



***No Jobs Recovery!***  
***When will Connecticut's misery end?***

**The Connecticut Economic Outlook: February 2010**

**Peter E Gunther, Senior Research Fellow**

**Connecticut Center for Economic Analysis**

**University of Connecticut**

## *Overview*

There is a no jobs recovery in sight. Assuming national growth trails off from the unsustainable 5.7% of the fourth quarter, Connecticut continues to lose jobs through 2011; the rate of loss simply slows from the predicted rate in the previous CCEA Outlook. The state's economy has undergone a critical structural change as the degree of outsourcing—whether to other states or abroad—has grown quickly for more than a decade; the result is that even strong growth in total output may not translate into rapid improvement in employment. The effect shows in a pattern of progressively slowed jobs recovery. Before 1990, Connecticut's economy recovered jobs lost in recessions in ten months or less; recovery took 23 months and then 39 months in the last two recessions. Unless the state adopts policies and makes strategic investments to change this progressively deteriorating pattern, a jobs recovery may never arrive

A longer-term perspective—looking at the last decade—on the state's economic performance underlines the depth of the challenge. Connecticut (CT) seasonally adjusted (SA) employment at 1,619 thousand is now 55,700 lower than at the dawn of the millennium. Construction permits for 2009Q4 at 897 were down 1,516 compared to a decade earlier. Not only has total employment declined, but the state has lost large numbers of high-skill, high-wage jobs in manufacturing and financial services, and seen vigorous growth in mostly low-skill, low-wage jobs in accommodations, food service, and health care. Due to productivity gains, Connecticut's total economic output (real gross domestic product, or CTRGDP) did grow over the decade, by \$23.1 billion—but it was a weak performance, delivering growth just three-quarters of the national rate of almost 20% for the decade.

The current fiscal crisis—a cumulative deficit of \$1.2 billion in the current biennium—threatens to pull Connecticut's economy down even more. And if this economic malaise continues beyond 2011, the state's deficit only grows. To change this pattern, government investments must be more than countercyclical band-aids, they should frame a facilitating business environment and create forward-looking infrastructure to generate long-term job growth, productivity gains, and a transition to the increasingly electricity-dependent and knowledge economy.

## ***Outlook***

The previous Outlook forecast the future path of Connecticut's economy based on a continuing strong national recovery, reflecting the reported vigorous national expansion in the third quarter of 2009 of 3.5%. But that growth was illusory—the actual growth rate revised to 2.2%. The Bureau of Economic Research's preliminary estimate for growth in the fourth quarter is 5.7%—even if accurate, it is unsustainable. The United States has never delivered that rate of growth for a sustained period. So for this Outlook, CCEA assumes that national recovery will trail off, falling from 2.9% in the current quarter to just 0.9% in the last quarter of 2011. This pattern results from the likely dampers on sustained strong growth: historically low interest rates must soon begin to rise, inflation will pressure interest rates higher, federal deficits will force significant tax increases and budget reductions, an aging population will push up medical costs and increase demand for public services.

This Outlook anticipates slightly better results than its predecessor—which only means that the Connecticut continues to lose jobs throughout the forecast period, but now at a slower rate. This “improvement” results from the assumed pattern of national growth and from CT housing permits recovering more than anticipated, from 2009 Q1 at 649 to 897 in 2009Q4. Even in comparison with recent years, these are weak levels for housing permits; compared to the previous year, CT housing permits were down 37.9%, New York State's by 66.2%, and New Jersey's by 36.1%. This level of permits for the Tri-state area argues there is little relief in sight for residential construction workers.

There is broad agreement, including the Governor's Council of Economic Advisers, that Connecticut will continue to lose jobs at least until July, and any recovery will be anemic. Global Insight does not see the Hartford region recovering lost jobs until after 2015, and anticipates the New York region only recovering in 2012. Compounding the challenges for the state, Yale University has just announced another major cutback (\$150 million), which will dampen growth in what has been one of the few bright spots.

