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In July...

Nonfarm Employment

Connecticut..... 1,661,900
 Change over month +0.7%
 Change over year +1.4%

United States 136,038,000
 Change over month +0.12%
 Change over year +1.7%

Unemployment Rate

Connecticut..... 8.1%
 United States 7.4%

Consumer Price Index

United States 233.596
 Change over year +2.0%

Connecticut's Regions and the Current Recovery

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

Over the first four quarters of the current recovery, the first quarter of 2010 (2010Q1) to the first quarter of 2011 (2011Q1), based on seasonally adjusted quarterly data, Connecticut's Non-Farm Employment grew by 1.60%, while U.S. Non-Farm jobs increased by a slower 0.99% rate. Over the second four quarters, 2011Q1 to 2012Q1, the U.S. and Connecticut traded places. Connecticut's job-growth decelerated to 1.26%, while U.S. job-growth accelerated to +1.83%. Over the third four-quarter period of the current recovery, though the U.S. job-growth rate slowed to 1.54%, Connecticut's job-growth nearly came to a standstill, barely increasing at a rate of 0.26%.¹ What happened?

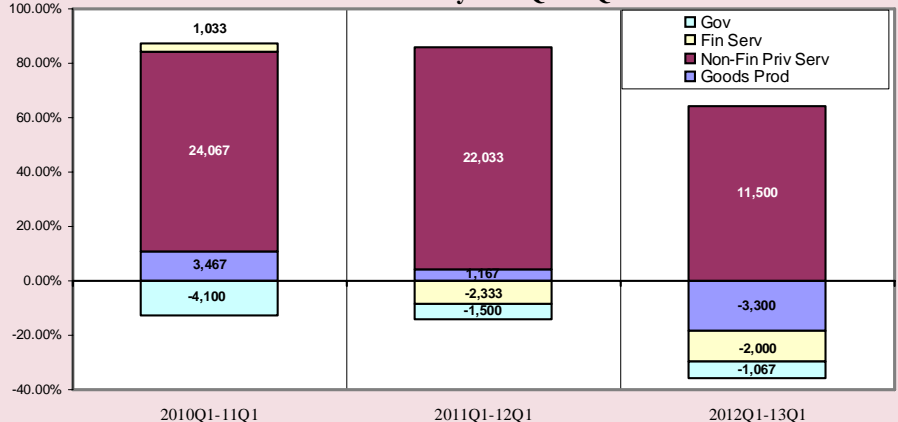
What Slowed Connecticut's Recovery?

Graph 1, which explores the answer to the above-posed question, shows the four major sectors and their contributions to growth over the three four-quarter periods of the

current recovery.² From Graph 1 it is clear that the shedding of Government jobs has been a drag on growth, though its negative impact declined in each of the three subsequent periods. In addition, the decelerating contribution from the Goods Producing Sector (+3,467 over 2010Q1-11Q1, and +1,167 over 2011Q1-12Q1) turned significantly negative between 2012Q1 and 2013Q1, subtracting 3,300 from job growth over that four-quarter period. Next, Connecticut's Financial Sector began subtracting jobs over the 2011Q1-12Q1 (-2,333), and 2012Q1-13Q1 (-2,000) periods. But what may be an even bigger story is the dramatic decline in the growth of the largest major sector: Non-Financial Private Services.

Again, from Graph 1, over 2010Q1-11Q1 and 2011Q1-12Q1, Non-Financial Private Services job-growth declined from 24,067 to 22,003, then between 2012Q1 and 2013Q1 this sector's contribution to Connecticut's Non-Farm job-growth dropped in half, adding only 11,500

GRAPH 1: Sectoral Contributions to Job-Changes in CT (NSA): Current Recovery 2010Q1-13Q1



SOURCE: U.S. BLS, CTDOL-Research, and Author's calculations

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A. Change in Jobs			
SUB-SECTOR	2010Q1-11Q1	2011Q1-12Q1	2012Q1-13Q1
Trade-Trans-Util	4,067	3,833	1,200
Info	-200	-233	-533
Prof-Bus Serv	7,833	7,067	700
Educ-HCSA	8,233	4,100	3,333
Leisure-Hosp	4,100	6,467	5,833
Other Serv	33	800	967
Priv Non-Fin Serv	24,067	22,033	11,500

B. Percent-Change in Jobs			
SUB-SECTOR	2010Q1-11Q1	2011Q1-12Q1	2012Q1-13Q1
Trade-Trans-Util	1.43	1.33	0.41
Info	-0.63	-0.74	-1.71
Prof-Bus Serv	4.30	3.72	0.35
Educ-HCSA	2.71	1.31	1.05
Leisure-Hosp	3.37	5.14	4.41
Other Serv	0.06	1.35	1.61
Priv Non-Fin Serv	2.45	2.19	1.12

SOURCE: U.S. BLS, CTDOL-Research, and Author's calculations.

