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In October...

Nonfarm Employment

Connecticut..... 1,627,600
 Change over month +0.4%
 Change over year +0.6%

United States 131,516,000
 Change over month +0.06%
 Change over year +1.2%

Unemployment Rate

Connecticut..... 8.7%
 United States 9.0%

Consumer Price Index

United States 226.4
 Change over year 3.5%

Connecticut Personal Income: Forecast for 2012

By Daniel W. Kennedy, Ph.D., Senior Economist, DOL, Daniel.Kennedy@ct.gov

On September 22, 2011, the U.S. Bureau of Economic Analysis (BEA) released state personal income for the second quarter of 2011. Connecticut's (CT), current dollar, seasonally adjusted quarterly personal income (QPI) was \$206.408 billion for the second quarter of 2011 (2011Q2). This was up by \$2.522 billion, or 1.24% from 2011Q1, and up by \$9.694 billion, or 4.93% from 2010Q2. The second quarter QPI number had been revised downward by \$1.632 billion to \$203.886 billion from the initial estimate of \$205.518 billion published in the June 2011 release.¹

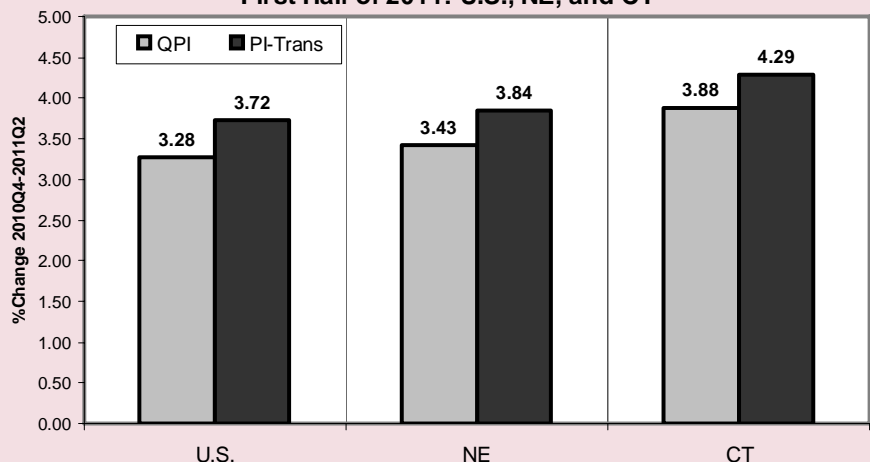
Connecticut's Income Growth: First Half of 2011

Connecticut's income grew at a faster rate than for the U.S. or New England (NE) over the first half of 2011. This is illustrated in Graph 1.

To isolate income generated by current economic activity only, personal transfer payments are subtracted from personal income to obtain PI minus transfer payments (PI-transfers). Both CT QPI and PI-transfers grew faster than the U.S. and NE QPI and PI-transfers over the first half of 2011. Connecticut's current-dollar QPI grew 3.88% between 2010Q4 and 2011Q2, which translates into a 7.91% compounded, annualized rate. Connecticut PI-transfers grew by 4.29% over the first half of 2011, which is a compounded, annualized rate of 9.24%.

There has been a rapid deceleration in the growth of current-dollar, seasonally adjusted transfer payments over the first half of 2011, compared to the first half of 2010. This is depicted in Graph 2. Over both periods Connecticut's transfer payments grew faster than that for New

GRAPH 1: Growth in Current-Dollar QPI and PI-Transfers - First Half of 2011: U.S., NE, and CT



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England, but slower than that for the U.S.

Drivers of Connecticut's Income Growth: First Half of 2011

From the residence-based standpoint, dividends, interest, and rent (DIR) played an outsized role in Connecticut's income growth. While Connecticut's net earnings by residence grew by 4.34% between 2010Q4 and 2011Q2, DIR grew by 5.15%, and accounted for one-third of the growth in net earnings by residence.

From the work-based standpoint, five NAICS sectors played a dominant role in Connecticut's income growth over the first half of 2011. They accounted for 70.87% of the \$4.552 billion growth in Connecticut's private earnings between 2010Q4 and 2011Q2. Manufacturing accounted for \$986 million, or 21.66% of the growth in private earnings between 2010Q4 and 2011Q2. In addition, retail, finance and insurance, management of companies and enterprises, admin. and support, and health care and social assistance (HCSA) each contributed \$500 million, or more to the growth in Connecticut's private earnings over the first half of 2011.

