University of Connecticut

Will Job Losses End?
A Thin Ray of Hope

The Connecticut Economic Outlook: November 2009

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Overview

Without a strong, sustained national recovery—which may not be in the cards—this UConn/CCEA Outlook sees Connecticut continuing to lose jobs for the next two years—through the end of the forecast period. But a more optimistic scenario, assuming the strong national recovery of the last quarter continues for another six months, Connecticut will soon begin to see modest job growth. Even then, the state recovers barely half of its job loses—only to see employment begin to contract from the middle of 2011. Equally important, even in this optimistic scenario, total state output, by the end of 2011, still falls short of its previous high by $100 million, arguing that the state's fiscal crisis may persist for years.

Neither scenario for which this UConn/CCEA Outlook offers a forecast incorporates the likely consequences of the combined impact of addressing the nearly $1 billion deficit in the current state budget or the dramatic reduction in capital projects. A reduction in state expenditures by the implied total approaching $1.7 billion would translate into the loss of an additional 25,000 to 30,000 jobs, dragging overall economic activity down from forecasted levels.

A second major issue compounds the impact of the Great Recession: over the last twenty years, Connecticut has seen perhaps the poorest job creation among all fifty states. And in the last decade, most job growth came in health care, accommodation and food services, education, and government (especially local government). A broader perspective gives little hope that Connecticut will see the restoration of growth in jobs—let alone high-wage jobs--given current policy and economic development initiatives.

Outlook

Without a strong, sustained national recovery for the next two quarters—which may not be in the cards—this Outlook expects Connecticut will continue shedding jobs for through the end of the forecast period in 2011. If the strong national recovery—3.5%—just recorded continues, Connecticut will now see modest job growth. But the state recovers barely half of its losses—and then again sees employment begin to contact from the middle of 2011—a double dip recession. Equally important, total state output, by the end of 2011, will still fall short of its previous high by $100 million, arguing that the state's fiscal crisis may endure for years.

To evaluate the different potential paths of the economy over the next two years, this CCEA Outlook uses two scenarios. The first involves doing the analysis in its conventional form, using historical trends and consensus forecasts. The second approach imposes the assumption that for two more quarters—the current quarter and the first quarter of 2010—national growth (seasonally adjusted) continues at the 3.5% achieved in the third quarter. Similarly, this scenario assumes housing permits and real manufacturing earnings continue to grow at their 2009Q3 rates for each of the next two quarters. The second scenario is consistent with the view that the national economy has both begun to recover and will also achieve sustained growth. But there is wide concern that the growth spurt was an anomaly—the result of the earlier dramatic reduction in inventories which businesses are now beginning to rebuild and the federal stimulus, including the cash for clunkers program.

However, the general consensus is that economic growth will continue, but at lower rates, while national unemployment will continue to rise through at least the first half of 2010. Although the rate of layoffs for production workers has slowed significantly, the layoffs of scientists and engineers—those working on developing and perfecting new products—has accelerated, threatening a long-term decline in American competitiveness. And the Chinese appear insistent on pursuing a "beggar thy neighbor" currency policy, a policy that will weaken global recovery. Finally, there is no guarantee the business cycle will conform to expectations and generate a sustained recovery. Nobel Laureate Paul Krugman reminds us that Japan spent most of the 1990s attempting to extract itself from its recession, despite being a creditor nation blessed with stable government and well-educated people.[1] Some fear America will suffer the Japanese fate over the next decade