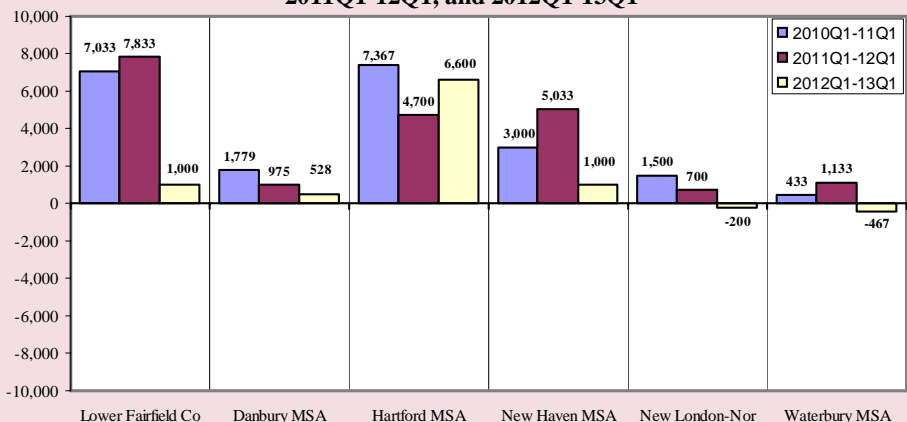
new jobs. This, along with the 6,367 jobs eliminated by the Goods Producing, Financial Services, and Government sectors resulted in an anemic 5,133 new jobs added between 2012Q1 and 2013Q1, compared to +24,467 over the 2010Q1-11Q1 period, and +19,367 between 2011Q1 and 2012Q1. One factor that could have played a role in the job-growth performance over the 2012Q1-2013Q1 period is the weather. The base period, 2012Q1, includes the warmest winter on record, and the end period, 2013Q1, included blizzards in February and March 2013. These weather extremes clearly had a disruptive effect on normal seasonal patterns in job growth.

SECTORS AND REGIONS DRIVING THE CURRENT RECOVERY: Sectors Contributing to Connecticut's Service-Sector Weakness

Table 1 breaks out the major sub-sectors of the Non-Financial Services Sector to identify those areas that might be contributing to the dramatic decline in this sector's contribution to overall job growth, as a consequence, slowing the pace of recovery.

From Panel A in Table 1, there are two sub-sectors that appear to have contributed significantly to the rapid slowdown in job-growth in Connecticut's Non-Financial Services Sector: Professional and Business Services (Prof-Bus) and Trade, Transportation, and Utilities (Trade-Trn-Util). After adding more than 7,833 jobs between 2010Q1-11Q1 and 7,067 jobs 2011Q1-12Q1, Prof-Bus Services added only one-tenth as many jobs (+700) between 2012Q1 and 2013Q1. This is the most dramatic collapse in job creation among the six sub-sectors in Table 1. Further, Prof-Bus Services had accounted for one-third of the Non-Financial Private Services

GRAPH 2: Non-Fin Serv Job-Changes in CT MSAs: 2010Q1-11Q1, 2011Q1-12Q1, and 2012Q1-13Q1



jobs over the 2010Q1-2011Q1 and 2011Q1-2012Q1 segments of the current recovery. In addition, the Education and Health Care Sector's growth has declined in each of the three segments of the current recovery. On the other hand, Leisure and Hospitality has had steady, strong growth over all three segments.

Sub-State Regions Contributing to Connecticut's Service-Sector Weakness

Graph 2 looks at the growth in Non-Financial Private Services jobs over the three four-quarter periods of the current recovery for Connecticut's Labor Market Areas (LMAs) which are coextensive with the State's Metropolitan Statistical Areas (MSA). Though the subtraction of jobs by the Government and Financial Services sectors certainly contributed to the change in Connecticut's fortunes over the current recovery (as well as Goods Producing over the 2012Q1-13Q1 segment) as noted in the discussion of Graph 1, it was clearly the deceleration in the growth of Non-Financial Private Services that played a critical role in deflating Connecticut's initial strong recovery.