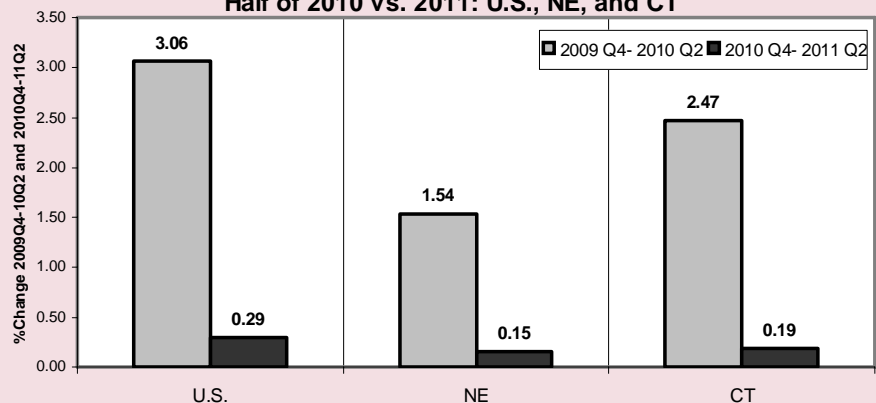
Connecticut's Real Income Over the Recent Crisis/Recession

The severity of the recent popping of the housing and credit bubbles, financial panic, subsequent deep economic contraction and the long-lasting damage it inflicted on the real

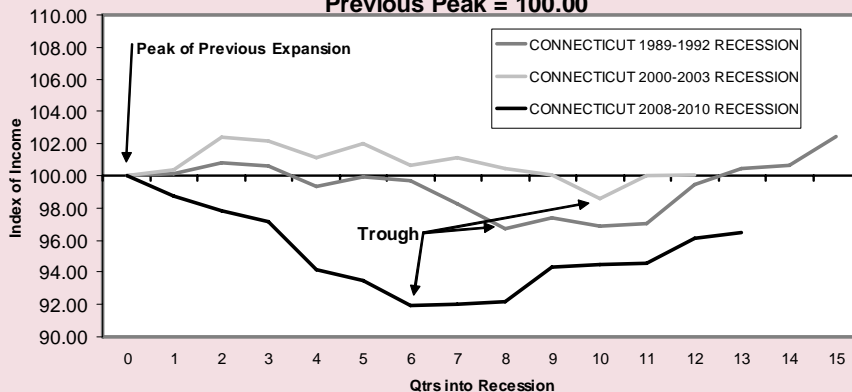
economy are reflected in the behavior of selected components of real income. To obtain real income and its components, Connecticut's current-dollar income and its components were adjusted for changes in the price level with the price index for personal consumption expenditures (PCE).² To compare the behavior of income components across business cycles with different scales of income, an index based on the value of the peak of the previous expansion equal to 100.00 was constructed. This allowed different cycles to be compared and to observe the behavior of selected components of Connecticut income during recessions over the post-Cold War era.

Graph 3-A shows the behavior of CT real QPI over the three post-Cold War recessions. Though the 1989-92 recession was clearly steeper than the 2000-03 recession in terms of the decline in Connecticut's real QPI, it still does not compare to the steep decline in real QPI over the 2008-10 recession. The same is true for real PI-transfers depicted in Graph 3-B. With transfer payments subtracted out, the decline in income is even steeper and much more pronounced over the 2008-10 recession. The decline, in both measures of income bottomed six quarters after the previous peak in real QPI and PI-transfers. Over the 1989-92 recession, the decline in real QPI hit its trough after eight quarters, and for the 2000-03 recession it took 10 quarters of decline for real QPI to hit bottom.

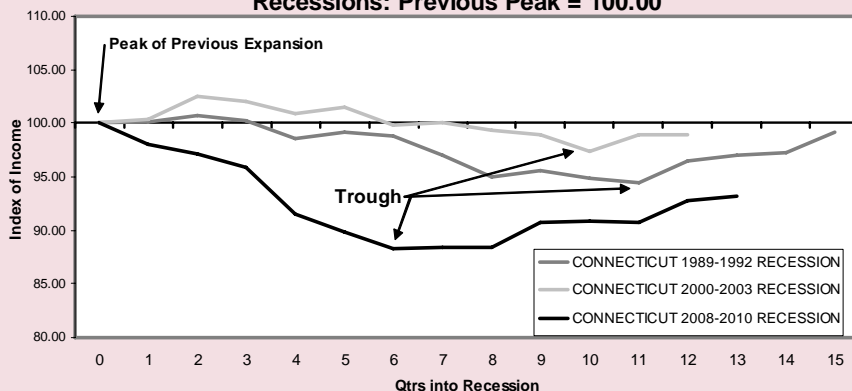
GRAPH 2: Growth in Current-Dollar Transfer Payments-First Half of 2010 vs. 2011: U.S., NE, and CT



