THE CONNECTICUT
ECONOMIC DIGEST

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IN THIS ISSUE...

In May...

Nonfarm Employment

Connecticut 1,665,500
Change over month .... +0.35%
Change over year .... +0.8%

United States 138,463,000
Change over month .... +0.16%
Change over year .... +1.7%

Unemployment Rate

Connecticut 6.9%
United States 6.3%

Consumer Price Index

United States 237.900
Change over year .... +2.1%

State Housing Market Continued its Recovery in 2013

By Kolie Sun, Senior Research Analyst, DECD

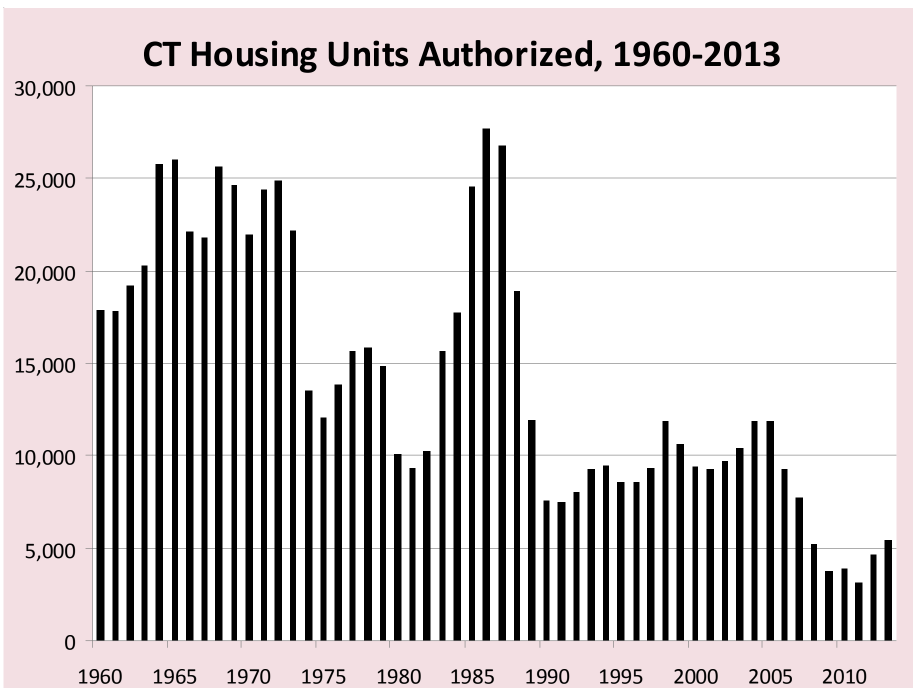
Connecticut's housing market continued on the path to recovery in 2013 with many economic indicators posting strong gains over the prior year. In this article, we will examine the state's housing industry and factors that led to stronger housing performance in 2013, most notably permits rising to pre-recession levels.

Housing Production

According to the recent release from the U.S. Census, Connecticut cities and towns authorized 5,424 new housing units including single and multi-family homes in 2013, the highest level since 2007. This level of production represents a 16.2 percent increase compared to 4,669 in 2012 and a 3.9 percent increase compared to 5,220 in 2008. (See chart below)

In 2013, Fairfield County had the most permit activity with 2,501 new housing units authorized which accounted for nearly half of the statewide total. Windham County had the fewest with 99. The City of Stamford led all municipalities with 801 units authorized, followed by Danbury with 310, Stratford with 270, Milford with 189 and Norwalk with 187. The combined permits issued for these five communities accounted for nearly one-third of last year's total housing production.

In early spring, the Connecticut Department of Economic and Community Development (DECD) surveyed demolition activity from each municipality. One hundred



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and thirty-one cities and towns responded to the survey, an 80.5 percent response rate. In 2013, municipalities authorized 1,397 demolished housing units. The Cities of Hartford and New Britain issued the most demolition permits with 176 and 171. Greenwich and Westport tied at 106 and ranked third. The combined demolition units of Hartford and Fairfield counties accounted for almost three quarters of total demolition permits issued.

Overall, the nation experienced a 19.4 percent increase in housing permit authorizations, with the New England states having 23.9 percent growth from 2012 to 2013. However, four states—Alabama, Arkansas, Kentucky and West Virginia—had a percentage decrease. Connecticut ranked 28th.

Home Sales and Prices

With an improved economy, higher consumer confidence and record-low mortgage rates in 2013, the Connecticut real estate market had a stronger showing in home sales and prices. According to the Warren Group, the number of single family home sales in the state rose 6.5 percent from 24,276 in 2012 to 25,859 in 2013. Last year's sales were the highest since 2007. Condominiums had a higher percentage of sales (10.5 percent) during the same period.

In addition, the median single family home sales prices grew 7.9 percent from $240,000 in 2012 to $259,000 in 2013, as reported by the Warren Group. Although it is the largest year-over-year percentage gain in nearly a decade, it is still 12.2 percent lower than the peak median home prices of $295,000 in 2007. The condo median home sale prices grew at a slower pace of 4.5 percent during the same time period.

The improvement in home sales and homebuilding activity had helped boost builders' confidence that is measured by the National Association of Home Builders Housing Market Index (HMI).[1] Last August the HMI was the highest reading since November 2005.

