

# ECONOMIC DIGEST

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### In August...

#### Nonfarm Employment

Connecticut .....	1,687,200
Change over month .....	-0.23%
Change over year .....	+0.4%

United States .....	146,730,000
Change over month .....	+0.11%
Change over year .....	+1.4%

#### Unemployment Rate

Connecticut .....	4.8%
United States .....	4.4%

#### Consumer Price Index

United States .....	245.519
Change over year .....	+1.9%

## State Economic Indexes (SEI), 2010-2016

By Jungmin Charles Joo and Dana Placzek, DOL

**C**onnecticut ranked 32<sup>nd</sup> out of the 50 states and the District of Columbia (DC) in the State Economic Indexes (SEI) in 2016, moving up from the 39<sup>th</sup> position in 2015. In fact, last year's overall economic performance was the best in terms of the ranking in six years. Colorado, once again, ranked first in the nation with the highest index last year (145.3), while Wyoming came in last (102.6). Our state's index of 120.5 was below the nationwide value of 124.5 (see table on page 2).

### SEI: Methodology

Applying the same components and methodology of the Connecticut Town Economic Indexes (See September 2017 issue), the Connecticut Department of Labor's Office of Research also developed the State Economic Indexes, an annual composite index of each of the 50 states and DC. With recently available annual average data from the Quarterly Census Employment and Wages (QCEW) program, along with the revised annual average unemployment rate from Local Area Unemployment Statistics (LAUS), annual SEI is reestimated for the 2010-2016 period.

These indexes provide a measure of the overall economic strength of each state that can be compared and ranked. Four

annual average state economic indicators were used as components: 1. the number of the total covered business establishments, 2. total covered employment, 3. real covered wages, and 4. the unemployment rate.

Establishments are the physical work units located in the state. Employment is the number of employees on payroll in the establishments that are located in the state who are covered under the unemployment insurance law (nearly the universe count of all the employees on payroll in the state). Average annual pay is the aggregate wages earned divided by the total average employment. Establishments, employment and wages are proxies for each state's business activities and its overall economic strength, while the unemployment rate measures the overall economic health of each state's working residents.

Each of the four components of the SEI is given a 25 percent weight. SEI's base year is 2010, which equals 100. The wage component is adjusted to 2010 dollars and the unemployment rate changes are inversed to reflect the right economic direction. By combining these four major economic indicators, the index gives a broad measure of business and resident economic health of each state

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# ECONOMIC DIGEST

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### STATE ECONOMIC INDEXES (2010=100), 2012-2016\*

