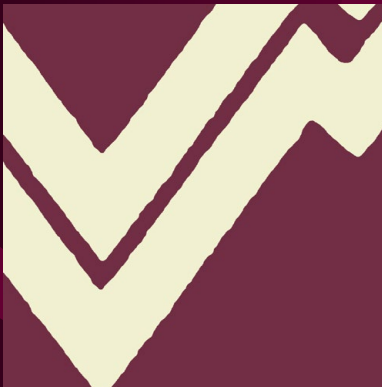


Economic and Revenue Review for the Vermont State Legislature

December 4, 2024

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to the Vermont State Legislature



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Everyone Hates Inflation, but the Economy by the Numbers Rarely Gets Much Better Than This...

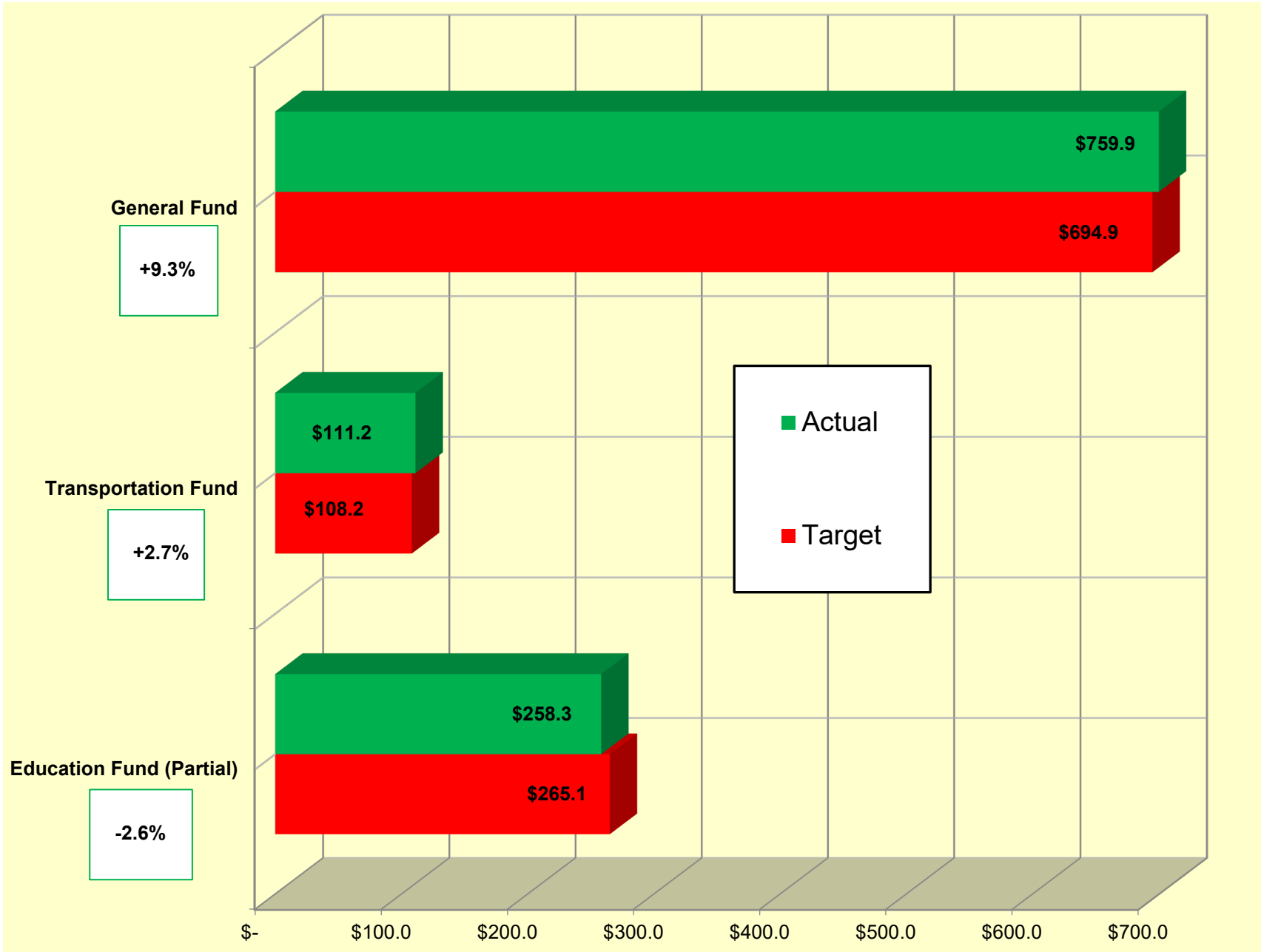
- Inflation is down sharply, to levels that have allowed the Fed to begin lowering interest rates, thereby supporting future investment and growth (with substantial lags...)
- Employment growth remains solid, despite a low October read due to hurricanes and the Boeing strike, at close to 200K new jobs per month. The unemployment rate has ticked up about a half a point from its 55 year lows in 2023, but has held steady at just over 4%
- Job openings still exceed the number of unemployed persons (both in VT and the US), but the gap has been closing, and is now approaching more “normal” levels
- U.S. economic growth is the envy of most of the world, with 3rd quarter real GDP growth at 2.8% (4.7% nominal), following second quarter growth of 3.0%.
- Most of this growth was powered by strong personal income growth from compensation gains, robust real consumer spending (+3.5%) and impressive productivity advances
- The stock market has reached record levels throughout the year and high asset prices, including housing, have supported massive wealth gains for those holding such assets
- Recession risks have declined precipitously, to their lowest levels in more than two years, dropping from 63% in October of 2022 to 26% in October of 2024

As a Result, State Revenues Have Been Solid - and are Slightly Above Expectations Through the First 4-5 Months of the Fiscal Year

- Through October, total revenues across all three major funds are 5.7% (about \$61M) above target. About half of this overage, however, is the result of a small number of unusually large corporate payments in September and October that are associated with non-repeating events. To date, the General Fund is up 9.3% and the Transportation Fund, up 2.7%. The Education Fund, however, is slightly (-2.6%) below target.
- November revenues are not yet final, but look to be very close to targets, reinforcing most of the October YTD narrative. As of this reading (late on 12/2), YTD revenues through November across all funds are up 4.8% (about \$62M), with the GF up 7.8%, the TF up 2.9% and the EF still down, at -2.0%.
- Aside from the anomalous Corporate Income events, almost all of the above-target revenue strength is in Personal Income, up 6.6% (\$25m) through October, along with smaller positive variances from Estate, Interest, Insurance, Property Transfer and Motor Vehicle Purchase & Use receipts.
- Weakness has been evident in several taxes that had been expected to benefit from tax increases that may be delayed or below session projections, including the large Meals & Rooms and Sales & Use taxes, both of which are prominent contributors to the Education Fund. In addition to these, other E-Fund laggards include Lottery (-13.8%) and the erratic EF Interest category (-60.6%).
- Another complicating factor is the uncertainty associated with CCC revenues, which we are carrying on the revenue tracking sheets as estimated yields, not actuals. The first actual accruals were due on 10/25 for the first quarter of FY25 and were substantially lower than expected. This is not unusual with new taxes such as this, as compliance and processing issues get ironed out and tax preparers adjust to the new regime. As discussed in July, this is likely to remain an area of uncertainty through most of FY25.

FY25 Revenues by Fund Through October 2024 (preliminary)

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



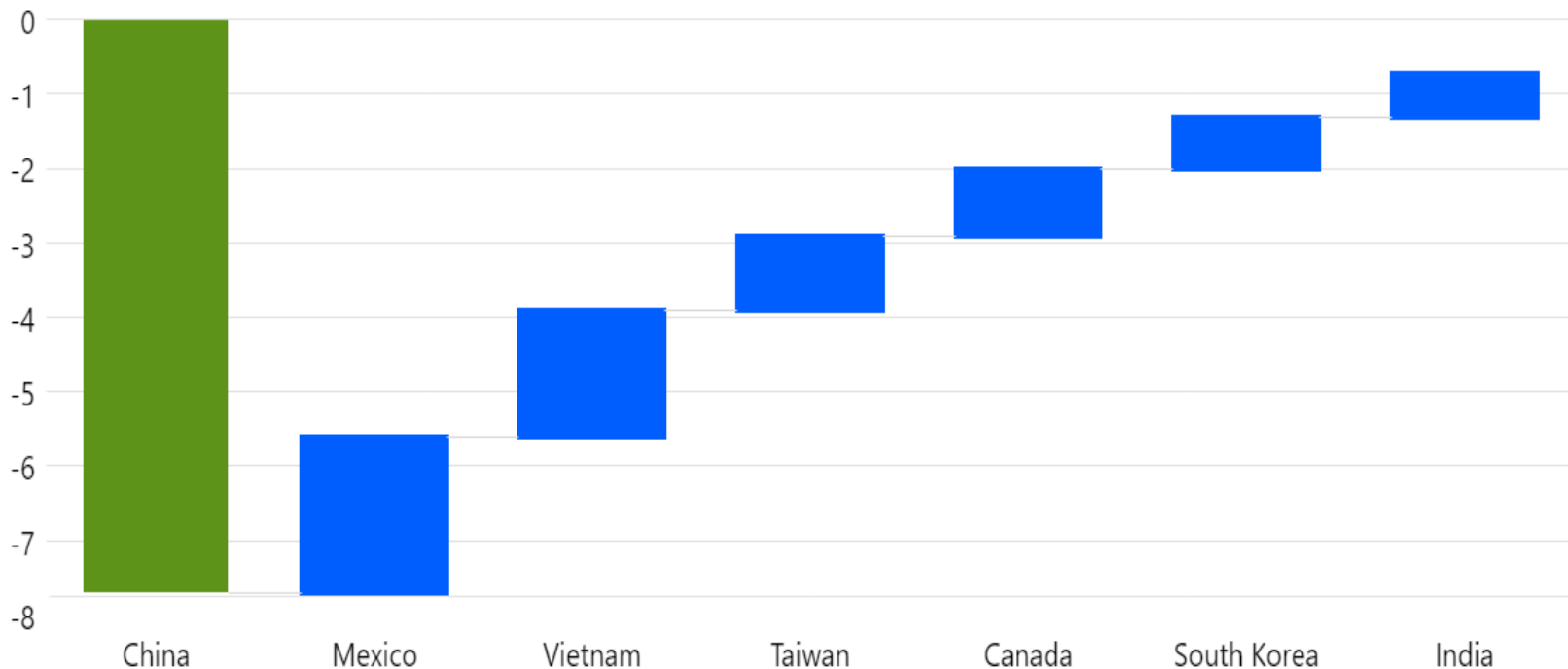
Last Month, However, the Electorate Voted for Change, and the New Administration is Poised to Deliver It

- Increased tariffs are coming, aimed at friend and foe alike, but with particular attention to China, raising concerns about potential inflationary effects, as well as offsetting interest rate responses
- Legal and illegal immigration is likely to slow and deportations could reverse net immigration flows, shrinking this critical segment of the labor market - which could also contribute to higher inflation
- TCJA tax cuts are likely to be extended along with other unfunded tax cuts and spending. As a result, deficit spending and rising U.S. debt are likely to continue throughout the next four years
- Regulations governing a wide range of economic sectors could be drastically reduced, enhancing near-term output and efficiency but also potentially creating business uncertainty
- Federal Reserve Board independence may be challenged, as well as other traditionally “neutral” institutions such as the judiciary and military, with longer term economic implications
- Although Trump 2.0 policy directions are clear, when and how substantive the changes may be are still uncertain, with a wide range of potential economic and revenue impacts

Moody's Analytics, Whose Macroeconomic Forecasts We Utilize, Has Quantified Likely Economic Impacts from Announced Trump Policies, as Follows:

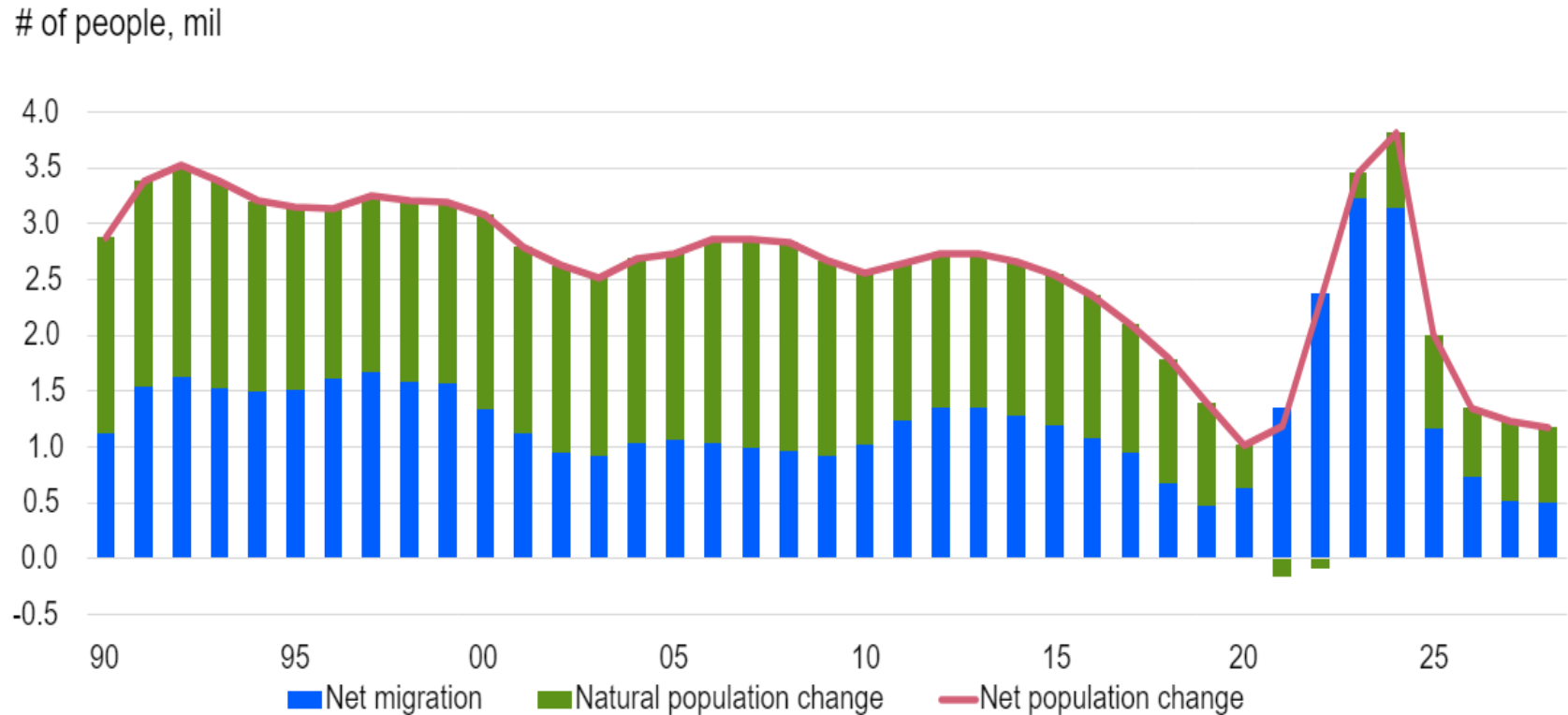
Tariffs Will Raise US Consumer and Business Prices, Increase Federal Revenue, and Distribute Global Impacts Disproportionately