**GRAPH 3-A: CT Real QPI Index-Post Cold War Recessions:
Previous Peak = 100.00**



GRAPH 3-B: CT Real PI-Transfers Index-Post Cold War Recessions: Previous Peak = 100.00



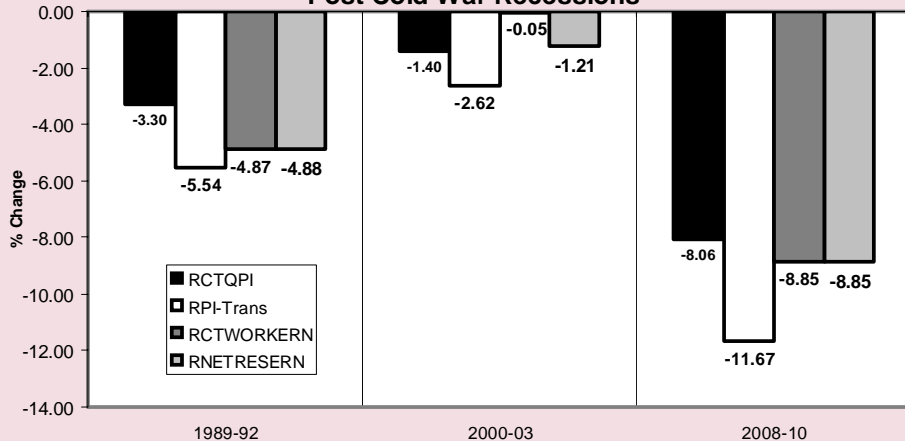
The decline in real PI-transfers was even longer for the other two post-Cold War recessions. The trough in the decline in real PI-transfers came after 10 quarters of decline over the 2000-03 recession, and after 11 quarters of decline over the 1989-92 recession.

The declines in real QPI and PI-transfers, as well as real earnings by place of work (RCTWORKERN) and real net earnings by place of residence (RNETRESERN) for the

post-Cold War recessions are shown in Graph 4. Again, the steepest declines in the real components of income depicted in Graph 4 all occurred over the 2008-10 recession/crisis.

At its steepest decline, Connecticut's real QPI fell by 3.30% over the 1989-92 recession and 1.40% over the 2000-03 recession. Connecticut's real QPI fell by 8.06% over the 2008-10 recession. Over each recession,

**GRAPH 4: Components of CT Real Income:
Post Cold War Recessions**



real PI-transfers fell more steeply than real QPI, as transfer payments are netted out. PI-transfers fell by 5.54%, at their lowest decline over the 1989-92 recession, but only half as much as 2.62% over the 2000-03 recession. Over the 2008-10 recession, real PI-transfers fell 11.67% at their steepest. This was twice as much as over the 1989-92 recession, and five times as much as over the 2000-03 recession. Both real earnings by place of work and real net earnings by place of residence fell by 8.85% over the 2008-10 recession, far steeper than over the 1989-92 recession. Further, real earnings by place of work and net earnings by place of residence, had only very slight declines over the 2000-03 recession.

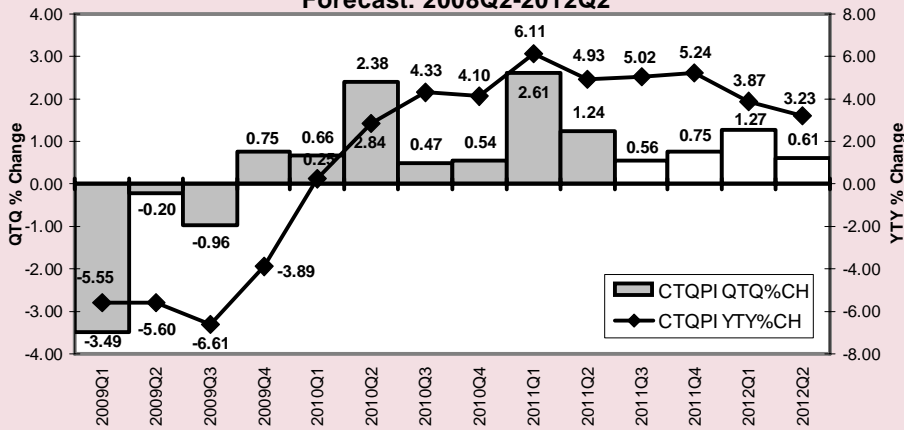
Connecticut QPI and PI-Transfers Forecast To 2012Q2

Graphs 5-A and 5-B show the quarter-to-quarter (QTQ) and year-to-year (YTY) percent changes for the historical and forecast periods for current-dollar CT QPI (Graph 5-A) and current-dollar CT PI-transfers (Graph 5-B). The forecast assumes a deceleration in both the QTQ and YTY percent growth in QPI and PI-transfers going into the first half of 2012. This is predicated on the current slowing of the economy, which is likely to be to be exacerbated by the expiration of the payroll tax cut, and any fallout from the failure of the Congressional Super-Committee process. Further, given the current political climate, especially going into a Presidential election cycle, no further stimulus of the economy is expected in 2012.