State	Rank	2012	2013	2014	2015	2016
Alabama	45	108.4	112.6	115.9	118.4	113.3
Alaska	49	105.1	106.7	108.3	110.4	106.1
Arizona	27	108.2	111.1	117.2	120.6	121.8
Arkansas	15	103.0	105.3	111.7	120.6	128.1
California	3	106.4	112.3	121.1	130.9	134.0
Colorado	1	104.5	110.4	124.5	137.9	145.3
<b>Connecticut</b>	<b>32</b>	<b>103.5</b>	<b>106.1</b>	<b>112.5</b>	<b>118.2</b>	<b>120.5</b>
Delaware	24	105.0	108.5	116.5	121.0	123.3
District of Columbia	33	103.0	104.7	108.8	118.6	120.3
Florida	14	109.6	117.2	124.7	129.5	128.3
Georgia	16	105.2	110.0	117.1	125.4	127.6
Hawaii	5	104.8	112.4	117.7	128.1	132.3
Idaho	8	106.2	113.3	124.4	130.3	130.7
Illinois	35	106.2	107.1	117.0	122.5	119.3
Indiana	13	108.3	111.4	122.4	127.6	128.4
Iowa	42	106.9	110.4	115.1	118.3	116.5
Kansas	44	106.4	109.7	117.0	118.1	114.2
Kentucky	23	107.6	110.2	120.4	126.9	124.3
Louisiana	48	103.8	106.4	108.5	109.3	107.2
Maine	11	102.7	107.0	113.4	124.4	129.3
Maryland	29	104.3	106.5	111.1	115.1	121.3
Massachusetts	10	107.9	109.2	116.1	120.3	129.8
Michigan	18	110.6	112.5	120.9	127.9	127.1
Minnesota	40	110.2	114.7	123.1	124.2	116.8
Mississippi	36	104.7	107.3	112.7	118.3	118.9
Missouri	31	111.3	113.5	118.6	124.4	121.0
Montana	34	107.5	112.2	118.8	123.5	120.1
Nebraska	39	108.1	111.6	117.8	121.7	117.6
Nevada	2	106.0	112.6	122.1	130.1	134.0
New Hampshire	7	103.0	106.2	113.2	121.2	131.7
New Jersey	20	100.4	104.5	111.9	118.0	125.3
New Mexico	50	104.4	105.1	107.7	107.3	105.7
New York	19	102.1	105.8	114.0	120.9	126.8
North Carolina	12	106.4	112.0	122.8	126.6	128.8
North Dakota	43	116.9	122.8	129.2	125.6	115.6
Ohio	37	111.6	111.9	123.1	125.3	118.6
Oklahoma	47	110.8	111.5	118.7	115.8	108.1
Oregon	6	107.7	112.3	120.0	127.2	132.0
Pennsylvania	41	104.3	105.8	115.1	117.5	116.7
Rhode Island	9	102.9	107.5	114.9	126.3	130.2
South Carolina	4	107.1	115.6	124.0	127.4	132.6
South Dakota	28	106.3	111.3	116.8	120.2	121.7
Tennessee	22	108.2	109.3	117.1	122.8	124.6
Texas	25	109.0	113.2	122.7	128.7	122.6
Utah	17	113.8	122.1	133.3	131.8	127.1
Vermont	38	106.7	111.9	116.1	117.8	118.2
Virginia	30	106.0	108.4	112.3	118.0	121.1
Washington	26	108.3	115.6	122.1	124.2	122.1
West Virginia	46	106.1	109.4	111.0	108.5	109.4
Wisconsin	21	108.0	110.7	119.8	124.1	125.3
Wyoming	51	107.3	111.7	117.1	114.2	102.6
<b>UNITED STATES</b>		<b>106.6</b>	<b>110.5</b>	<b>118.5</b>	<b>124.0</b>	<b>124.5</b>

\* 2010 = 100 for all 50 states and District of Columbia

2011 SEI is available upon request.

Ranking by 2016 SEI level

Index developed by Connecticut Department of Labor, Office of Research

Data Source: Bureau of Labor Statistics

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that can then be compared and analyzed.

**SEI: 2015 to 2016**

Possibly reflecting a slowdown in the current economic recovery in the nation, business and labor conditions of only 29 of the 50 states and DC improved from 2015 to 2016, compared to 45 with increased SEI from 2014 to 2015. The biggest percentage increase in the index occurred in New Hampshire, Massachusetts and Arkansas. Connecticut ranked 16<sup>th</sup> among states, in terms of over-the-year percentage growth (1.9%). Meanwhile, the U.S. index rose 0.4% from 2015 to 2016. The states that experienced fastest decline in 2016 include Wyoming, North Dakota and Oklahoma.

**SEI: 2010 to 2016**

Looking longer term, all 50 states and DC showed positive SEI growth. Colorado, Nevada, and California topped the list, when new business formations, jobs, real wages, and unemployment rates are all factored in. The Connecticut index increased 20.5% since 2010, when the economy began to recover, while the nation's index grew 24.5%. Among the nine Northeast states,

Connecticut ranked 7<sup>th</sup>, slightly above Vermont and Pennsylvania (Chart 1). New Hampshire's economy fared the best since 2010. All in all, fewer than half of the states recovered faster than the national average from 2010 to 2016. The map on page 4 shows the different ranges of economic recovery rate of each state.

**Components of SEI:**

**Establishments**

In terms of the number of establishments, Idaho, Virginia and Nevada experienced the fastest growth over the year. Illinois, Alaska and North Dakota were the only states with declines from 2015. Connecticut's establishment growth rate ranked 35<sup>th</sup> among the states.