Change in share of U.S. goods imports between 2017 and 2023, ppt



Sources: U.S. Census Bureau, Moody's Analytics

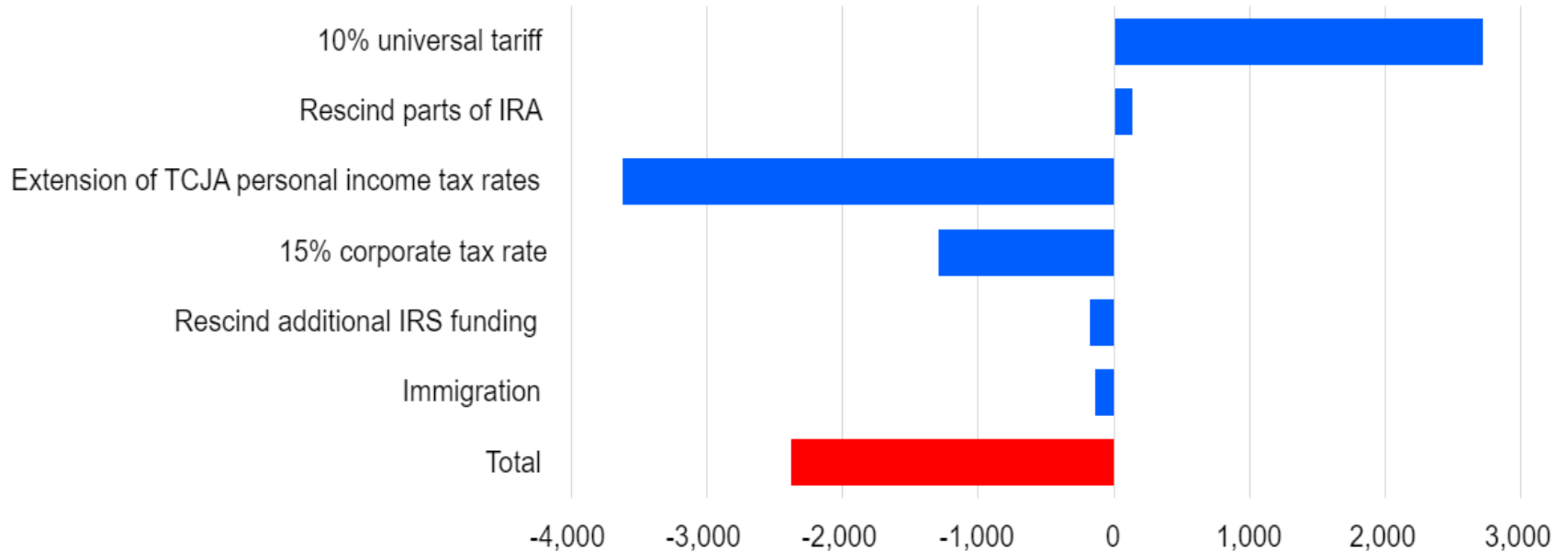
Less Immigration Will Result in Weaker Population, Labor Force and Output Growth



Sources: U.N., Moody's Analytics

Announced Trump Policies Will Result in Larger and Sustained Budget Deficits

10-yr static federal budget deficit impact , Republican Sweep scenario, \$ bil



Source: Moody's Analytics

With Globalization Set to Stall Further, Some New Domestic Jobs Will be Added but at a Very High U.S. Cost Per Job

Global merchandise exports plus imports, volume basis, 2001=100



Sources: CPB World Trade Monitor, Moody's Analytics

Moody's Projected Macroeconomic Impacts of Trump's Economic Policies

Note: Policy rate and 10-yr sovereign yield are as of Q4

United States

	Real GDP growth, %			CPI inflation, %			Federal funds rate, %			10-yr Treasury yield, %		
	Nov baseline	Dec baseline	Difference	Nov baseline	Dec baseline	Difference	Nov baseline	Dec baseline	Difference	Nov baseline	Dec baseline	Difference
2024	2.7	2.7	0.0	2.9	2.9	0.0	4.6	4.6	0.0	4.1	4.3	0.2
2025	2.2	2.0	-0.2	2.3	2.7	0.5	3.5	4.0	0.4	4.2	4.5	0.3
2026	2.0	1.6	-0.5	2.4	2.5	0.1	3.0	3.2	0.3	4.1	4.4	0.3
2027	2.2	2.1	0.0	2.3	2.3	0.0	3.0	3.0	0.0	4.1	4.3	0.1
2028	2.3	2.4	0.0	2.3	2.2	-0.1	3.0	3.0	0.0	4.1	4.3	0.1

Sources: BEA, BLS, Federal Reserve, Moody's Analytics

Canada

	Real GDP growth, %			CPI inflation, %			BoC overnight rate, %			10-yr Treasury yield, %		
	Nov baseline	Dec baseline	Difference	Nov baseline	Dec baseline	Difference	Nov baseline	Dec baseline	Difference	Nov baseline	Dec baseline	Difference
2024	1.1	1.1	0.0	2.4	2.4	0.0	4.0	4.0	0.0	3.3	3.3	0.0
2025	1.8	1.1	-0.7	2.0	2.2	0.2	2.8	2.5	-0.3	3.7	3.8	0.1
2026	1.7	1.6	-0.1	1.9	1.8	-0.1	2.5	2.5	0.0	3.8	3.6	-0.2
2027	2.1	2.1	0.0	2.1	2.0	-0.1	2.5	2.5	0.0	3.9	3.7	-0.2
2028	2.1	2.1	0.0	2.2	2.1	-0.1	2.5	2.5	0.0	3.8	3.8	0.0

Sources: Statistics Canada, Bank of Canada, Moody's Analytics

China

	Real GDP growth, %			CPI inflation, %			1-yr loan prime rate, %			10-yr govt. bond yield, %		
	Nov baseline	Dec baseline	Difference	Nov baseline	Dec baseline	Difference	Nov baseline	Dec baseline	Difference	Nov baseline	Dec baseline	Difference
2024	4.9	4.9	0.0	0.5	0.5	0.0	3.0	3.0	0.0	2.1	2.1	0.0
2025	4.7	4.2	-0.5	2.1	2.1	0.1	2.9	2.8	-0.1	2.1	2.0	-0.1
2026	4.2	3.7	-0.6	2.3	2.4	0.1	2.9	2.7	-0.2	2.1	1.9	-0.2
2027	4.1	4.5	0.4	2.5	2.4	-0.1	3.2	2.7	-0.5	2.4	1.9	-0.5
2028	4.2	4.4	0.2	2.7	2.7	0.0	3.4	2.8	-0.6	2.6	2.0	-0.6

Sources: China NBS, PBoC, Moody's Analytics

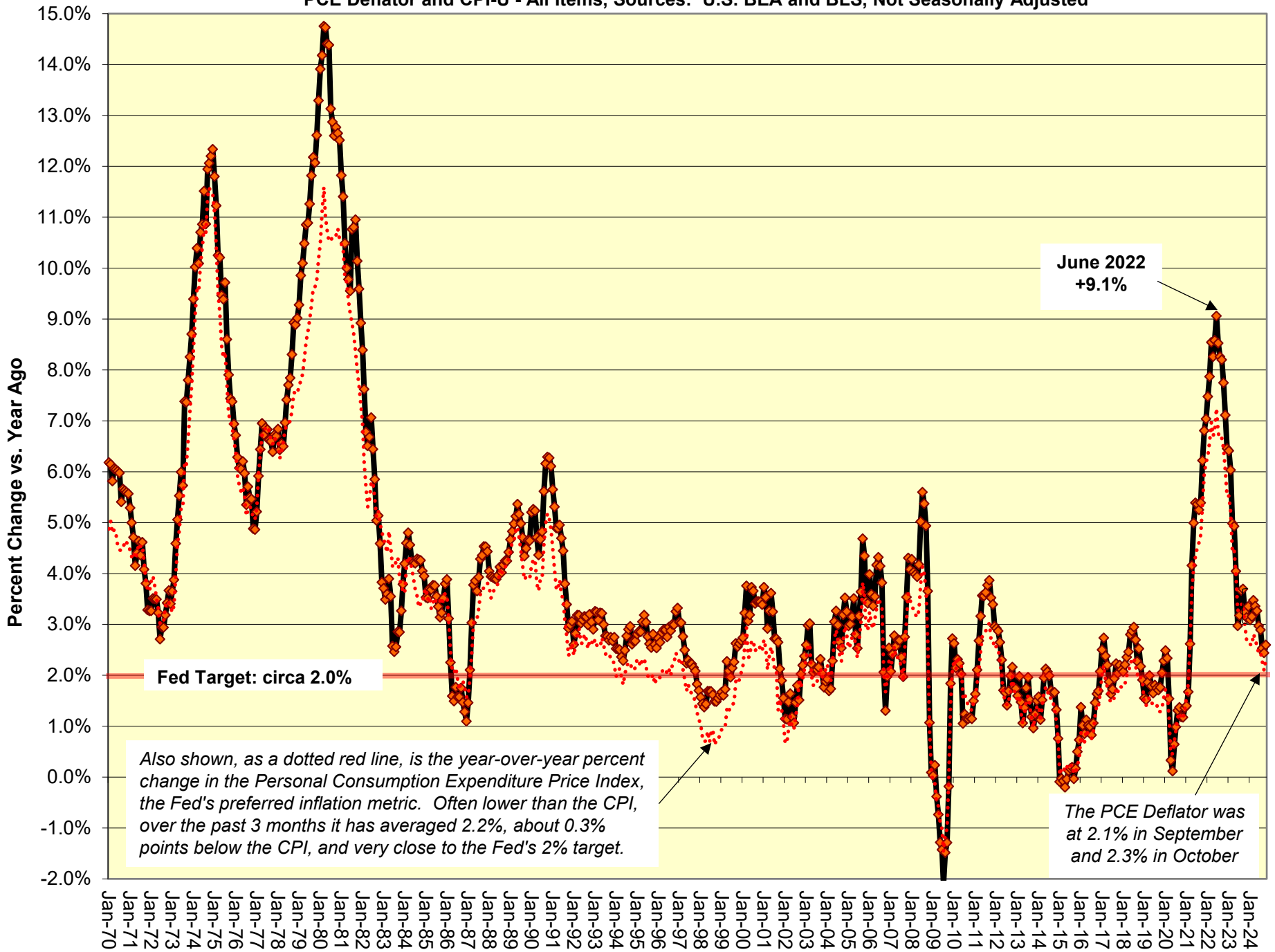
Euro Zone

	Real GDP growth, %			CPI inflation, %			ECB rate, %			10-yr Treasury yield, %		
	Nov baseline	Dec baseline	Difference	Nov baseline	Dec baseline	Difference	Nov baseline	Dec baseline	Difference	Nov baseline	Dec baseline	Difference
2024	0.8	0.8	0.0	2.4	2.4	0.0	3.7	3.7	0.0	3.0	3.0	0.0
2025	1.4	1.3	-0.1	2.0	2.1	0.1	2.7	2.4	-0.2	2.9	3.1	0.1
2026	1.7	1.4	-0.3	2.0	2.1	0.1	2.3	2.3	0.0	2.8	3.0	0.1
2027	1.6	1.9	0.2	2.0	1.9	-0.1	2.3	2.3	0.0	2.9	2.9	0.0
2028	1.4	1.5	0.1	2.1	2.0	-0.1	2.3	2.3	0.0	2.9	2.9	0.0

Sources: Eurostat, ECB, Moody's Analytics

Close Enough: Inflation Approaches Fed Targets, Allowing Rate Cuts to Begin

PCE Deflator and CPI-U - All Items, Sources: U.S. BEA and BLS, Not Seasonally Adjusted



