THE CONNECTICUT
ECONOMIC DIGEST

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JULY 2012

IN THIS ISSUE...

In May...

Nonfarm Employment

Connecticut 1,629,600
Change over month .... +0.09%
Change over year .... +0.4%

United States 133,009,000
Change over month .... +0.05%
Change over year .... +1.4%

Unemployment Rate

Connecticut 7.8%
United States 8.2%

Consumer Price Index

United States 229.8
Change over year 1.7%

State Housing Market Languished in 2011

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The housing sector continued to be a drag on the economy through 2011 as suggested by a number of indicators, including record-low permit production and weak home sales. This article examines the 2011 housing market from several perspectives and includes some observations about 2012 as well.

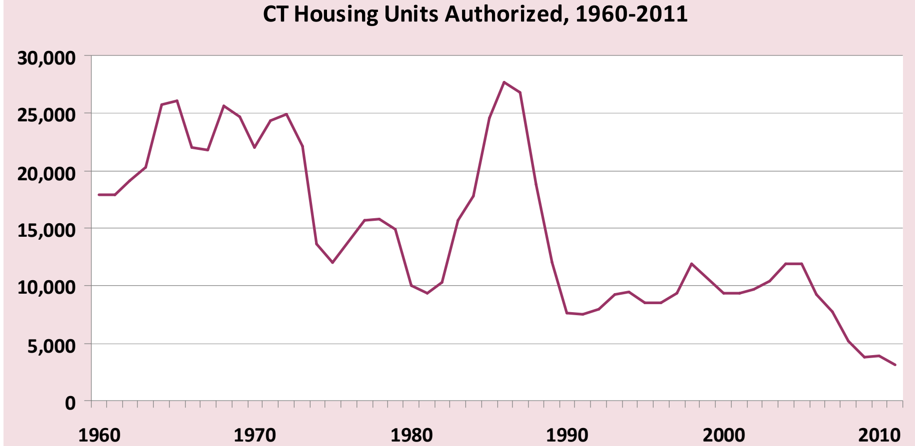
Housing Production

According to the recent Census release, Connecticut municipalities issued 3,173 housing permits in 2011, the lowest in more than six decades (see chart below). This level of permit production represents a 19.3 percent decrease from the 3,932 units authorized in 2010. The City of New Haven issued the largest number of permits (229), followed by Stamford (207), Bridgeport (126), Berlin (124) and Ellington (108). The combined permits issued for the top five municipalities accounted for 25 percent of total housing units the state authorized in 2011, while at the county level, Fairfield and New Haven counties accounted for more than half of the total housing units.

As in the past, the Connecticut Department of Economic and Community Development (DECD) sent out an annual demolition survey for all municipalities. The 128 cities and towns that responded reported 1,148 demolished housing units. This resulted in a net gain of 2,025 housing units in 2011, bringing the estimated state housing stock to a level of 1,489,916 units. (Note: Census 2010 total housing counts plus 2011 housing net gains)

Home Sales and Prices

Despite historic low mortgage rates, barriers for potential homebuyers were still prevalent in 2011, most notably relatively high unemployment, the tight credit



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market and overall economic uncertainty. According to the Warren Group, single-family home sales experienced the seventh consecutive year of sales decline to 21,141 in 2011, the worst year since it began tracking real estate transactions in 1987. This represents a 12.9 percent decrease from 24,270 in 2010 and is 50.6 percent lower than the 42,758 homes sold in 2005. The condo market followed a similar trend with a decline of more than 16 percent from 2010 and 66 percent from 2005.

Because the continued weak residential home sales, the 2011 single-family median home sales prices dropped 2.8 percent to $243,000 from $250,000 in 2010. When comparing to the pre-recession median home sales price of $295,000 in 2007, it has declined more than 17 percent. The condo median sales prices decreased 4.9 percent to $173,250 in 2011 from $182,250 in 2010.

According to the Prudential Connecticut Realty market report, "in a relatively healthy market, it generally takes 100 to 120 days for properties to sell." However, when the market is slow, it takes longer to sell. In 2011, on average, single-family homes remained 150 days on the market, compared to 141 days in 2010 and 136 days in 2009. It took seven more days for condominiums to sell in 2011 than in 2010, and 16 more days in 2009.

Home Building and Economic Impact

Housing is a major part of the economy because home building generates income and jobs for residents and revenue for governments. At the same time, home building imposes costs on local governments that supply education, police and fire protection, and other public services to support the new homes.

