No Jobs Recovery?

The Connecticut Economic Outlook: August 2009

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SUMMARY

Output may have bottomed and even begun to expand. Federal and international stimuli seem to be taking hold, with the expectation it will generate a 1% national annual growth rate this quarter (2009Q3). Current projections see growth rising to 3.5% by the second quarter of 2010, then holding that pace to 2011Q2. But this output growth will do little for employment. There is small hope the nation will see job creation before the middle of 2010; Connecticut's labor markets may see no growth for much longer.

Seasonally adjusted (SA) employment in Connecticut of 1,641,000 in 2009's second quarter was down 65,000 from its peak a year earlier (2008Q2). This CEEA Outlook, with the slow national recovery, sees employment possibly declining a further 35,000 over the next year. Given a strengthening national recovery, CT employment will stop contracting and flatten out at about 1,620,000—below the level of employment Connecticut enjoyed at the beginning of 1990. *But the reasonably strong national growth assumed here is insufficient to generate new jobs in Connecticut through the forecast period.*

This is consistent with the national pattern, where real unemployment continues to rise well into 2010. The recent improvement in seasonally adjusted national unemployment rate to 9.4% hides the reality that labor force participation dropped nearly a half million and the work week shrank. Taking those developments into account drives current unemployment close to 12%, the highest since World War II. Connecticut's workforce itself has shrunk by 9,000 in the past six months—if not for that shrinkage, the current state unemployment rate would be approaching 9% rather than the official rate of 8.0%.

Another important development is that, unlike earlier recessions and akin to the Great Depression, seniors, those over 55, are increasingly remaining in the labor force, due in part to the damage done to their pensions and wealth by the financial tsunami of the last eighteen months. In the absence of new job creation, senior's increased labor force participation continues to limit available job opportunities for younger demographics, particularly African-Americans and new entrants to the labor force—those aged 16-24.

Introduction

Continuing a pattern, the Bureau of Economic Analysis has again revised Connecticut's real aggregate output for 2005 to 2008; these revisions reveal significantly slower growth than reported in our forecasts. The new BEA estimate for 2008 puts the state's output below the old estimate for 2007—a decline in a year that saw the recession pick up momentum. The only silver lining is that CCEA's projection from the new BEA estimates, using personal incomes, argues that Connecticut's aggregate output (CtRGDP) remained flat during the first half of 2009. That state employment has contracted so sharply despite maintaining output levels emphasizes how difficult it will be to return to job growth.

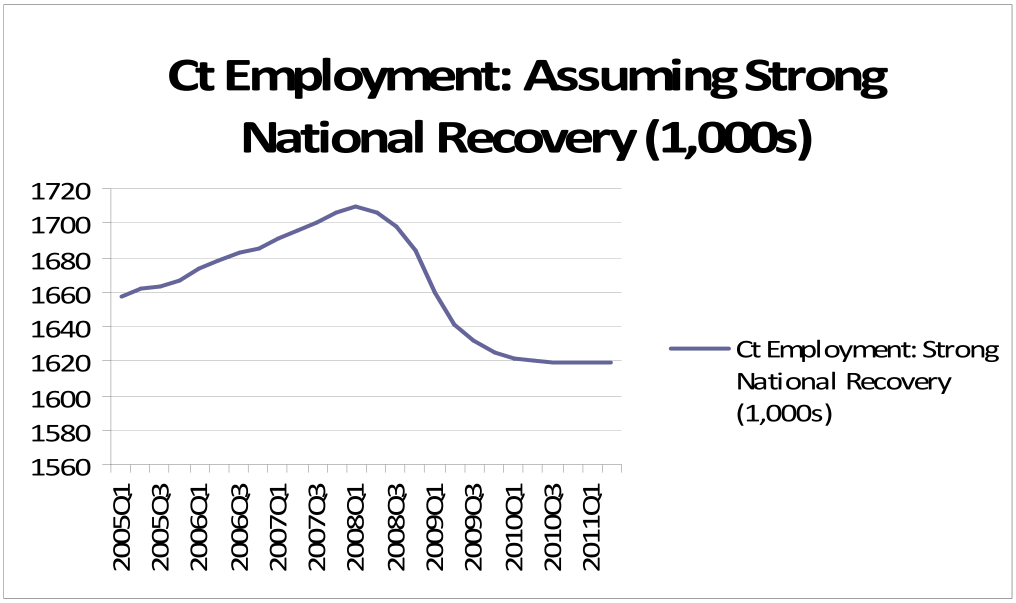
Outlook, Labor Force, and Recovery

The previous Outlook contrasted pessimistic and optimistic scenarios. While the pessimistic view still remains possible—in part because Connecticut state government faces a staggering budget deficit, which has already resulted in draconian reductions in capital projects, costing jobs, incomes, and tax revenues and which, when resolved, will involve serious reductions in state spending, costing more jobs, incomes, and tax revenues—this Outlook focuses on labor force impacts, assuming a strengthening national economic recovery.