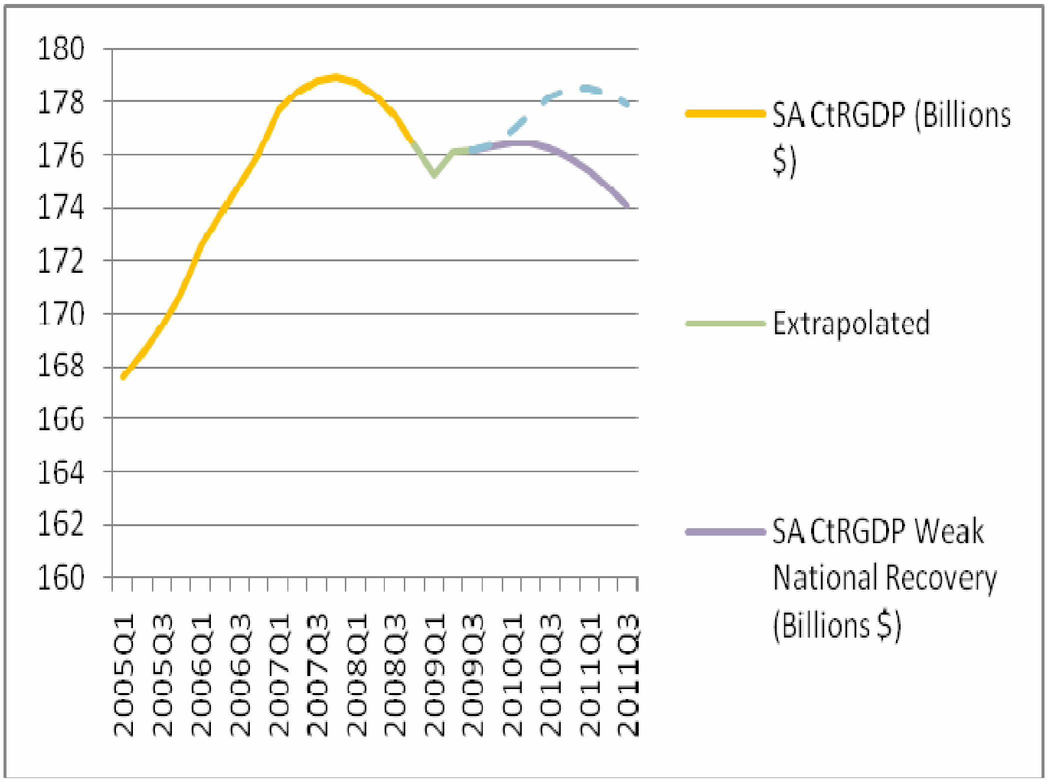
Connecticut State Output

Chart 1 shows future growth in state output over eight quarters for both scenarios: one with a weak national recovery, in which the growth of 2009Q3 drops-off quickly; the second where accelerated recovery is sustained over the next two quarters with growth declining modestly thereafter. Note that even with strong national recovery over this and the next quarter the recovery remains frail with the potential to slide back into recession, failing to reach the previous high in output. Thus, without

[1] Paul Krugman, **The Return of Depression Economics and the Crisis of 2008** pb. Norton 2009, p. 57.

additional stimulus, at either the national or state level, this Outlook sees Connecticut suffering a “double-dip” recession.