Fed Target: circa 2.0%

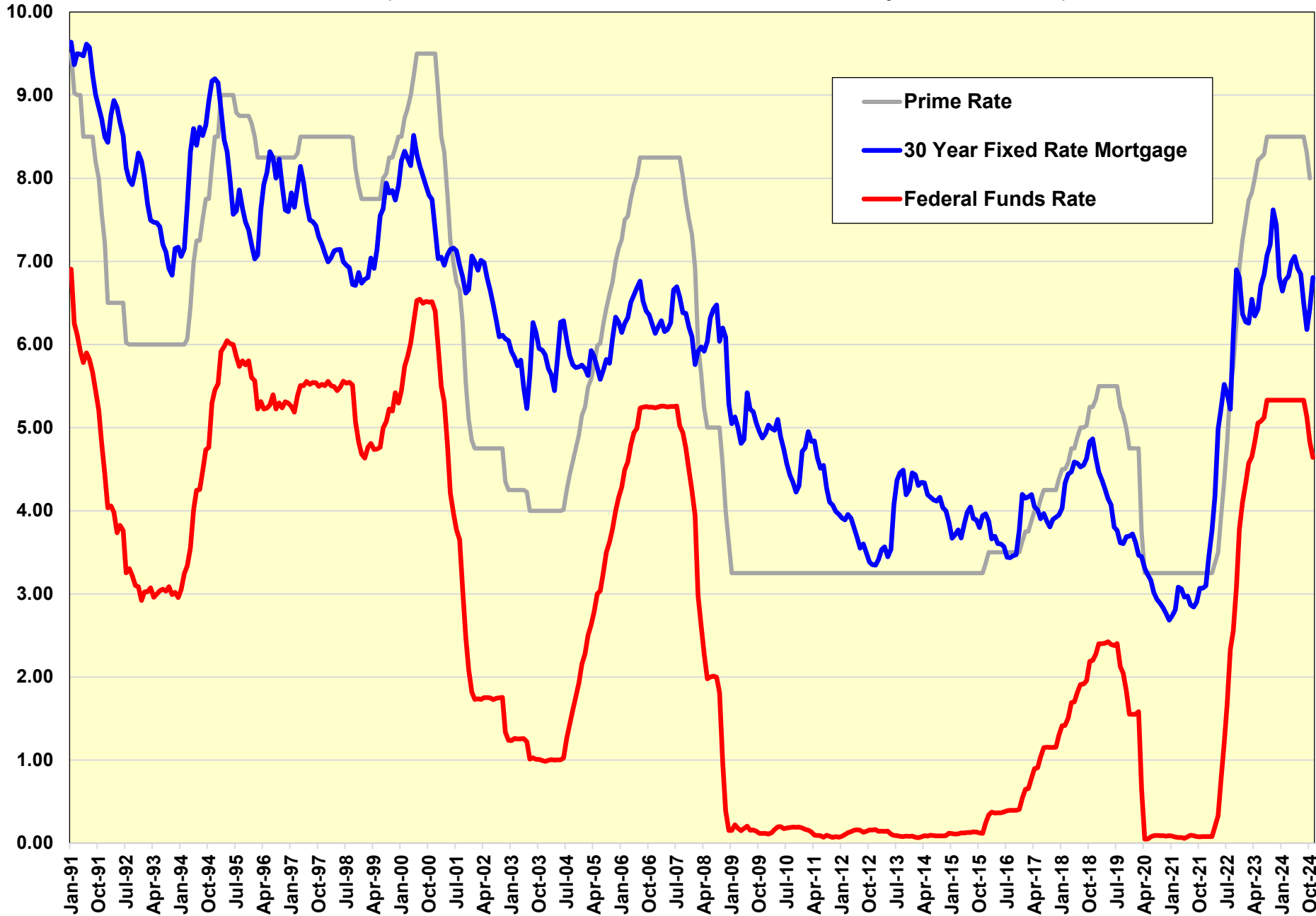
June 2022
+9.1%

Also shown, as a dotted red line, is the year-over-year percent change in the Personal Consumption Expenditure Price Index, the Fed's preferred inflation metric. Often lower than the CPI, over the past 3 months it has averaged 2.2%, about 0.3% points below the CPI, and very close to the Fed's 2% target.

The PCE Deflator was at 2.1% in September and 2.3% in October

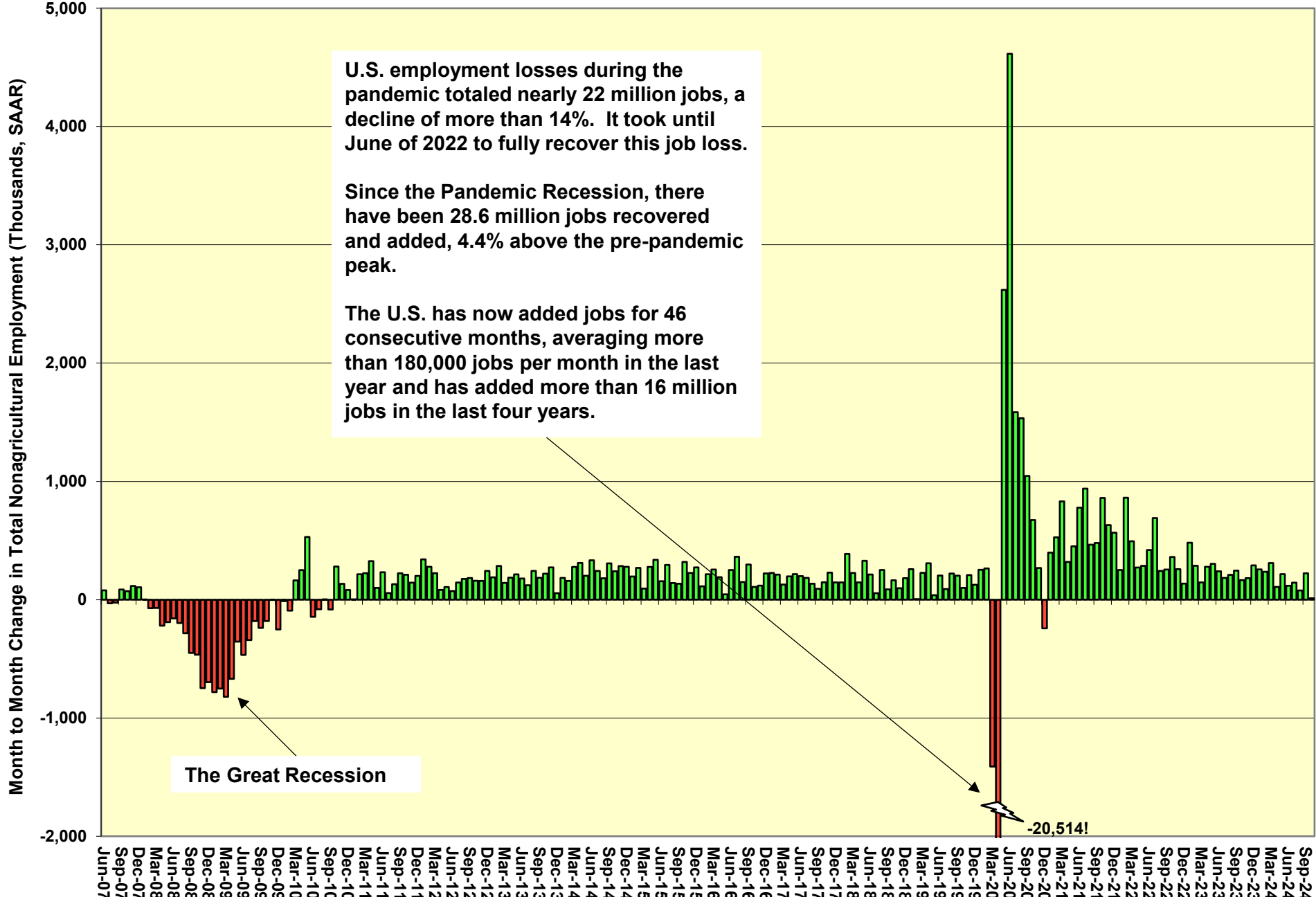
The Fed Begins to Cut Interest Rates, But They Remain Highly Restrictive and There Will be Long Lags Before Full Economic Benefits Arrive

(Sources: Board of Governors of the Federal Reserve System, Freddie Mac)



Interest Rate Headwinds Slow U.S. Employment Growth, But It Remains Positive

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



U.S. employment losses during the pandemic totaled nearly 22 million jobs, a decline of more than 14%. It took until June of 2022 to fully recover this job loss.

Since the Pandemic Recession, there have been 28.6 million jobs recovered and added, 4.4% above the pre-pandemic peak.

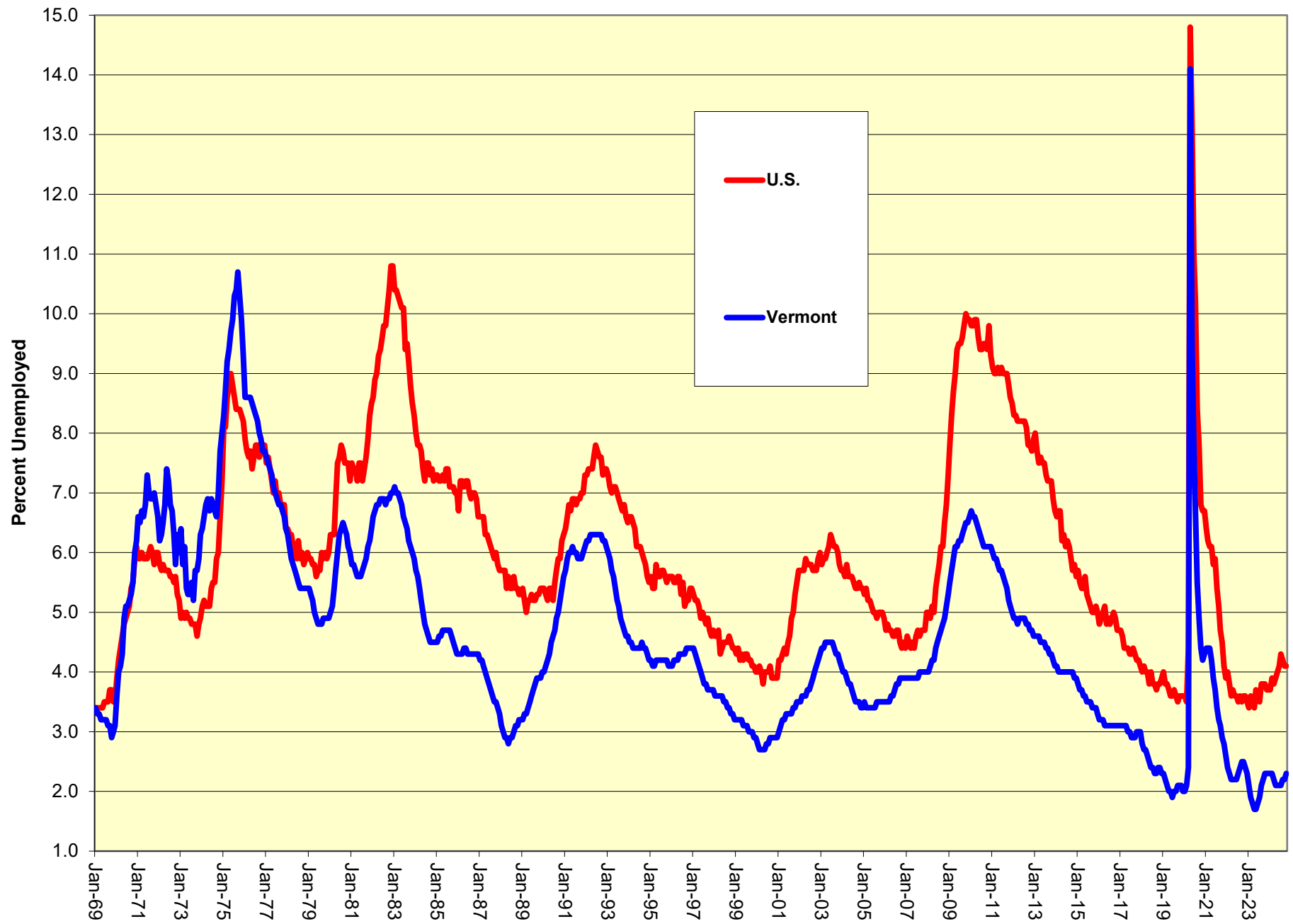
The U.S. has now added jobs for 46 consecutive months, averaging more than 180,000 jobs per month in the last year and has added more than 16 million jobs in the last four years.

The Great Recession

-20,514!

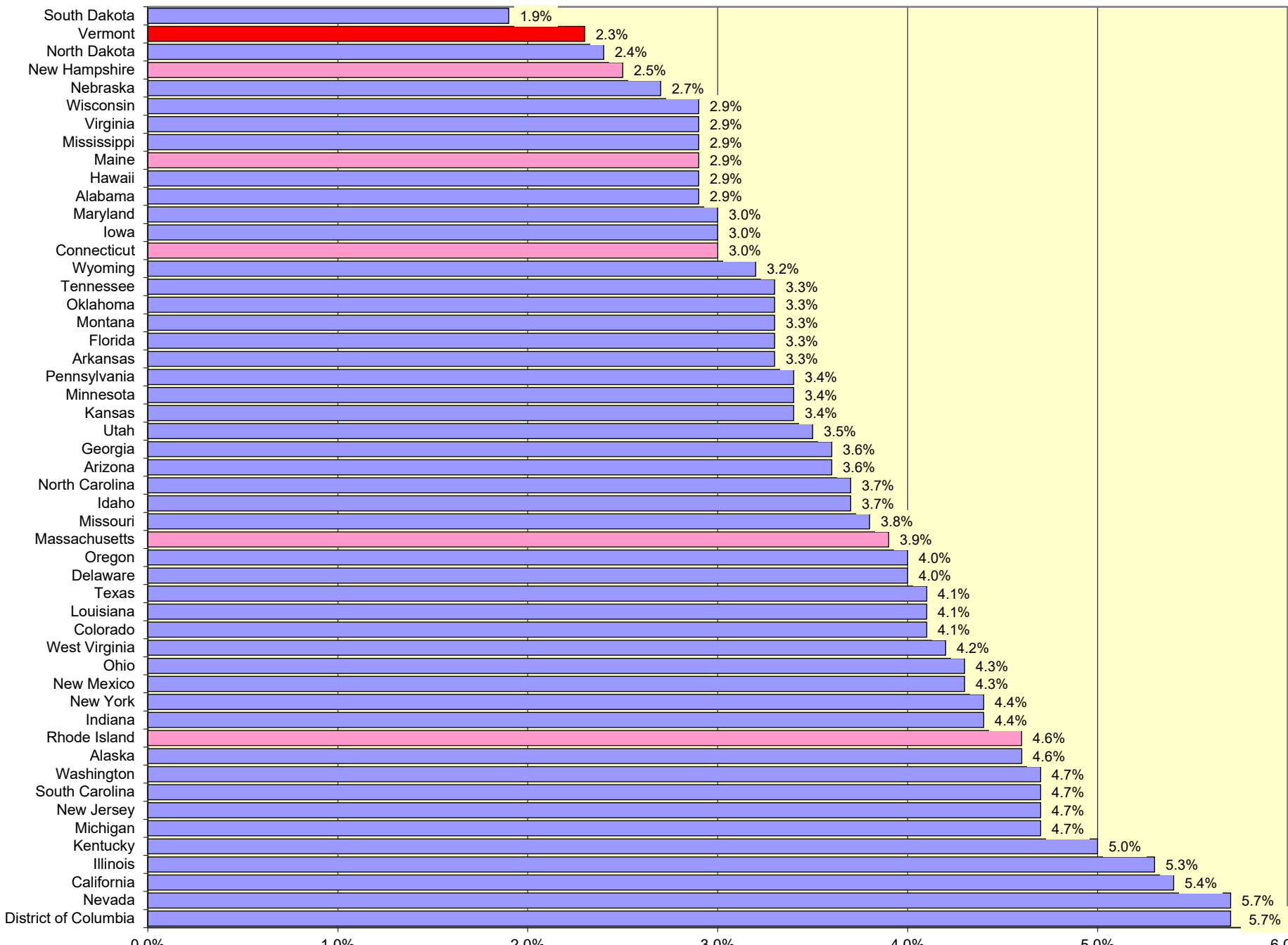
Unemployment Rates Inch Up, But Remain Close to Historic Lows