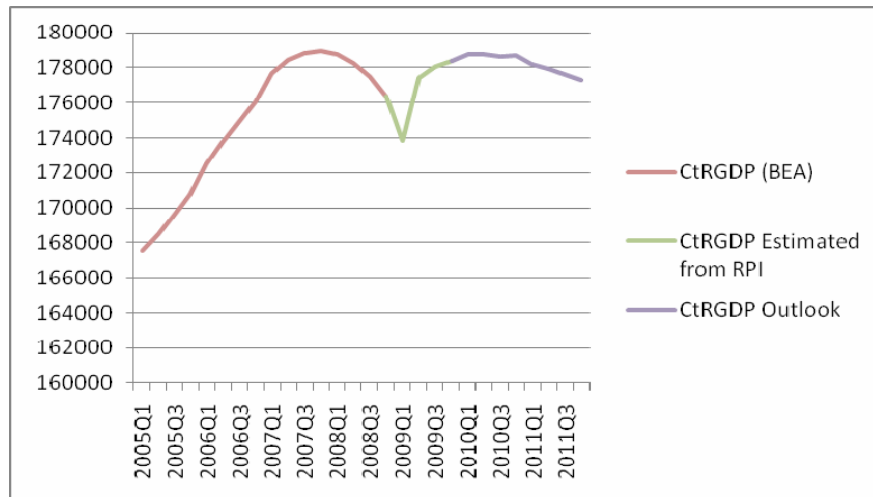
### ***Connecticut State Output***

This Outlook is predicated on a steadily weakening national recovery, in which national RGDP growth at annual rates declines from 2.9% in 2010Q1 to 0.9% by 2011Q4. In Connecticut, quarterly housing permits (seasonally adjusted) shrink gently throughout from 874 to 775 over the same 8 quarters. The result for the state's output is continuing modest growth through the first two quarters of 2010 but a slow decline thereafter, as Chart 1 below shows. Total state output never recovers to the \$180 billion achieved in the last quarter of 2007. By 2011Q4, this Outlook anticipates total output falling to \$177.31 billion from its current \$177.8 billion.

The future course of the state's economy seen in this Outlook would improve if the federal government

extends monetary stimulus, both the private and public sectors of the economy improve their efficiency, and there is an accelerated adoption of innovative consumer durables ranging from computers to electric automobiles. That sort of major shift of the U.S. economy would reduce national dependence on foreign petroleum, spur national growth, and impact positively on CT growth.