To explore this factor, Graph 2 looks at the job-growth by sub-state region in the Non-Financial Services Sector over the three segments of the current recovery. Two sub-regions stand out: after adding 7,033 new Non-Financial Private Services jobs between 2010Q1 and 2011Q1, and then another 7,833 between 2011Q1 and 2012Q1, the Lower Fairfield Economy (Bridgeport-Stamford MSA) only added 1,000 private services jobs between 2012Q1 and 2013Q1. Likewise, Greater New Haven added 3,000 Non-Financial Private Services jobs over the 2010Q1-2011Q1 segment, and then accelerated that rate to 5,033 over the 2011Q1-12Q1 segment, only to have that growth-rate drop to +1,000 between 2012Q1 and 2013Q1. Greater Hartford, on the other hand, added 7,367 Non-Financial Private Service jobs between 2010Q1 and 2011Q1, which declined to +4,700 jobs over the 2011Q1-12Q1 segment. But then its services job-growth re-accelerated to +6,600 between 2012Q1 and 2013Q1. Greater Danbury's Non-Financial Private Services Employment-growth declined to one-

half its previous increase, and New London-Norwich and Greater Waterbury each subtracted Non-Financial Private Services jobs over the 2012Q1-13Q1 segment of the current recovery.

Lower Fairfield had the steepest deceleration in job-growth in the Non-Financial Services Sector (Graph 2). After adding 7,883 jobs between 2011Q1 and 2012Q1, the Region's services sector only added 1,000 jobs between 2012Q1 and 2013Q1. And the biggest contributor to the region's service-sector weakness was the major sector that contributed to the State's overall weakness in services job-growth: Professional and Business Services (see Table 1). This major sub-sector added 7,067 jobs to the Region's Economy between 2011Q1 and 2012Q1, but fell to one-tenth of that (+700) between 2012Q1 and 2013Q1. The largest contributor to the slowdown in Lower Fairfield's Professional and Business Services job growth was the Professional, Scientific, and Technical Services (Prof-Tech) Industry/Sub-Sector,³ which subtracted 767 jobs from the region's economy between 2011Q1 and 2012Q1, and another 1,267 jobs between 2012Q1 and 2013Q1, which accounted for 56% of all the Prof-Tech jobs lost statewide in Connecticut. In addition, Trade-Trn-Util, after adding jobs to Lower Fairfield's Economy over the 2010Q1-11Q1 and 2011Q1-12Q1 segments of the current recovery then subtracted 1,567 jobs between 2012Q1 and 2013Q1. And, Administrative Support and Waste Management (Admin-Supp), after adding 1,300 jobs to the region's economy between 2011Q1 and 2012Q1, then subtracted 233 jobs between 2012Q1 and 2013Q1. Education and Health Care (+1,367) and Leisure and Hospitality (+1,100) continued to add jobs to the region's economy over the 2012Q1-2013Q1 segment of the current recovery, as they had over the two previous segments of this recovery.

After Lower Fairfield County, the next steepest deceleration in services job-growth was in the Greater New Haven Region (see Graph 2). For this region, the Prof-Bus Sector also contributed to the weak growth in the Non-Financial Services major sector jobs over the 2012Q1-13Q1 period. After adding

1,700 jobs between 2011Q1 and 2012Q1, Prof-Bus Services then subtracted 300 jobs between 2012Q1 and 2013Q1. Unfortunately, there is not as much detail available for the Greater New Haven region from the Establishment Survey, so we cannot drill down to the levels of detail available for the Greater Hartford and Lower Fairfield County sub-state regions. Greater New Haven's Education and Health Care Sector's job-growth declined by half between 2011Q1-12Q1 (+1,067) and 2012Q1-13Q1 (+500). Though the Education part added 867 over the 2012Q1-13Q1 segment, after shedding 233 jobs over the 2011Q1-12Q1 segment, the Health Care part eliminated 367 jobs between 2012Q1 and 2013Q1, after it had added 1,300 new jobs between 2011Q1 and 2012Q1. And, not only did job-growth in Leisure and Hospitality decelerate from +1,067 (2011Q1-12Q1) to +533 (2012Q1-13Q1), but the region's Accommodation and Food services Sector bucked the State and national trend of strong growth in this sector by eliminating 433 jobs between 2012Q1 and 2013Q1.