1: Outlook

This Outlook assumes national annual growth rates accelerating over five quarters from 1% this quarter, to 1.125% next quarter, to 1.25% 2010Q1, then to 3% in 2010Q2, finally to 3.5% for the next four quarters. This sustained national growth generates modest and accelerating growth in CtRGDP, which rises from $ 176 billion this quarter to $182 billion in 2011Q2. Chart 1 illustrates how this national growth trajectory has potential to slow the decline in Connecticut employment at 1,620,000, *but it is insufficient to initiate job creation*.

Chart 1: Connecticut Employment Outlook 2005Q1 to 2011Q2



2. Labor Force

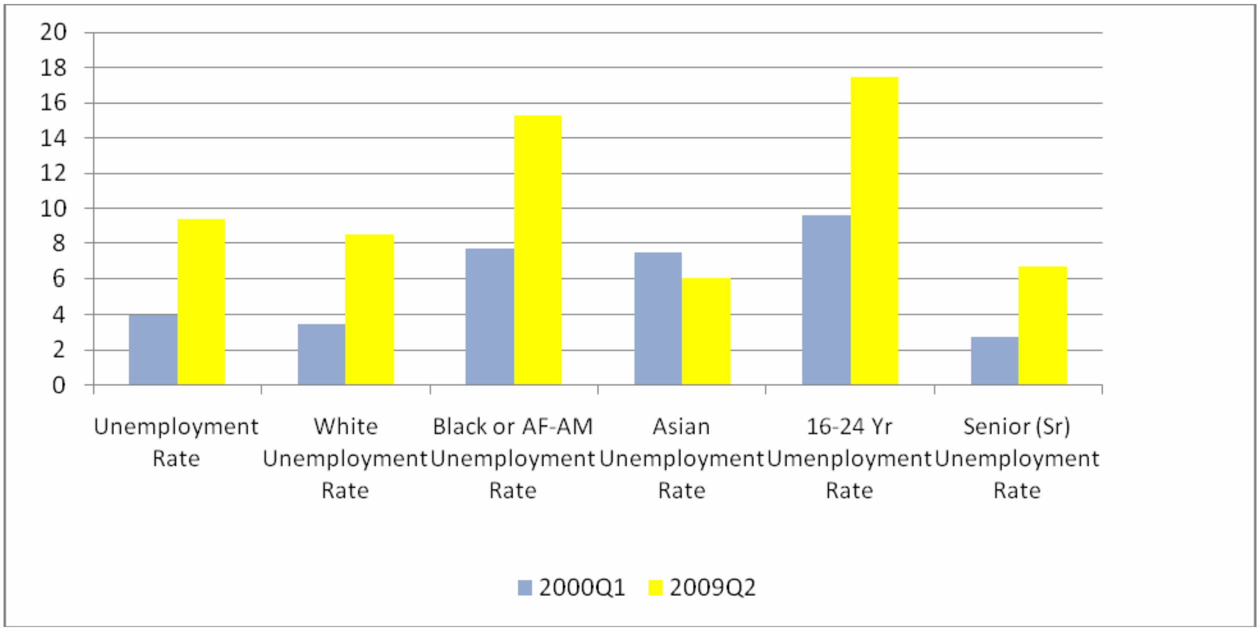
US labor market adjustments during the recent recession have had the heaviest impact on young workers, who now suffer a 17.5% unemployment rate. Those who self-identify as African American face unemployment approaching 16%. In addition to the official numbers, Connecticut's labor force participation has dropped by 9,000 since January, 2009—individuals probably disproportionately drawn from these two groups. The shrinkage in the labor force would have been larger but for seniors, many of whom, under financial duress, continue to work, look for work, or even re-enter the workforce—they are the only group to increase labor force participation significantly.