A report[1] done by National Association of Home Builders (NAHB) estimated the impact of building 2,130 single-family homes and 983 multi-unit housing in Connecticut during 2011. The result of the study shows that local and state governments received $145.5 million of tax revenues from the new households in the first year alone, while governments spent $20.9 million in providing public services such as roads, schools, water and sewage, and $47.4 million in capital investment for new structures and equipment. From the second year forward, the local and state governments received on average $45.4 million in tax and other revenues and spent on average $41.8 million in providing services annually. On a 15-year horizon, it will generate a cumulative $780.7 million in revenue and incur $656.4 million expenditures from government perspective. This indicates that residential construction and development will pay for itself with net revenue and therefore building new homes is supported.

Utilizing the underlying assumptions, NAHB also did another study[2] estimating the economic impact of home construction and the ripple effect throughout the economy in terms of income, jobs and taxes. The estimated one-year economic impact, including direct and indirect impacts, of building 2,130 single-family homes generated $628.1 million in income, $99.8 million in taxes and 7,119 jobs. The annual induced or ongoing economic impact generated $101.9 million in income, $34.7 million in tax revenue and 1,296 jobs. For multifamily construction, the estimated one-year economic impact generated $142.3 million in income, $23.1 million in taxes and 1,619 jobs. These numbers are significant and strengthen the argument that home building plays a pivotal role in the economic cycle.

Housing Affordability

As a state with a reputation for the highest per capita income in the nation and some of the greatest income disparity among its cities and towns, housing affordability remained an issue for

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Connecticut in 2011. Moreover, the ability of employers to find workers—and for employees to accept jobs—can be negatively impacted when affordability presents a challenge.

In its 2011 report the National Low Income Housing Coalition (NLIHC) found that for Connecticut, the Fair Market Rent (FMR) for a two-bedroom apartment is $1,215. In order to afford this level of rent and utilities – without paying more than 30% of income on housing – a household must earn $4,052 monthly, or $48,619 annually. Assuming a 40-hour work week, 52 weeks per year, and this level of income translates into a Housing Wage of $23.37 per hour.

The NLIHC in 2011 also observed that a minimum wage worker earning an hourly wage of $8.25 in Connecticut must work 113 hours per week, 52 weeks per year in order to afford the FMR for a two-bedroom apartment. Or a household must include 2.8 minimum wage earners working 40 hours per week year-round to make the two-bedroom FMR affordable.

Likewise in Connecticut, the estimated average hourly wage for a renter is $15.10. In order to afford the FMR for a two-bedroom apartment at this wage rate, a renter must work 62 hours per week, 52 weeks per year. Or, working 40 hours per week year-round, a household must include 1.5 workers earning the mean renter wage in order to make the two-bedroom FMR affordable.

New State Investments

In 2011, the Malloy administration committed $130 million for affordable and supportive housing. An additional $20 million was added during the 2012 legislative session. This increased funding is a clear recognition of housing's positive impact on the economy, jobs and the quality of life for state residents.

Outlook

The residential permit data through April 2012 has grown by more than 50 percent compared to the same period a year ago. Both single-family and condo sales in Connecticut rose more than 5 percent and 1.4 percent, respectively, for the first quarter of 2012, while home prices declined further as reported by the Warren Group.

Will 2012 be the year of a housing turnaround? The Freddie Mac report says economic growth will strengthen by 2.1 percent in the first quarter of 2012, while mortgage rates will remain low at least through spring. In addition, the Freddie Mac survey predicts home sales will grow between 2 and 5 percent more than last year. Frank Nothaft, vice president and chief economist of Freddie Mac, said: "…a variety of encouraging indicators suggest that the housing market may be feeling a nascent recovery, and more neighborhoods may see stabilization in overall demand and housing values this spring."

The New England Economic Partnership (NEEP) also has a positive outlook. U.S. housing starts should grow modestly in 2012 and 2013. The gains in home construction should support both consumer spending and real GDP growth in 2014 and 2015. Median home sales prices should rise going forward.

In conclusion, the housing market may have hit bottom in 2011, but the near-term outlook appears brighter. ■

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[1] "The Economic Impact of Home Building in Connecticut: Comparing Costs to Revenue for Local Governments," by National Association of Home Builders, March 2012.

[2] "The Economic Impact of Home Building in Connecticut: Income, Jobs, and Taxes Generated," by National Association of Home Builders, March 2012.

GENERAL ECONOMIC INDICATORS

(Seasonally adjusted)	1Q 2012	1Q 2011	CHANGE NO.	CHANGE %	4Q 2011
General Drift Indicator (1986=100)*					
Leading	106.4	102.3	4.1	4.0	101.4
Coincident	107.5	106.9	0.6	0.6	106.9
Farmington Bank Business Barometer (1992=100)**	125.2	125.0	0.2	0.2	125.3
Philadelphia Fed's Coincident Index (July 1992=100)***	**MAY**	**MAY**			**APR**
(Seasonally adjusted)	**2012**	**2011**			**2012**
Connecticut	152.93	149.23	3.70	2.5	152.93
United States	150.53	146.40	4.13	2.8	150.25

*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).