Sub-State Regions Contributing to the Sectoral Declines in Goods Producing, Financial Services, and Government

The New London-Norwich region, on average, represents just under, eight percent of Connecticut's first-quarter Non-Farm Employment over this recovery, but in 2013Q1, the region had 14.17% of the State's Government employment. And, of the 6,667 Government-Sector jobs lost in Connecticut between 2010Q1 and 2013Q1, New London-Norwich accounted for 3,467 of those lost Government jobs. Of course, the tribal nations are classified as Government employment, and the casinos operated by the Mashantucket Pequots and the Mohegans are in the New London-Norwich MSA. Due to the housing bust, financial crisis, resulting recession, and the increase in regional competition, slot revenues have been down.⁴ Since tribal employment is reflected in the Government Sector, in addition to the national trend over this recovery, where Local Governments especially have been shedding jobs in the New London-Norwich region, layoffs of casino employees are also recorded

in the Local Government Sector. This in turn accounts for Connecticut's Government employment declining even more steeply than for the nation.

The two regions accounting for most of the losses in Goods Producing jobs, especially over the 2012Q1-13Q1 segment of the current recovery, are the same two regions that accounted for most of the slowdown in service jobs: Lower Fairfield County (-1,333) and Greater New Haven (-833). These two regions also account for most of the jobs lost over the entire 2010Q1-2013Q1 recovery period. Though Connecticut added 1,333 Goods Producing jobs between 2010Q1 and 2013Q1, Lower Fairfield lost 1,167 Goods-Producing jobs, and Greater New Haven's Goods Producing employment declined by 663. In addition, the New London-Norwich region shed 333 Goods-Producing jobs over the current recovery.

Lower Fairfield's job-losses in the Goods Producing Sector are particularly driven by the Manufacturing Sector, specifically the region's Durable Goods Sub-Sector. Lower Fairfield's Durable Goods jobs declined by 67 jobs between 2010Q1 and 2011Q1, which then accelerated to -900 jobs between 2011Q1 and 2012Q1, and then to -1,100 jobs between 2012Q1 and 2013Q1. The decline in Greater New Haven's Goods Producing Sector is also being driven principally by Manufacturing. Construction added jobs until the 2012Q1-13Q1 segment when it eliminated 433 jobs. Although Manufacturing shed jobs over the recovery, the Durable Goods

Sub-Sector added 500 jobs between 2011Q1 and 2012Q1, which was sandwiched between the elimination of 400 jobs between 2010Q1 and 2011Q1, and a loss of 267 jobs between 2012Q1 and 2013Q1. Unlike Lower Fairfield and Greater New Haven, New London-Norwich had one period of steep losses in its Goods Producing Sector. Between 2011Q1 and 2012Q1, the region eliminated 733 jobs. This included a loss of 167 Construction jobs and 567 Manufacturing jobs. Both sectors had positive job growth in 2010Q1-11Q1 and 2012Q1-13Q1. Led down by pharmaceuticals, the New London-Norwich region's Non-Durable Goods Sub-Sector has lost jobs over all three segments of the current recovery: -167 (2010Q1-2011Q1), -567 (2011Q1-2012Q1), and -267 (2012Q1-2013Q1).

The last sector that has subtracted jobs over the current recovery is the Financial Services Sector. The losses are concentrated in a couple of sub-state regions: Lower Fairfield County and Greater Hartford. Of the 3,300 Financial Services jobs lost by Connecticut between 2012Q1 and 2013Q1, 2,000 were eliminated in Greater Hartford and another 1,233 were lost in Lower Fairfield County. Of the 2,000 Financial Services jobs eliminated in the Greater Hartford region between 2010Q1 and 2013Q1, 1,700 were in the Insurance Carriers and Related Activities Industry and were concentrated in the Life and Annuity business.⁵ The driver of losses in the Financial Services Sector in Lower Fairfield has been the Securities, Commodities, and Brokers Industry

(Sec-Comm-Brokers). Between 2010Q1 and 2011Q1, the region's Sec-Comm-Brokers Industry added 1,033 new jobs, but then over the next two segments of the current recovery this industry eliminated 1,067 jobs. This took Lower Fairfield's employment level in this sector in 2013Q1 back to where it was in 2010Q1.⁶