Chart 2 illustrates US unemployment rates by ethnic groups and age cohort based on U. S. Bureau of Labor data, seasonally adjusted by the CCEA. Using 2000Q1 as the starting point captures the peak US labor force participation, when economic potential was closest to being realized.

In the last nine years, the CT unemployment rate has doubled from 4.0% to 8.0%, with the increased unemployment coming almost entirely since the end of 2006. Nationally, that doubling has also occurred among whites (3.5% to 8.5%). In 2000, unemployment among African Americans was more than double that of whites (7.75% versus 3.5%). While the relative differences have shrunk, the current unemployment rate among African Americans (15.3%) shows that they are taking the brunt of the recession. In contrast, unemployment rates among Asians have fallen (7.5% to 6.0%).

Chart 2: US Seasonally Adjusted Unemployment Rates by Ethnicity and Selected Age Cohorts

2000Q1 and 2009Q2



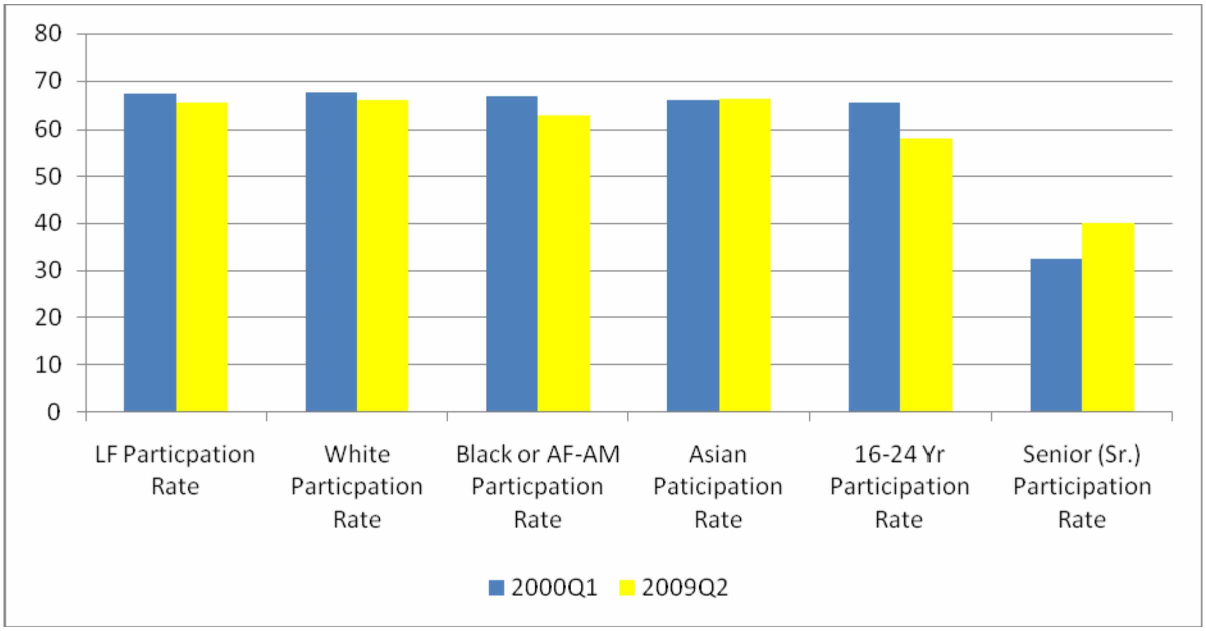
Similarly to African Americans, unemployment rates among those in their first years of labor force participation have typically been higher historically than for the total labor force, as shown by 2000Q1 rates of 4.0% and 9.6%. By 2009Q2, the unemployment rate among those aged 16-24 years rose to 17.5%. While the BLS does not publish the rate of unemployment by both age and ethnicity, the rate for African American youth is likely above 20%, with all the inherent issues related to such high rates of unemployment.

The historically low unemployment rate among seniors, age 55 and over, has more than doubled from 2.7% to 6.7%. This increase results in part from the current financial crisis, including erosion of pensions, as well as better health and increasing longevity of seniors. The participation rate of seniors has jumped from 32.4% to 40.0%, as Chart 3 illustrates. The only other participation rate to rise was among Asians; though minor, it rose from 66.1% to 66.3%.

Seniors aside, labor force participation rates have fallen overall and among the other ethnic groups. Over the last year these rates of decline have been double those over the entire nine-year period. This result indicates that individuals are leaving the labor force, discouraged with the odds of finding employment. It also means that unemployment rates understate the loss in capacity relative to the both the Nation's and Connecticut's potential to produce. The only upside may be a willingness of workers to gain more education when job prospects are so poor.

