

JULY 1996 HIGHLIGHTS

- Construction contracts in April reached their highest level since October 1987 (page 7)
- May business starts registered with the Secretary of the State continued to rise on a year-over-year basis. (page 7)
- May housing permits were up 20.5 percent from a year ago with gains in Hartford County outpacing Fairfield County (page 3)
- Economic indicator trends are featured. A fixed series appears on pages 10-11. A rotating series is repeated quarterly on pages 12-13 (pages 10-13)

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Inaugural issue



JOHN G. ROWLAND
GOVERNOR

STATE OF CONNECTICUT
EXECUTIVE CHAMBERS
HARTFORD, CONNECTICUT
06106

Dear Friends:

I am pleased to welcome you to the inaugural issue of *The Connecticut Economic Digest*, a publication intended to inform businesses and citizens as well as government planners and policy-makers of economic issues and trends in an objective and nonpartisan fashion. A joint effort of the Department of Labor and the Department of Economic and Community Development, this report combines the best features of three publications produced by the two agencies: the *Connecticut Labor Situation* and the *Labor Market Review*, produced by the labor department; and the *Connecticut Economic Monitor*, produced by economic and community development. The *Digest* also incorporates the new housing permit statistics as produced by the former Department of Housing.

This landmark effort is significant for a few different reasons. First, it presents a comprehensive, monthly measure of the status and trends of the Connecticut economy, information which is vital to the success of our business development and job creation activities. Second, it represents an improvement in the delivery of government services; by combining their statistical reports, both agencies will realize savings in production and mailing costs as well as staff time and, as a result, it reduces the amount of government paper that crosses your desk each month. Last, and perhaps most important, it helps unify two agencies, which have traditionally served different constituencies, in the common goal of promoting Connecticut's economic well-being through cooperative ventures such as this.

I know that both Commissioner Butler and Commissioner Ellef are committed to the success of this new endeavor. I encourage readers to let them, or their staffs, know of your reaction to this publication. Your feedback is critical in helping us produce a product which best meets the informational and statistical needs of all our citizens.

Cordially,

John G. Rowland
Governor

Personnel supply industry: leading growth indicator

by Charles Joo, Research Analyst

Personnel supply industry employment is known to lead the aggregate employment trends in the nation. The Federal Reserve Bank of Chicago published an article on the industry, supporting this theory with empirical data and analysis, (Lewis M. Segal and Daniel G. Sullivan, "The temporary labor force," *Economic Perspectives*, March/April 1995). In the report, the personnel supply industry, one of the fastest growing components of the services sector in the nation, was shown to be a leading indicator of aggregate economic growth as measured by total employment. An analysis of Connecticut's data is consistent with this theory.

Between 1992 and 1995, the

services sector has added new jobs each year at a faster rate than total nonfarm employment. Like the nation, the personnel supply industry is one of the fastest growing sectors in the state, growing by 12.8 percent in 1995, when the state's employment grew by only 1.3 percent.

This growth in the personnel supply industry might also explain, in part, the continued loss of jobs in the manufacturing sector. Persons who are working for the manufacturing industry as "temporaries" are not counted in total manufacturing employment. Hence it is likely that the personnel supply industry is siphoning off some of the manufacturing workers into the services category.

Continued on page 3

**TABLE 1: PAYROLL EMPLOYMENT
BY INDUSTRIAL SECTOR**

Annual average (thousands of workers)				Personnel supply (SIC 736)
Year	Total	Manufacturing	Services	
1987	1,638.2	384.2	383.4	23.3
1988	1,667.4	372.3	405.8	26.4
1989	1,665.6	359.3	422.7	24.7
1990	1,623.5	341.0	425.0	21.5
1991	1,555.2	322.5	415.9	17.8
1992	1,526.2	305.7	423.1	18.8
1993	1,531.1	294.1	438.1	22.0
1994	1,543.7	285.1	449.9	23.2
1995	1,563.9	280.4	465.8	26.1

