall economy is poised for just modest, below-average, real GDP growth in the 2%-2.5% range!

THE CONNECTICUT ECONOMY:

DATA CORE ASSESSMENT OF THE CT. ECONOMY:

“Positive Growth in 2015, But Lagging the U.S. Averages in Most Key Areas”

“ On the plus side, the CT economy has, in fact, been growing! However, we’ve only been growing at roughly HALF of our long-term growth rate. While the U.S. Economy has realized full job recovery as of mid 2014, CT has recovered only 78% of our jobs as of March 2015.

BOTTOM LINE:

“The CT economy clearly has some positive momentum heading into 2015 and is likely to post gains in the 1%-1.5% range , but remain well below its long-term average annual growth rate of about 2.5%. DataCore Projection: Moderate job gains of between 15,000 and 18,000 in 2015 on an average annual basis, for a gain of about 1%.

FARMINGTON BANK BUSINESS BAROMETER (FBBB)

**COINCIDENT INDICATOR OF ECONOMIC ACTIVITY
WITHIN CONNECTICUT**

FORMED FROM THREE STATEWIDE SERIES:

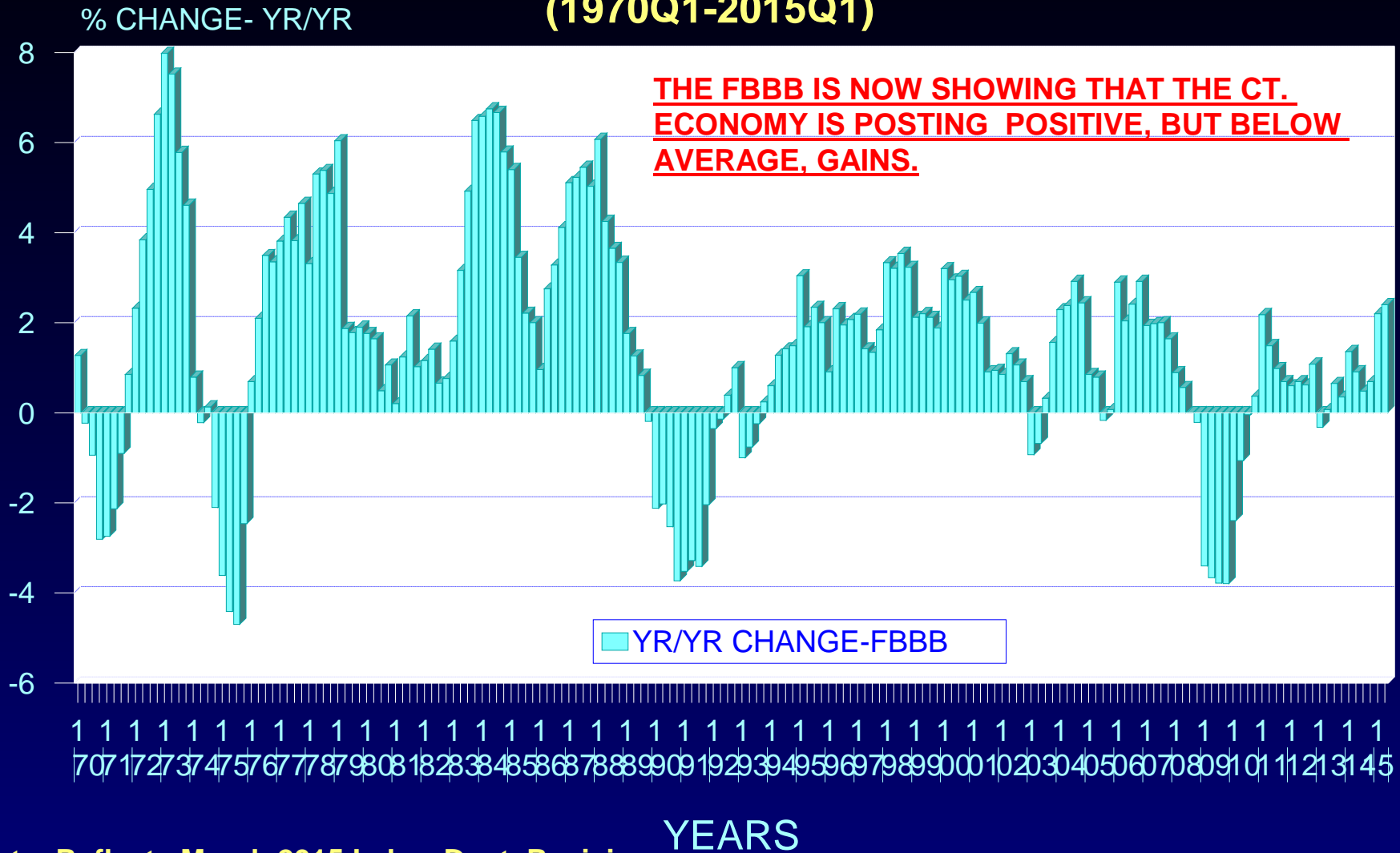
- MANUFACTURING PRODUCTION**
- NON-MANUFACTURING EMPLOYMENT**
- REAL DISPOSABLE INCOME**

