

# ECONOMIC DIGEST

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### In December...

#### Nonfarm Employment

Connecticut..... 1,623,400  
 Change over month ..... -0.11%  
 Change over year ..... 0.0%

United States ..... 134,021,000  
 Change over month ..... +0.12%  
 Change over year ..... +1.4%

#### Unemployment Rate

Connecticut..... 8.6%  
 United States ..... 7.8%

#### Consumer Price Index

United States ..... 229.601  
 Change over year ..... 1.7%

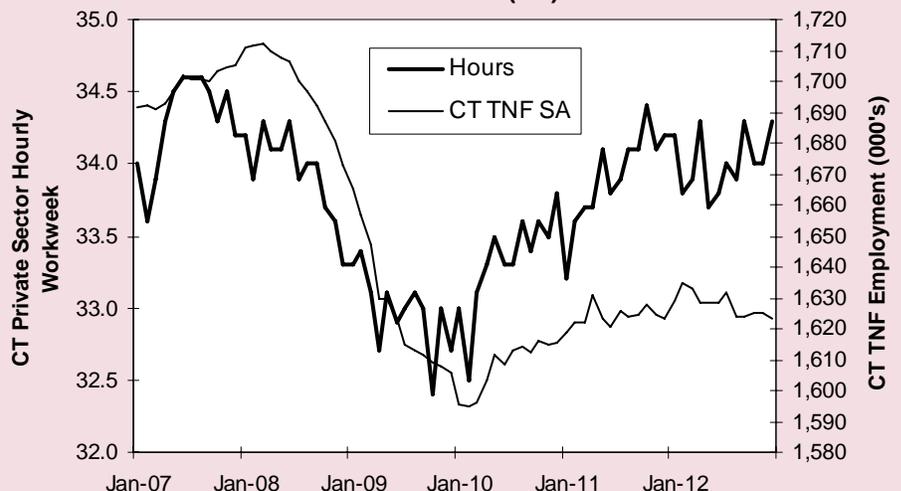
## Connecticut's Private Sector Hours and Earnings: Working to Get Back to Normal

By Lincoln S. Dyer, Economist, DOL, Lincoln.Dyer@ct.gov

**I**n 2007, just prior to the start of the “Great Recession,” the Bureau of Labor Statistics (BLS) released a new series tracking hours and earnings for all private workers. The data are available for the U.S. and states for the aggregated private sector and major private industry divisions. The series was developed because the traditional production worker hours and earnings estimates, produced since 1939 for war planning purposes in the goods-producing industries (construction and manufacturing), no longer captured the U.S. economy. Service-providing sectors were now adding the greater part of

the new jobs and output in the globalized 21<sup>st</sup> century. The monthly estimates (average hourly length of the private sector workweek, average hourly private pay rates, and the average weekly private earnings) are sample-based, and have not yet been officially seasonally adjusted by the BLS. A total private level only estimate (no industry supersectors) is also being calculated for Connecticut’s six BLS-recognized labor market areas (LMAs). The new all employee private payroll data, after several years of availability, are starting to give some useful approximations of general workforce trends in the states.

**Chart 1: CT Private Sector Weekly Hours (NSA) vs. CT TNF (SA)**



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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  
Website: http://www.decd.org



**Private Sector Weekly Hours**

Connecticut's Private Sector Average Hourly Workweek has just recently returned to pre-recession levels reached in 2007 at slightly above 34.2 hours (34.3). Connecticut's nonfarm employment began to drop in March 2008, so the initial hours and earnings estimates from 2007 reflect peak employment levels in the business cycle just prior to the downturn (see Chart 1). Connecticut's unadjusted private sector hours decrease led the decline in nonfarm employment in early 2008 before the employment collapse, and slightly led the weak nonfarm employment recovery by early 2010. This shows that hours worked in the private sector may be a leading indicator of employment turns and may reflect on the current strength of the labor market in comparison to the same month in previous years.

Over the past year, private average weekly hours worked have flattened out since a bump up to 34.4 hours in the Fall of 2011, possibly due to the recovery from the October storms. The mild winter may have served to sustain these levels. This then coincided with some slowing and weakening of employment growth in the state from February 2012 (when Connecticut's nonfarm jobs

peaked in this recovery at 1,634,900 before revisions) on through the end of last summer as hours worked flattened out. Again, it appears the direction and intensity of private weekly hours worked during the average workweek can lead employment condition's direction and strength.

