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ECONOMIC DIGEST

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IN THIS ISSUE...

In March...

Nonfarm Employment
- Connecticut 1,61
  - Change over month ..... -0.07%
  - Change over year ..... -2.7%
- United States 129
  - Change over month ..... -0.03%
  - Change over year ..... -2.5%

Unemployment Rate
- Connecticut 9
- United States 9.7%

Consumer Price Index
- United States 2
  - Change over year 2.1%

Unemployment Insurance Supports the State's Economy

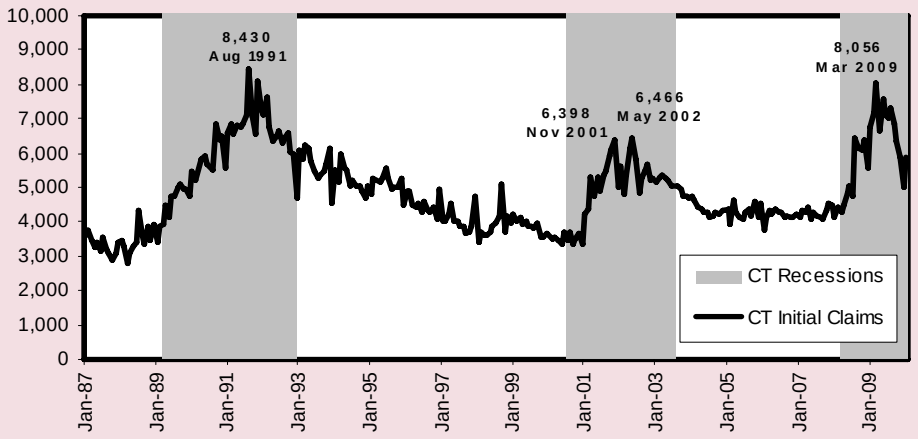
By Daniel W. Kennedy, Ph.D., Senior Economist, DOL

There are two sets of objectives addressed by the unemployment insurance system. The primary objectives are aimed directly at providing financial help to workers during temporary periods of involuntary unemployment, thereby reducing the economic insecurity faced by individuals and their families. The secondary objectives are to promote economic stability and efficiency. The focus of this article is on the role of unemployment insurance (UI) as an automatic stabilizer for the economy, to dampen the amplitude of the business cycle.[1] By design, automatic stabilizers dampen fluctuations in economic activity as those fluctuations occur. Unemployment insurance works by putting a floor under the fall in consumers' disposable income. It provides eligible unemployed workers with temporary benefit payments, thereby cushioning their decline in disposable personal income.

UI CLAIMS OVER THE BUSINESS CYCLE

Graph 1 tracks Connecticut monthly average weekly initial claims over the period of January 1987 to January 2010. There are three instances when the average number of initial claims exceeded 8,000: August and November 1991, during the 1989-92 reces-

GRAPH 1: CT Monthly Initial Claims (SA, Weekly Average), Jan. 1987 - Jan. 2010



SOURCE: Federal Reserve Bank of Boston, New England Economic Indicators

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Managing Editor: Jungmin Charles Joo

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Connecticut Department of Labor
Linda L. Agnew, Acting Commissioner

Roger F. Therrien, 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
Joan McDonald, Commissioner
Ronald Angelo, Deputy Commissioner

Stan McMillen, Ph.D., Managing Economist
505 Hudson Street
Hartford, CT 06106-2502
Phone: (860) 270-8000
Fax: (860) 270-8200
E-Mail: decd@ct.gov
Website: http://www.decd.org

sion, and March 2009, during the current recession. Graph 2 presents a more detailed picture of Connecticut's initial clams during the most recent three years, which includes the current recession. Since the higher-frequency initial claims data is not seasonally adjusted, Graph 2 tracks the four-week moving average (4WMA) of weekly initial claims from January 6, 2007 to March 20, 2010.

There is a peak each year in initial claims in January following the increase in retail employment during the Christmas season and the curtailment of construction-related activities with the onset of winter. However, while that spike in initial claims exceeded the 8,000 level in January 2007 and 2008, it exceeded 10,000 in January 2009. After declining to around 4,500 by September 2009, the 4WMA climbed to just under 7,000 the first week of January and then, for the second year in a row, exceeded 10,000 initial claims for the week of January 23, 2010 (Graph 2).