**RELIABLE BAROMETER WITH RESPECT TO THE
MAGNITUDE AND DIRECTION OF OVERALL
ECONOMIC EXPANSION**

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FARMINGTON BANK BUSINESS BAROMETER **(YEAR OVER YEAR % CHANGE)**



Note: Reflects March 2015 Labor Dept. Revisions

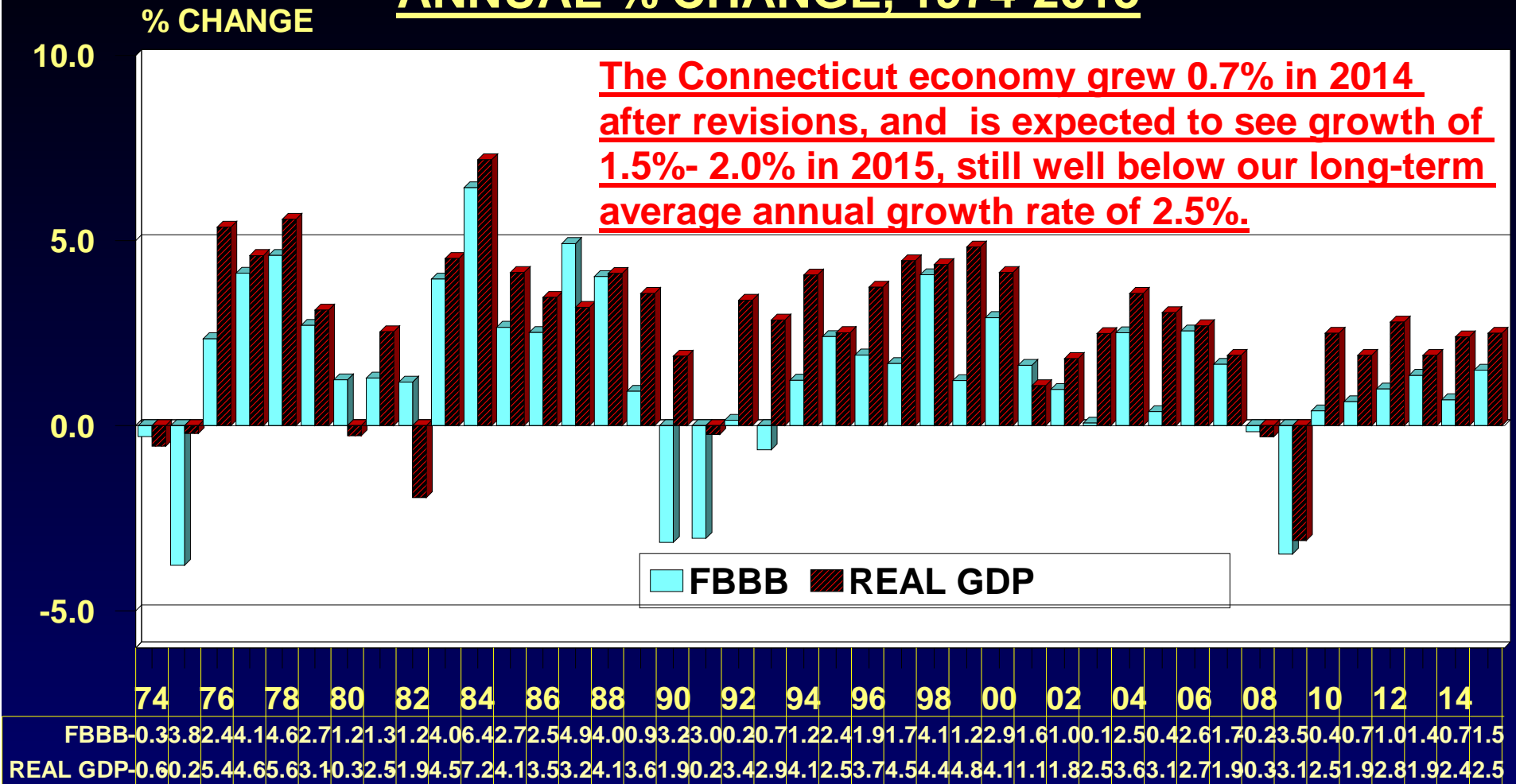
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U.S. VS CONNECTICUT BUSINESS CYCLES

REAL GDP VS. FARMINGTON BANK BUSINESS BAROMETER

ANNUAL % CHANGE, 1974-2015



Source: DataCore Partners LLC, U.S. Commerce Dept.,

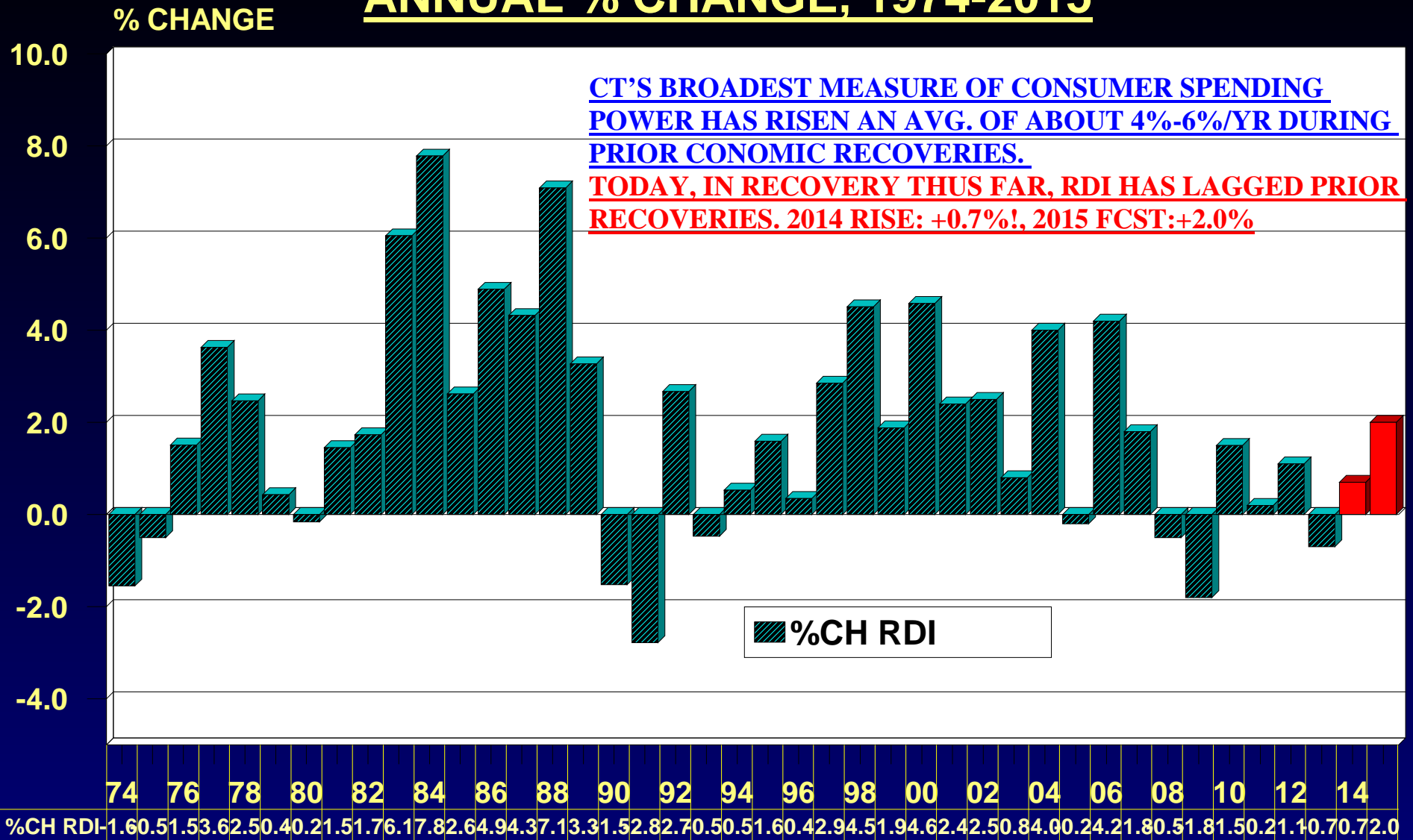
Note: Reflects March 2015 Data Revisions; Forecast Begins 2015

