Connecticut Economic Outlook: May 2007

Connecticut Nearing Record Employment

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CCEA anticipates that Connecticut will soon surpass its previous record employment level of 1,698,400 set in 2000Q3—which was itself barely above the previous high at the end of the 1980s. Finally, after eighteen years, Connecticut may be embarking on a path of job growth!

This forecast flows from revised employment figures for 2006 that recognized an additional 7,000 employees—mostly in small firms—not identified in the earlier, preliminary numbers for 2006 the Department of Labor. Preliminary data for 2007Q1 point to seasonally adjusted employment at 1,692,000, 19,000 above the same quarter a year ago. The CCEA forecast sees Connecticut employment this quarter hitting 1,697,000 tantalizingly close to the record, and then to surpass that mark next quarter. Chart 1 shows the employment forecast. This outlook is relatively bullish on Connecticut employment growth in 2007 of 20,000 or 1.2%. The CCEA forecast anticipates continuing, but more modest growth of 15,000 in 2008.

Chart 1:

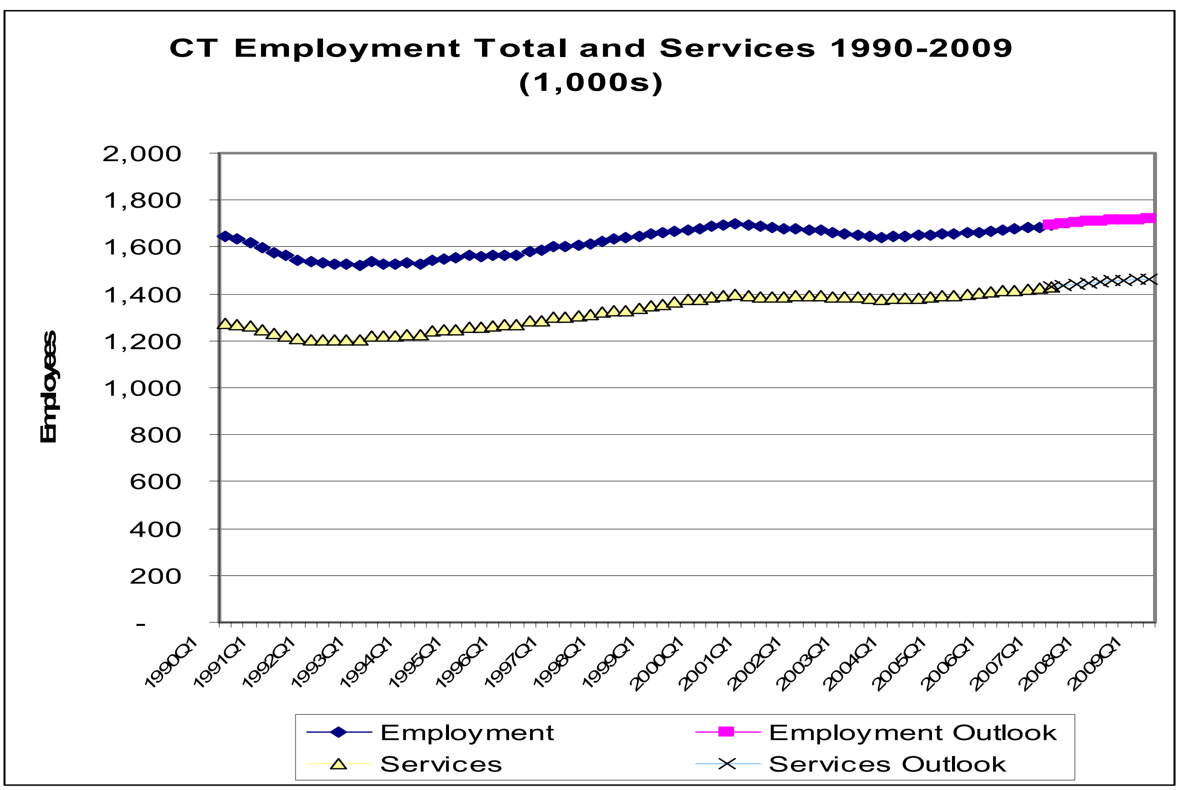
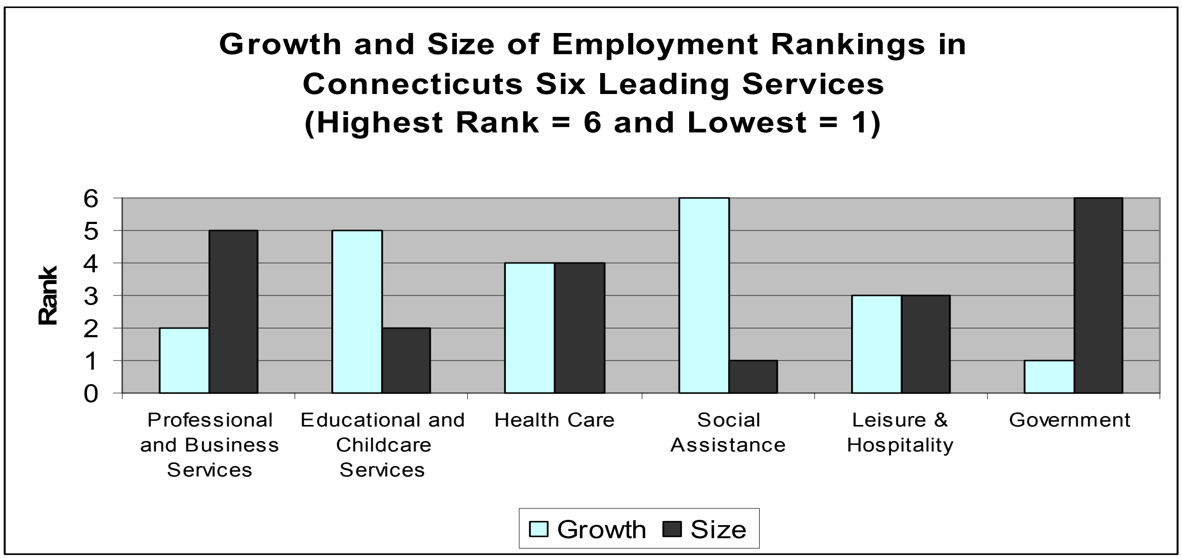