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

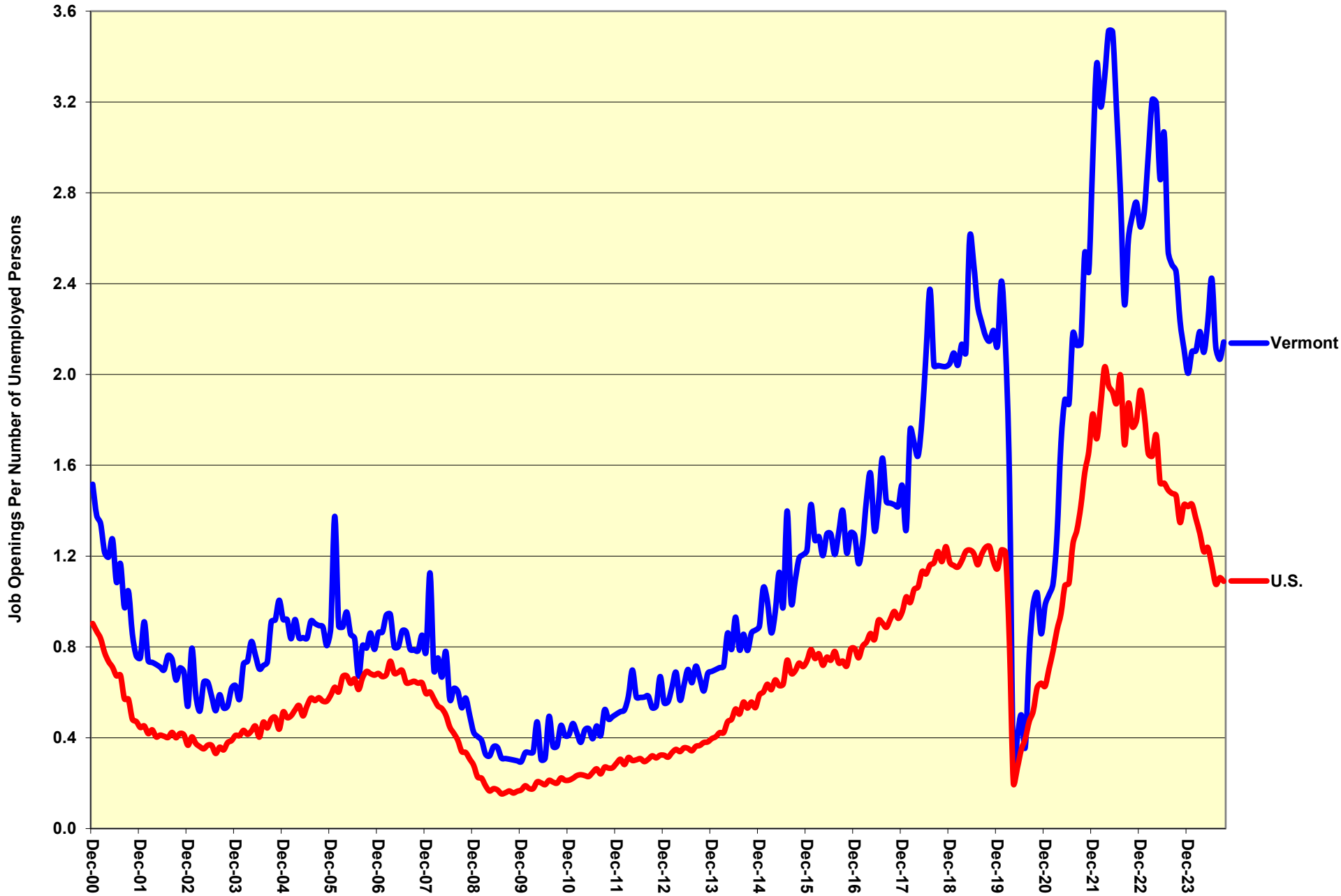


Unemployment Rate by State - October 2024

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

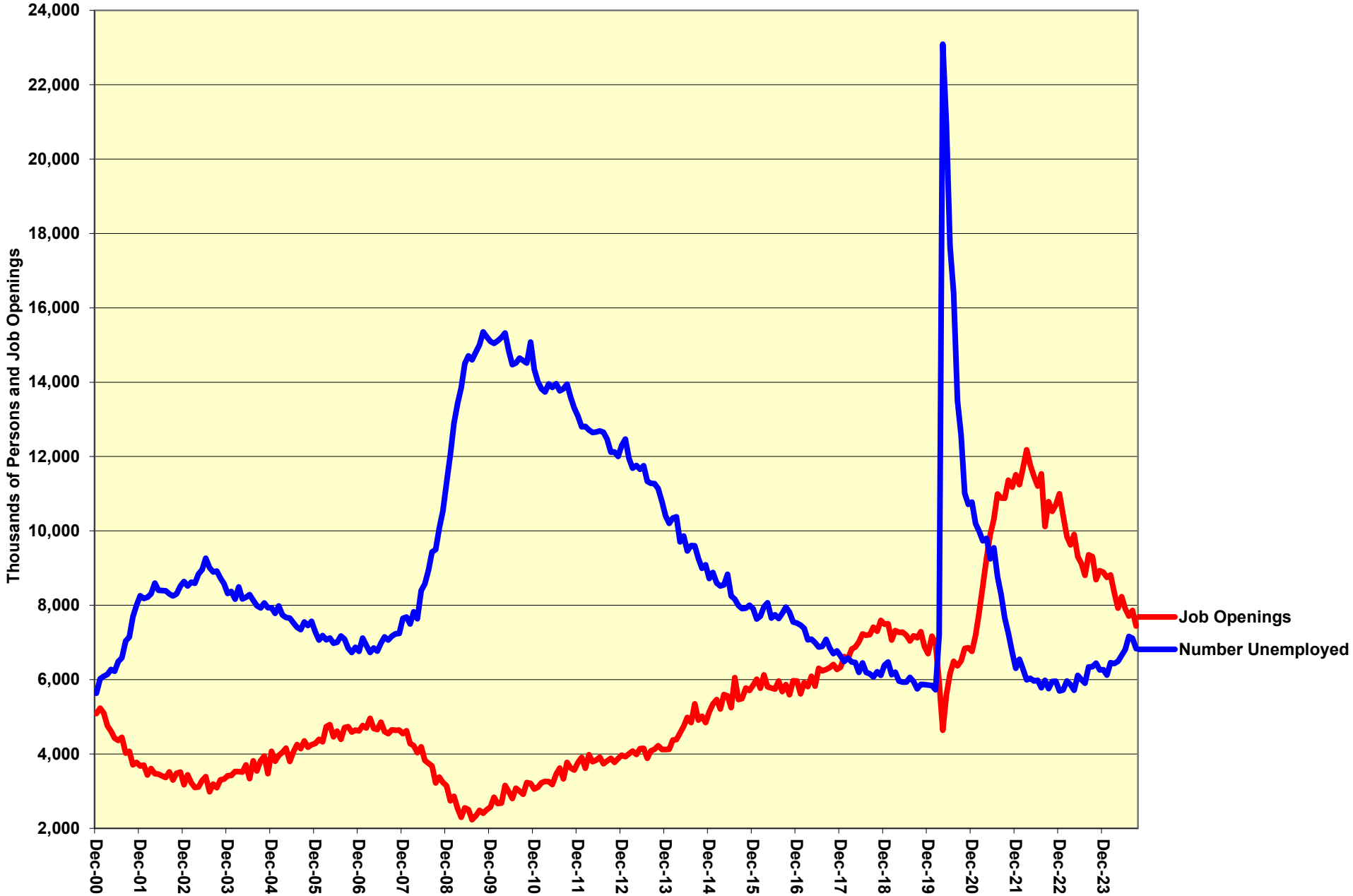


With Two Job Openings for Every Unemployed Worker, Vermont Still Far Exceeds U.S. Ratio
(Seasonally adjusted data, Source: Bureau of Labor Statistics, U.S. Department of Labor)



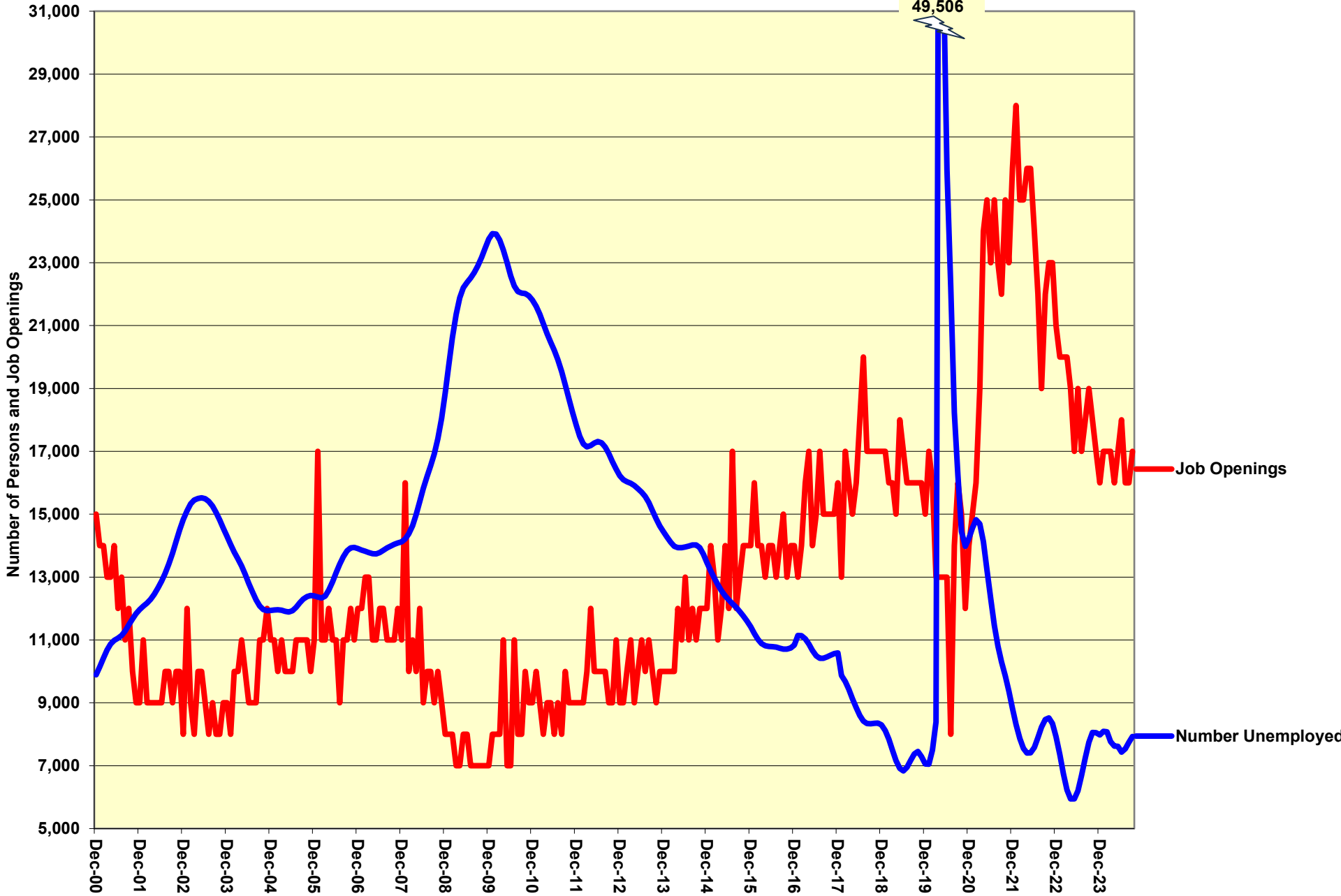
Labor Markets Slow, But U.S. Job Openings Still Exceed Unemployed Workers