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REAL CONNECTICUT DISPOSABLE PERSONAL INCOME

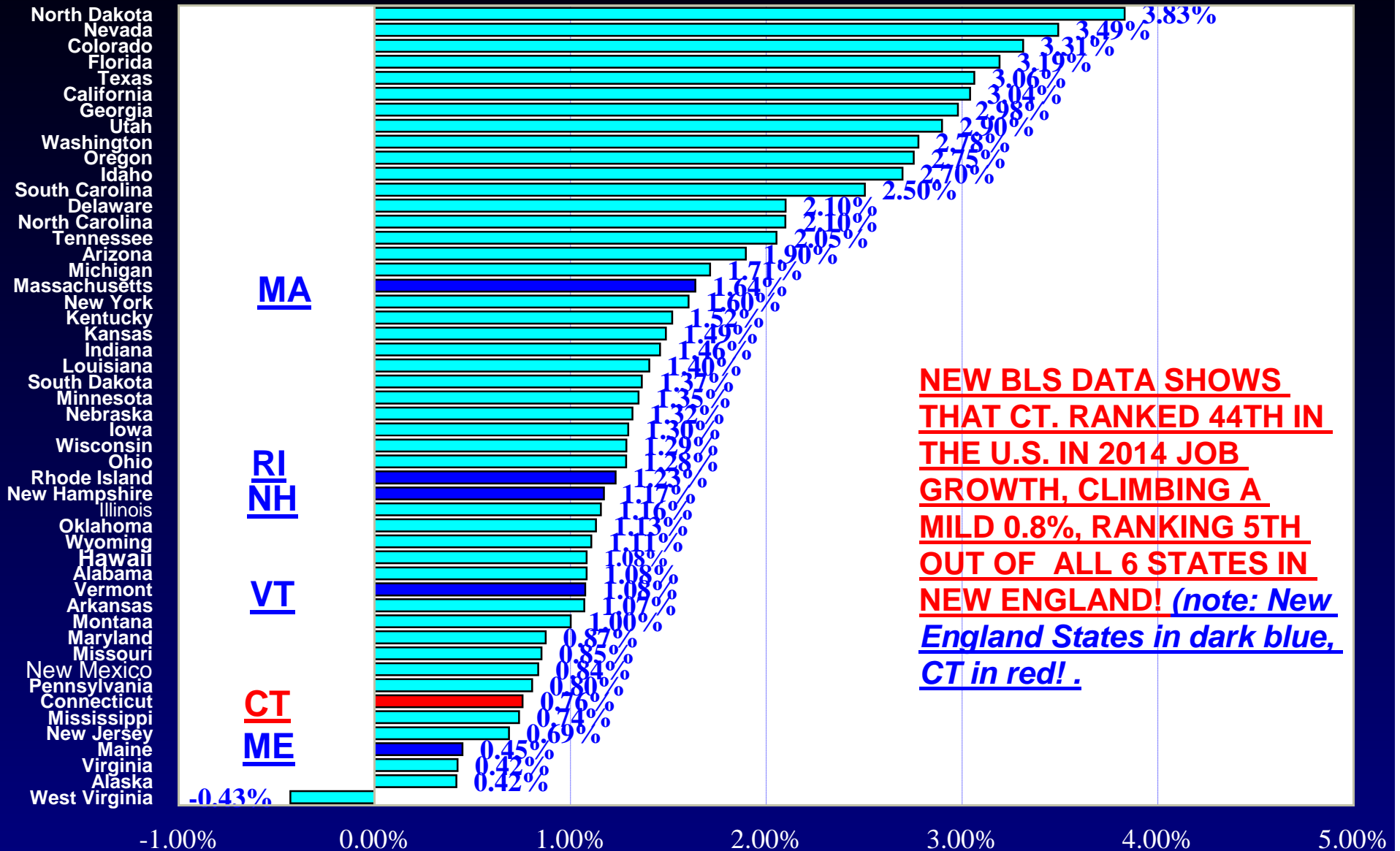
ANNUAL % CHANGE, 1974-2015



Source: U.S. Commerce Dept., CT. Labor Dept., BEA, DataCore Partners LLC

Note: 2014 skewed to the upside because of weakness in 1q2013 due to expiration of the Bush tax cuts and automatic federal spending cuts (fiscal cliff).

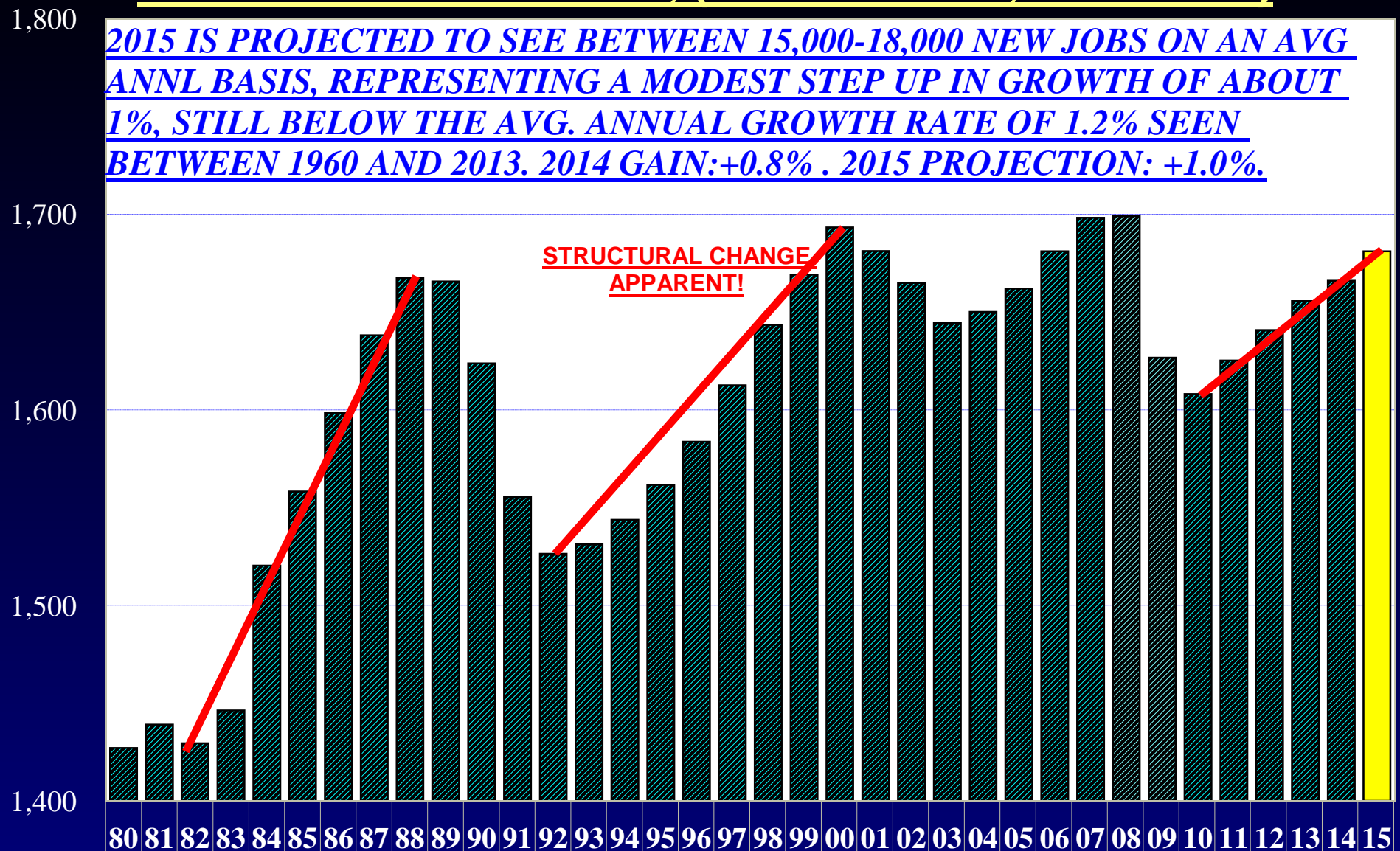
% CHANGE IN TOTAL NON-FARM JOBS, AVERAGE ANNUAL DATA 2013-2014 REVISED RANKINGS FOR ALL 50 STATES



