

# ECONOMIC DIGEST

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### In November...

#### Nonfarm Employment

Connecticut..... 1,625,400  
 Change over month ..... +0.02%  
 Change over year ..... +0.1%

United States ..... 133,852,000  
 Change over month ..... +0.11%  
 Change over year ..... +1.4%

#### Unemployment Rate

Connecticut..... 8.8%  
 United States ..... 7.7%

#### Consumer Price Index

United States ..... 230.221  
 Change over year ..... 1.8%

## The 2013 Economic Outlook

By Mark Prisloe, Associate Economist (Mark.Prisloe@ct.gov), DECD

**A**s we begin a new year, the *Digest* looks at the economic prospects for the year ahead. This outlook is an interpretation of some of the most recent data and their trends, and offers some insights about what they portend for the U.S. and Connecticut economies.

### The Nation

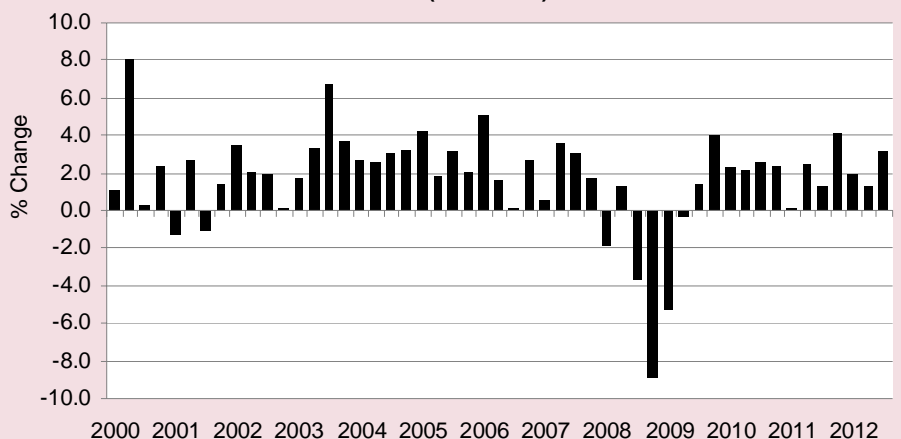
The outlook for the U.S. economy is improving. Real Gross Domestic Product (RGDP) has grown for three and a half years since the “Great Recession” ended in Q2-2009. The constant dollar value of all goods and services produced by labor and capital located in the U.S. since then has averaged 2.2% at an annual rate from the preceding quarter (Figure 1).<sup>1</sup> Decreasing by 3.1% in 2009, growing 2.4% in 2010, 1.8% in 2011, and an estimated 3.1% in Q3-2012, RGDP growth of 1.8% to 2.4% is likely in 2013. The New England Economic Partnership

(NEEP), a consortium of government, business, and academia, in its proprietary forecast sees RGDP growth at 2.4% in 2013.<sup>2</sup> The National Association of Business Economists (NABE) outlook panel sees 2.4% growth in 2013.<sup>3</sup>

### U.S. Employment and Unemployment

Total seasonally-adjusted nonfarm payroll employment, since the end of the recession, has increased by 3 million jobs, after averaging losses of 516,000 jobs a month in year 2009, and gains of 119,000 jobs a month in 2010-2011, improving to 157,000 jobs per month through October in 2012 (Figure 2). This modest job growth trend will likely continue in 2013. In 2012, a gain of 1.3 million jobs reduced the U.S. unemployment rate from 8.5% to 7.9% by October,<sup>4</sup> November’s 7.7% being the lowest in four years, and unemployment will likely see continued improvement in 2013.