Annual growth rate (percent)				Personnel supply (SIC 736)
Year	Total	Manufacturing	Services	
1987	2.5	-2.5	4.4	10.7
1988	1.8	-3.1	5.8	13.5
1989	-0.1	-3.5	4.2	-6.2
1990	-2.5	-5.1	0.5	-13.1
1991	-4.2	-5.4	-2.1	-17.0
1992	-1.9	-5.2	1.7	5.3
1993	0.3	-3.8	3.5	17.0
1994	0.8	-3.1	2.7	5.4
1995	1.3	-1.7	3.5	12.8

The Connecticut Economic Digest is published monthly by the Connecticut Department of Labor, Office of Research and the Connecticut Department of Economic and Community Development, Research Division. Its purpose is to regularly provide users with a comprehensive source for the most current, up-to-date data available on the workforce and economy of the state, within perspectives of the region and nation.

The views expressed by authors are theirs alone and do not necessarily reflect those of the Departments of Labor or Economic and Community Development.

To receive this publication free of charge write to: **The Connecticut Economic Digest**, Connecticut Department of Labor, Office of Research, 200 Folly Brook Boulevard, Wethersfield, CT 06109; or call: (860) 566-7823. Current subscribers who do not wish to continue receiving the publication or who have a change of address are asked to fill out the information on the back cover and return it to the above address.

Contributing DOL Staff: Salvatore DiPillo, Lincoln S. Dyer, Arthur Famiglietti, Charles Joo and Joseph Slepski. **Managing Editor:** Kaila Riggott. **Contributing DECD Staff:** Sandy Bergin, Kolie Chang, William Hesse and Mark Prisloe. We would also like to thank our associates at the Connecticut Center for Economic Analysis, University of Connecticut, for their contributions to the Digest.

Connecticut Department of Labor

James P. Butler, Commissioner
William R. Bellotti, Deputy Commissioner
John E. Saunders, Deputy Commissioner
Jean E. Zurbrigen, Deputy Commissioner

Roger F. Therrien, Director
Office of Research
200 Folly Brook Boulevard
Wethersfield, CT 06109
Phone: (860) 566-7823
Fax: (860) 566-7963
E-Mail: salvatore.dipillo@po.state.ct.us



Connecticut Department of Economic and Community Development

Peter N. Ellef, Commissioner
Peter N. Dibble, Deputy Commissioner
Richard Cianci, Deputy Commissioner

Jeffrey W. Blodgett
Research Director
865 Brook Street
Rocky Hill, CT 06067
Phone: (860) 258-4238
Fax: (860) 258-4322
E-Mail: william.hesse@po.state.ct.us