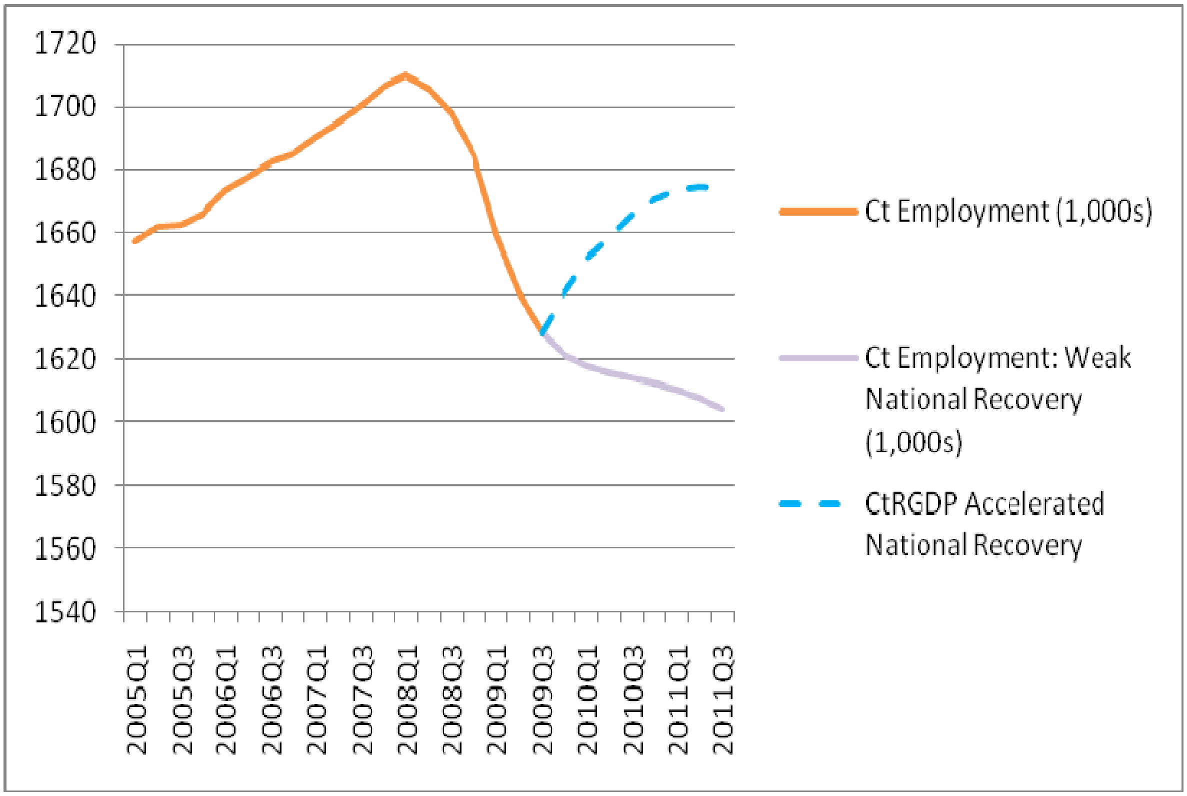
Chart 1: CT Output: Alternative Pathways (Billions $)



Employment

Chart 2 shows the employment patterns, which track those for state output. Because strong productivity growth reduces demand for labor, employment suffers proportionate more in both scenarios. Even in the optimistic scenario, employment again begins to fall at the end of 2011; in the conventional scenario, Connecticut suffers continuing job losses through the end of the UConn/CCEA Outlook forecast period. The recent New England Economic Project forecast is equally pessimistic, anticipating no job growth before 2013. Thus the risk of a weak recovery without remotely recovering jobs lost is very real, very substantial.

Chart 2: CT Employment Alternative Pathways (1,000s)



Neither scenario for which this Outlook offers a forecast formally incorporates the likely consequences of the combined impact of addressing the nearly $1 billion deficit in the current state budget nor the dramatic reduction in capital projects. A reduction in state expenditures by the implied total approaching $1.7 billion would translate into the lose of an additional 25,000 to 30,000 jobs, dramatically increasing total job losses and dragging overall economic output down from forecasted levels.

Conclusions and Perspective

Connecticut clearly faces a very challenging economic future. Without significant, aggressive state initiatives, the state will not see its economy's total output regain the level achieved at the end of 2007 for several years. Job creation will be even weaker, with the real possibility of job losses continuing for several years. Only creative, even radical, new policies and initiatives, in both fiscal and economic development polices, will likely build the foundation to regain the jobs lost, especially regaining quality jobs with high wages. Connecticut's economy may be close to a "tipping point," after which recovery will be even more difficult, requiring fundamental structural changes. If true, the implication is that action, to be effective, must come sooner than later.