Figure 1: Quarterly Changes in U.S. Real GDP from Preceding Period (2000-2012)



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**Managing Editor:** Jungmin Charles Joo

**Associate Editor:** Sarah C. York

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**Connecticut Department of Labor**

Sharon Palmer, Commissioner  
Dennis Murphy, Deputy Commissioner

Andrew Condon, Ph.D., Director  
Office of Research  
200 Folly Brook Boulevard  
Wethersfield, CT 06109-1114  
Phone: (860) 263-6275  
Fax: (860) 263-6263  
E-Mail: dol.econdigest@ct.gov  
Website: <http://www.ctdol.state.ct.us/lmi>



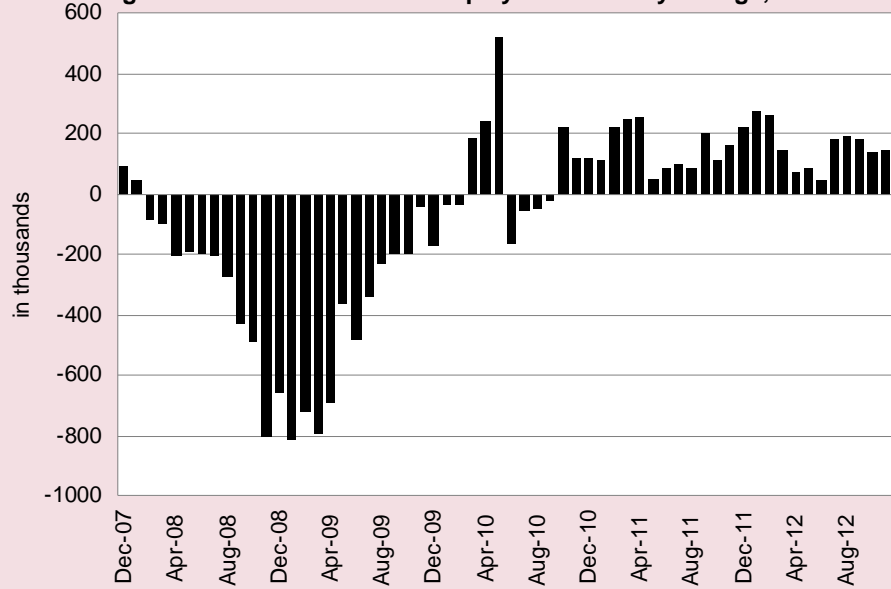
**Connecticut Department of Economic and Community Development**

Catherine Smith, Commissioner  
Ronald Angelo, Deputy Commissioner  
Christopher Bergstrom, Deputy Commissioner

505 Hudson Street  
Hartford, CT 06106-2502  
Phone: (860) 270-8000  
Fax: (860) 270-8200  
E-Mail: [decd@ct.gov](mailto:decd@ct.gov)  
Website: <http://www.decd.org>



Figure 2: U.S. Total Nonfarm Employment Monthly Change, SA



The Conference Board Leading Economic Index™ (LEI) for the U.S. in 2012 remained in “growth territory,” another encouraging indicator going into 2013. Ataman Ozyildirim, economist at The Conference Board said: “The LEI still points to modestly expanding economic activity in the near term.”<sup>5</sup> Ken Goldstein, economist at The Conference Board added: “Based on current trends, the economy will continue to expand modestly through the early months of 2013.”<sup>6</sup>

**The “Fiscal Cliff”**

Looming particularly large to the U.S. macro-forecast, at least as of this writing, were the not-so-new, but ongoing European financial crisis and – more immediately as of November 2012 — the U.S. “fiscal cliff.” This is the term given to the dual domestic threats of automatic spending cuts known as “sequestration” to achieve federal budget reduction along with a simultaneous increase to the “pre-Bush-era” level of personal and business income tax rates. The ever-present and potentially dangerous commodity and energy price increases are among at least several other risks to the U.S. forecast, as well though recently energy prices have begun to fall driven by increased supplies of Natural Gas.