Over the last six years, North Dakota, Nebraska and Oregon had the fastest business formations. However, Michigan, Minnesota, New Jersey and Louisiana experienced a decline in the number of establishments from 2010 to 2016.

**Employment**

Last year's average nationwide employment grew slower at 1.7% from 2015. Utah ranked first over the year, while

Connecticut moved up to a 44<sup>th</sup> place. Six states lost jobs over the year, including North Dakota, Wyoming and Alaska.

Looking at a six-year trend, all but West Virginia added jobs. Utah experienced the fastest employment gain during the latest recovery, while Colorado, Florida, North Dakota, and California rounded out the top five. Meanwhile, Connecticut's job growth slid down to 46<sup>th</sup> from 44<sup>th</sup> in 2015.

**Nominal Wages**

All except seven states posted wage gains in 2016. Washington had the biggest annual pay gain, followed by Nevada and Hawaii. Connecticut was 42<sup>th</sup> in terms of wage growth, dropping from 34<sup>th</sup> in 2015.

The highest annual average pay was earned in DC at \$89,472 in 2016. Connecticut's wage was fourth once again in 2016 (\$65,875), following New York (\$67,943) and Massachusetts (\$67,429). As in 2015, only fourteen states and DC posted wages higher than the nation's average of \$53,611 last year. The three states with the lowest average pay in 2016 were Mississippi, Idaho and Montana.

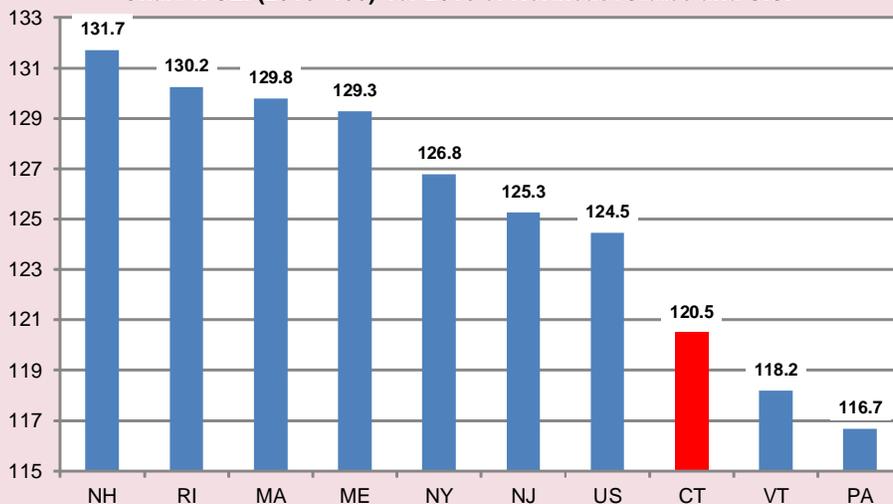
Since 2010, all states and DC experienced income gains, with North Dakota having the fastest increase. Connecticut's annual pay growth rate ranked 44<sup>th</sup> among the states.