**Chart 1: CT Output (Millions \$)**

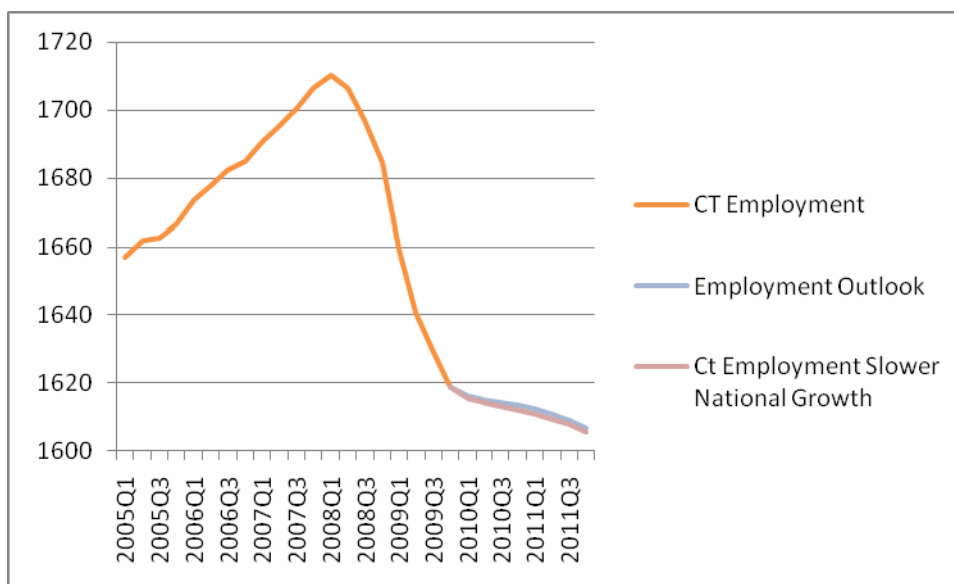


### ***Employment***

Chart 2 shows the employment pattern, which tracks those for State output. Because productivity growth reduces demand for labor, employment suffers proportionately more. The previous anticipated seasonally adjusted employment would fall to 1,620 thousand during 2009. It fell to 1,619, slightly further than expected. Due to ongoing productivity improvements and mediocre performance in growth of output, this Outlook sees Connecticut employment continuing to decline throughout the forecast period, falling to 1,606.9 thousand to 2011Q4. If the current preliminary national growth figure for the fourth quarter of 2009 gets revised down from its current 5.7% to 4.0%—a strong possibility given past revisions and the peculiar nature of that quarter’s growth—employment losses would then be somewhat larger.

In both scenarios—whether preserving the high growth of the fourth quarter or using a lower figures-- Connecticut suffers continuing job losses through the end of the Outlook forecast period, just not as severe as the previous Outlook anticipated. But job losses accelerate at the end of the forecast period, suggesting that jobs recovery may not begin even in 2012—or beyond.

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



### ***Sector Shifts***

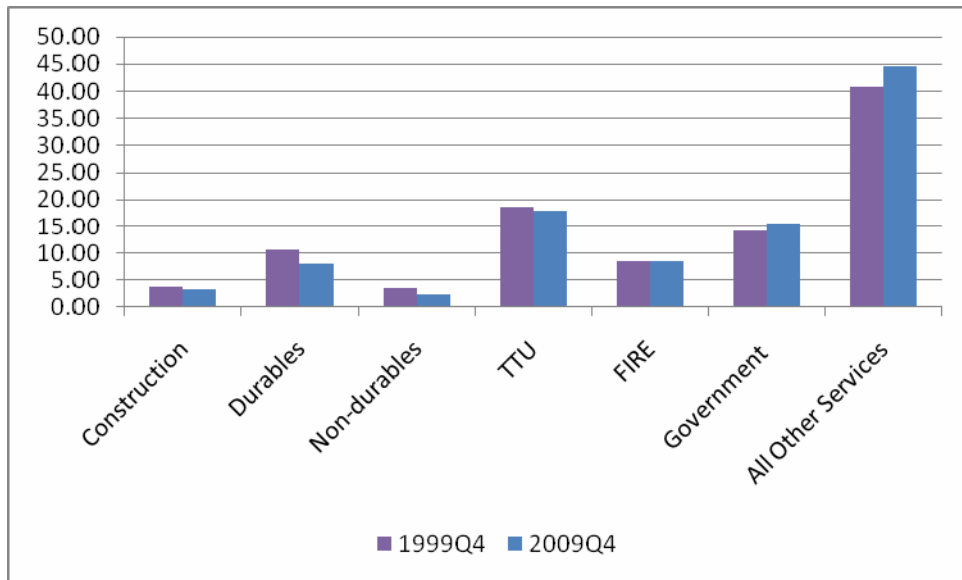
Throughout the most recent decade the CT economy has experienced a transition in average labor productivity, partially due to a rapid increase in outsourcing, resulting in mild changes in sector CTRGDP shares but much larger changes in employment shares. The share in the state's output for finance, insurance, and real estate (FIRE) increased 0.91%; the share for durable manufacturing increased 0.2%. The share for private services other than FIRE fell by 0.82%, and other key sectors—construction, non-durable manufacturing, and government—changed 0.2% or less.

In contrast, employment shares among sectors shifted more visibly. Chart 3 shows employment shares fell in construction (0.53%) durables (2.46%) non-durables (1.25%), and trade, transport and utilities (0.79%). In all these sectors, increased productivity significantly offset declining employment shares. Increased employment shares for FIRE of 0.08% were well below its increase in output, revealing strongly increasing average labor productivity. The opposite is true for both government (-1.09) and services other than FIRE and trade, transport and utilities (TTU) (-3.86). At least the fall in productivity in government may be the result of conflating gaming employment in the Native American government units rather than in the conventional public sector. The poor performance in services flows from the significant gain in low-wage positions in accommodation, food service, and health care (primarily health aides of various types).