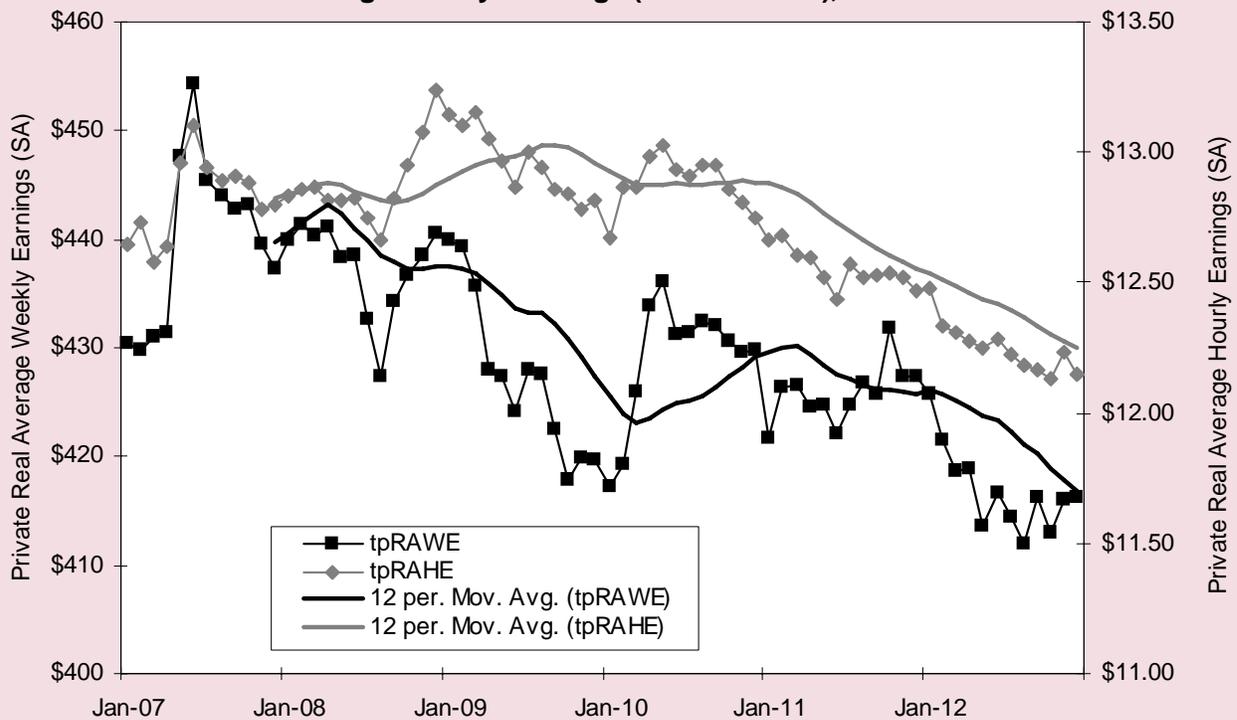
For December 2012, private sector workweek hours show Connecticut is still firmly in slow employment recovery mode, highlighted by the hours worked month-to-month volatility. Nevertheless, the private sector average weekly hours have now reached a level (34.3 unadjusted) for December 2012 that exceeds the December 2007 high average (34.2) before the financial crisis and economic collapse set in. This may indicate that weekly hours have come back to levels that represented past high work week levels so that the state employers may start to hire more workers instead of adding more hours to an already relatively high private sector average workweek.

The comparable U.S. average private workweek was 34.9 hours for December 2012. New York's was 34.3, same as Connecticut, while New Jersey was slightly lower at 34.2 hours. Education and health-related Massachusetts's private sector worked 33.5 hours and tourism-

**Comparable Private Sector  
Workweeks December 2012 (NSA)**

<b>Connecticut</b>	<b>34.3</b>
<b>United States</b>	<b>34.9</b>
<b>New York</b>	<b>34.3</b>
<b>Massachusetts</b>	<b>33.5</b>
<b>Rhode Island</b>	<b>33.2</b>
<b>New Jersey</b>	<b>34.2</b>
<b>California</b>	<b>34.9</b>
<b>Bridgeport LMA</b>	<b>35.5</b>
<b>Hartford LMA</b>	<b>35.4</b>

**Chart 2: Real Private Sector Average Weekly Earnings and Real Private Sector Average Hourly Earnings (2007-2012 SA), 82-84 Dollars**



related Rhode Island's private workweek was 33.2 hours. Fair weather Californians worked 34.9 hours, same as the nation.

**Real Earnings**

Certainly private sector workweek hours could still expand beyond past high levels in this series since average hourly and weekly pay levels have mostly languished. Some private sector workers may feel obligated to work additional hours to make up for private average hourly pay estimates that have clearly lagged in terms of purchasing power. While nominal December 2012 private sector average hourly earnings (\$28.35, +3.7% over five years) have now arrived at levels above those reached in December 2007 (\$27.34), the private sector averages for both hourly earnings and weekly pay have not kept up with inflation. The CPI-U is up roughly 9.3% in that same five year time period. Real (in 1982-1984 dollars) private sector

hourly earnings and weekly pay have steadily declined and have been under pressure since December of 2008.

