THE CONNECTICUT
ECONOMIC DIGEST

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IN THIS ISSUE...

In May...

Nonfarm Employment
Connecticut 1,622,800
Change over month .... +0.32%
Change over year .... -0.5%

United States 130,570,000
Change over month .... +0.33%
Change over year .... -0.4%

Unemployment Rate
Connecticut 8.9%
United States 9.7%

Consumer Price Index
United States 218.2
Change over year 2.0%

State's Housing Troubles Continued in 2009

By Kolie Sun, Senior Research Analyst, DECD

The Connecticut and U.S. economies experienced financial turmoil that began in the fall of 2008 and continued into the Great Recession of 2009. Nearly all sectors felt the adverse impacts of the recession, which resulted in higher unemployment, declining personal income and corporate revenues and weakened consumer confidence. The housing sector is a major contributor to the economic turmoil in 2009, as this analysis of the state's residential permit activities, home prices and foreclosures will clearly show.

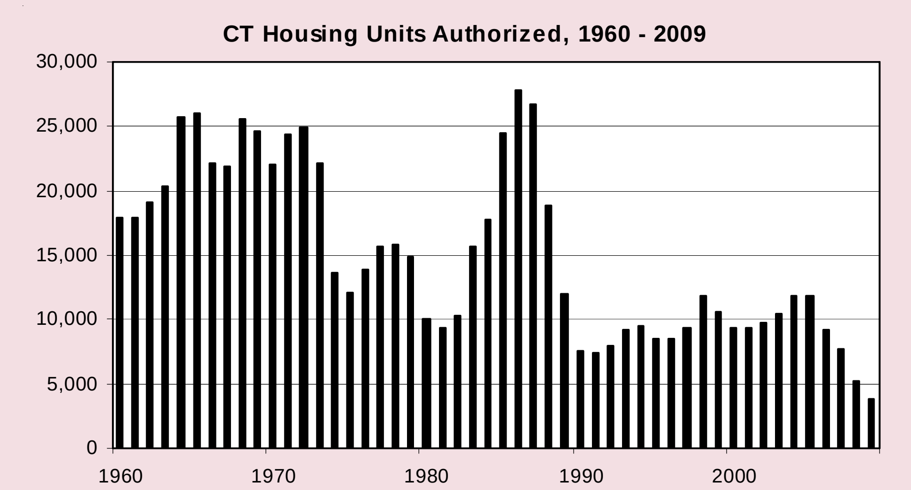
Housing Production

According to 2009 revised housing permit data from the Census Bureau, Connecticut municipalities authorized 3,786 new single and multi-family housing units, the lowest level of authorization in several decades. This represents a 27.5 percent decline in comparison to the 5,220 units authorized in 2008 and 68.1 percent decline from 11,885 units in 2005.

In 2009, Norwalk led all municipalities with 448 units, followed by Danbury with 259 units and Norwich with 181 units. In contrast, Bridgewater, North Haven and Roxbury did not register any new residential permits. At the county level, Fairfield and Hartford counties combined accounted for more than half (53.1 percent) of the total housing units permitted in 2009 (See chart below).

Multi-family units comprised nearly 32 percent of housing units permitted in 2009. Both Fairfield and New London counties had a higher concentration (55 percent and 36 percent) of multi-family dwelling units authorized than the state level. Litchfield and Windham counties authorized no multi-family housing units in 2009.

Based on the responses to the Department of Economic and Community Development (DECD) annual demolition survey for all towns and cities, to which 87 percent of the municipalities responded (or 147 towns), 1,219 demolition permits



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were issued in 2009. As a result, the net gain (that is permits less demolitions) of 2,567 authorizations bring the state's housing stock estimate to 1,452,007 units in 2009 if authorizations materialized into production.

Overall, the U.S. experienced a 35.6 percent permit decline in 2009 from 2008. New York State experienced the largest percentage decrease of permit activity, followed by Nevada and Illinois with 64.5 percent, 54.5 percent, and 51.8 percent respectively. Two states, Alaska and North Dakota, posted gains of 1.7 percent and 12.8 percent. Connecticut fared better than the nation in terms of permit decline and ranked 24th in the country according to the Census Bureau.