**Unemployment Rate**

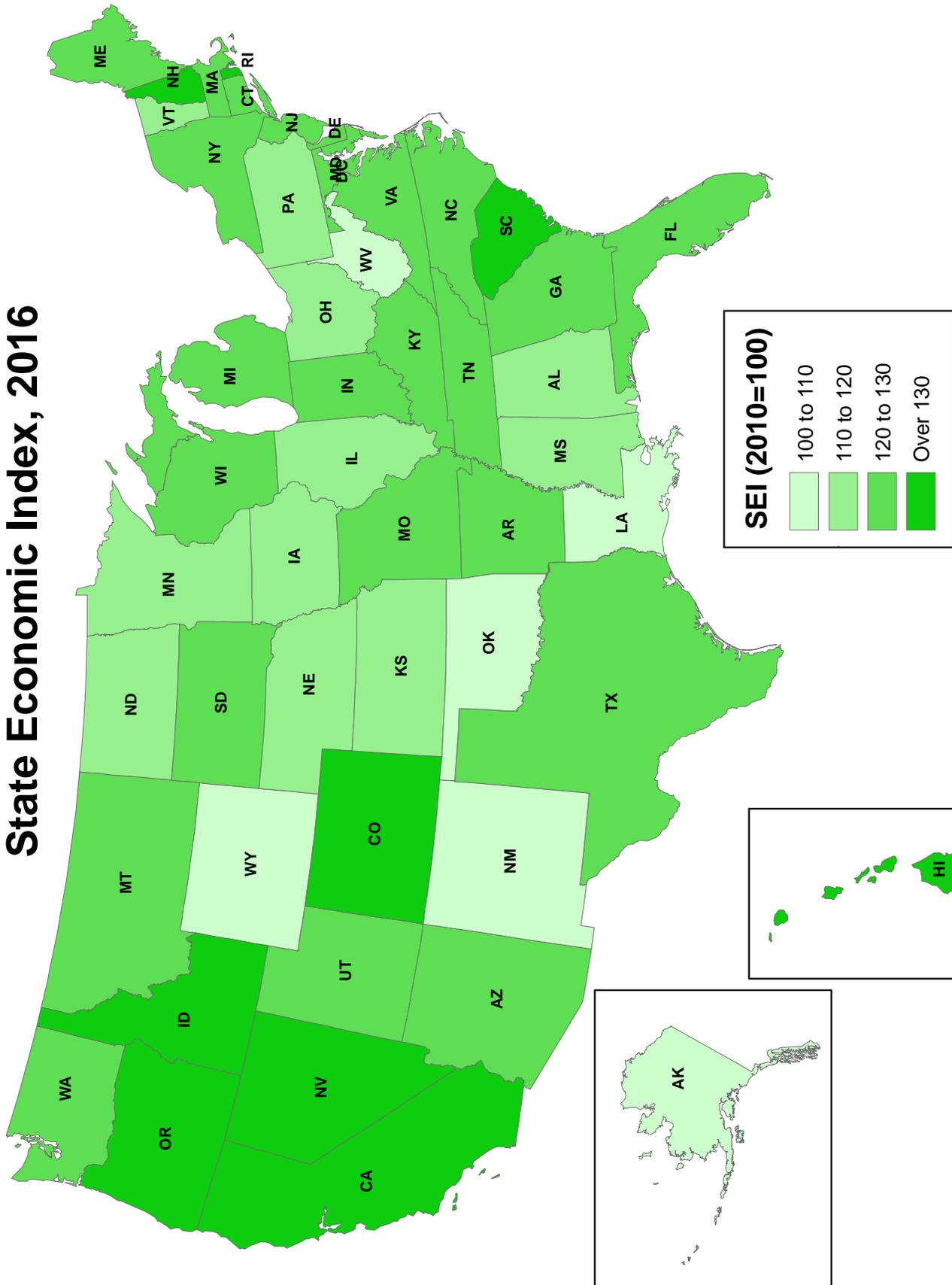
Both New Hampshire and South Dakota posted the lowest unemployment rate in 2016 at 2.8%. Conversely, New Mexico had the highest unemployment rate last year at 6.7%. Connecticut's 5.1% jobless rate ranked 34<sup>th</sup> in the nation, and above the national rate of 4.9%. The biggest drop occurred in Massachusetts and South Carolina, while Wyoming

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Chart 1. SEI (2010=100) for 2016 of Northeast States and U.S.