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



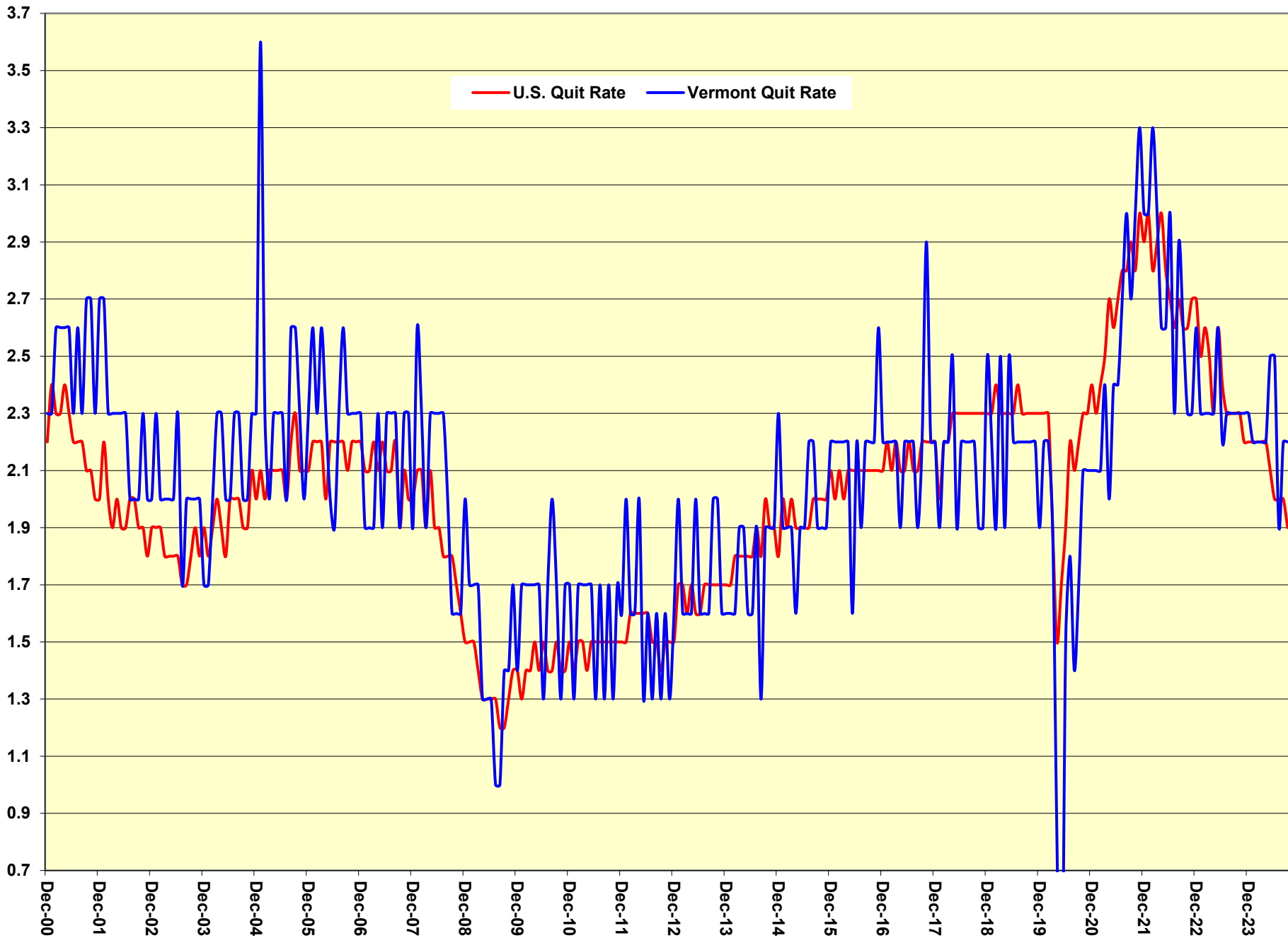
Vermont Job Openings Decline But Continue to Substantially Exceed Unemployed Worker Counts

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



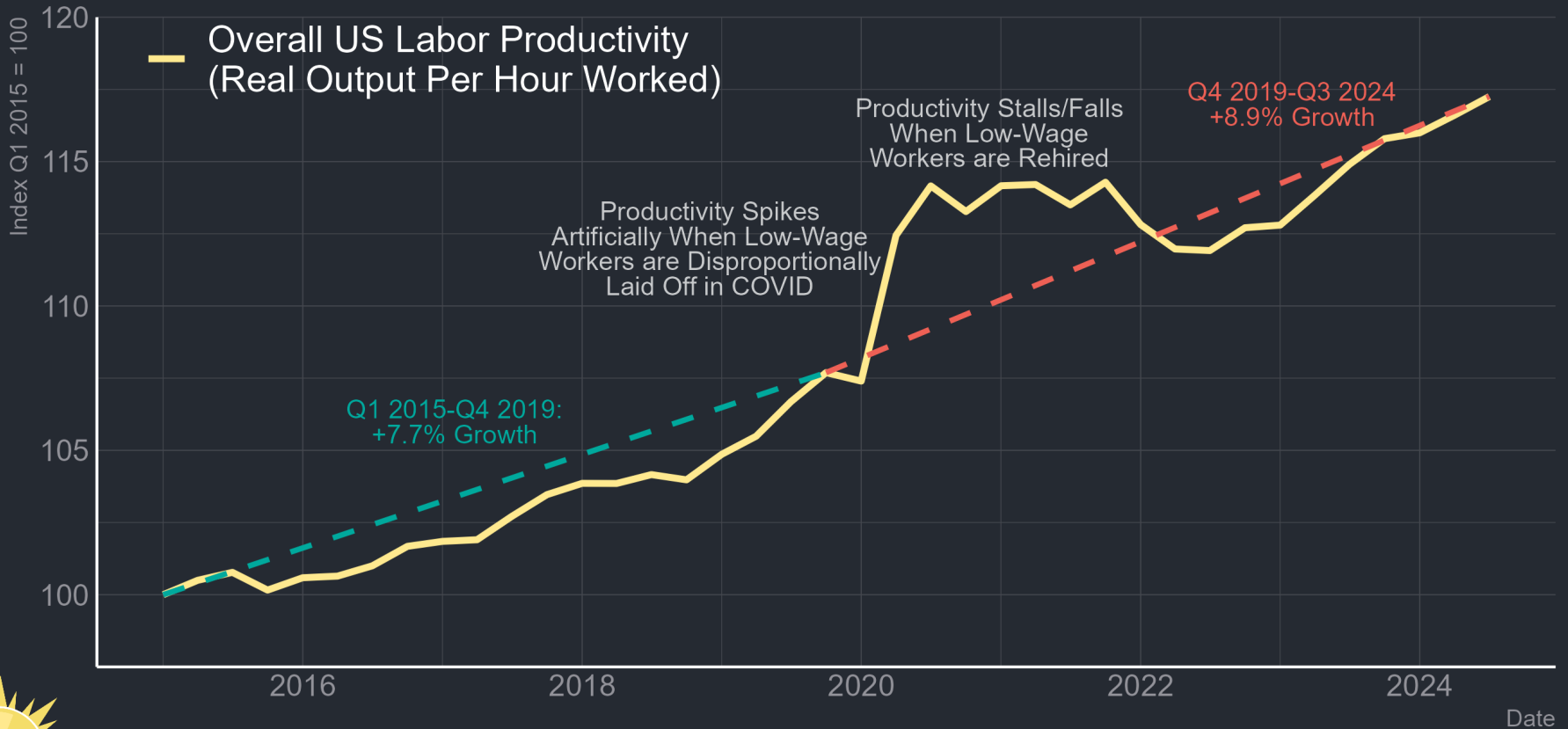
U.S. and VT Quit Rates Decline to More "Normal" Historical Levels as Labor Markets Soften

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



US Labor Productivity

Cumulative US Labor Productivity Growth Has Exceeded Pre-COVID Levels Since 2020

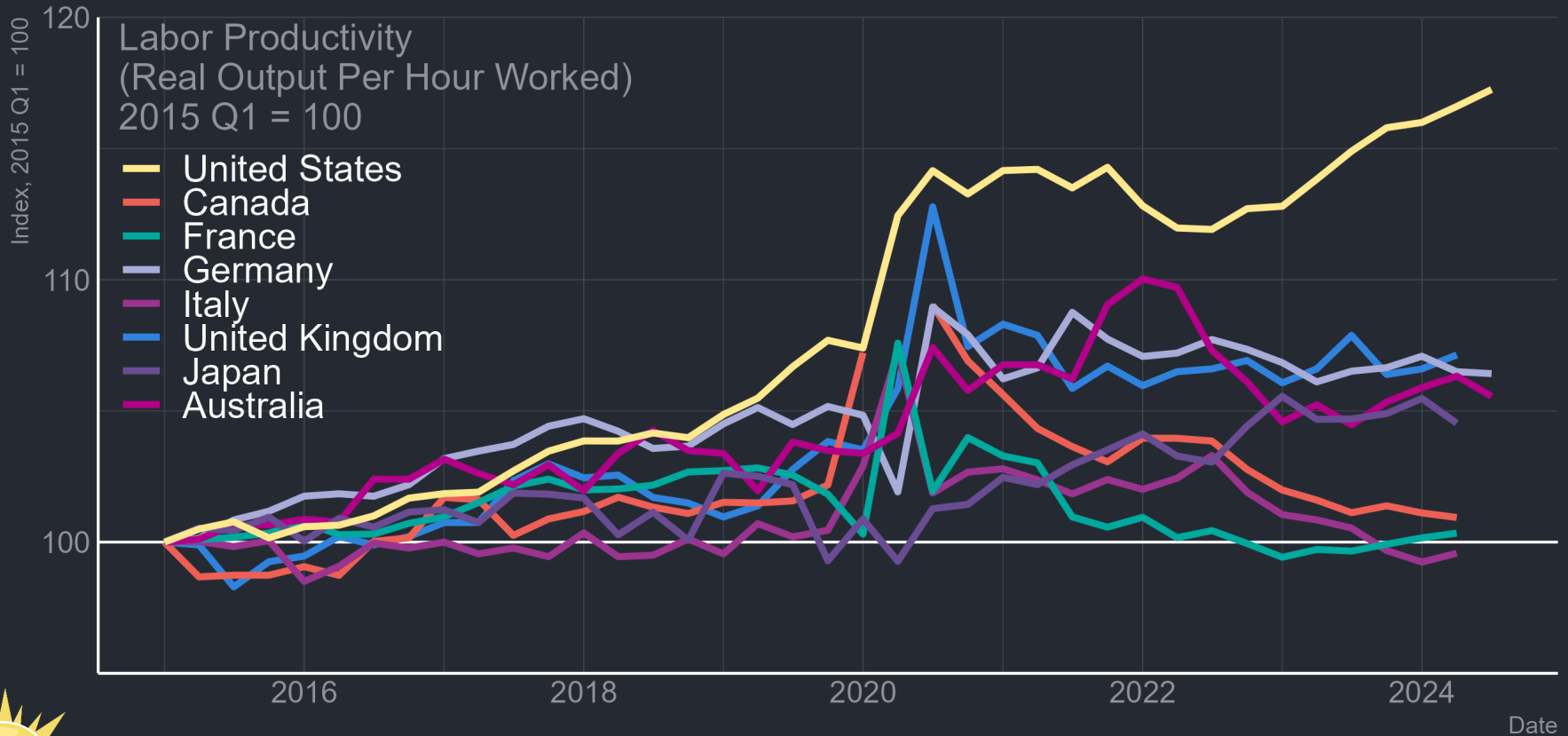


Graph created by @JosephPolitano using BLS Productivity data Nowcasted With Updated BEA GDP Data.



Comparing Labor Productivity Growth

America Has Radically Outshined Its Peers In Terms of Productivity Growth

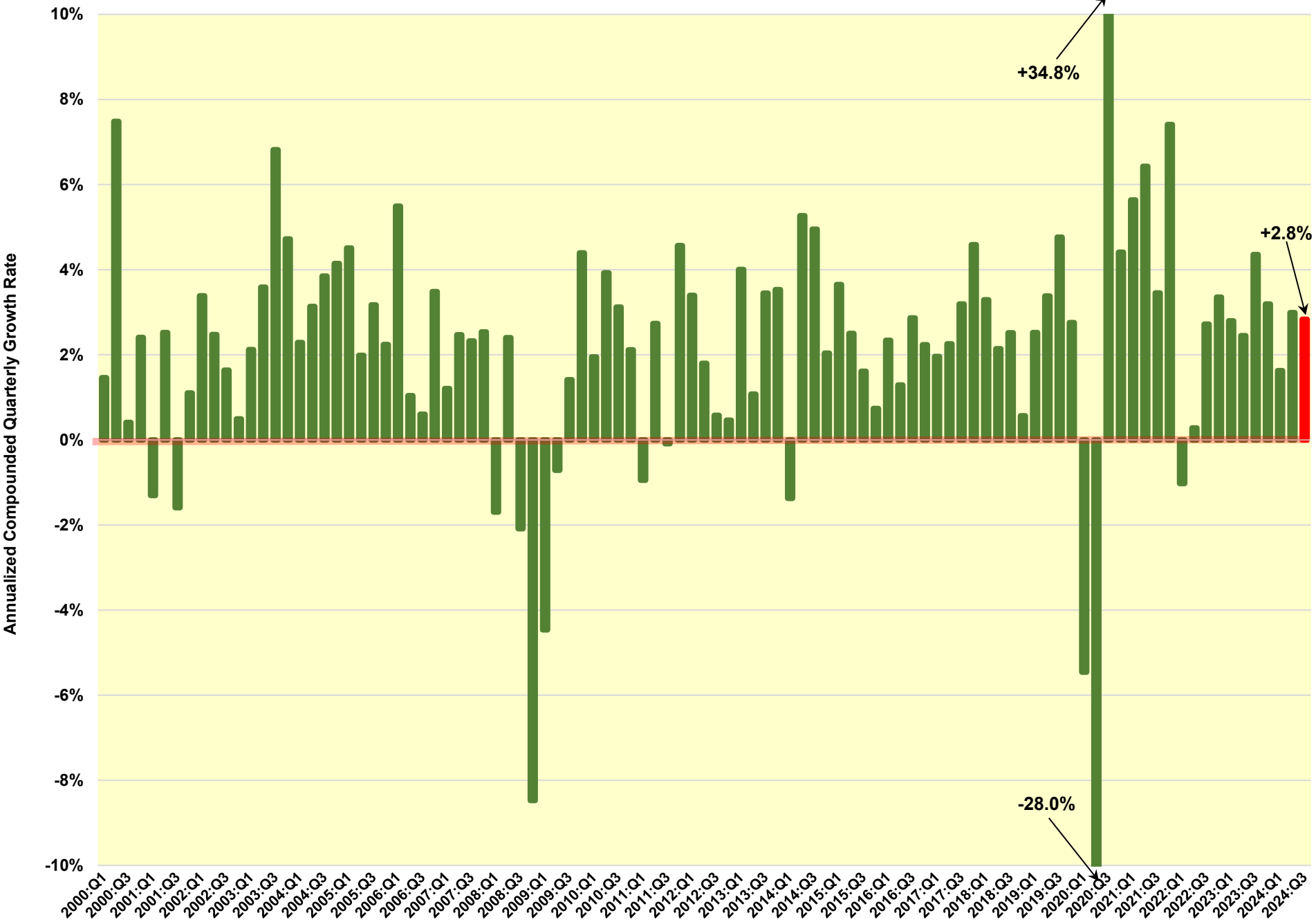


Graph created by @JosephPolitano using National Accounts data from FRED & National Databases