Nevertheless, there are upbeat signs in the current months in both real pay series as real earnings are trending closer to their current 12-month moving averages. And this is coinciding with the private weekly hour's series reaching old high levels before the downturn. If real private hourly pay and real weekly earnings can start to rise, higher employment may follow as increased purchasing power drives demand. This could be the longer term spur to consumer demand that the Federal Reserve has been trying to encourage all along with its very activist monetary policy. This trend could speed up and help close the gap between private weekly hours worked and nonfarm employment in Connecticut (Chart 1).

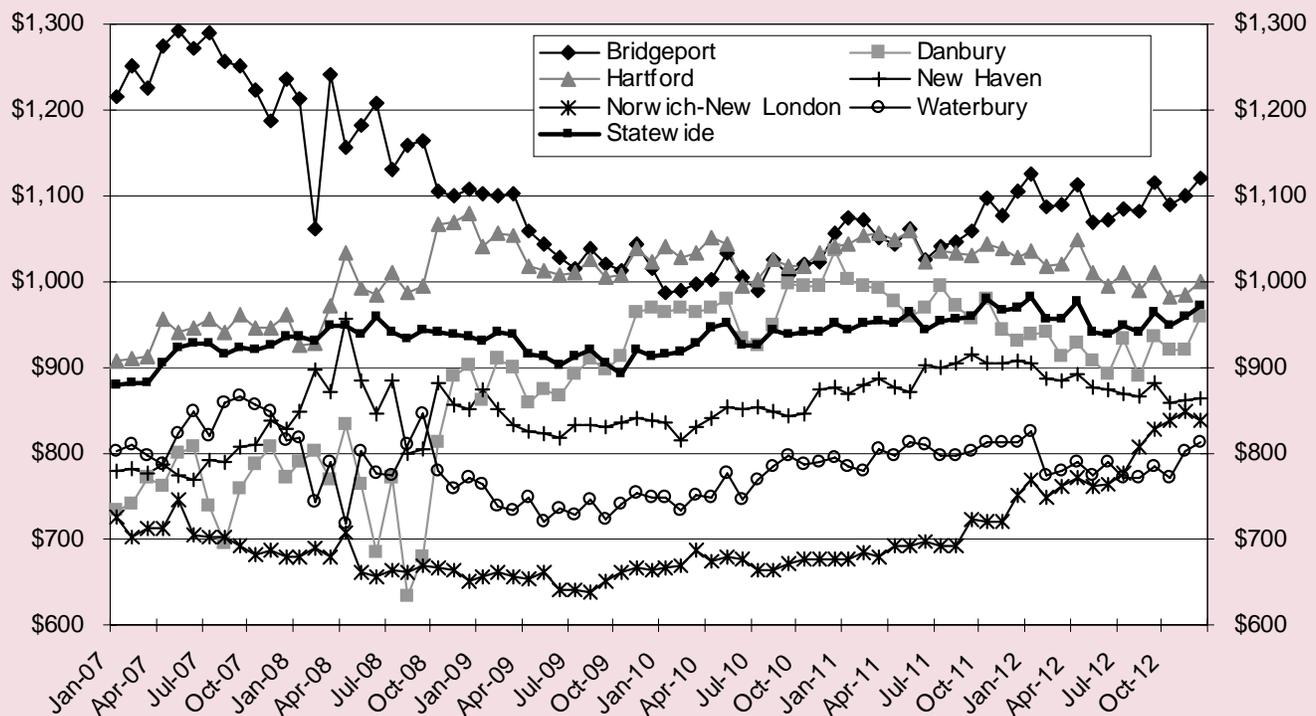
The steadily declining real wage and hourly pay might not

all be from just stagnant pay scales coming out of the downturn or from higher inflation. Some of the flatness in nominal (unadjusted) pay and outright declines in real earnings statistics may be stemming from shifting demographics. As higher paid employees retire or work less hours, the jobs they perform may be replaced with lower paid and much younger workers who start lower on the pay scales, or are even being automated with more technology or off-shored altogether (really boosting perceived productivity). This would naturally hold back wage growth and job growth and would contribute to the real earnings declines.