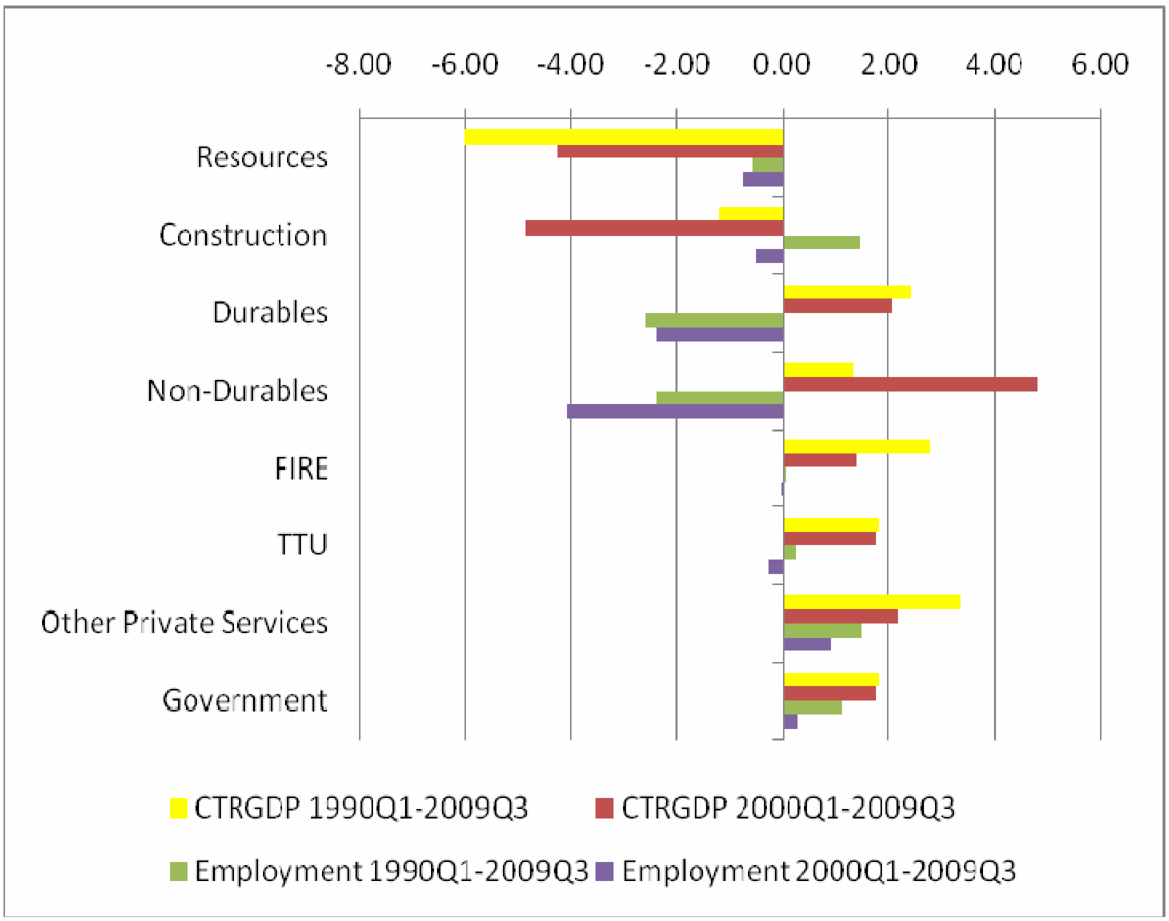
An additional perspective in this UConn/CCEA Outlook is an evaluation of the performance of Connecticut's economic and sectoral performance since 1990—a perspective underlining the serious structural decline in the quality of employment and its linkage with economic development.

Perspective: Connecticut Sector Decennial Performances

Chart 3 illustrates average quarterly growth at annual rates[2] in seasonally adjusted output and employment by sector 1990 to the third quarter of 2009 for the entire period and the last decade. Performance has varied greatly among the sectors.

Chart 3: Sector Output and Employment Quarterly Growth at Annual Rates

1990Q1-2009Q3 and 2000Q1-2009Q3



[2] This somewhat convoluted measure is used in line with GDP as reported by the Bureau of Economic Analysis.

The relatively unimportant Resources sector, accounting for 0.16% of Connecticut Real Gross Domestic Product (CTRGDP), declined at a faster rate for the entire period. In addition, rates for employment shrinkage have been significantly smaller, suggesting declining average productivity.

Construction, accounting for 1.3% of CTRGDP, is directly more important than the Resource sector, with secondary impacts on demands for durables that lead to manufacturing impacts. Comparing Construction's growth rates for the entire period and for the most recent decade reveal earlier growth has given way to decline, concentrated in the most recent quarters. The relatively smaller declines in construction employment indicate that the types of construction industry may be concentrating in less productive areas such as home repairs rather than new construction.