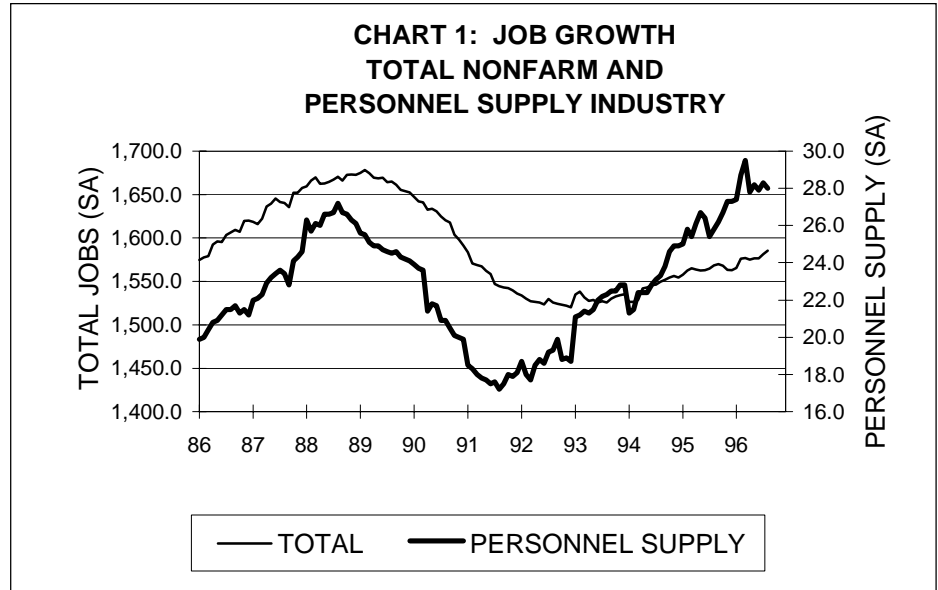


Personnel supply industry: growth indicator

Continued from page 2

The personnel supply industry (SIC 736) contains employment agencies (SIC 7361) and help supply services (SIC 7363) which provide temporary and continuing workers to client firms. Although the personnel supply industry currently makes up less than two percent of total employment in Connecticut, it accounted for over 43 percent of job growth between 1992 and 1995.

Employment agencies are defined by the Office of Management and Budget's Standard Industrial Classification (SIC) Manual (1987) as follows: Establishments primarily engaged in providing employment services, except theatrical employment agencies and motion picture casting bureaus. Establishments



may assist either employers or those seeking employment. The manual defines help supply services as those establishments

primarily engaged in supplying temporary or continuing help on a contract or fee basis. The help supplied is always on the payroll of

Continued on page 4

HOUSING UPDATE

May: housing permits increase

The Connecticut Department of Economic and Community Development reported that Connecticut communities authorized 846 new housing units in May 1996, a 28.2 percent increase compared to April 1996 when 660 were authorized. The Department further indicated that the 846 units permitted in May 1996 represent an increase of 20.5 percent from the 702 units permitted in May 1995, but that the year-to-date numbers are down 15.8 percent, from 3,321 in 1995 to 2,797 in 1996.

Reports from municipal officials throughout the state indicated that Litchfield County

showed the greatest percentage increase in May compared to the previous month: 80 percent. Fairfield County reported the greatest percentage decline: 8.7 percent. Hartford County documented the largest number of new, authorized units in May with 261. New Haven County followed with 163 units and Fairfield County had 136 units.

Rocky Hill led all Connecticut communities with 81 units, including 80 in an assisted living facility, followed by Southington with 44 and New Milford with 27. The permit activity figure for May included the following state-wide amounts by structure type: detached single-family units, 678;

attached single-family units, 68; two unit structures, 2; three and four-unit structures, 6; structures containing five or more units, 92.

Year-to-date totals indicate that Hartford County has issued the most building permits the first five months of 1996 with 673, followed by New Haven County with 589 and Fairfield County with 586. Rocky Hill has authorized 101 new permits during this period, followed by Stamford with 91, Wallingford with 81, Southington with 79, and Milford with 74. □

For more information on housing permits, see tables on pages 21-22.

Personnel supply industry: growth indicator

Continued from page 3

the supplying establishments, but is under the direct or general supervision of the business to whom the help is furnished.

As Chart 1 reveals, peaks and troughs in the employment cycle in the personnel supply industry have led the total employment cycle during the latest recession and recovery.

A closer look at the data shows that the personnel supply industry's changes preceded changes in total employment by six to nine months. In other words, aggregate employment follows the personnel supply industry's direction by a few months. This supports the notion that during a recovery businesses sometimes utilize temporary workers until they are convinced that they can maintain additional workers on a permanent basis.

On the other hand, if firms start to cut back on hiring temporary workers, this is an early indicator that a recession (as reflected in the total employment) will soon follow.