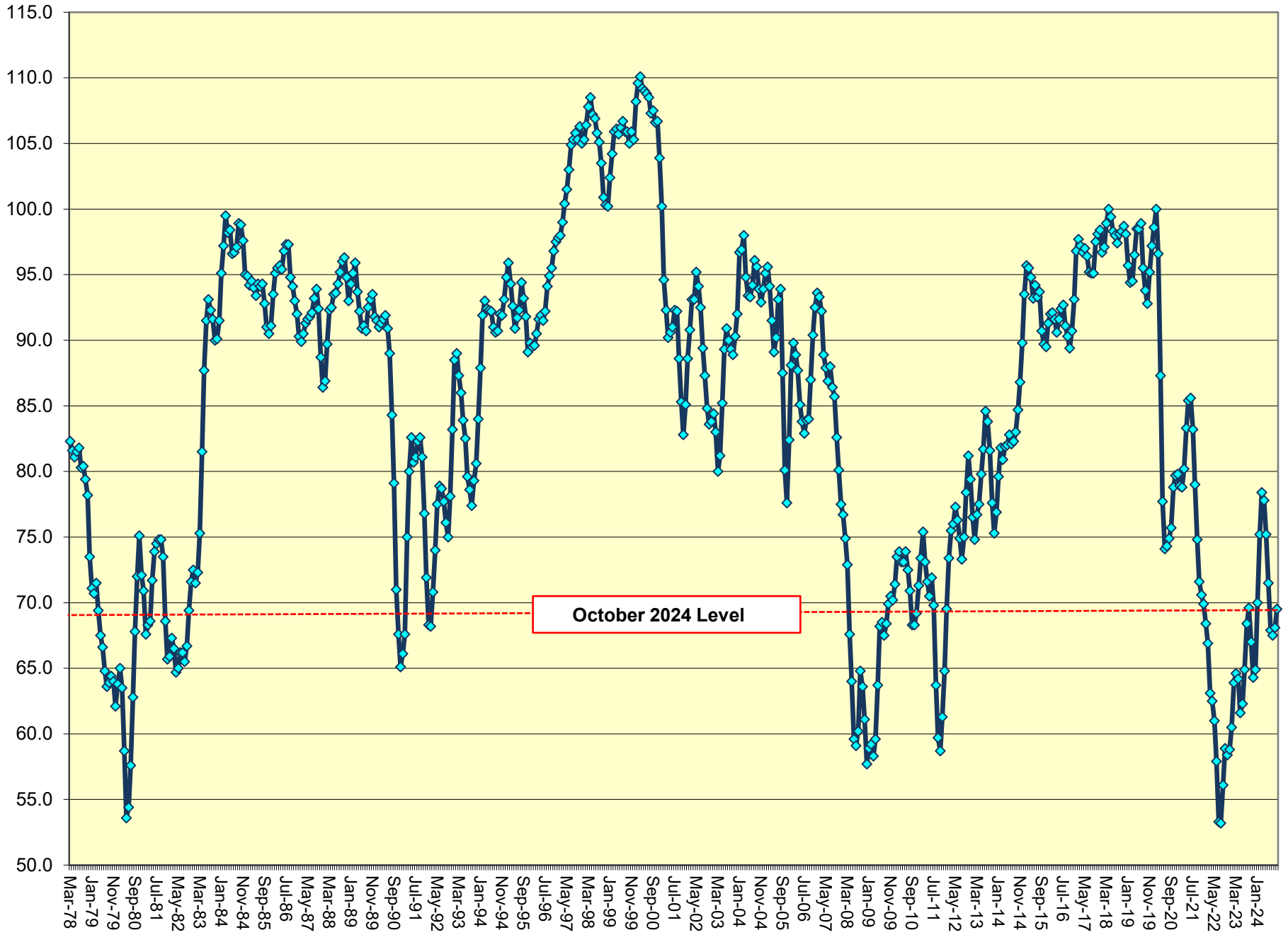
Third Quarter 2024 Real GDP Maintains Robust Growth at 2.8%

(Annualized Quarterly Growth in Chained Constant Dollar U.S. GDP, Source: U.S. BEA)



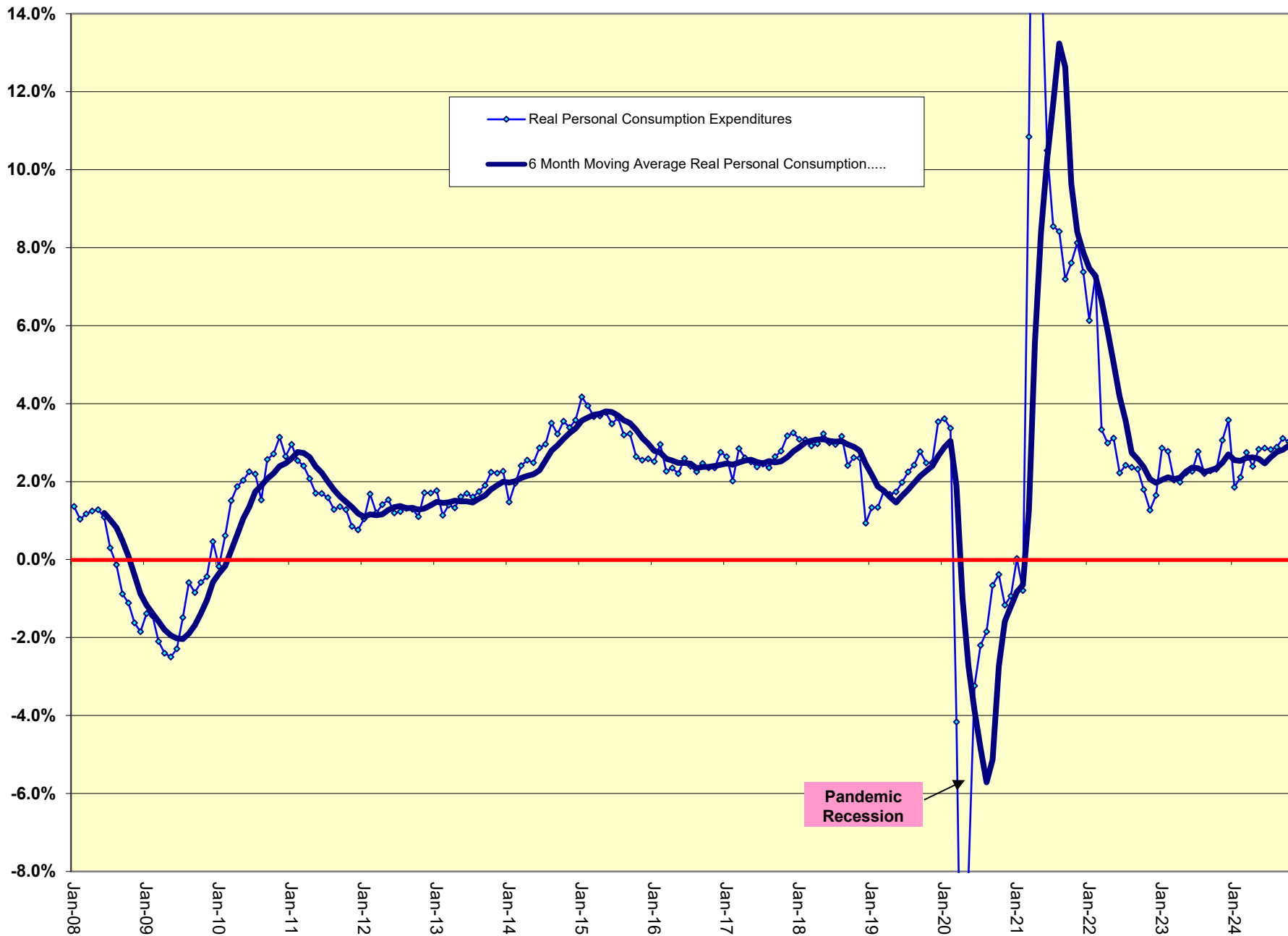
Consumers Report Pessimistic Sentiments, But Spend Like Optimists

(University of Michigan Survey, Index of Consumer Sentiment, 3 Month Moving Average)



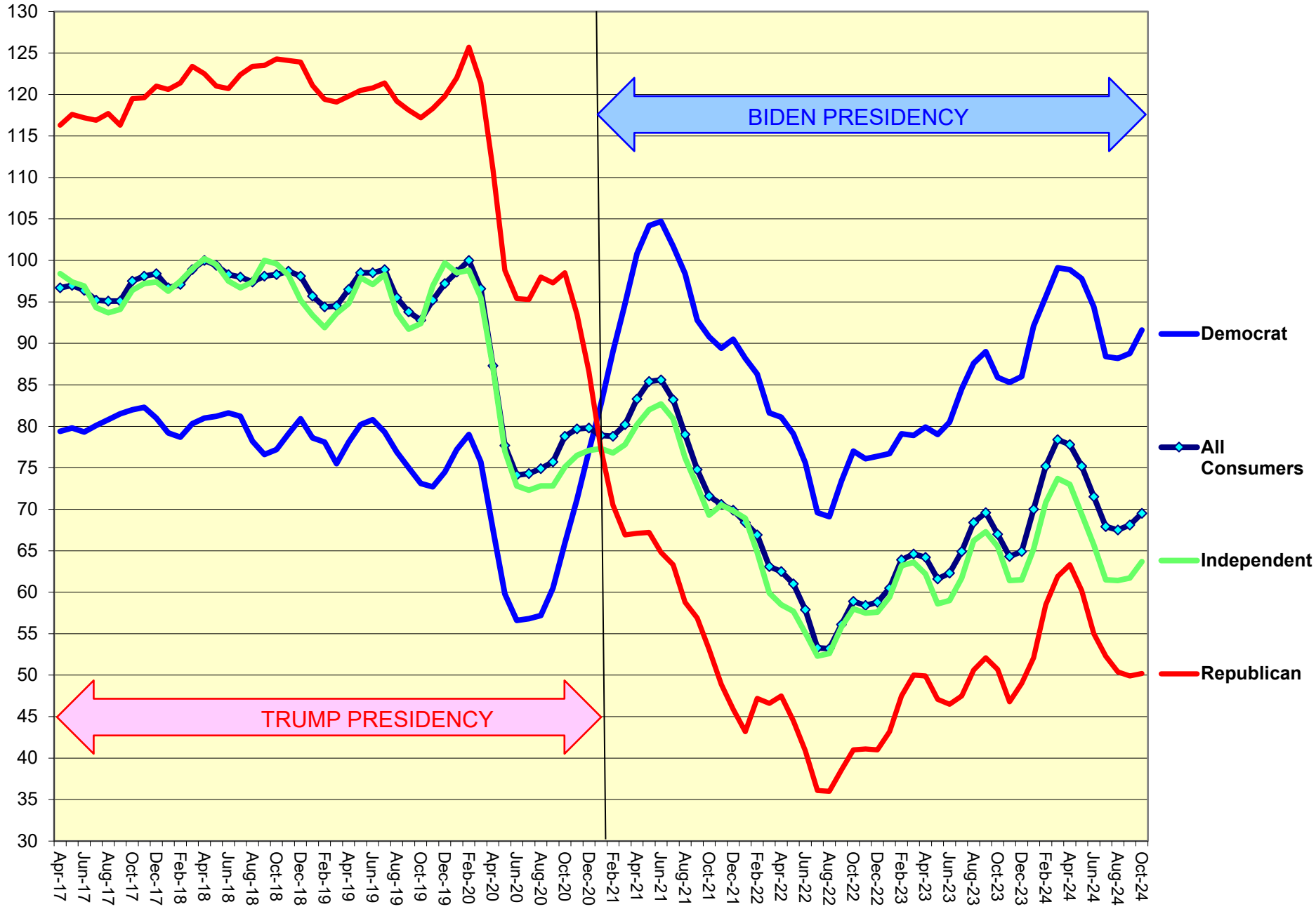
Despite High Inflation and Widespread Pessimism, Consumers Keep Spending

Total Constant Dollar Personal Consumption Expenditures - Percent Change from Year Ago, Source: U.S. Census Bureau



Party Affiliation Continues to Control Consumer Sentiment More Than Economic Fact