Housing Affordability

Housing affordability is generally defined as paying no more than 30 percent of household income for housing costs, including mortgages, property taxes and insurance. Based on 2008-2012 American Community Survey (ACS) 5-year estimates, 36.2 percent of state's households spend more than 30 percent of their household income on housing costs.

According to a National Low Income Housing Coalition report[2] in 2013, the Fair Market Rent (FMR) in Connecticut for a two-bedroom apartment was $1,208. In order to afford this level of rent and utilities – without paying more than 30 percent of income on housing, a household must earn $4,025 a month or $48,304 annually. Assuming a 40-hour work week, 52 weeks per year, this level of income translates into a housing hourly wage rate of $23.22. Or a household needs 2.8 full-time minimum wage earners in order to make the two-bedroom FMR affordable.

The same report showed Hawaii had the highest two-bedroom housing hourly wage of $32.14, followed by California, New York, New Jersey, Maryland, Massachusetts and Connecticut. Stamford-Norwalk HMFA[3] led the state with housing wage of $31.69 compared to that of Waterbury HMFA with $18.12, which was the lowest.

CTfastrak and Housing

CTfastrak is a 9.4-mile Bus Rapid Transit system that will provide fast and reliable services for travelers in central Connecticut. CTfastrak will have 11 stations and serve major employers on a dedicated corridor and nearby destinations will be served by feeder routes extending from Hartford to New Britain. It is scheduled to open for passenger service in early 2015.[4]

CTfastrak is a classic example of transit-oriented development that will create a vibrant mix of housing, retail and commercial

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uses in the half-mile radius surrounding the stations. CTfastrak enables riders the access to employment, education, cultural, and other destinations. It spurs economic growth along its corridor, and provides an important boost to the regional economy.

The knowledge corridor which runs from New Haven to Springfield and encompasses CTfastrak, also provides housing opportunities. It is estimated "…that the region has the opportunity to build 9,000 to 12,000 more housing units near transit representing 15 to 20 percent of all new households to meet the growing demand for those attracted to a walkable, urban lifestyle," according to the *Making It Happen* report.[5]

Recently, Governor Malloy announced a creation of a transit-oriented development fund to encourage development in the CTfastrak and future New Haven-Hartford-Springfield rail towns. And organizations such as Young Energetic Solutions (YES) are promoting these types of transit and neighborhoods.[6]

Conclusion

Earlier this year, FannieMae predicted the U.S. economy in 2014 would start slow, but increase in strength with an estimated GDP annual growth rate of 2.6 percent. There are two major contributing factors to this expected economic growth: Consumer spending will rise from an estimated 1.6 percent in 2013 to about 2.0 percent in 2014; and the housing contribution to GDP growth is expected to double from 0.3 percent in 2013 to 0.6 percent in 2014.[7]

Looking back at some 2013 data can give us an idea about the year ahead. Solid housing growth (as evidenced by increased housing permits), stronger home sales, increasing home values, and improved builder confidence point to even better performance this year. Initial permit activity through April, up 15 percent from 2013 levels, and higher single-family home sales through the first quarter are indicators that the housing market will continue its upward trend in 2014. ■

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[1] HMI scores range from 1 to 100, with 1 being the worst and 100 the best. HMI was 58 in August 2013.
[2] National Low Income Housing Coalition, *Out of Reach 2013*
[3] HMFA=HUD Metro FMR Area. This term indicates that a portion of the Office of Management and Budget (OMB) defined core-based statistical area is in the area to which the income limits and FMRs apply. HUD is required by OMB to alter the name of the metropolitan geographic entities it derives from the Core Based Statistical Area (CBSA) when the geography is not the same as that established by OMB. CBSA is a collective term meaning both metro and micro areas.
[4] *Making It Happen: Opportunity and Strategies for Transit-Oriented Development in the Knowledge Corridor*, September 13, 2013, Center for Transit-Oriented Development and Jonathan Rose Companies http://www.reconnectingamerica.org/resource-center/browse-research/2013/making-it-happen-opportunities-and-strategies-for-transit-oriented-development-in-the-knowledge-corridor/
[5] *Ibid.*
[6] Op-Ed: "CTfastrak brings chance to re-create our downtowns," Christine Schilke, *The CT Mirror,* http://ctmirror.org/ctfastrak-brings-chance-re-create-our-downtowns/
[7] FannieMae, Doug Duncan, Orawin T. Velz, and Brian Hughes-Cromwick, Economic and Strategic Research, "2014: Private Forces Move to the Fore," January 10, 2014. http://www.fanniemae.com/resources/file/research/emma/pdf/Economic_Summary_011314.pdf

GENERAL ECONOMIC INDICATORS

(Seasonally adjusted)	1Q 2014	1Q 2013	CHANGE NO.	CHANGE %	4Q 2013
General Drift Indicator (1986=100)*					
Leading	110.5	106.5	4.0	3.8	107.4
Coincident	109.9	108.2	1.7	1.6	109.7
Farmington Bank Business Barometer (1992=100)**	127.6	125.8	1.8	1.4	128.2
Philadelphia Fed's Coincident Index (July 1992=100)*** *(Seasonally adjusted)*	**MAY 2014**	**MAY 2013**			**APR 2014**
Connecticut	156.33	151.50	4.83	3.2	155.93
United States	157.82	153.08	4.74	3.1	157.38

*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).