Home Sales and Prices

The U.S. housing slump that continued into 2009 resulted in fewer sales and lower prices. There are mixed signals in the market reflecting the near term future of home sales. The first-time homebuyer tax credit incentive program and historically low mortgage rates triggered more home purchases, thereby preventing the real estate market from contracting further. However, the federal government has cut back on its support of the mortgage market and Freddie Mac and Fannie Mae are supposed to pick up the slack. A large number of ARM resets on loans written in 2005 and 2006 will put further stress on certain homeowners.

The number of Connecticut single-family home sales has been on the decline since 2005, according to the Warren Group data. Between 2007 and 2008, the housing market experienced a 23.0 percent decrease in home sales. There were 24,401 single-family homes sold in 2009—a 1.9 percent decline from 24,863 single-family units sold in 2008. This suggests the housing market might be showing signs of a modest rebound.

The median home sale price in Connecticut peaked at $295,000 in 2007 and has declined since. The Connecticut single-family median home sales price fell to $240,500 in 2009, a 10.1 percent decrease from $267,500 in 2008.

Housing Market Index (HMI)[1] published by National Association of Home Builders (NAHB) also pointed to how dire U.S. housing market was in 2009. DECD averaged the monthly ratings to yearly numbers from the period of 1985 to 2009. The annual HMI rating of 15 is the lowest level since 1985.

The Prudential Connecticut Realty market report shows the health of the real estate industry is gauged by the "inventory supply time." That means, the relationship between the number of homes currently on the market and how long it takes on average to sell those properties. During a recession, properties remain longer on the market. On average, single-family homes remained 136 days on the market in 2009, five days longer than in previous year. It took 16 days longer for condominiums to sell in 2009 than in 2008.

Delinquencies and Foreclosures

In 2009, as the economy worsened and unemployment rose, more and more households were not able to pay their monthly mortgages on time. Many went into delinquency and foreclosure.

The 2009 report from RealtyTrac.com showed that U.S. properties with filings[2] increased at a significant 21.2 percent rate compared to 2008, while one in every 45 housing units received at least one foreclosure filing during the period. Connecticut performed better than the nation with a 10.2 percent decrease in the number of properties with filings from 2008 to 2009, with one in 73 housing units facing foreclosure. Although the Connecticut foreclosure rate showed some improvement, it is 65 percent higher than it was in 2007.

Lis Pendens and Foreclosure Deed[3] filings are the two most common measures to track foreclosed homes. In Connecticut, the number of Lis Pendens increased 67.8 percent from 14,629 in 2008 to 24,544 in 2009. In absolute numbers, New Haven County had the most properties subject to foreclosure (7,114). Following were Fairfield County at 6,984 and Hartford County with 4,853. Foreclosure Deed filings trended upward by 5.4 percent to 5,090 filings in 2009 from 4,828 filings in 2008.

According to the Mortgage Bankers Association's National Delinquency Survey, more than 15

--Continued on page 5--

--Continued from page 2--

percent of Connecticut subprime loans were in some phase of foreclosure in 2009, five times higher than in 2006, and at its highest level since 1998. Nearly two percent of prime loan mortgage holders went into foreclosure in 2009. This can be explained by more people being out of work for a longer period of time, expiring unemployment benefits, and jobs that are few and difficult to find, causing hardship and delinquency in payments.

Housing Affordability

In addition to the trends and aspects of Connecticut's private sector housing market in 2009, there are other dimensions to the overall statewide housing picture, including housing affordability.