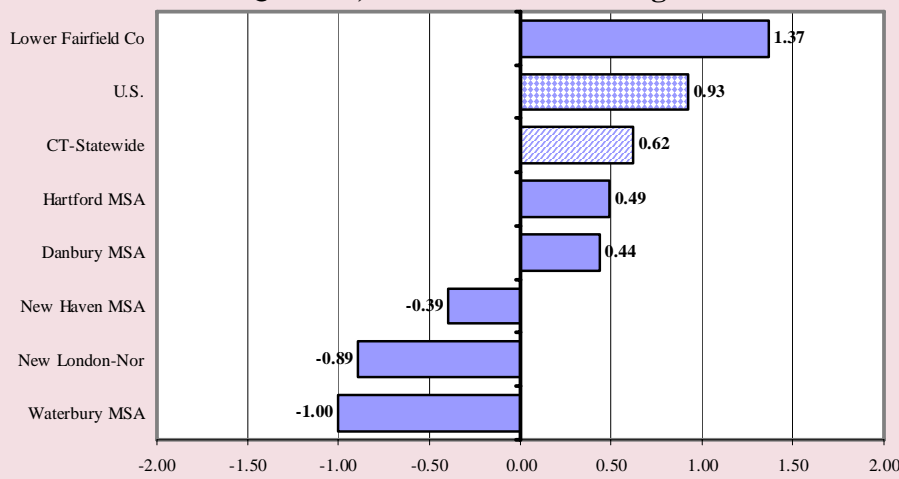
Connecticut's Recovery over the First Half of 2013: Turning the Corner, or More of the Same?

On a quarterly basis over the first half of 2012, Connecticut added 9,867 new Non-Farm jobs (a 0.61% increase) on a seasonally-adjusted basis. Between 2012Q4 and 2013Q2, the State's Economy added 10,233 new jobs, representing a 0.62% over the first half of 2013. Though a slightly stronger performance than over the same period a year ago, it was not enough to best the 0.93% growth-rate in U.S. Non-Farm Employment over the first half of 2013.

Graph 3 depicts the growth-rate over the first half of 2013 (2012Q4-2013Q2) of Connecticut, the U.S., and Connecticut's MSAs (seasonally adjusted, quarterly data). Leading Connecticut's growth over the first half of 2013 is Lower Fairfield County (Bridgeport-Stamford MSA), with a growth-rate of 1.37%, besting the U.S., Connecticut, and all other sub-state regions. This is a dramatic turnaround from the 0.49% decline between 2012Q1 and 2013Q1 (discussed above). In fact, more than one-half of all the new jobs added to Connecticut's Economy between 2012Q4 and 2013Q2 were in Lower Fairfield. Lower Fairfield's job growth-rate was more than double that of the Greater Hartford region and Greater Danbury, which at earlier stages of the current recovery had been the strongest growing sub-state region.

The biggest driver of Lower Fairfield's job-growth was the Non-Financial Private Services Sector. Based on unseasonalized,⁷ quarterly data, this major sector accounted for 6,000 new jobs between 2012Q4 and 2013Q2. The two largest contributing sub-sectors were Leisure and Hospitality which added 2,900 jobs over the first half of 2013, and Professional and Business Services which added 2,833 jobs. This represents quite a turnaround,

GRAPH 3: Change in NF Emp (SA)-2012Q4 to 2013Q2: U.S., CT and Sub-State Regions



compared to this sector's performance over the 2012Q1-13Q1 segment of the current recovery (see discussion above). Under Leisure and Hospitality, Lower Fairfield's Accommodation and Food Services sub-sector added 1,800 jobs, and the Arts, Entertainment, and Recreation sub-sector added 1,133 jobs. Ninety-one percent of all the region's new jobs in the Prof-Business Services Sector were in Admin-Support.

Three had a decline in job-growth over the first half of 2013. Greater New Haven, New London-Norwich, and Greater Waterbury all subtracted Non-Farm jobs from Connecticut's Economy between 2012Q4 and 2013Q2. The region that subtracted the largest number of jobs from the State's Economy over the period (seasonally adjusted) was New London-Norwich with a decline of 1,133 Non-Farm jobs, which also gave the region the second-steeped percent decline in employment at -0.89%. Moving back to more detailed, seasonally unadjusted data, the sector driving the decline in New London-Norwich's employment was Government, particularly at the tribal nations' casinos (see discussion above). Between 2012Q4 and 2013Q2 (seasonally unadjusted), the region's Government Sector shed 900 jobs.