Resolution of fiscal cliff issues is being addressed during the post

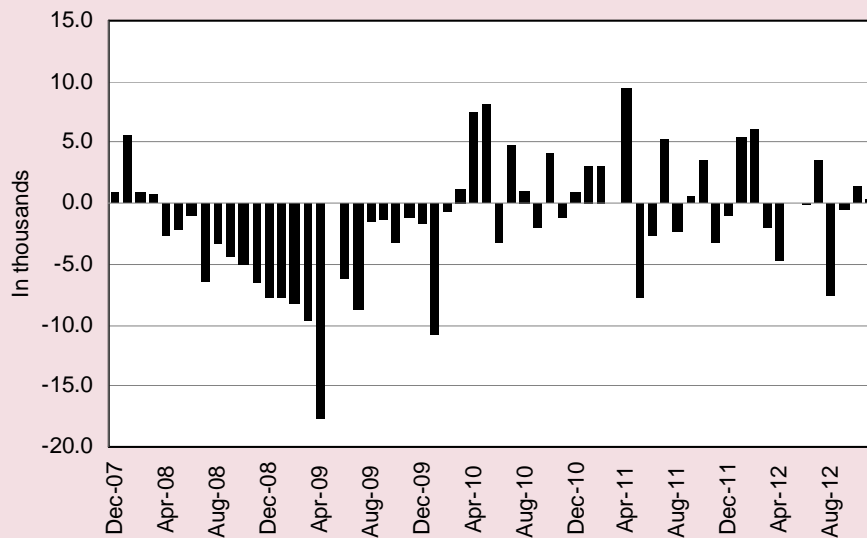
election “lame duck” session. However, if left unresolved, an automatic cut in defense spending would hit Connecticut’s defense industry particularly hard as would automatic increases in capital gains and dividends taxes because they have the potential to adversely impact Connecticut’s higher-income households.

It was widely feared by many economists that a failure to resolve the fiscal cliff would risk sending the U.S. economy back into a recession as early as 2013. The Congressional Budget Office (CBO) estimated that unemployment would rise to 9.1% and real (inflation-adjusted) gross domestic product (GDP) will drop by 0.5 percent in 2013 (as measured by the change from the fourth quarter of 2012 to the fourth quarter of 2013). A National Association of Manufacturers (NAM) study concluded that even more dire consequences would result, namely a recession in 2013 and significantly slower growth through 2014 with 6 million job losses and unemployment reaching more than 11%.<sup>7</sup>

**Growth Prospects**

The forecast embodied in this article will assume the fiscal cliff is averted, because otherwise, there are a number of positive developments going into 2013. Growth prospects remain positive

**Figure 3: CT Total Nonfarm Employment Monthly Change, SA**



despite the unprecedented downside risk for 2013 for a number of reasons. These include the 42<sup>nd</sup> consecutive monthly expansion through November 2012 of the overall economy based on the Manufacturing ISM *Report on Business*<sup>®</sup>; the ISM report noted that: “Manufacturing expanded in October as the PMI [Purchasing Managers Index] registered 51.7 percent, an increase of 0.2 percentage point when compared to September’s reading of 51.5 percent.”<sup>8</sup> A reading above 50% indicates that the manufacturing economy is generally expanding; below 50% indicates that it is generally contracting. November’s PMI registered 49.5 partly over fiscal cliff concerns.<sup>9</sup>

Consumer spending also saw gains with average monthly increases of 1.9% in 2012.<sup>10</sup> Consumer sentiment in October surged to its highest point since September 2007.<sup>11</sup> The Conference Board Consumer Confidence Index<sup>®</sup>, reached a four-and-a-half-year high in November. The Index now stands at 73.7 (1985=100), up from 73.1 in October.<sup>12</sup> Real exports of goods and services increased 5.3% in Q2-2012, compared with 4.4% in Q1-2012. Real nonresidential fixed investment (purchases of plant and equipment) gained 3.6% in Q2-2012, compared with 7.5% in Q1-2012.

New homes sales grew 5.7% in

September, and housing starts 3.6% in October, the highest level in four years. Retail sales dipped 0.3% in October, but were up 3.8% from the same month last year. There is also continued momentum in car sales, up 11.7% YTD in October 2012 over 2011.<sup>13</sup> Meanwhile U.S. inflation remains relatively tame, though Social Security recipients will receive a small Cost of Living Adjustment (COLA) in 2013 of 1.7%. Last year, Social Security recipients received a 3.6% increase in benefits after getting no increase the previous two years.