Source: Bureau of Labor Statistics, Revised 3/15 BLS Benchmarks

CONNECTICUT AVERAGE ANNUAL TOTAL NON-FARM EMPLOYMENT LEVELS, (THOUSANDS, 1980-2015)

2015 IS PROJECTED TO SEE BETWEEN 15,000-18,000 NEW JOBS ON AN AVG ANNL BASIS, REPRESENTING A MODEST STEP UP IN GROWTH OF ABOUT 1%, STILL BELOW THE AVG. ANNUAL GROWTH RATE OF 1.2% SEEN BETWEEN 1960 AND 2013. 2014 GAIN: +0.8% . 2015 PROJECTION: +1.0%.



Source: BLS

2015 Projection from DataCore Partners LLC

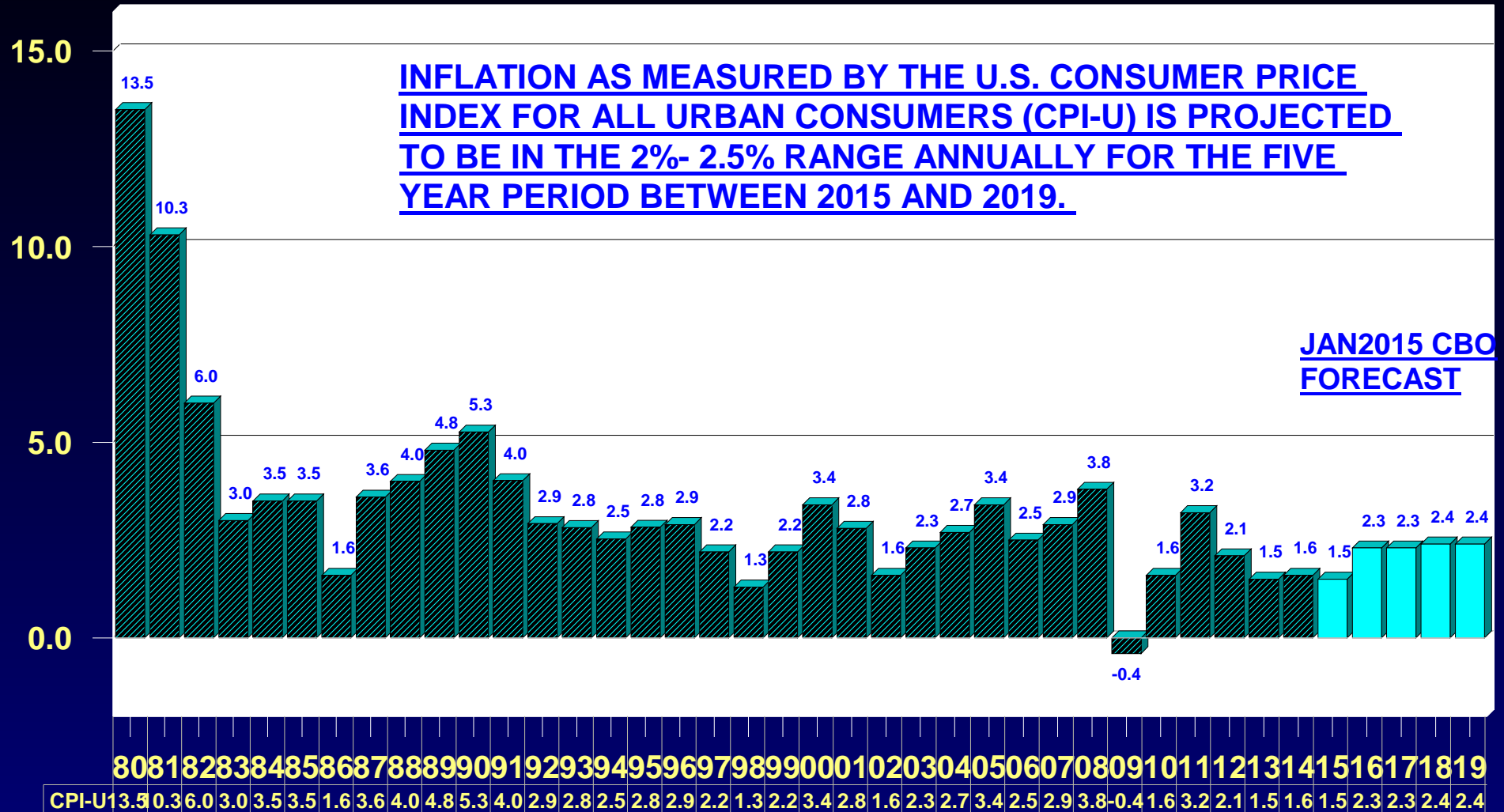
2. THE OUTLOOK **FOR INTEREST RATES:**

ASSESSMENT:

- GOING FORWARD, INTEREST RATES WILL BE DETERMINED BY INFLATIONARY PRESSURES, MONETARY POLICY, AND SUPPLY AND DEMAND FOR MONEY IN THE MARKETPLACE.**
- TODAY, THE PRIMARY AND MOST COMMON GAUGE FOR MEASURING INFLATION, THE CPI-U, ROSE JUST 1.6% IN CALENDAR 2014 AND IS NOW DOWN 0.1% ON A YTD BASIS AS OF MARCH 2015.***
- FOR ALL INTENTS AND PURPOSES, THE NEAR-TERM PICTURE FOR INFLATION IS RATHER BENIGN, WITH A CONSENSUS OF 2% GAINS BEING LIKELY FOR THE CPI-U.**

JAN 2015 CBO INFLATION PROJECTIONS

U.S. CONSUMER PRICE INDEX (CPI-U)