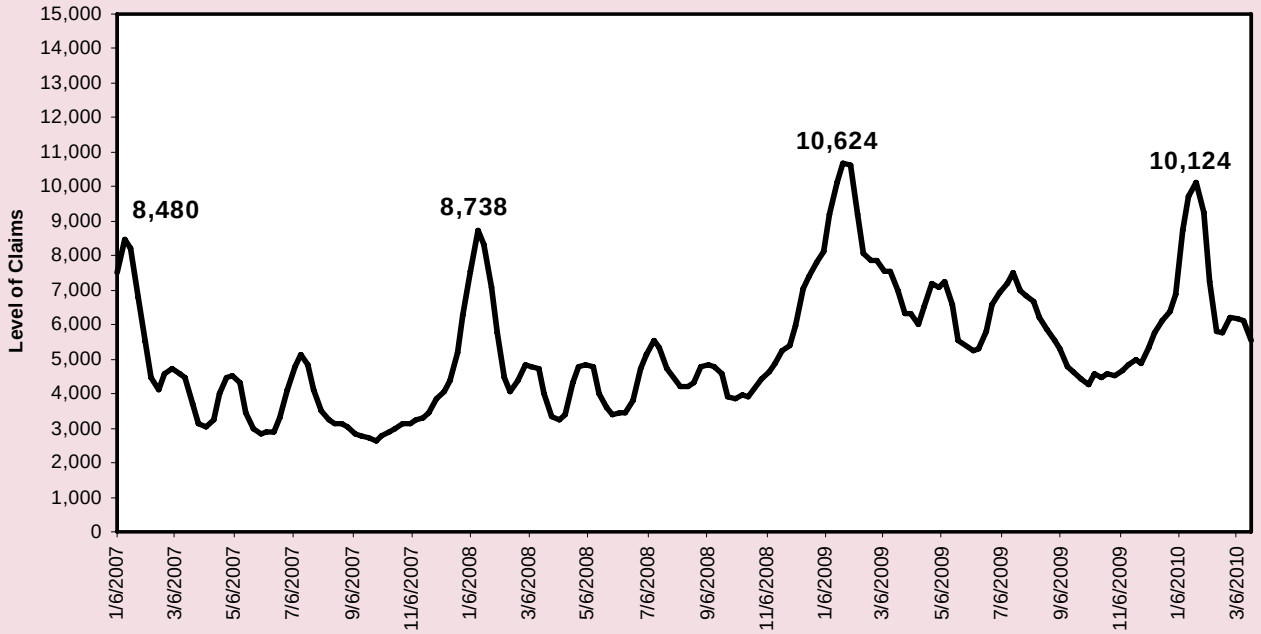
UI BENEFITS CUSHION THE ECONOMIC FALL IN 2009

Thus, as workers lose their jobs, UI benefits replace a portion of the lost income. This not only supports the unemployed worker through the economic crisis, but also supports a minimum level of spending in the economy as overall aggregate spending is declining. To get a sense of how that cushion has supported spending in Connecticut, and in particular how it is supporting spending over the current crisis, a simulation was run using an impact analysis model. The purpose was to assess the impact of UI benefits on mitigating the decline in jobs and tax revenue in the state. Three separate scenarios were run: (1) The additional jobs and tax revenue that would have been lost in 2009 if no UI benefits had been available; (2) the jobs and tax revenue that would have been saved if only the 26 weeks of regular UI benefits, but no federal emergency extensions, had been available; and (3) the jobs and tax revenue that were saved by all of the UI benefit programs that were available in 2009, including regular benefits and all federal extensions.

UI Benefits Cushion Job Losses

Table 1 presents the results of the impact on Connecticut's job losses in 2009. The figures in the table represent *gross* job losses; that is, the total number of positions eliminated at businesses in Connecticut, not taking into account positions added at other businesses. In the "DIRECT" column the total number of "first checks" paid by Connecticut's UI program was 215,324[2] in 2009. When a UI recipient cashes his or her check and spends the money to buy bread at the supermarket that spending supports creating, or retaining, a job for the supermarket worker. This is called the *direct* effect of the spending injection into the economy. In turn, the supermarket will order bread from its supplier to meet its customers' demand, which creates, or keeps, a job at the bakery supplying bread to the supermarket. This is called the *indirect* effect. Finally, when the workers at the supermarket and bakery spend the income earned from their jobs buying goods and services, this is called the *induced* effect. The *total* effect is the sum of the three effects (direct + indirect + induced). Table 1 identifies the direct, indirect, and induced effects of UI benefit payments.