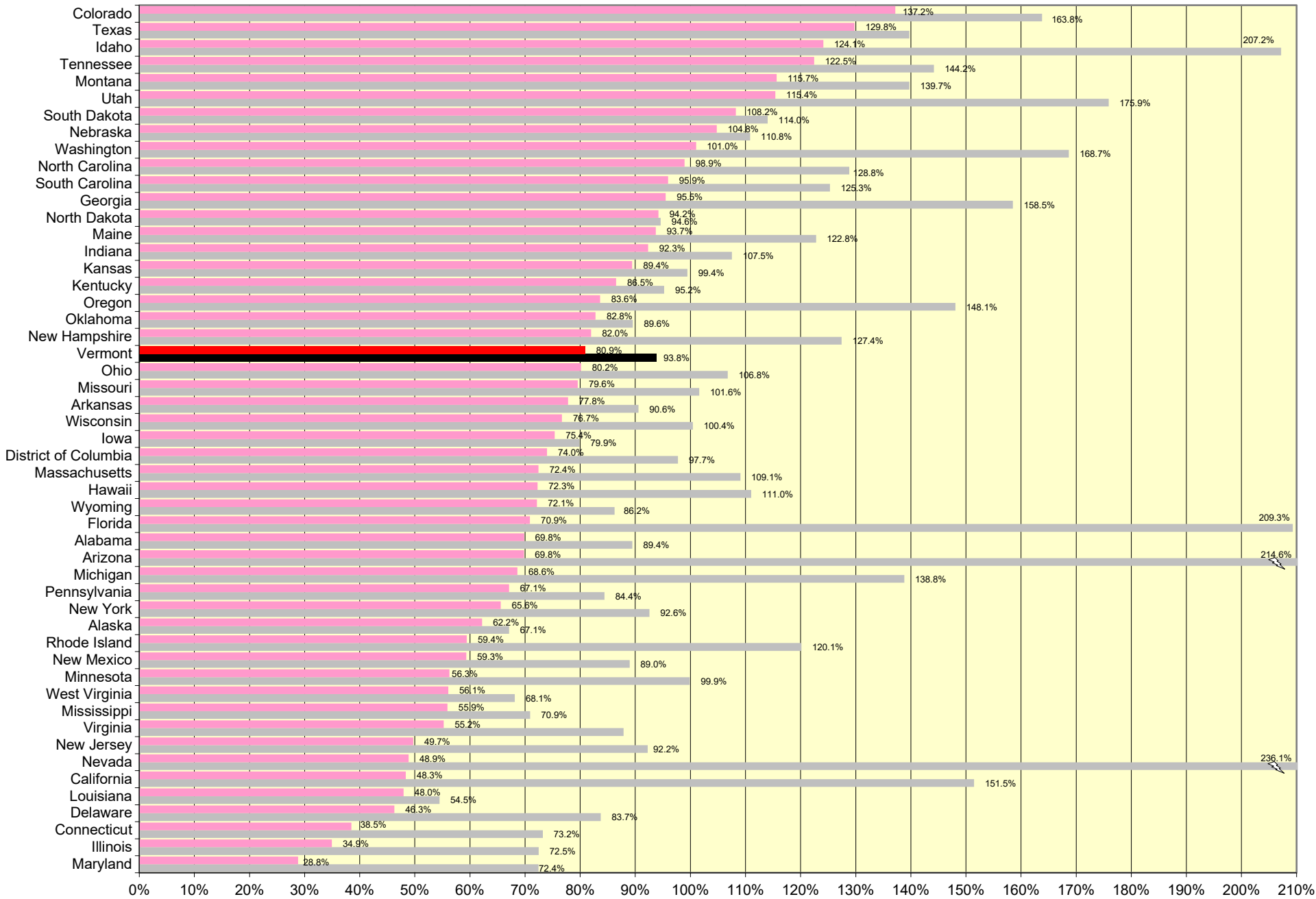
(University of Michigan Consumer Sentiment Survey, 3 Month Moving Averages)



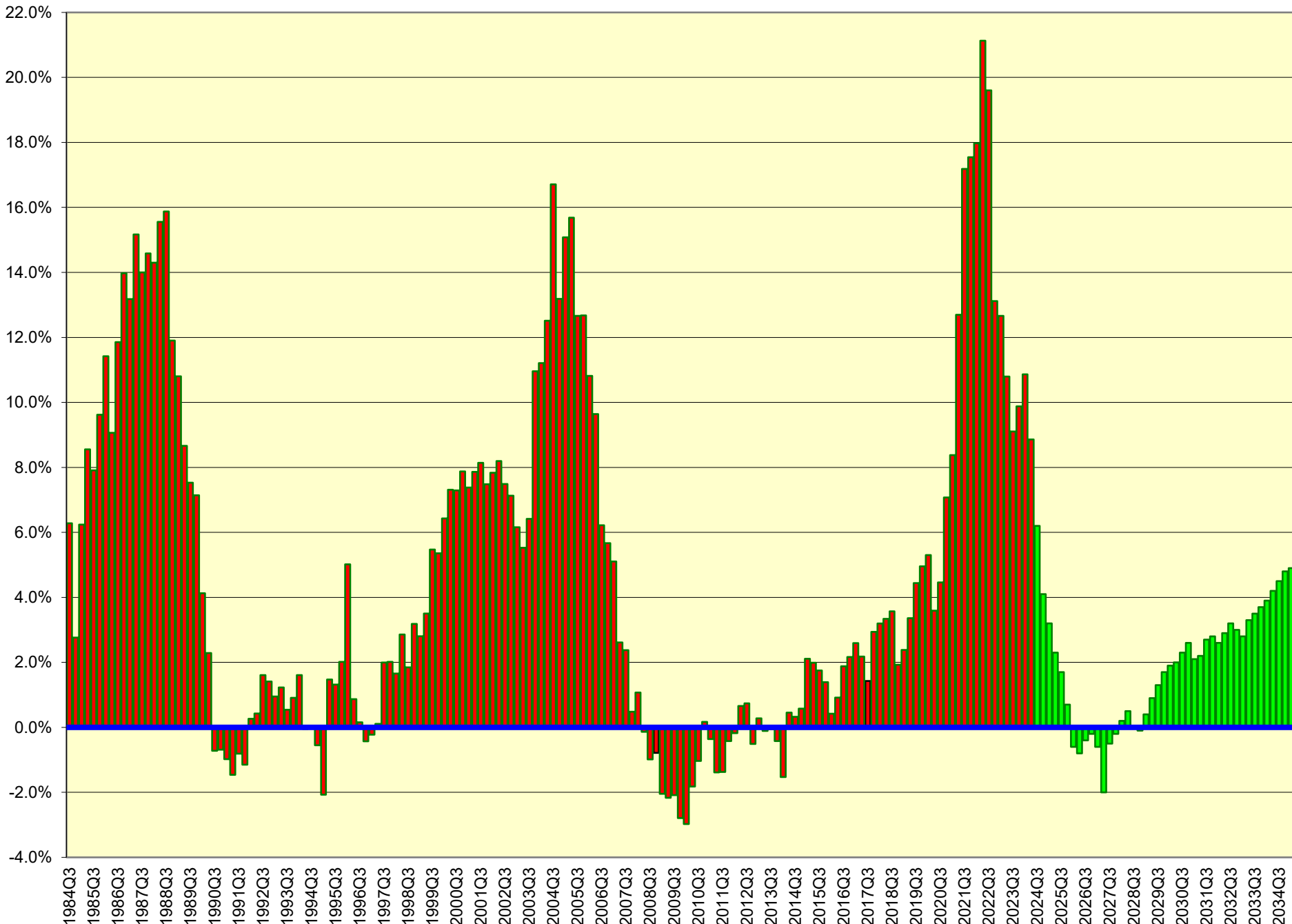
Real Estate Update: Housing Values Relative to Last Peak (pink) and Trough (grey)

Percent Change, 2024Q2 vs. Peak Price by State Between 2005Q3 and 2009Q3 (Pink) and 2024Q2 vs. Trough Price Between 2009Q3 and 2014Q1 (Grey)

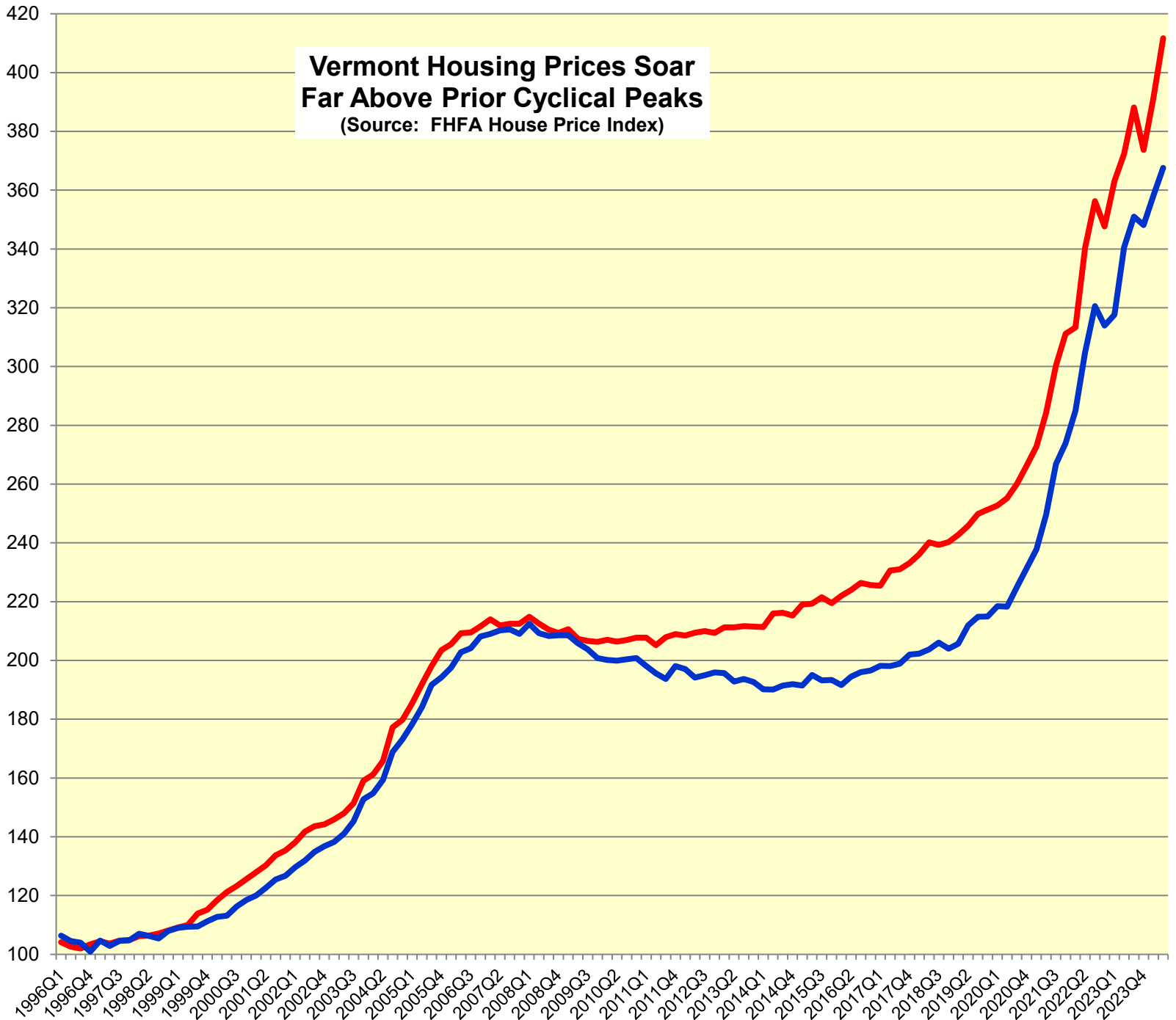
Source: FHFA House Price Index



Vermont Home Price Growth Recedes from its Highest Rates Ever
(FHFA Vermont Housing Price Index Percent Change Vs. Year Ago, Historical Data - Red, JFO Forecast Data - Green)



FHFA Home Price Index, 1995Q1 = 100



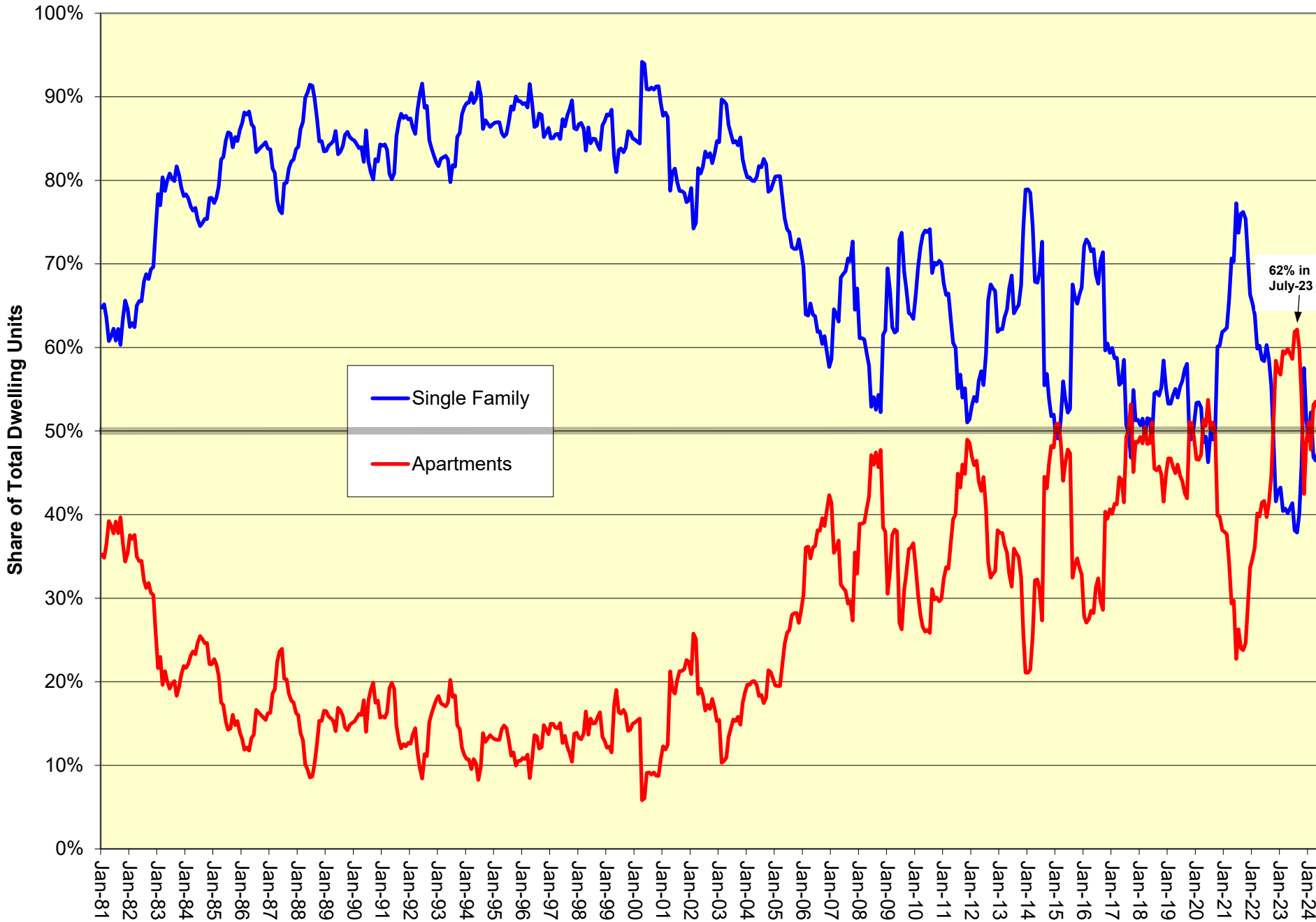
**Vermont Housing Prices Soar
Far Above Prior Cyclical Peaks**
(Source: FHFA House Price Index)