SOURCE: U.S. DEPT. OF LABOR

NOTE: ACTUAL DATA THROUGH 2014, PROJECTIONS START IN 2015

CPI-U

DATACORE INTEREST RATE OUTLOOK

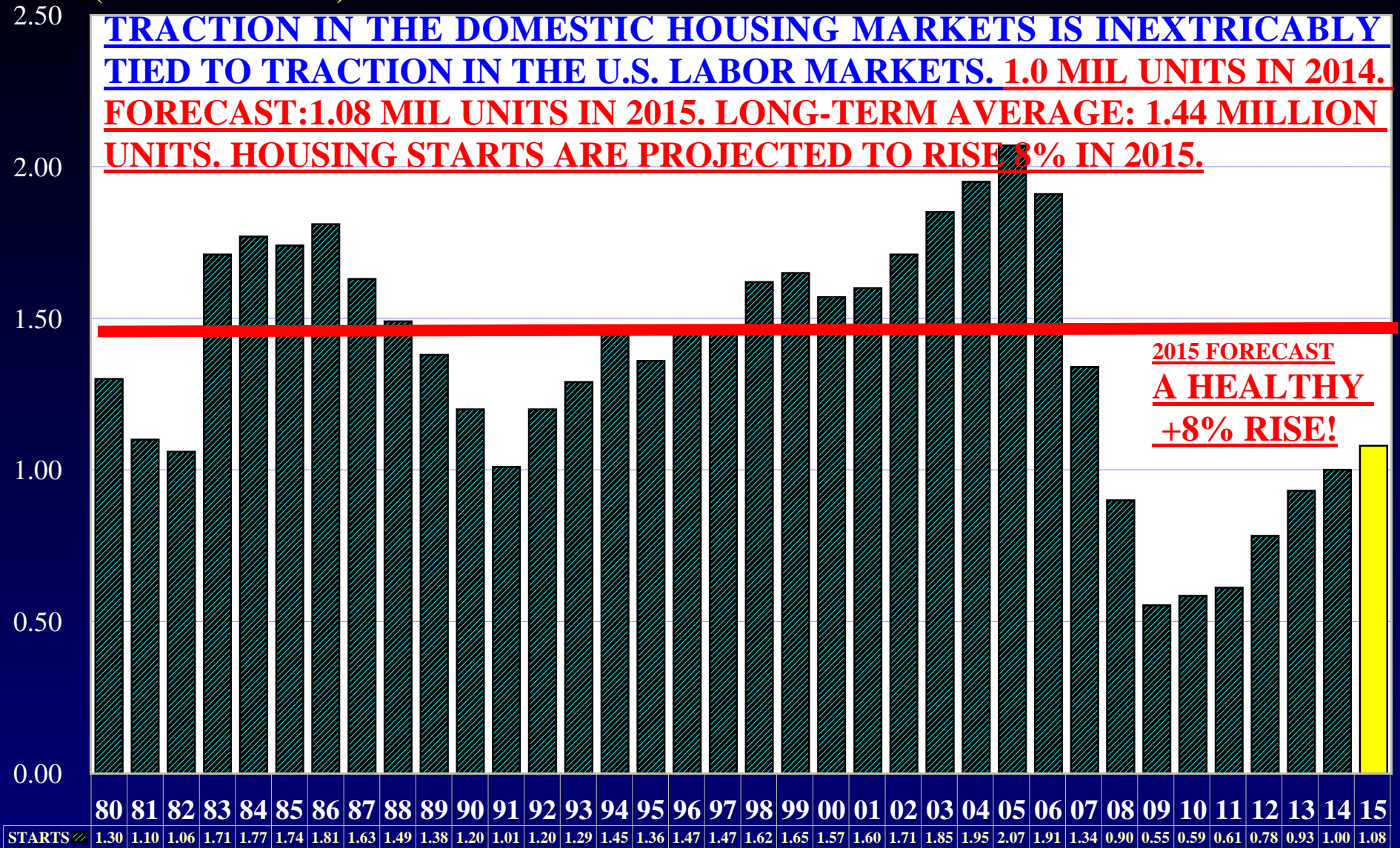
“ SINCE THERE IS STILL LITTLE APPETITE FOR ANOTHER FISCAL STIMULUS PACKAGE IN THE U.S., IT IS DATACORE’S VIEW THAT THE FEDERAL RESERVE WILL CONTINUE TO SUPPORT AN ACCOMMODATIVE MONETARY POLICY GIVEN THE ABSENCE OF “TANGIBLE INFLATION”. THIS MEANS THAT THE FED ISN’T LIKELY TO HIKE INTEREST RATES ANYTIME SOON. MOREOVER, WHEN THE FED EVENTUALLY DECIDES TO TIGHTEN , ANY INTEREST RATE INCREASE IS LIKELY TO BE A “MILD TO MODERATE” GIVEN CURRENT THE CURRENT INFLATION PICTURE AND OVERALL ECONOMIC FUNDAMENTALS ”.

3. SECTORAL ANALYSIS: **THE U.S. AND CT. HOUSING** **MARKETS:**

TOTAL U.S. HOUSING STARTS ARE REBOUNDED NICELY:

(millions of units)

**TRACTION IN THE DOMESTIC HOUSING MARKETS IS INEXTRICABLY
TIED TO TRACTION IN THE U.S. LABOR MARKETS. 1.0 MIL UNITS IN 2014.
FORECAST: 1.08 MIL UNITS IN 2015. LONG-TERM AVERAGE: 1.44 MILLION
UNITS. HOUSING STARTS ARE PROJECTED TO RISE 8% IN 2015.**



Source: Dept of Commerce, DataCore Partners LLC, forecast begins in 2015

CT. SINGLE-FAMILY HOME PRICES
BY COUNTY, 2013 VS. 2014
RANK ORDERED ON % CHANGE

	<u>2013</u>	<u>2014</u>	<u>% CH</u>
TOLLAND	\$220,000	\$220,000	0.0%
NEW LONDON	\$222,500	\$219,500	-1.4%
WINDHAM	\$163,000	\$159,900	-1.9%
NEW HAVEN	\$225,000	\$219,000	-2.7%
HARTFORD	\$221,500	\$215,000	-2.9%
FAIRFIELD	\$490,000	\$475,000	-3.1%
MIDDLESEX	\$265,000	\$254,000	-4.2%
LITCHFIELD	\$230,000	\$219,800	-4.4%

SOURCE: WARREN GROUP

CT. SINGLE-FAMILY HOME SALES

BY COUNTY, 2013 VS 2014

RANK ORDERED ON % CHANGE

	<u>2013</u>	<u>2014</u>	<u>% CH</u>
WINDHAM	859	959	11.6%
MIDDLESEX	1,237	1,376	11.2%
NEW LONDON	1,937	2,029	4.8%
TOLLAND	1,137	1,172	3.1%
LITCHFIELD	1,559	1,586	1.7%
HARTFORD	6,664	6,577	-1.3%
NEW HAVEN	5,338	5,165	-3.2%
FAIRFIELD	7,188	6,796	-5.5%