### Connecticut

Connecticut’s economy should continue to experience modest growth in 2013. Connecticut’s real state gross domestic product (SGDP), the broadest measure of the state’s economic health, increased 2.0% in 2011<sup>14</sup> (the latest year available) making Connecticut the ninth fastest growing state. When released for 2012, Connecticut should see growth in that range again that should continue into 2013. Personal income dropped 2.8% in 2009, not adjusted for inflation, but it improved by 2.5% in Q2-2010, another 0.7% in Q2-2011 and again 0.9% in Q2-2012, all relative to the preceding quarter.<sup>15</sup> As forecasted by the Connecticut Department of Labor, Personal Income for Q1-2013 will increase

by 2.6% from Q1-2012.<sup>16</sup> Increases in Personal Disposable Income indicate sustained growth in consumer spending which can lead to additional job gains.

The Connecticut recession from March 2008 through February 2010 saw the loss of 117,500 jobs (Figure 3). Jobs regained numbered 30,700 (26.1%) since February 2010 when the recovery began through November 2012, including 1,900 in the year 2012 through November (0.12%) seasonally adjusted since the beginning of the year. The private sector has regained 42,000 (38.1%) of the 110,200 private jobs lost in that same recessionary period. NEEP forecasts Connecticut will gain about 5,600 jobs or 0.3% in 2013.

The state’s unemployment rate, after peaking at 9.4% for five consecutive months in 2010 and falling rather steadily to 7.7% in March and April 2012, jumped unexpectedly through last summer to 9.0% and declined to 8.8% in November. NEEP forecasts Connecticut’s unemployment rate will be 7.7% in 2013. Seasonally adjusted average weekly initial claims for unemployment insurance peaked at 7,666 in March 2009, but have since declined to 4,907 (-38.6%) in October 2012. Through October there were job gains in four of ten months notably 5,400 (January) and 6,000 (February) in 2012.

### Connecticut’s Fiscal Outlook

The state’s fiscal outlook for 2013 is uncertain after a 0.52% revenue shortfall in FY 2012. However, Connecticut’s fiscal situation was altered dramatically in 2011 with an Executive Order directing the full implementation of Generally Accepted Accounting Principles (GAAP) by 2014, and the adoption of a new biennial budget for fiscal years (FY) 2012-2013 containing spending cuts, tax increases, and a ratified state employee (SEBAC) labor agreement. The state is scheduled to convert to a GAAP basis of accounting on July 1, 2013. A new biennial budget for fiscal years ending in 2014-2015 will be introduced in February 2013.

**Table 1: Connecticut Budget Outlook**

(\$-millions)	FY 13 \$	FY 14 \$	FY 15 \$	FY 16 \$
Est. Expenditures	19,335.80	20,861.70	22,048.70	23,070.70
Est. Revenue	19,015.10	19,723.60	21,032.30	22,136.60
<b>Surplus/(Deficit)</b>	-320.70	-1,138.10	-1,016.40	-934.10
% of Est. Expenditures	-1.7%	-5.8%	-4.8%	-4.2%

In September 2012, the governor's budget office estimated "the General Fund will experience a \$74.4 million shortfall on a GAAP basis, and a \$26.9 million shortfall on a budgetary basis" in FY 2013.<sup>17</sup> "Consensus Revenues" for FY 2013 were estimated to be \$19,015.1 million.<sup>18</sup> The Connecticut legislature's Office of Fiscal Analysis (OFA) projects a \$320.7 million deficit for FY 2013, as shown in Table 1.<sup>19</sup> The outlook for the long run is also strengthened though in as much as the SEBAC state labor agreement alone was estimated to yield in excess of \$21.5 billion in 20-year cost savings.

### Housing

The state's housing market languished in 2011. However the residential permit data through September 2012 had grown by 32.2% compared to the same period a year ago. Moreover, the near-term outlook "appears brighter."<sup>20</sup> As reported in July 2012: "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."<sup>21</sup> NEEP expects Connecticut housing permits that peaked at 12,269 in Q3-2005 and reached bottom at 3,529 in Q1-2009 to total 4,682 in 2012, and will likely reach 5,173 in 2013. According to NEEP, existing Connecticut single family median home prices peaked at \$326,000 in Q2-2007, but fell to \$258,000 in 2011, \$247,000 in 2012, and will likely average \$249,000 for 2013. Existing home sales might show a gain from 36,300 in 2012 to 45,100 in 2013.<sup>22</sup>

### New Initiatives

The Connecticut economy should benefit from an aggressive campaign to strengthen small business. The Small Business Express Program (EXP) provides loans and grants to Connecticut's small businesses to spur job creation and growth and has seen vigorous activity since its inception. The state has assisted 435 companies with more than \$60 million in loans and grants. With this much-needed capital, up to 1,523 jobs are expected to be created and 4,080 retained.