Generating 9.0% of CTRGDP, Durable Manufacturing has delivered growth throughout the period, though slightly slower in the more recent decade. The simultaneous declines in sector employment indicate average productivity has been rising. With implementation of advanced manufacturing technologies worldwide, competition remains stiff, and gaining market share very difficult; adoption of advanced technologies has been critical simply in retaining markets.

Worth 4% of CTRGDP, Non-Durable Manufacturing has experienced trends similar to Durable Manufacturing, even though its more dramatic adjustments have occurred in the more recent decade.

Responsible for producing 28.8% of CTRGDP, Finance Insurance and Real Estate (FIRE) grew at faster rates over the entire period than most recently. Employment growth rates of 0.4% and -0.4 % are too small to appear in the Chart. Essentially long-term employment growth has been stagnant so that average growth per employee has been rising. This outcome is in line with improved communications and information systems that complement employment in this sector.

The data on FIRE does not (yet) capture the fallout from the financial tsunami, in part because a significant share of the impact fell on Connecticut residents working on Wall Street. And because they pay taxes on wages where they work—in high tax New York City—their job losses show up in Connecticut's unemployment numbers, not in falling income tax revenues.

Amounting to 16.5% of CTRGDP, jointly Trade, Transportation and Utilities grew at similar rates in both decades, with some employment gains in the longer timeframe being partially offset by more recent cutbacks.

Other Private Services include areas like non-government social work, private school teaching including tutelage at childcare facilities and universities. Collectively they currently account for 30.9% of CTRGDP. As the Chart 1 indicates, there has been real growth, though slower in the most recent decade. Sector employment growth has been at more modest rates, suggesting productivity growth in this sector in both decades.

Amounting to 8.3% of CTRGDP, Government Services, at the state and local levels, have experienced more modest growth in both CTGDP and employment than that experienced in Private Services.

Overall CT sector employment growth in the last decade has been concentrated in services, private and public. Within sectors, substantial productivity gains in both durable and non-durable manufacturing have exceeded growth in sales, resulting in consistently declining employment.

The most troubling employment data emerges from a closer look at some of the jobs numbers. Overall, 2008 employment was only *1,667* higher than the average for 2000, out of total employment of 1,676,493. The gain was .00099%. Generously rounding this up, the *employment gain was one one-thousandth of a percent*. Over the same period, average weekly wage rose 27.9%. The table below shows where job losses took place, and where they grew.

Job Losses by Sector:

Manufacturing:	down 50,000
Retail Trade:	down 8,000 (wage gain of 8%; low wage sector)
Information:	down 7,000
Finance & Insurance:	down 2,000
FIRE:	down 7,000
Professional services:	down 3,000
Adm. & waste mgmt:	down 5,000
Arts, entertain't, rec.	down 15,000 (wage gain of 15%; low wage sector)

Job Gains by Sector:

Wholesale trade:	up 2,000
Transport & warehousing	up 800
Securities, commodities, etc.	up 7,000 (part of Fin & Ins, which declined 2,000 in aggregate)
Educational services	up 11,000
Health care & Soc. Assist.	up 35,000 (on average, low wage sector)
Accommodation & food	up 17,000 (wage gain of 20.2%; very low wage sector)
Government	up 35,000 (Federal shrank 4,000; state grew 7,400; local grew 31,000. Local wage gain: 20.7%)

In sum, of approximately 107,800 jobs created in these sectors, 87,000 were in low wage sectors. Moreover, wage gains in local government (includes employment of Native American governments, which embraces casino employees) and accommodations and food service were well below the state average. In contracting sectors such as retail trade and arts, entertainment, and recreation, wages grew at an even lower rate. This table reveals both why Connecticut has experienced the largest increase in income inequality in the nation and its per capita income has begun to decline.

These numbers underlines the challenge the state faces in generating strong economic growth and a jobs recovery. In sum, Connecticut faces compounding crises—the immediate crisis flowing from the Great Recession and the long-term failure to create net new jobs and consistent growth in the share of jobs that pay lower wages, have seen weak growth in their wages, and are weakly linked to economic development.