SOURCE: WARREN GROUP

CT. SINGLE-FAMILY HOME PRICES **BY COUNTY, YTD 2014 VS. YTD 2015 (4/15)** **RANK ORDERED ON % CHANGE**

	<u>YTD2014</u>	<u>YTD2015</u>	<u>% CH</u>
NEW LONDON	\$198,000	\$203,289	2.7%
FAIRFIELD	\$439,500	\$439,000	-0.1%
NEW HAVEN	\$200,000	\$198,000	-1.0%
HARTFORD	\$200,000	\$197,000	-1.5%
LITCHFIELD	\$211,500	\$205,000	-3.1%
TOLLAND	\$216,600	\$209,900	-3.1%
MIDDLESEX	\$254,500	\$245,000	-3.7%

SOURCE: WARREN GROUP

CT. SINGLE-FAMILY HOME SALES BY COUNTY, YTD 2014 VS. YTD 2015 (4/15) RANK ORDERED ON % CHANGE

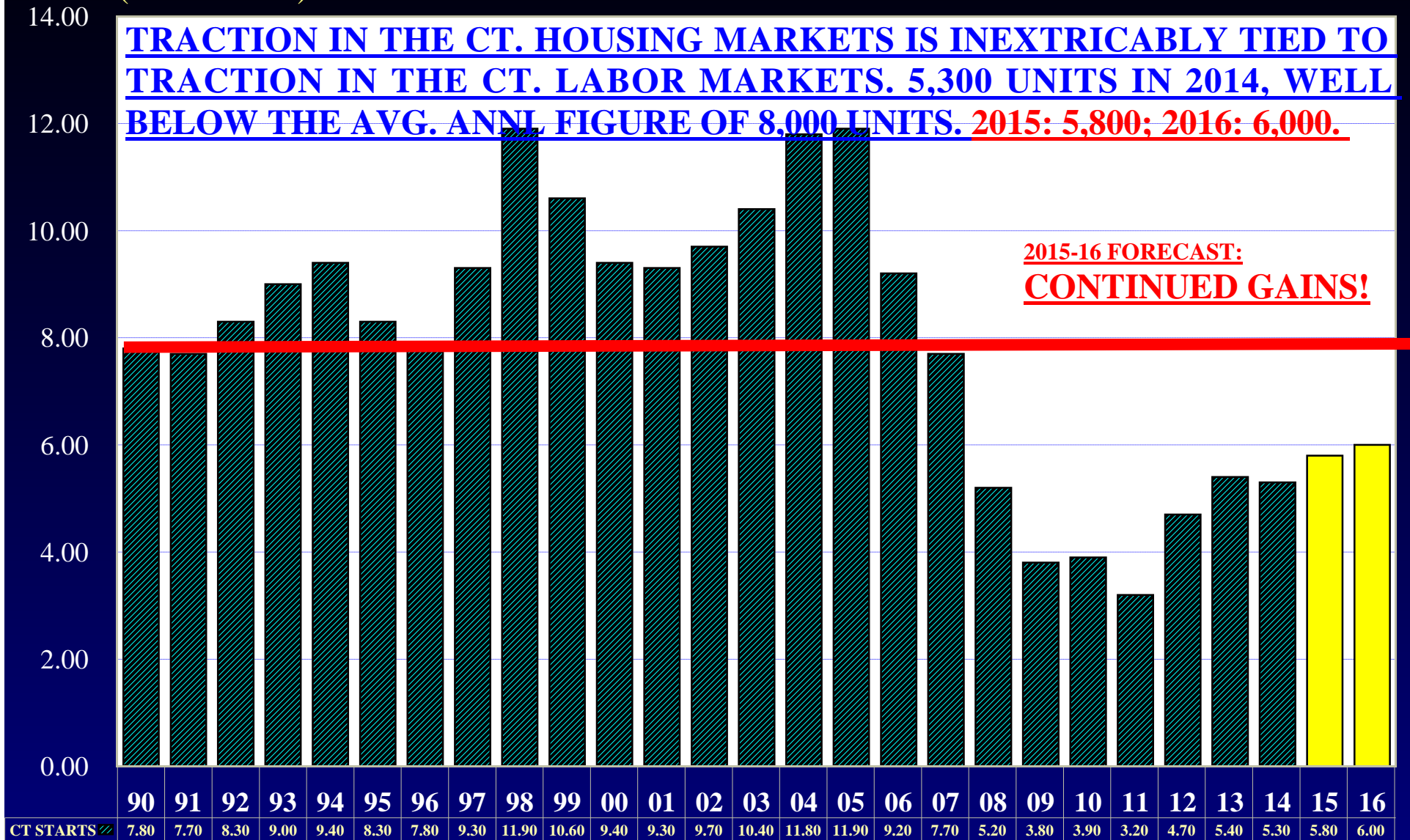
	<u>YTD2014</u>	<u>YTD2015</u>	<u>% CH</u>
LITCHFIELD	360	413	14.7%
WINDHAM	229	258	12.7%
FAIRFIELD	1,538	1,706	10.9%
NEW HAVEN	1,281	1,419	10.8%
NEW LONDON	496	541	9.1%
MIDDLESEX	320	339	5.9%
TOLLAND	264	275	4.2%
HARTFORD	1,564	1,574	0.6%

SOURCE: WARREN GROUP

CT. NEW HOUSING STARTS AS AUTHORIZED BY BUILDING PERMITS

(000 of units)

TRACTION IN THE CT. HOUSING MARKETS IS INEXTRICABLY TIED TO
TRACTION IN THE CT. LABOR MARKETS. 5,300 UNITS IN 2014, WELL
BELOW THE AVG. ANNL FIGURE OF 8,000 UNITS. 2015: 5,800; 2016: 6,000.