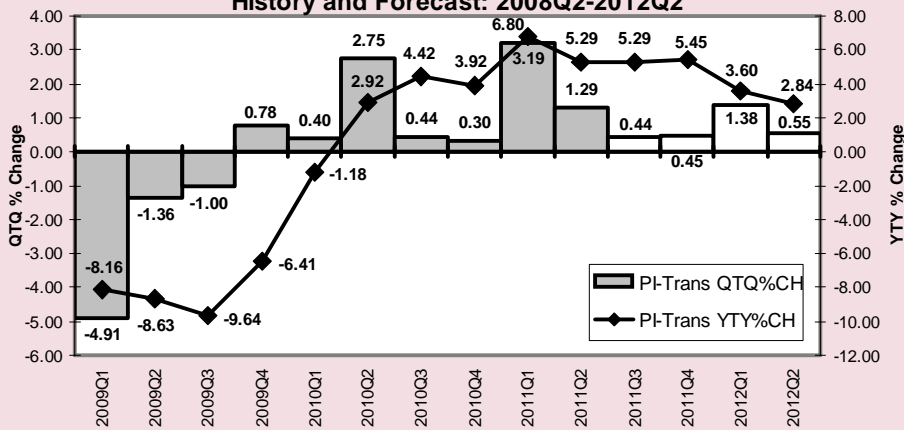
The forecast predicts that current-dollar CT QPI will grow by only 1.31% over the second half of 2011. That translates into a compounded, annualized growth-rate of 2.64% over the second half of 2011 (compared to U.S. BEA's estimate which translates into a 7.91% annualized growth-rate over the first half). Also, the forecast expects that the growth-rate in current-dollar PI-transfers will slow to 0.89% in the second half of 2011, which translates into a

--Continued on page 5--

GRAPH 5-A: QTQ and YTY % Change in CT QPI-History and Forecast: 2008Q2-2012Q2



GRAPH 5-B: QTQ and YTY % Change in CT PI-Transfers-History and Forecast: 2008Q2-2012Q2



1.79% compounded annualized growth-rate in PI-transfers over the second half of 2011.

However, even with the forecast predicting rapid deceleration in the growth-rates of CT QPI and PI-transfers, over the second half of 2011, U.S. BEA's estimates of very strong growth over the first half boosts the annual growth-rate for 2011 to over 5%. It may seem that a growth-rate of current-dollar QPI of over 5% for 2011 is rather high given the expected downward pressures on income-growth over the forecast horizon. But, the strong growth estimated by U.S. BEA for the first half of 2011 puts a floor under the growth-rate for the entire year (unless they revise it downward again). ■

¹ U.S. Bureau of Economic Analysis, State Personal Income: Second Quarter 2011 (September 22, 2011) U.S. Department of Commerce: Washington

²For an explanation of the differences between the PCE Price Index and the CPI, see McCully, Clinton P, Brian C. Moyer, and Kenneth J. Stewart, Comparing the Consumer Price Index and the Personal Consumption Expenditures Price Index (November 2007) SURVEY OF CURRENT BUSINESS, U.S. Bureau of Economic Analysis: Washington

GENERAL ECONOMIC INDICATORS

(Seasonally adjusted)	3Q 2011	3Q 2010	CHANGE		2Q 2011
			NO.	%	
Employment Indexes (1992=100)*					
Leading	118.3	116.2	2.1	1.8	117.2
Coincident	102.2	102.1	0.1	0.1	102.6
General Drift Indicator (1986=100)*					
Leading	NA	NA	NA	NA	NA
Coincident	NA	NA	NA	NA	NA
Farmington Bank Business Barometer (1992=100)**	124.1	123.1	1.1	0.9	124.2
Philadelphia Fed's Coincident Index (July 1992=100)***	OCT 2011	OCT 2010			SEP 2011
(Not seasonally adjusted)					
Connecticut	157.6	153.1	4.5	2.9	157.0
United States	153.9	149.8	4.1	2.8	153.7

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).