

ECONOMIC DIGEST

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In May...

Nonfarm Employment

Connecticut 1,688,300
 Change over month +0.40%
 Change over year +0.7%

United States 146,135,000
 Change over month +0.09%
 Change over year +1.6%

Unemployment Rate

Connecticut 4.9%
 United States 4.3%

Consumer Price Index

United States 244.733
 Change over year +1.9%

State's 2016 Housing Market in Review

By Kolie Sun, Senior Research Analyst, DECD

The housing market is an important sector of the economy, and so each year the Department of Economic and Community Development (DECD) examines different aspects of Connecticut’s housing industry. This article takes a look at permits, sales, prices and housing characteristics.

Home Sales and Prices

The state’s real estate market continued its momentum into 2016 with another strong performance in the number of sales and an uptick in median prices.

According to the Warren Group report, Connecticut single-family home sales gained 8.7% from 29,644 in 2015 to 32,235 in 2016, the highest level in nine years. Condominium sales also gained

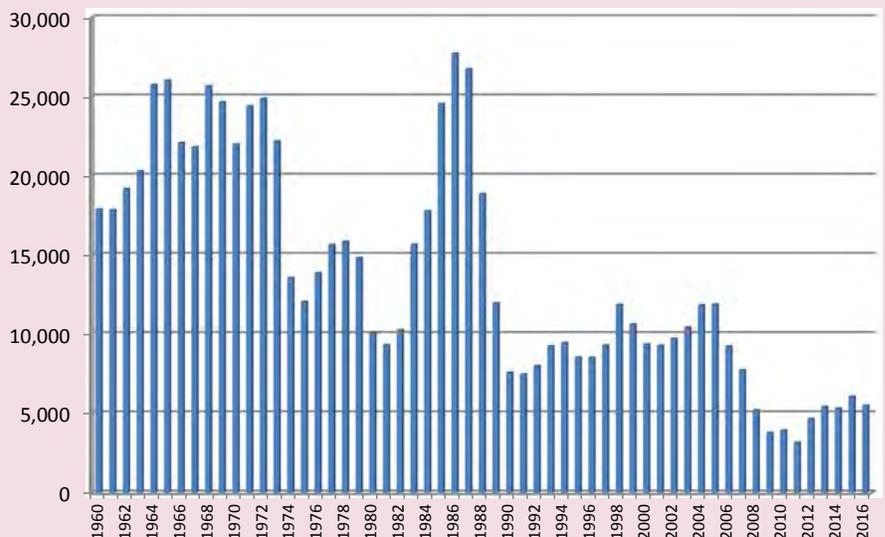
ground with a 5.3% increase from 7,853 in 2015 to 8,267 in 2016.

From the same report, the median single-family home sales price had a slight increase of 0.4% to \$247,000 in 2016 from \$246,000 in 2015, albeit still far below the 2007 peak at \$295,000. Condominium prices fell 0.3% during the same time period.

According to the Federal Housing Finance Agency’s House Price Index (HPI), the U.S. house prices advanced 6.2% from the fourth quarter of 2015 to the fourth quarter of 2016, while the state’s HPI increased 1.0%. For a five-year period (Q4:2011 to Q4:2016), Connecticut’s HPI registered at 3.3%, indicating very little home price appreciation while Nevada saw a 92% of value appreciation.

The Fed raised interest rates the second time in December 2016 since

Chart 1. Connecticut Housing Units Authorizations, 1960-2016



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the Great Recession. Raising rates will affect millions of Americans, including home buyers, savers and investors. Although mortgage rates had increased to around 4% at the end of last year, it remained relatively low from a historical point of view. Hence the higher rates impacted little in state's real estate transactions, evidenced by the number of home sales and prices.

Housing Production

According to data release by the Bureau of the Census, cities and towns in Connecticut authorized a total of 5,504 single and multifamily homes in 2016. This level of production represents a 9.4% decrease compared to 6,077 in 2015. However, it is still a 5.4% increase compared to 5,220 in 2008, the beginning of the Great Recession (See chart 1).

Fairfield County again dominated the number of housing permits with the largest share (34.6%) in 2016, followed by Hartford County (26.5%) and New Haven County (16.7%). Windham County had the smallest share (2.4%). The state's multifamily units (5 units or more) outpaced single-family homes authorizations again last year. In 2016, Connecticut issued 2,842 multifamily permits which accounted for 51.6% of the total number of housing units authorized, while 44.7% were single-family homes.

At the national level, Connecticut is one of the five states, along with the District of Columbia, New York, New Jersey, and Illinois, that authorized more than half of the total number of housing units in the multifamily category last year.

Several municipalities showed strong performance in the multifamily unit segment; Stamford led all municipalities with 720 units authorized, followed by Bloomfield with 411, Fairfield with 258, Simsbury with 250, and New Haven with 227. The combined permits issued for the top five municipalities accounted for 33.9% of all housing permits issued in the state.

DECD surveys each municipality for demolition information perennially. One hundred thirty-seven Connecticut towns responded (81% response rate), reporting 1,176 demolished units in 2016. As a result, the state's net gain of 4,328

units brings its housing inventory estimates to 1,510,921 units.