**Productivity (Output per Hour)**

One key reason for the discrepancy between hours worked reaching pre-recession levels and lagging employment is productivity (output per hour). All worksites are doing more with less employment for efficiency

**Chart 3: Private Sector Average Weekly Earnings by Major Region (2007-2012, NSA)**  
**"Wage Convergence"**



and cost savings resulting in productivity gains. By taking annual average private sector employment and multiplying that by the monthly annual average private sector work week for that year, and then multiplying by 52 weeks in any given year to get an estimate of private man-hours worked (annual), we can calculate a rough output per hour measure (productivity) for the 2008-2011 time periods where we have the latest Gross Domestic Product (state GDP from BEA) to match annual data. We used real Connecticut GDP data (private industries only, chained 2005 dollars) and current dollar state GDP (again private industries only) to estimate an annual output per hour comparisons to see how basic private sector productivity is performing in the state.

The productivity trends in this short time frame look like the Great Recession was accompanied by strong real

productivity gains in the private sector in 2009 (+2.5%) and 2010 (+4.1%), which delayed the job turnaround in 2009 (-68,100 annual average private job loss) and continued to stall 2010 (-14,600 annual average private job loss) net annual average private sector job growth. In 2011, Connecticut saw productivity declines (-1.2%) as the state added substantial jobs (+20,900 annual average private job gain). Calculating the same with current dollar GDP, private sector output per hour growth was +5.3% in 2009 and +4.6% in 2010, while 2011 was slowing to just +0.7% (current dollar GDP for CT).

We have no estimate for Connecticut GDP from BEA for 2012 yet (we used total private industry GDP only to compare to private hours worked), and 2012 nonfarm employment statistics are being revised. We are currently showing very little private sector job growth from

December 2011 to December 2012. This would imply higher output per hour or productivity for 2012 before revisions. Through this point in the employment recovery, state gross domestic product seems to be returning to pre-recession levels more from increased productivity gains from the existing workforce than from additional net new hires. Record profits by large companies seem to confirm the strong productivity gains across the country. And at some point, productivity gains should be a boost to the real earnings of the workforce.

#### **Connecticut's LMAs - Total Private Sector Only**

In December 2012, employees in the second largest labor market area (LMA) - Bridgeport-Stamford-Norwalk, worked the longest average private sector workweek at 35.5 hours. The Hartford-West Hartford-East Hartford LMA, which is the

biggest LMA by employment, was not far behind at 35.4 hours per week. These two Connecticut LMAs are above the U.S. average (34.9). The two shortest private sector workweeks were in the Norwich-New London LMA (32.4 hours), which is the most tourist-related labor market, and the heavily private education-related New Haven LMA (33.2 hours for 12/12). Both the Danbury LMA (33.3 hours) and the Waterbury LMA (33.6 hours) worked less on average than the state private sector as a whole (34.3). The private sector averages in Connecticut are not close to the proverbial 40-hour workweek because many of the industry sectors represented do not work the usual 40-hour workweek and include many part-time workers from service sectors like restaurants and hotels or retail trade. Many workers are settling for part-time hours in this recovery, although they would like to work longer to earn more money.

The private sector all employee hours and earning data at the regional level disclose some probable wage convergence

going on across the state. At the beginning of the all employee hours and earnings series in 2007, one can see a much larger differential to hourly and weekly pay levels that are now by December 2012, not as wide. A slower growing yet higher earning wage state like Connecticut would be more susceptible to wage convergence as globalization continues to pick up momentum. And the financial crisis brought on a lowering of some of the outsized wage premiums paid in investment-related sectors like hedge funds that had become associated with the state before the bubble burst. These were more regionally located toward the labor market areas closest to New York City (Bridgeport-Stamford-Norwalk LMA for example). One can notice the flat-lined state average of weekly earnings in the middle of Chart 3 and the overall wage convergence of the labor markets at the end point of December 2012. Wage reversion to the mean is not only going on worldwide but across the Nutmeg state.

### Reversion to the Mean (New Normal?)

The private sector all employee hours and earnings data reveal some interesting developments in the state. While the data is sample based and subject to volatility and sampling error, broad underlying trends are apparent. Connecticut will always be a highly productive state that gains higher earnings compensation for efficiency, resourcefulness, and location. Nevertheless, global, demographic, and technological changes are influencing how the state bounces back from the Great Recession. This can be established from this private sector hours and earnings data. The weak job recovery in the state has to do with some combination of heightened productivity (output per hour), worsening purchasing power of earnings, wage convergence (globalization), and demographic shifts (baby boomers). All are making their impacts known in these fairly new statistics. ■

## 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>DEC</b>	<b>DEC</b>			<b>NOV</b>
<i>(Seasonally adjusted)</i>	<b>2012</b>	<b>2011</b>			<b>2012</b>
<b>Connecticut</b>	153.20	151.54	1.66	1.1	152.59
<b>United States</b>	152.65	148.67	3.98	2.7	152.32

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).