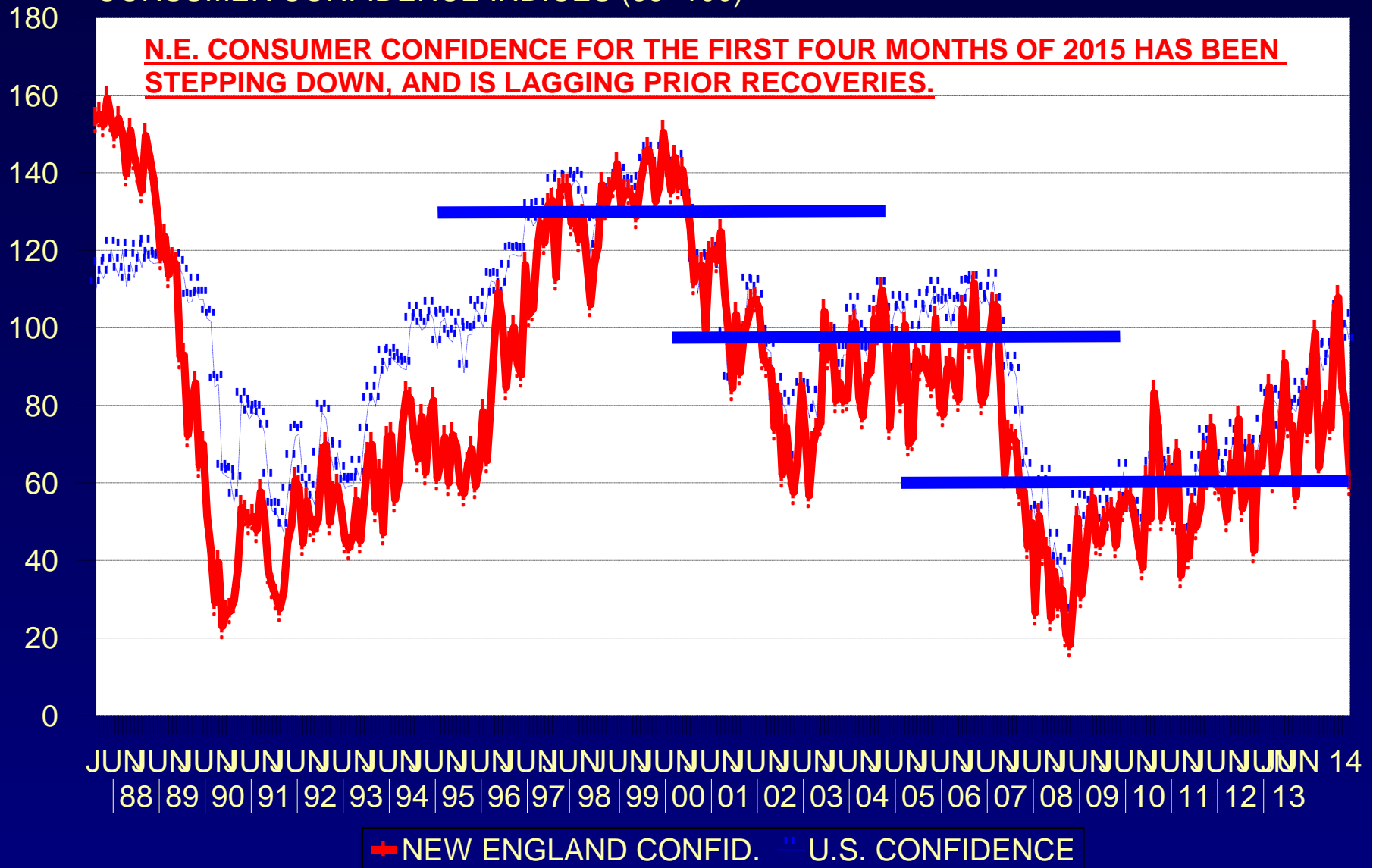
Source: DECD, DataCore Partners LLC, forecast begins in 2015

IT ALL BOILS DOWN TO
ONE WORD:
CONFIDENCE!

CONSUMER CONFIDENCE (U.S. VS. NEW ENGLAND, JAN 88- APR 2015)

CONSUMER CONFIDENCE INDICES (85=100)

N.E. CONSUMER CONFIDENCE FOR THE FIRST FOUR MONTHS OF 2015 HAS BEEN STEPPING DOWN, AND IS LAGGING PRIOR RECOVERIES.



SOURCE: CONFERENCE BOARD

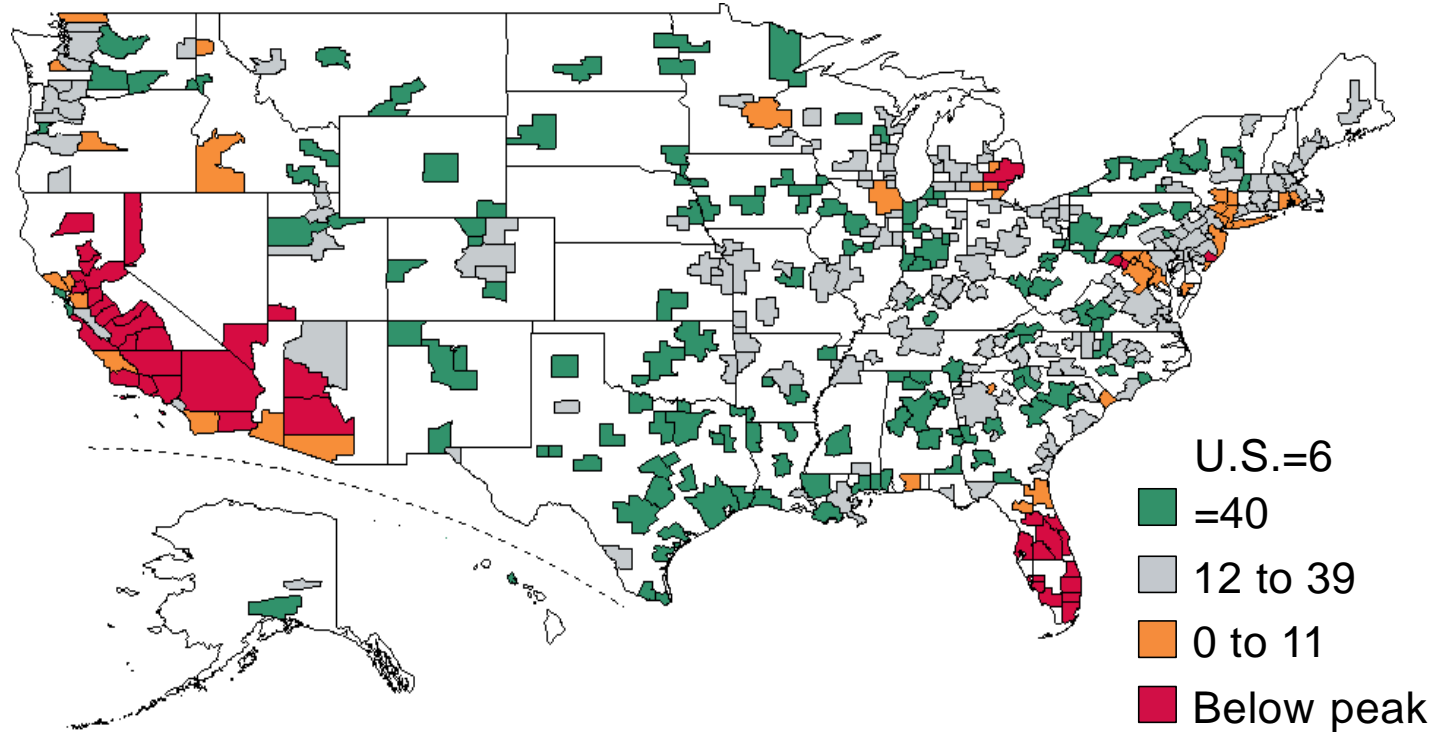
SUMMARY AND CONCLUSIONS:

-) THE HOUSING RECOVERY LOOKS TO STAY ON TRACK IN 2015, BOTH AT THE NATIONAL AND HERE IN CONNECTICUT. EXPECT POCKETS OF STRENGTH AND WEAKNESS AT THE LOCAL LEVEL AS SUPPLY & DEMAND FACTORS VARY GREATLY.
-) KEEP IN MIND THAT “ANY TRACTION IN THE LOCAL HOUSING MARKETS IS INEXTRICABLY TIED TO THE HEALTH OF THE LOCAL LABOR MARKETS”. THEY GO HAND IN HAND! CONNECTICUT’S LABOR MARKETS ARE HEALING SLOWLY, WHICH MEAN “TEMPERED GROWTH” WITHIN THE LOCAL HOUSING MARKETS.
-) CT.’S JOB RECOVERY RATE, NOW AT 78%, WILL CONTINUE TO LAG THE NATIONAL AVERAGES, WHICH IS NOW AT 134%.
-) CT RANKED 44TH IN JOB GROWTH, UP 0.8%, RANKING 5TH OUT OF 6 STATES IN NEW ENGLAND. LOOK FOR 12,000-15,000 NEW JOBS IN 2015.
-) PROFOUND STRUCTURAL CHANGES ARE RESHAPING THE DOMESTIC ECONOMY, HELPING TO CREATE AN EMERGING “NEW ECONOMIC NORMAL”.

NOT ALL LOCAL HOUSING MARKETS ARE EXPECTED TO REACH THEIR PRIOR PRICE PEAKS

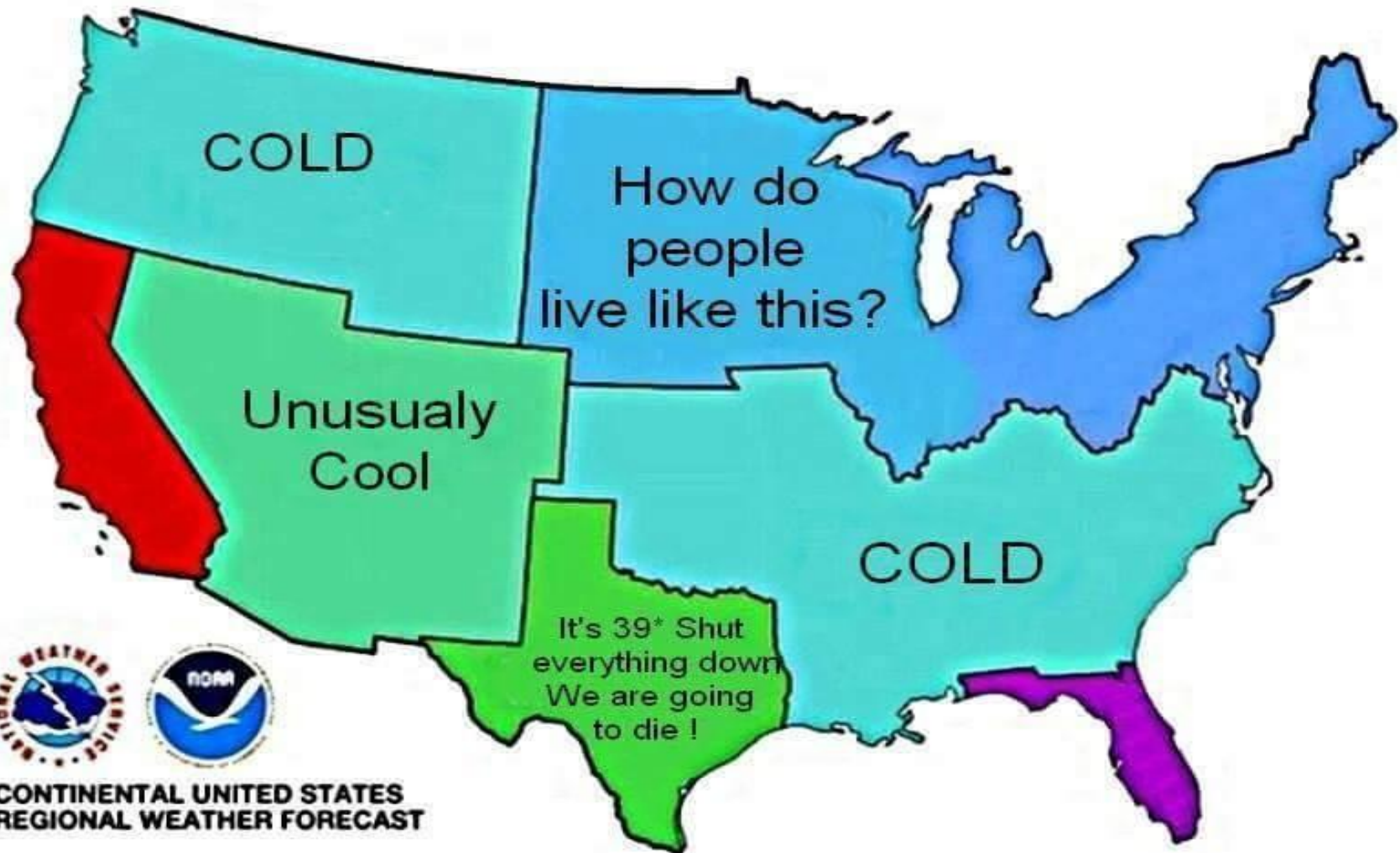
Most Regions Will Rise Above Previous Peak

Case-Shiller® Home Price Index, % change 2006 to 2023



Sources: CoreLogic, Moody's Analytics

THE MORE RELEVANT MAP:



Don Klepper-Smith

-) Chief Economist and Director of Research, DataCore Partners, Inc., a consulting firm specializing in economic & demographic analysis, market research, and customer satisfaction programs (1996-present)
-) Economics Commentator, WTNH Television, New Haven CT (2000 to present)
-) SNET's Corporate Economist, specializing in economic analysis, economic modeling, demographics & forecasting- 1982-1996
-) Over 25 years of experience as a professional economist involving public utility issues, having been involved with multiple economic impact analyses involving telecommunications, electric utilities and various retail developments, 1979-99
-) Former Chair: Governor Rell's Council of Economic Advisors (2007-2010)
-) Two-Time Economic Advisor to the Governor of the State of Connecticut, (Weicker, Rell)
-) Past President of Economic Club of CT, longtime member of NABE, 1984-86
-) Represented State of CT before multiple Bond Rating agencies on Wall Street, trying to improve State's bond rating- 1996
-) MPA from S.U.N.Y at Stony Brook focusing on economics, econometric modeling, statistics & forecasting theory-1978
-) B.S. in Applied Mathematics from S.U.N.Y at Stony Brook- 1975
-) Clients now include AT&T, CBIA, United Illuminating, Farmington Bank, CERC, State of CT, the U.S Small Business Administration, CT. Hospital Assn, The Workforce Alliance, and many CT Towns and Municipalities