Chart 1 also illustrates the rising importance of services employment. While services also peaked in 2000Q3, the subsequent trough was not nearly as deep as for total Connecticut employment. Services employment surpassed its previous peak in 2005Q2. This result reveals that the dip in the remaining industries of Manufacturing, Construction, and Resources collectively has been more serious than for the economy as a whole. By March of this year, Connecticut's employment in service industries stood at 1,431,000, dwarfing that in manufacturing of 193,000. Seventeen years ago, 304,000 toiled in manufacturing, 1,272,000 in services. Since 1990, Manufacturing has shed 111,000 jobs, while services generated an additional 159,000.

Since 1990, Connecticut's mix within the service sector has been in transition. The smaller components—education and child care, social assistance in particular—have grown more rapidly than larger ones. Chart 2 illustrates this rebalancing by ranking the six fastest growth segments of Connecticut's services industry against their rankings for size. Social Assistance experienced the fastest growth while remaining the smallest segment (40,000). In contrast, Government (aggregating state, municipal, and Native American employment), the largest segment (250,000), grew the slowest.

Chart 2:



Source: BLS

The second smallest segment, Education and Childcare Services (ECS) (55,000), also ranked second in growth. In contrast, Professional and Business Services (PBS) (205,000), the second largest segment, was second slowest in growth, surpassing only Government among the top six service sector components.

The two middle ranked services had the same rankings for growth as for their activity levels. For example, Leisure and Hospitality (128,000) ranked fourth in both size and growth. The three leading growth rates all suggest a shift toward a more caring society in meeting the needs of both the aging population and youth. They also make clear that there is more, much more, to services than hospitality and leisure.

Employment in Transportation and Public Utilities (TTU), as well as Wholesale and Retail Trade, experienced modest long-term growth. Employment growth in Financial Services and Real Estate has been modest since the mid 1990s—about 13% in aggregate—even as its total output nearly doubled, making a significant contribution to growth in Connecticut's Real Gross Domestic Product (RGDP).

Connecticut Leads in Personal Income

Service sector growth has sustained Connecticut's leadership in average per capita personal income. Reaching an average of $49,852 for 2006, its per capita income far outpaces that in every other state. In 2006, Connecticut's average per capita personal income was 37% above that of the nation. The nearest contenders, New Jersey and Massachusetts, lagged back at 28% and 26% above the national average.

This leadership position gives no reason for complacency. Connecticut's growth in per capita personal income performed poorly in all three its major components. Connecticut growth in net earnings rose only 5.2%, compared to 5.9% for the nation. Connecticut dividends, interest, and rent grew 6.3%, compared to U.S. rates of 8.9%, and intergovernmental transfer receipts by 4.8% compared to 5% for the country. These relatively poor performances culminated in Connecticut personal income rising by 5.3%, compared to a national gain of 6.3%. Given Connecticut's significant income inequality and evidence of growing rates of poverty, the state ought to be able to attract additional transfers, despite its apparent affluence.

Connecticut RGDP Outlook

As in 2004, the CCEA forecasts Connecticut RGDP will grow faster in 2006 (4.7%) than suggested by preliminary national forecasts for national GDP growth of 3.3%. CCEA anticipates that this relationship will continue into 2007, though at more modest rates of 3.7% for growth in Connecticut RGDP and 2.4% for national GDP. Unlike the previous data for 2006 based on official releases, 2006 data in this section come from CCEA's preliminary estimates and will be updated when the Bureau of Economic Analysis releases 2006 Connecticut RGDP data

CCEA RGDP 2006 estimates (based on regressions on sector personal incomes and GDP deflator estimates, derived from regressions on consumer and producer price indexes) indicate that RGDP in Manufacturing rose slightly, where gains in the larger durable sector (8.8%) overcame losses in non-durables (-7.6%).

Within services, there was decline in Construction (-5.9%), offset by increases in FIRE (7.6%) and other services (3.8%). Within other services, RGDP in Trade, Transportation, and Public Utilities fell (-1.9%) as Connecticut residents reacted to conservation pleas, higher prices, a warm fall, and late onset of winter with curtailed consumption.

The CCEA Outlook for 2007 sees seven to eight percent declines in construction and non-durable goods manufacturing, more than offset by increases in output of durables (up 4%), FIRE (up 3-4%), and other services (up 5%). Growth in 2008 will come from services as other drivers slow and flatten out.