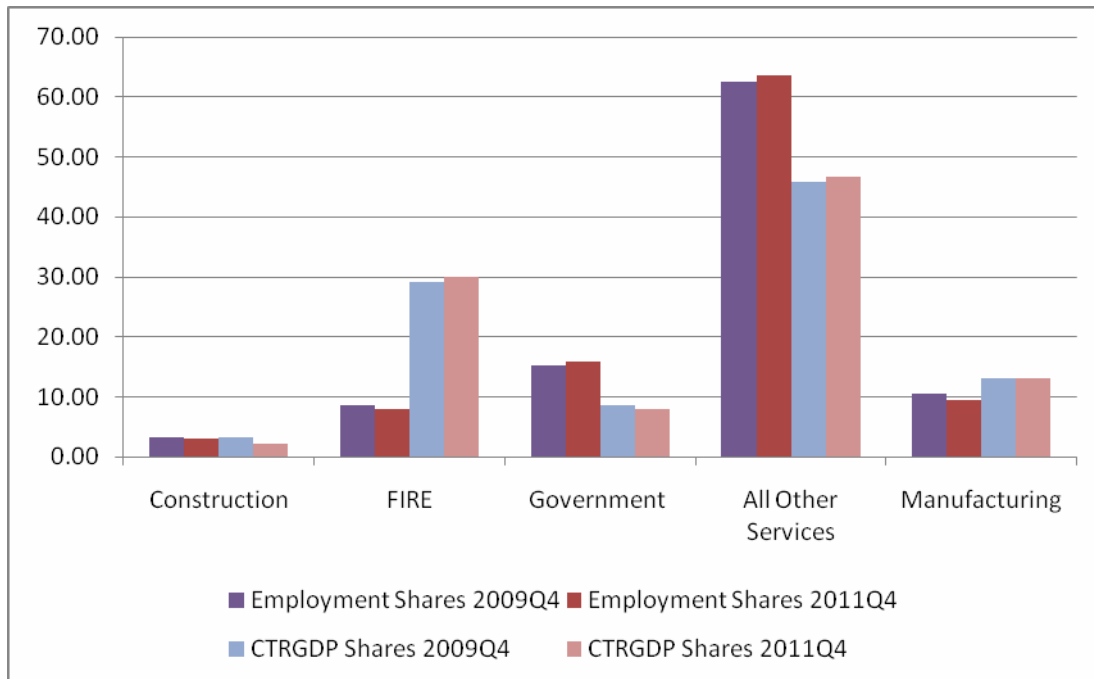
Chart 4 characterizes the expected shifts over the next two-years in sectoral employment and CTRGDP shares. Sectors with relatively high productivity emerge when the last two columns of the four are larger than the first two—that is the situation for FIRE and to a lesser extent manufacturing. Falling shares of employment and rising shares of state output indicate that

FIRE and manufacturing will continue to drive CT productivity increases. But neither will generate net new jobs for the state, and the significant rise of outsourcing—which a recent study from the Connecticut Department of Labor illuminated—is probably masking a critical weakening in these sectors.

**Chart 3: Sector Shares of CT Employment 1999Q4 and 2009Q4 (%)**



**Chart 4: Shifts in Sectoral Employment and Output: 2009-2011 (%)**



## *Conclusions and Perspective*

There is no jobs recovery in sight. This Outlook sees Connecticut continuing to lose jobs through 2011; the only “good news” is that the rate of loss slows from the rate predicted in the previous CCEA Outlook. Even total state output may begin a slow decline. Of particular concern is the accelerating job loss this forecast anticipates coming at the end of the period evaluated—suggesting job losses will continue into 2012 and perhaps beyond. The worsening state budget situation and the fiscal challenges local government face may exacerbate the situation further. Moreover, short-term countercyclical band-aids will not change the long-term deterioration of Connecticut’s economy and thus its fiscal challenges. At the very time that it is hardest to take the steps central to driving a fundamental structural change in the state’s economy is exactly when, because of the unique characteristics of the Connecticut’s economy, it is most needed. Unless the state adopts policies and makes strategic investments to change this progressively deteriorating pattern, a jobs recovery may never arrive.