Likewise the state's "First Five" and "Next Five" job initiatives have promised substantial growth in employment and capital investment in Connecticut. At year's end, nine business deals had been announced as part of the ongoing expansion program, which leveraged \$1.3 billion in private investment. Between the nine companies — Cigna, ESPN, NBC, Alexion Pharmaceuticals, CareCentrix, Sustainable Building Systems LLC, Deloitte, Bridgewater Associates, and Charter Communications — up to 4,748 jobs are expected to be created and 11,087 retained.

There are other initiatives that bode well for the state in 2013. Last year the state launched a multi-million-dollar, two-year marketing initiative to develop, foster and stimulate the state's brand identity and bolster business and tourism. Tourism has a significant impact on the state's economy, estimated by the University of Connecticut's Center for Economic Analysis at \$11.5 billion every year through total traveler and tourism revenue and \$1.15 billion in state and local tax revenue. Travel and tourism creates more than 110,000 jobs throughout the state, or 6.5% of Connecticut's total employment.

In May 2012, the final product

of the branding campaign titled "Still Revolutionary" was unveiled. The campaign, which aired on TV, radio, print, and digitally and included a new logo, references Connecticut's roots in the founding of the country and reminds people that the state still has an independent, revolutionary spirit and, for centuries, has been the state of "literary greats, innovators and natural wonders — an incredibly diverse array of products and talent."

### Conclusion

Connecticut and the nation's recovery are affected by large uncertainties. Aside from the fiscal cliff, many of the issues are the same as in past years: dealing with the fiscal and economic effects of financial and healthcare reform, immigration reform, the ongoing sovereign debt crisis in the Eurozone, and China, and Iran's ongoing intervention with the global economy.

Assuming the fiscal cliff is averted, however, recent trends point to 2013 being somewhat better than 2012 — although characterized by slow growth and only gradual improvement in the unemployment rate.

The housing market saw improvement in terms of sales and permits in 2012 and the data suggest that will likely continue in 2013. The combination of the state's new branding campaign, its new jobs agenda, and the uptick in significant new capital investments will continue to improve the business climate. Likewise, changes in the regulatory environment, such as the reduced business entity tax and state agency consolidations can be expected to yield gradual progress in overcoming the inertia of two decades or more of dismal job growth. Connecticut's growth in total output that puts it ahead of 41 other states and the nation, along with major initiatives like "Connecticut Bioscience," which has produced additional interest in this industry, are significant indicators of continuing improvement in the year ahead.

On balance, we should expect generally favorable developments in

2013 for employment growth, investment in plant and equipment, auto sales, personal income, consumer expenditures, and Connecticut's fiscal outlook. ■

<sup>1</sup> Bureau of Economic Analysis (BEA), Press release BEA 12-48: "Gross Domestic Product: Third Quarter 2012 (Advance Estimate)," Friday, October 26, 2012.

<sup>2</sup> New England Economic Partnership, Fall Economic Outlook Conference: "**The Next Four Years: Economic Outlook in New England Post Election**," December 6, 2012, p. 18.

<sup>3</sup> NABE, 24/7 Wall St.com, "NABE Survey Sees Tepid Growth Through 2013," October 15, 2012. <http://247wallst.com/2012/10/15/nabe-survey-sees-tepid-growth-through-2013/>.

<sup>4</sup> BLS, "The Employment Situation," November 2, 2012. <http://stats.bls.gov/news.release/pdf/empst.pdf>.

<sup>5</sup> The Conference Board, News Release, November 21, 2012. <http://www.conference-board.org/data/bcicountry.cfm?cid=1>.

<sup>6</sup> See Note 5.