An analysis of over-the-year percent changes in the seasonally adjusted data reveals that the personnel supply industry employment started to fall continuously in January 1989, six months prior to the total employment series' beginning to drop. Likewise, the personnel supply industry started to turn around in April 1992, nine months prior to the aggregate's trough in

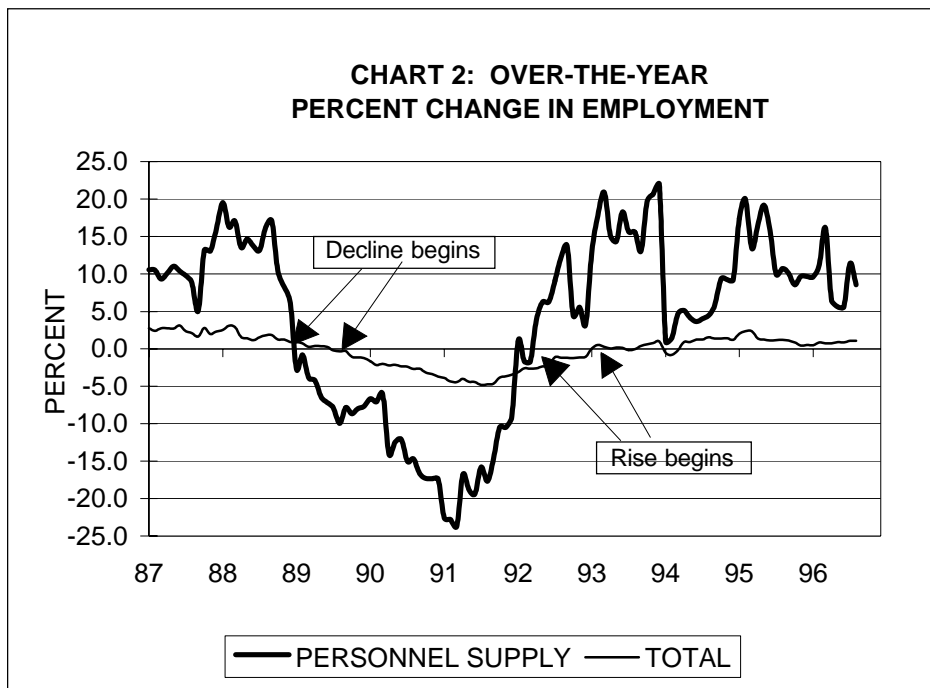
January 1993.

As Chart 2 shows, the over-the-year growth rate of the personnel supply industry has been much higher than that of total employment growth, averaging 10.2 percent, compared with 0.2 percent in the aggregate economy since 1992. Also evident, personnel supply industry job growth is

the greater the decline in the personnel supply industry, the greater the decline in total employment which soon follows.

Current over-the-year monthly employment trends of the personnel supply industry suggest no recession in sight. However, weaker job growth calls for slower growth in the total jobs down the road. By tracking the movements of the personnel supply industry, we may be able to predict the next turning point in the state's employment cycle. Therefore, personnel supply industry employment trends could serve as a good leading economic indicator for policymakers and economists who need to base decisions on where the economy is headed. □

By tracking the movements of the personnel supply industry, we may be able to predict the next turning point in the state's employment cycle.



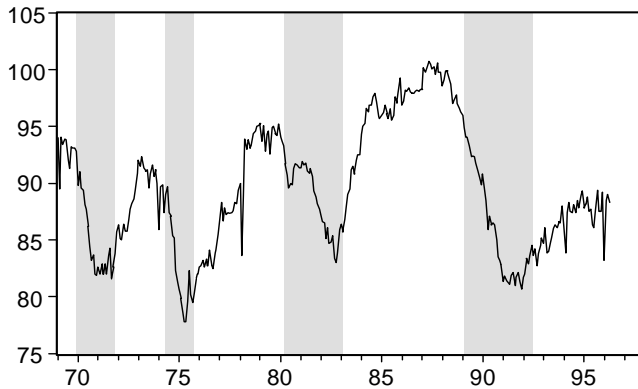
Note: For personnel supply industry employment, ES-202 data were used until 3Q95; from October 1995 CES sample estimates were used; the data series is then seasonally adjusted using X-11 ARIMA. For total employment, seasonally adjusted CES data were used.