GRAPH 2: 4WMA-CT Initial Claims (NSA), Jan 6, 2007 - Mar 20, 2010



SOURCE: U.S. Department of Labor, ETA

Table 1: 2009 Employment Results of UI-Covered Layoffs Under 3 Scenarios

	Direct	Indirect	Induced	Total
Scenario 1: Job losses that would have resulted from UI-eligible layoffs if no UI benefits had been available	-215,324	-101,032	-108,886	-425,242
Scenario 2: Jobs saved by regular UI benefits	5,683	1,300	1,568	8,551
Scenario 3: Total jobs saved by regular and extended UI benefits	14,553	3,308	3,995	21,856

SOURCE: CT DOL UI and IMPLAN impact analysis

The "direct" column shows that the data available for analysis include a total of 215,324 first checks paid by Connecticut's UI Program in 2009. When adding in the indirect and induced effects of those claimants not having benefits available to them (Scenario 1), the initial 215,324 UI covered layoffs could have resulted in a total of 425,242 gross 2009 job losses. However, Scenario 2 indicates that because $1.337 billion in regular UI benefits was paid out in 2009, there were 8,551 fewer jobs lost, reducing gross job losses to 416,691. When the $1 billion in emergency federal extensions are included in Scenario 3, the expected job losses are reduced by 21,856, bringing total gross job losses down to 403,386 for 2009.

UI Benefits Cushion Losses in State Tax Revenue

In addition to lessening job losses, the payment of UI benefits to laid-off workers also diminishes losses in tax revenue. Direct losses are mitigated

--Continued on page 5--

TABLE 2: CT State Tax Revenue Impacts of UI Benefits in 2009

	UI Covered Layoffs	With Reg UI Benefits	DIFFERENCE UI - Layoffs	With Reg UI & Fed Emerg Ext	DIFFERENCE (UI + Fed) - Layoffs
Indirect Bus Tax: Property Tax	-1,613,433,523	-1,583,128,807	30,304,716	-1,535,024,715	78,408,808
Indirect Bus Tax: Sales Tax	-1,285,496,049	-1,261,350,900	24,145,149	-1,223,024,177	62,471,872
Personal Tax: Income Tax	-806,621,154	-777,076,283	29,544,871	-735,092,857	71,528,298
Other Taxes	-818,902,396	-804,867,824	14,034,572	-783,093,516	35,808,880
Total	**-4,524,453,122**	**-4,426,423,814**	**98,029,308**	**-4,276,235,264**	**248,217,858**

SOURCE: CT DOL UI and IMPLAN impact analysis.

--Continued from page 3--

through withholding for both federal and state income taxes. In 2009, $41.9 million was withheld from UI checks for state income taxes and $139.5 million for federal income taxes for a total, aggregate withholding of $181.4 million. Table 2 focuses on Connecticut tax revenues and presents the total effects – direct, indirect, and induced multiplier effects.

As shown in the first column of Table 2, the layoff of UI covered workers in 2009 would have resulted in the state losing $4.524 billion in total gross tax revenue. However, once the payment of regular UI benefits is included, the gross revenue loss declines to $4.426 billion (second column), a $98 million reduction in the loss of tax receipts. Further, with the addition of the effects of federal emergency extensions, the gross tax revenue loss declines to $4.276 billion (fourth column). Thus, because both regular UI benefits and federal emergency extensions were paid to unemployed workers in 2009, the state's gross tax revenues declined by $248 million less than they would have had were these UI benefits not been paid (fifth column).

CONCLUSION: Preventing a Bad Situation from Getting Worse

From March 2008, the peak of Connecticut's last cycle, to February 2010, the state's economy had a net job loss (jobs added minus jobs eliminated) of 101,300. Since gross job losses are about four times that number, this has clearly been a steep recession for the state. However, based on the impact analysis results of the cushioning effects of UI benefit payments, a bad situation clearly would have been worse were it not for the mitigating effects of the unemployment insurance program. It lessened the severity of the current crisis, sparing around 22,000 jobs and generating an estimated $248 million in state tax revenues, in addition to offering income support to state's workers faced with a sudden financial emergency. ■

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[1] For a more detailed discussion of these points, see Rejda, George E., SOCIAL INSURANCE AND ECONOMIC SECURITY, 6th Edition (1999) Prentice Hall: Upper Saddle River, NJ, Chapter 14.

[2] The actual total was 231,000; however, 215,324 conformed to the requirements for analysis in IMPLAN.

The author wishes to thank Amy Druckenmiller, Economist, Office of Research, for her comments and editing.

GENERAL ECONOMIC INDICATORS

(Seasonally adjusted)	4Q 2009	4Q 2008	CHANGE NO.	CHANGE %	3Q 2009
Employment Indexes (1992=100)*					
Leading	115.9	116.2	-0.3	-0.3	114.5
Coincident	102.3	108.8	-6.5	-6.0	102.8
General Drift Indicator (1986=100)*					
Leading	104.0	105.9	-1.9	-1.8	100.8
Coincident	106.3	113.4	-7.1	-6.3	107.9
Farmington Bank Business Barometer (1992=100)**	119.3	125.0	-5.7	-4.6	120.0

*Sources: *The Connecticut Economy, University of Connecticut **Farmington Bank*

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.