<sup>7</sup> Jeff Werling for NAM, "Fiscal Shock: America's Economic Crisis – Executive Summary," October 2012. <http://www.nam.org/~media/>

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<sup>8</sup> October Manufacturing ISM *Report On Business*®, November 1, 2012. <http://www.arcweb.com/industry-news/2012-11-01/october-manufacturing-ism-report-on-business-5.aspx>.

<sup>9</sup> November Manufacturing ISM *Report On Business*®, December 3, 2012.

<sup>10</sup> BEA, "News Release: Personal Income and Outlays: September 2012," October 29, 2012.

<sup>11</sup> Thomson Reuters/U. Michigan, "Record Gains in Consumer Confidence," October 26, 2012.

<sup>12</sup> The Conference Board, *Consumer Confidence Survey*, "The Conference Board Consumer Confidence Index® Increases Again," November 27, 2012. <http://www.conference-board.org/press/pressdetail.cfm?pressid=4662>.

<sup>13</sup> *The Wall Street Journal*, "October U.S. Auto Sales Climb 7%," <http://online.wsj.com/article/SB10001424052970204846304578092500824881108.html>.

<sup>14</sup> BEA, News Release: GDP by State, "Widespread Economic Growth across States in 2011." [http://www.bea.gov/newsreleases/regional/gdp\\_state/gsp\\_newsrelease.htm](http://www.bea.gov/newsreleases/regional/gdp_state/gsp_newsrelease.htm), June 5, 2012.

<sup>15</sup> BEA, "News Release: State Personal

Income: Second Quarter 2012." [http://www.bea.gov/newsreleases/regional/spi/spi\\_newsrelease.htm](http://www.bea.gov/newsreleases/regional/spi/spi_newsrelease.htm). September 25, 2012.

<sup>16</sup> *The Connecticut Economic Digest*, Vol. 17, No. 12, December 2012, p. 6.

<sup>17</sup> Office of Policy and Management (OPM), Letter of Benjamin Barnes to Comptroller Kevin Lembo, September 20, 2012. <http://www.ct.gov/opm/lib/opm/budget/comptrollerletter/fy2013/2012sept20comptrollersletter.pdf>.

<sup>18</sup> OPM, Letter of Benjamin Barnes and Alan Calandro, "State of Connecticut Consensus Revenue" Pursuant to Section 2-36c of the C.G.S for current FY 11-13 biennium and next three ensuing fiscal years, November 9, 2012. [http://www.ct.gov/opm/lib/opm/budget/consensusrevenue/fy2013/final\\_consensus\\_november\\_2012.pdf](http://www.ct.gov/opm/lib/opm/budget/consensusrevenue/fy2013/final_consensus_november_2012.pdf).

<sup>19</sup> Table extracted from OFA, "Fiscal Accountability Report to the Appropriations and Finance Committees as required by CGS Sec. 2-36b," November 15, 2012, p. 2.

<sup>20</sup> Kolie Sun, "State Housing Market Languished in 2011," *The Connecticut Economic Digest*, Vol. 17, No. 7, July 2012, p. 5.

<sup>21</sup> Note 20.

<sup>22</sup> NEEP, See Note 2.

## GENERAL ECONOMIC INDICATORS

<i>(Seasonally adjusted)</i>	3Q	3Q	CHANGE		2Q
	2012	2011	NO.	%	2012
<b>General Drift Indicator (1986=100)*</b>					
<b>Leading</b>	107.0	103.1	3.9	3.8	105.9
<b>Coincident</b>	107.9	107.4	0.5	0.5	108.0
<b>Farmington Bank Business Barometer (1992=100)**</b>	125.9	124.7	1.2	1.0	125.6
<b>Philadelphia Fed's Coincident Index (July 1992=100)***</b>	<b>NOV</b>	<b>NOV</b>			<b>OCT</b>
<i>(Seasonally adjusted)</i>	<b>2012</b>	<b>2011</b>			<b>2012</b>
<b>Connecticut</b>	152.88	151.10	1.78	1.2	152.45
<b>United States</b>	152.39	148.30	4.09	2.8	152.07

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).