The "Partnership for Strong Communities" compiles data from various sources, concerning statistics significant to affordable housing and homelessness, specific to Connecticut. The Partnership, an arm of the Melville Charitable Trust, "coordinates housing policy development and advocacy, convenes elected officials, community leaders, business executives and others to advance solutions to homelessness, affordable housing, and the creation of vibrant neighborhoods." The Partnership promotes affordable rentals, shapes housing legislation, and educates about housing problems and solutions.[4]

The Partnership defines "affordable" housing as units that cost no more than 30-40 percent of household income. The "housing wage" is the amount a person must earn working fulltime to be able to afford fair market rent on a two-bedroom unit without paying more than 30 percent on rent. In 2009, Connecticut statewide "housing wage" was $21.60 while the estimated mean renter wage was $17.58. The statewide two-bedroom housing wage was 123 percent of that of a typical renter's wage.

Conclusion

The performance of the 2009 Connecticut housing market will go down in history as one of the worst in decades. A significant and dramatic decline in permit activity, a continued fall in home sales, considerably lower median home sales prices, with ongoing mortgage delinquencies and increasing foreclosures characterized an unfortunate state of affairs in last year's housing market. Tax incentives undoubtedly helped prevent further deterioration of the market.

Looking forward, there are few reasons to believe in a robust recovery in the housing market. A slow-down in the rate of housing sales declines and mortgage foreclosures, as well as the extension of the home buyer tax credit into 2010 are among the few signs that this year's market may see some improvement. ■

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[1] HMI is a weighted, seasonally adjusted statistic derived from ratings for present single family sales, single family sales in the next six months, and buyers traffic. The HMI is published by the National Association of Home Builders (NAHB) and is based on a monthly survey sent to NAHB members, who are asked to rate general economic and housing market conditions. The first two components are measured on a scale of "good," "fair," and "poor," and the last one on a scale of "high," "average," and "low." A rating of 50 indicates that the number of positive, or good, responses received from the builders is about the same as the number of negative, or poor, responses. Ratings higher than 50 indicate more positive, or good, responses.

[2] RealtyTrac's report incorporates documents filed in all three phases of foreclosure: Default — Notice of Default (NOD) and Lis Pendens (LIS); Auction — Notice of Trustee Sale and Notice of Foreclosure Sale (NTS and NFS); and Real Estate Owned, or REO properties (that have been foreclosed on and repurchased by a bank). If more than one foreclosure document is received for a property during the year, only the most recent filing is counted in the report.

[3] Lis Pendens filings indicate a pending action against the property owner. It is not a guarantee of pre-foreclosure activity. Foreclosure Deeds filing defines as the deeds transfer title to the lender after the mortgage is foreclosed. The Warren Group© captures two types of foreclosure deeds – Strict Foreclosures and Committee Deeds

[4] Partnership for Strong Communities, "Housing and Homelessness: The Facts," Updated March 5, 2010. http://www.lyceumcenter.org/images/stories/Reports/housing_and_homelessness_facts.pdf

GENERAL ECONOMIC INDICATORS

	1Q	1Q	CHANGE		4Q
(Seasonally adjusted)	2010	2009	NO.	%	2009
Employment Indexes (1992=100)*					
Leading	115.1	111.6	3.5	3.1	114.3
Coincident	102.0	105.6	-3.6	-3.4	102.0
General Drift Indicator (1986=100)*					
Leading	104.2	100.5	3.7	3.7	103.5
Coincident	105.8	109.6	-3.8	-3.5	105.8
Farmington Bank Business Barometer (1992=100)**	117.9	120.8	-2.9	-2.4	119.0
Philadelphia Fed's Coincident Index (July 1992=100)***	**MAY**	**MAY**			**APR**
(Not seasonally adjusted)	**2010**	**2009**			**2010**
Connecticut	155.0	153.8	1.2	0.8	154.2
United States	158.6	157.7	0.9	0.6	157.7

*Sources: *The Connecticut Economy, University of Connecticut **Farmington Bank ***Federal Reserve Bank of Philadelphia*

The Connecticut Economy's **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 four leading (housing permits, manufacturing average weekly hours, Hartford help-wanted advertising, and initial unemployment claims) economic variables, and are indexed so 1986 = 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).