The second-largest number of jobs lost over the first half of 2013 was the -1,067 or -0.39% decline in the Greater New Haven region. Though the Goods Producing Sector shed 300 jobs over the first half of

2013 (not seasonally adjusted), the principal driver of Greater New Haven's job-loss was the Non-Financial Private Services Sector. After adding 1,000 jobs between 2012Q1 and 2013Q1, this sector subtracted 1,567 jobs from Greater New Haven's Economy between 2012Q4 and 2013Q2. There were two sources of the decline: Accommodation and Food Services (-1,200) and Education (-1,100). As noted above, the decline in Accommodation and Food Services jobs runs counter to the State and national trend. Unfortunately, further detail is not available at the time of writing.

Finally, Greater Waterbury had the steepest relative decline in employment at -1.00% (seasonally adjusted). Between 2012Q4 and 2013Q2, the region lost 633 Non-Farm jobs. The biggest contributor to the region's job-losses appears to be the Non-Financial Private Services Sector, specifically the Retail Trade and Transportation and Utilities sub-sectors. The Waterbury region's Retail Sector eliminated 367 jobs over the first half of 2013, and the Transportation-Utilities Sector shed 233 jobs (seasonally unadjusted). ■

¹ For the most part, quarterly data are used to account for the month-to-month volatility and at more detailed levels, seasonally unadjusted data must be used in order to get some sub-state detail below the top-line.

² Graph 1 contains seasonally unadjusted

data, in order to get sub-state regional detail, and with Year-to-Year comparisons, any seasonal effects should be reduced.

³ For a description of this industry, see the U.S. Census webpage at < http://www.census.gov/svsd/www/services/sas/sas_summary/54summary.htm > Accessed on July 18, 2013.

⁴ CBS Connecticut, *Casino Revenue Down, Federal Aid Up* (March 24, 2013) < <http://connecticut.cbslocal.com/2013/03/24/casino-revenue-downfederal-aid-up/> > Accessed on July 18, 2013.

⁵ For some analysis on the Life and Annuity business see Ernst & Young, *2013 US life-annuity insurance outlook* (2013) and Deloitte, *2013 Life Insurance and Annuity Industry Outlook Considering new directions in a recovering economy* (2012) Deloitte LLP

⁶ For analysis of the Hedge Fund Industry, see ALPHA CALLING, *Hedge Fund Returns Declining, Risk Taking Up* < <http://www.bloomberg.com/news/2013-07-05/hedge-funds-post-june-decline-as-bernanke-roils-markets.html> > Accessed on July 10, 2013, Opalesque, *Hedge funds post first decline for 2013 in June, HFRI down -1.3%* (08.07.2013) < <http://www.opalesque.com/industry-updates/3402/hedge-funds-post-first-decline-for-2013-in.html> > Accessed on July 10, 2013, Bit, Kelly and Saijel Kishan, *Hedge Funds Post June Decline as Bernanke Roils Markets* (July 5, 2013) BLOOMBERG < <http://www.bloomberg.com/news/2013-07-05/hedge-funds-post-june-decline-as-bernanke-roils-markets.html> > Accessed on July 10, 2013, and Kolhatkar, Sheelah, *Hedge Funds Are for Suckers* (July 11, 2013) BLOOMBERG BUSINESSWEEK < <http://www.businessweek.com/articles/2013-07-11/why-hedge-funds-glory-days-may-be-gone-for-good> > Accessed on 15, 2013.

⁷ As noted previously, sub-state regional detail is not available on a seasonally-adjusted basis.

GENERAL ECONOMIC INDICATORS

	2Q	2Q	CHANGE		1Q
	2013	2012	NO.	%	2013
<i>(Seasonally adjusted)</i>					
General Drift Indicator (1986=100)*					
Leading	NA	NA	NA	NA	NA
Coincident	NA	NA	NA	NA	NA
Farmington Bank Business Barometer (1992=100)**	125.5	123.9	1.6	1.3	125.0
Philadelphia Fed's Coincident Index (July 1992=100)***	JUL	JUL			JUN
<i>(Seasonally adjusted)</i>	2013	2012			2013
Connecticut	156.81	151.08	5.73	3.8	156.39
United States	155.70	151.32	4.38	2.9	155.36

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).