References: *Economic Perspectives*, March/April 1995, Federal Reserve Bank of Chicago; *Illinois Labor Market Review*, Summer 1995, Illinois Department of Employment Security; ES-202, CES, Connecticut Labor Department

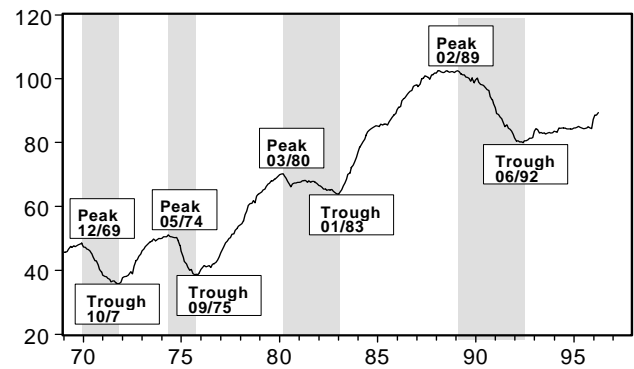
much more volatile, falling more during economic contractions and rising more during expansions. However, the personnel supply industry's magnitude of change appears to correspond proportionately with total employment aggregate changes. In other words,

LEADING AND COINCIDENT INDICATORS

LEADING INDEX



COINCIDENT INDEX



The distance from peak to trough, indicated by the shaded areas, measures the duration of an employment cycle recession. The vertical scale in both charts is an index with 1987=100.

Coincident index continues new upward trend

Connecticut's coincident employment index continues its smart upward movement with the release of the (preliminary) April data. The April increase matches similar jumps in the index in January and February. The leading index remains stuck in the neighborhood it reached in December 1994.

The coincident index, a gauge of current employment activity, after sending strong positive signals in January and February, largely due to the benchmark revisions and the February surge in employment data, and after pausing briefly in March, rose significantly again in April. The increases in the coincident index this year accelerated from its prior slow upward movement during the current recovery. In addition, the three-month moving average of the coincident index, traces a similar path of bouncing around throughout 1995 with significant upward movement in each month this year.

The leading index, a barometer of future employment activity, after experiencing its largest one-month fall in January and rebounding dramatically in February, remains stalled in recent months. Currently, the leading index exceeds its level of eight out of the past 12 months and 16 out of the last 24, but exactly matches its April 1994 level.

The April release, therefore, provides increasing support for a strengthening of the current recovery, at least in the short term. The longer-term expectation for the current recovery remains somewhat uncertain — the leading index after rising smartly in the early years of the recovery has now reached a plateau. Whether its next major move is up or down still remains in doubt. Future monthly data will fill in the pieces to the leading index puzzle.

Compared to a year ago, the coincident employment index rose from 84.9 in April 1995 to 89.3 in

April 1996. All four index components continue to point in a positive direction on a year-over-year basis with higher nonfarm employment, higher total employment, a lower total unemployment rate, and a lower insured unemployment rate.

The leading employment index rose slightly from 87.5 in April 1995 to 88.3 in April 1996, or somewhat below its previous peak of 89.4 in September 1995. Two components sent negative signals on a year-over-year basis — a higher short-duration (less than 15 weeks) unemployment rate, and lower total housing permits. The other components sent positive signals with lower initial claims for unemployment insurance, higher average work week of manufacturing production workers, and higher Hartford help wanted advertising. □

Source: Connecticut Center for Economic Analysis, University of Connecticut. Developed by Pami Dua [(203) 322-3466, Stamford Campus] and Stephen M. Miller [(860) 486-3853, Storrs Campus]. Tara Blois [(860) 486-4752, Storrs Campus] provided research support.