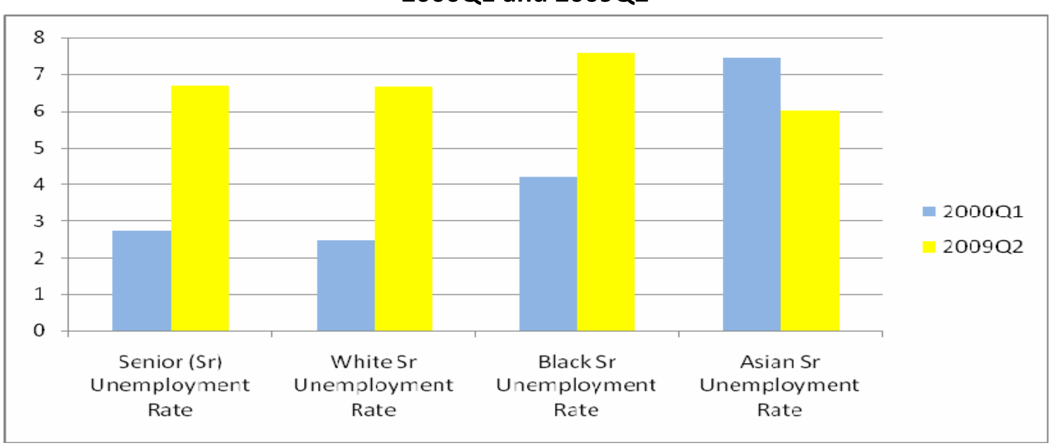
Chart 3: US Seasonally Adjusted Labor Force Participation Rates by Ethnicity and Selected Age Cohorts

2000Q1 and 2009Q2



Ethnic unemployment rates are available for seniors. Chart 4 shows senior unemployment rates have increased in aggregate and among whites (2.5% to 6.7%) and Black and African Americans (4.2% to 7.6%), but fallen among Asians (7.5% to 6.0%).

Chart 4: US Seasonally Adjusted Senior Unemployment Rates by Ethnicity and Selected Age Cohorts 2000Q1 and 2009Q2



3. CT Initiatives

The current budget crisis in Connecticut has resulted in a sharp reduction in publicly funded capital projects, costing the state thousands of jobs and the income they generate, as well as an apparent freezing of private initiatives. Notably, the decision to curtail capital projects has slowed, if not stopped, the University Hospital initiative—a major initiative that would be self-funding and deliver a revenue bonus to the state, as well as creating upwards of 20,000 new jobs and a powerful life sciences cluster in central Connecticut. Separately, questions about the future of the film tax credit have put at risk development of both Stratford Point Studios and the proposed development in South Windsor; these projects have the potential of generating upwards of 15,000 new jobs. Coupled with the impending major reductions in the current services budget, state action is contributing to the contraction of the state's economy in the short run and undermining its capacity to recover in the long run.

The minor bump in housing permits quarter-over-quarter--climbing from 648 to 847--is insufficient to stimulate CT's economy. During good times such permits run at 2,500 to 3,000 each quarter. Commensurate with rising numbers of permits, CT values rose 38% or $18.7 million. New York and New Jersey experienced similar but modest growth. Even this modest turnaround is dependent on sustained national recovery and, in any event, is much too small to contribute significantly to employment recovery in Connecticut.

Conclusions

Painful adjustments are being felt throughout the labor force, but are concentrated among African Americans and young workers. Unlike earlier recessions, the failure of financial institutions and seniors' better health and longevity are resulting in greater numbers of them remaining in the labor force. While seniors bring experience and generate income, their continuing participation—in the absence of any net job creation—reduces the availability of jobs openings for younger workers. While some in the younger working age group and their families will continue to invest in their education, the severity of the current employment environment argues strongly for public policy that generates strong recovery from the recession in order to avoid severe social repercussions. This Outlook underlines the importance of such state initiative—*the assumption of a strong national recovery fails by itself to begin the process of job creation in Connecticut.*

If Connecticut reverses its steep cuts in capital projects, adopts a balanced approach to address its massive budget deficits, and—critically—develops and implements a coherent, focused economic development strategy, it would assuredly avoid significant social costs, accelerate its own recovery, and build the foundation for a healthy economic future.