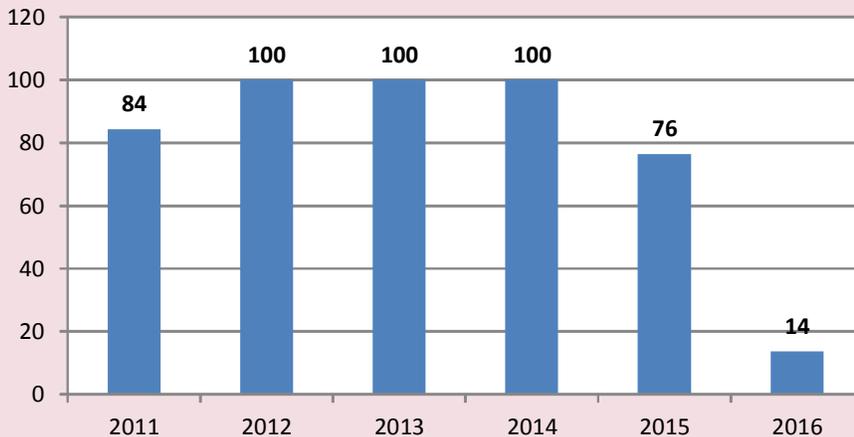


# State Economic Index, 2016



Note: Alaska and Hawaii not shown to scale

**Chart 2. SEI Diffusion Index, 2011-2016**



-continued from page 3-

experienced the biggest increase over the year.

Over the longer period, Nevada had the biggest unemployment rate drop, falling from 13.0% in 2010 to 5.7% in 2016, a 7.8-percentage point decline. Michigan, California, South Carolina and Florida also experienced huge decreases over the last six years. Connecticut's jobless rate, meanwhile, dropped from 9.1% to 5.1%. Nationally, the rate fell from 9.6% to 4.9% during that same period.

**SEI Diffusion Index: 2010-2016**

One way to measure aggregate performance of SEI of all 50 states and DC is to use a

diffusion index. For each state, the index is up, down, or unchanged over the year. The SEI Diffusion Index is calculated by subtracting the share of states that experienced decreases in their indexes from the share that had increases over the year.

For example, index values in 46 states went up (90%), three (6%) went down, and two stayed the same in 2011. The diffusion index is then calculated by subtracting 6 from 90, equaling 84 (Chart 2). Thus, if all 51 indexes rise from a prior year, then the diffusion index becomes 100, and if all fall, then -100. If

the SEI diffusion index is positive, then that is interpreted as an economic recovery or expansion, while negative figures would mean an economic recession or contraction.

As expected, during the 2011-2015, the SEI Diffusion Index values were positive, when the nation was undergoing an economic recovery. However, more states showed index declines in 2015 than in the previous three years. In 2016, the index value fell dramatically to 14, when nearly half of the states' indexes fell over the year. Though still positive, this may indicate a significant slowdown of the nation's economic recovery.

**Conclusion**

Based on the SEI calculations, Connecticut's move up to 32<sup>nd</sup> place last year is an encouraging sign. However, with the ongoing state budget crisis, it remains to be seen if our state's economy will improve by the end of this year. Also, as stated before, given the markedly increased number of states with falling index numbers in 2016, the probability of a further slowdown of the national economy would likely be higher in 2017. ■

**GENERAL ECONOMIC INDICATORS**

<i>(Seasonally adjusted)</i>	2Q	2Q	CHANGE		1Q
	2017	2016	NO.	%	2017
<b>General Drift Indicator (1996=100)*</b>					
<b>Leading</b>	116.7	118.2	-1.5	-1.3	118.4
<b>Coincident</b>	117.1	117.3	-0.2	-0.2	116.8
<b>Farmington Bank Business Barometer (1992=100)**</b>	136.1	135.5	0.6	0.4	135.2
<b>Philadelphia Fed's Coincident Index (July 1992=100)***</b>	<b>Aug</b>	<b>Aug</b>			<b>Jul</b>
<i>(Seasonally adjusted)</i>	<b>2017</b>	<b>2016</b>			<b>2017</b>
<b>Connecticut</b>	NA	NA	NA	NA	NA
<b>United States</b>	NA	NA	NA	NA	NA

Sources: \*Dr. Steven P. Lanza, University of Connecticut \*\*Farmington Bank \*\*\*Federal Reserve Bank of Philadelphia

**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 three leading (housing permits, manufacturing average weekly hours, and initial unemployment claims) economic variables, and are indexed so 1996 = 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).