Burlington MSA
**+91.6% since
prior peak**

Non-MSA
**+68.6%
since prior**

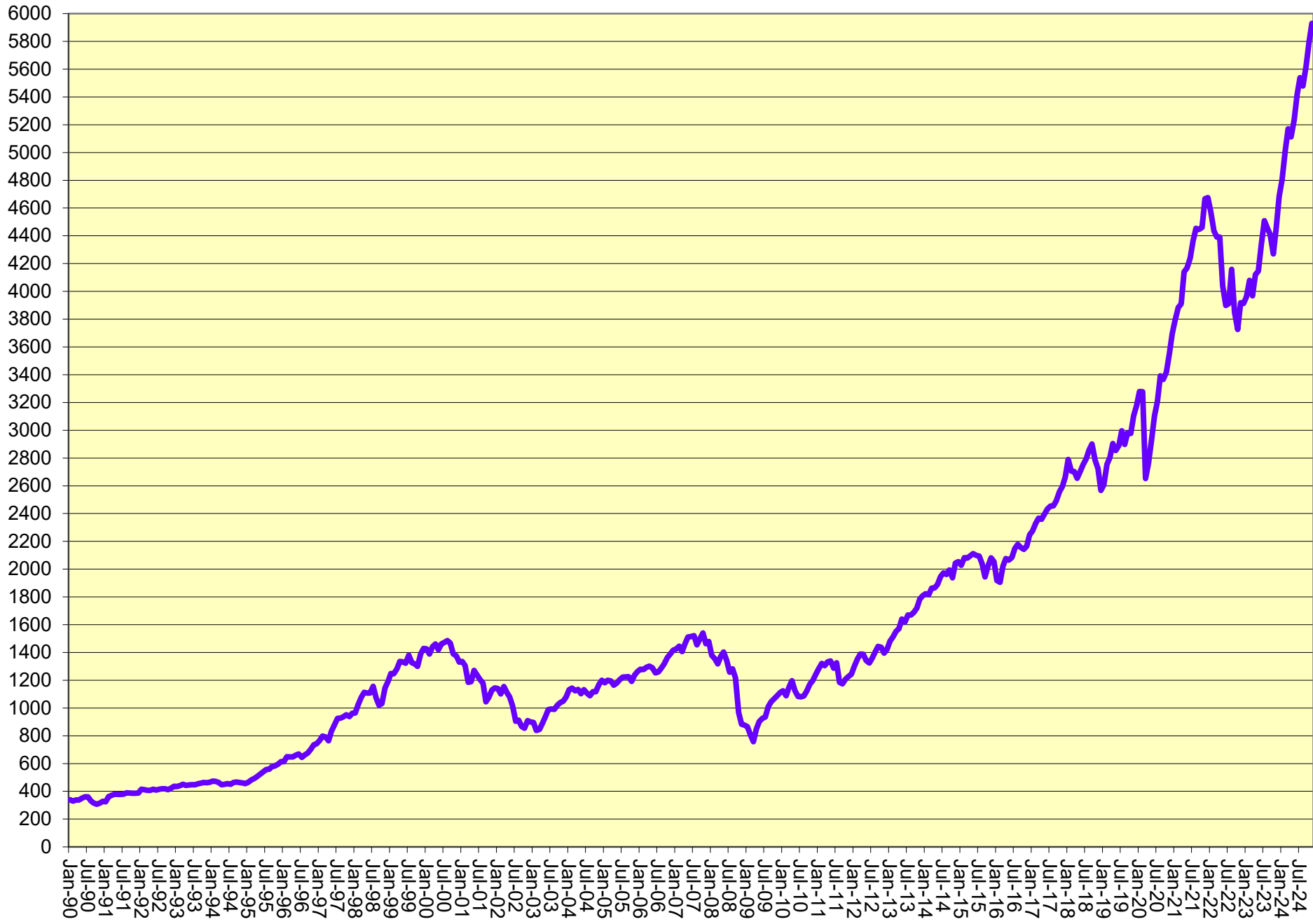
Most New Vermont Residential Construction is Now Apartments, Not Single Family Housing

(Vermont Residential Housing Starts, Shares of Dwelling Units, 12 Month Moving Totals, Source: Dodge Data and Analytics)



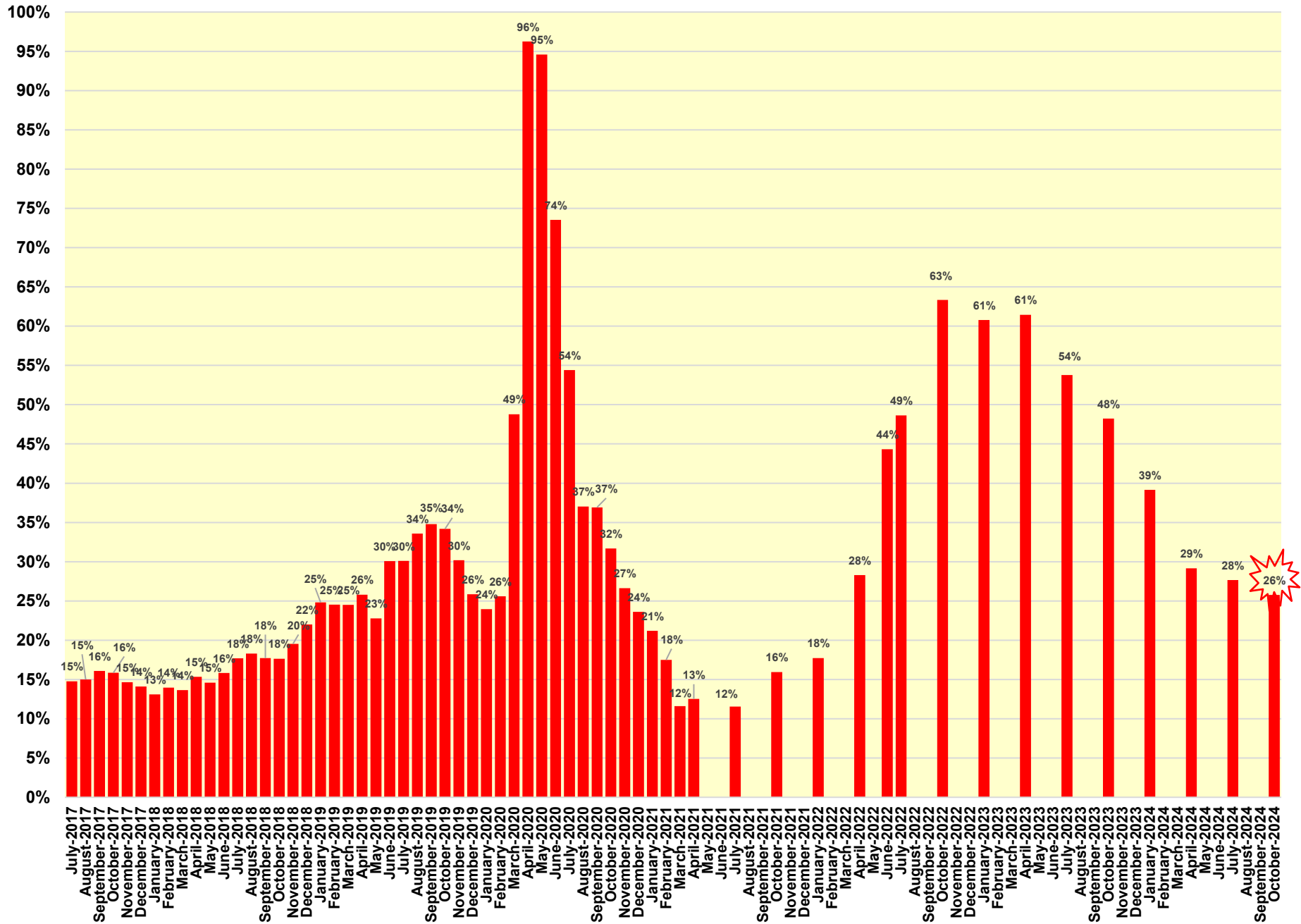
The Economy Stinks? Not if You Own Stocks (or a House or Gold or Bitcoin or...)

(Data Through November 2024, S&P 500 Monthly Average, Source: FRED data from S&P Global)

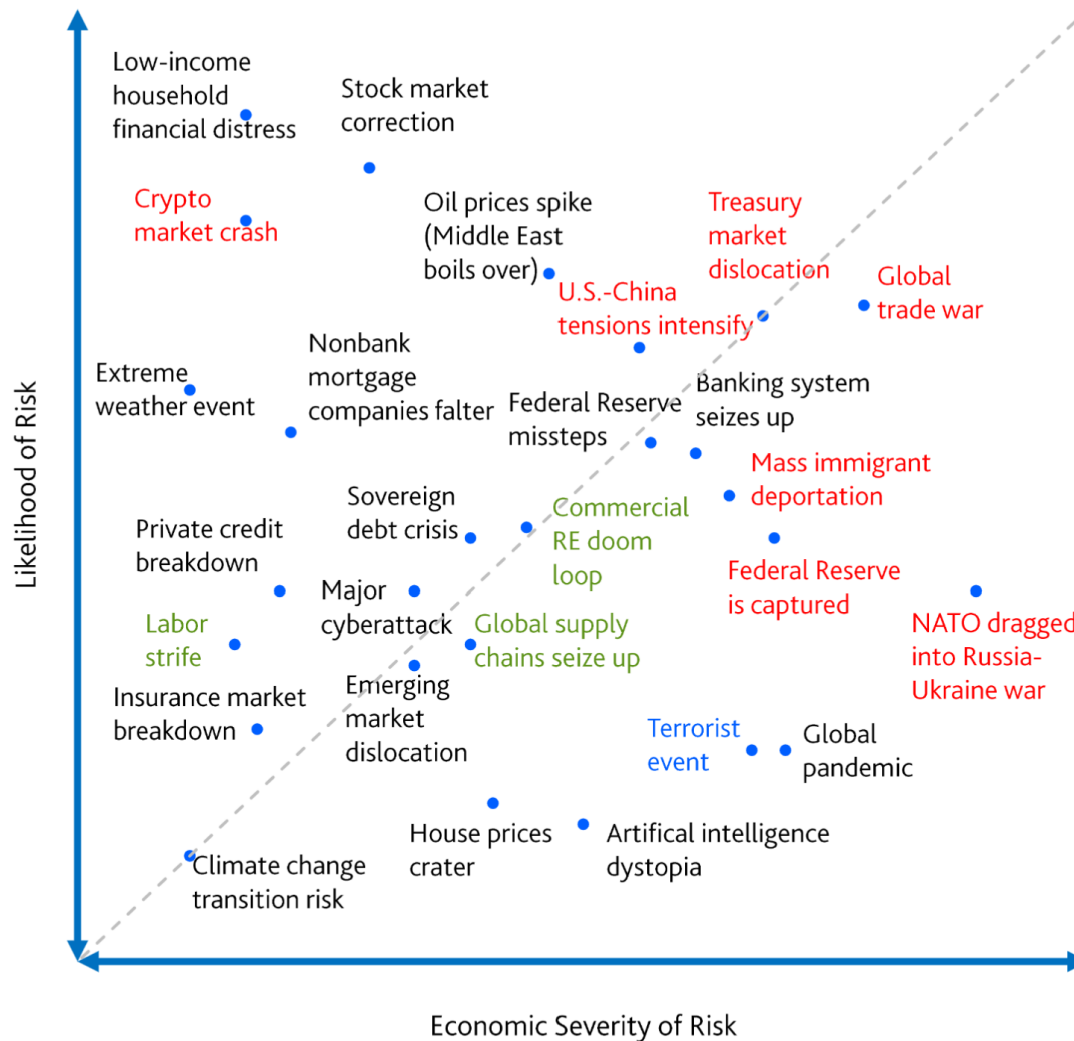


Near-Term Recession Risks Stabilize at Pre-Pandemic Levels

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



Moody's Post-Election Economic Risk Matrix



Note: Changes in red are either an increase in the odds or severity of a risk. Changes in green reflect a decline in the probability or severity of an event occurring. Changes in blue represent a new risk.



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ECONOMY | CAPITAL ACCOUNT

The Next President Inherits a Remarkable Economy

The high quality of recent economic growth should put a wind at the back of the White House's next occupant



By *Greg Ip* [Follow](#)

Oct. 31, 2024 5:30 am ET

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

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