Overall, the nation experienced a 2% increase in housing permit authorizations from 2015 to 2016. Nevada experienced the largest percentage increase, while New York State saw the largest decline during the same period. Connecticut fared worse than the nation in terms of permit growth, ranking 46th in the country, according to the Census Bureau.

Housing Stock Characteristics

Looking at housing characteristics is one way to understand housing markets and changes in housing throughout the state. Housing tenure, units in structure, the year a structure was built and the number of bedrooms are some components of housing characteristics.

According to the 2015 American Community Survey (ACS),¹ the latest data available, Connecticut's total number of housing units was estimated at 1,491,786, an increase of 7.3% from 2000. Home owners occupied 60.7% of the total number units, while renters occupied almost 30%. Vacant buildings accounted for 9.3%.

Single-family and multifamily (2+ units) are two major types of housing structures. From the same source, the former accounted for 64.6% of state's total housing units, and the latter 34.5%. Mobile homes had a share of 0.8%.

In Connecticut, 22.2% of the housing inventory was built prior to 1939, 36% was built between 1940 and 1969, 34.1% was built between 1970 and 1999, and the remaining 7.7% was built after 2000. The state's median year structure built was 1964, which means more than half of housing stock is at least a half-century old. In the U.S., 1976 was the median, making Connecticut housing stock generally older than the nation.²

Older houses are less energy-efficient than new construction and will require remodeling and renovation. Therefore, the age of housing stock is one of the remodeling market indicators.

Most homes in Connecticut have 3 or more bedrooms, with 36.7% having 3 bedrooms and 21.6%

-continued on page 5-

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having 4 or more. The remaining 41.6% of the homes have 2 or fewer bedrooms.³

For heating fuel types, 44.0% of occupied housing units utilize fuel oil, and kerosene, followed by gas 33.6%, and electricity 15.5%. About 7% of the homes use bottled or tank gas, coal, wood, solar energy or another fuel to heat their homes.⁴

Housing Costs

When homes are bigger and with more features, home values rise accordingly. The U.S. median size of single-family home was 2,467 square feet in 2015 compared to 2,057 square feet in 2000.⁵ The state's median home values increased 62.1% from \$166,900 in 2000 to \$270,500 in 2015.⁶

In Connecticut, nearly 28% of owner-occupied homes reported their home values worth between \$200,000 and \$299,999, while 26% between \$300,000 and \$499,999. About 15% of homes valued below \$150,000 in 2015, compared to 42% in 2000. Higher-end homes valued at more than half a million accounted for 16.3%, which is twice as much as the share in 2000.⁷

Homeowners with mortgages accounted for 70% of owner-occupied housing units and their median housing cost was at \$2,067 per

month. For those homeowners without mortgages, the monthly housing cost was much lower at \$833.⁸

A perennial issue in assessing housing market is housing affordability, which is defined as households that do not spend more than 30% of their income for housing, including utilities. In Connecticut, 36.2% of homeowners and 53.2% of renters pay more than 30% of their household income on housing.⁹ That suggests those families are burdened with housing cost and have less income for food, clothing, medical care and etc.

The median gross rent for Connecticut held steady at \$1,075 in 2015.¹⁰ Rent peaked in 2008 at \$1,088. Connecticut's median rent is consistently higher than the U.S. This is one indication that state residents bear higher housing costs than the nation.

Conclusion

In 2016, Connecticut's home sales experienced a significant gain which could be attributed to the improved economy, higher consumer confidence and low mortgage rates. Early data suggests that the growth is likely to continue this year. Year-to-date (Q1:2017) home sales was up 6.5% when compared to the same period a year ago.¹¹

According to Lawrence Yun, chief economist at National Association of Realtors, the existing home sales are projected to grow roughly 2.0%, median home prices to rise around 4.0% and mortgage rates to be around 4.5% this year. "With no imminent threat of a recession, the housing market's strong first quarter sets the foundation for continued gains the rest of the year," Yun writes.¹² ■

- 1 Data source: 2011-2015 American Community Survey 5-year Estimates
- 2 Ibid.
- 3 Ibid.
- 4 Ibid.
- 5 Median and Average Square Feet of Floor Area in New Single-Family Houses Completed, Census, Characteristics of New Housing
- 6 Data source: 2011-2015 American Community Survey 5-year Estimates
- 7 Ibid.
- 8 Ibid.
- 9 Ibid.
- 10 Ibid.
- 11 Modest Gains in Connecticut Real Estate Market in March, The Warren Group, May 1, 2017.
- 12 The Housing Market is Outperforming, Daily Real Estate News, May 02, 2017, <http://realtormag.realtor.org/daily-news/2017/05/02/housing-market-outperforming>.

GENERAL ECONOMIC INDICATORS

<i>(Seasonally adjusted)</i>	1Q	1Q	CHANGE		4Q
	2017	2016	NO.	%	2016
General Drift Indicator (1996=100)*					
Leading	117.5	119.0	-1.5	-1.3	118.2
Coincident	117.2	117.3	-0.1	-0.1	117.5
Farmington Bank Business Barometer (1992=100)**	135.8	134.9	0.9	0.6	136.5
Philadelphia Fed's Coincident Index (July 1992=100)***	May	May			Apr
<i>(Seasonally adjusted)</i>	2017	2016			2017
Connecticut	180.46	174.71	5.75	3.3	180.13
United States	181.55	176.50	5.05	2.9	181.12

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).