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**ECONOMIC REPORT  
OF THE GOVERNOR  
2003 - 2005**

# **Economic Report of the Governor**

## **INTRODUCTION**

This report fulfills the requirements of Section 4-74a of the General Statutes which stipulates that:

"Part IV of the Budget Document shall consist of the recommendations of the Governor concerning the economy and shall include an analysis of the impact of both proposed spending and proposed revenue programs on the employment, production and purchasing power of the people and industries within the State".

This report is also designed to provide a brief profile of the State of Connecticut, the economy of the State, revenues and economic assumptions that support the Governor's Budget, and an analysis of the impact of both proposed spending and proposed revenue programs on the economy of the State of Connecticut.

The report will focus on eight areas including: (1) the general characteristics of the State; (2) the profile of employment in the State; (3) an in depth analysis of important Connecticut Sectors; (4) the performance indicators of three differing entities (the United States, the New England Region, and Connecticut); (5) a discussion of some of the important revenue raising taxes; (6) the economic assumptions of the Governor's Budget, including narratives on the foreign sector, the U.S. economy and the Connecticut economy, and a numerical comparison of some of the important indicators used in the preparation of the Governor's Budget; (7) the revenue forecasts of the General Fund and the Special Transportation Fund; and (8) the expected impact of the Governor's Budget on the economy of the State of Connecticut.

## **Economic Report of the Governor**

### **GENERAL CHARACTERISTICS OF THE STATE OF CONNECTICUT**

Connecticut, settled in 1633, became the fifth state to ratify the United States Constitution in 1788. The State is the most southern of the New England States, located on the northeast coast and bordered by Long Island Sound, New York, Massachusetts and Rhode Island.

Connecticut enjoys a favorable location between New England and the rest of the Eastern seaboard markets. Over one-quarter of the total population of the United States and more than 50% of the Canadian population live within a 500-mile radius of Connecticut and are readily accessible by rail, truck and air. Connecticut has an extensive network of expressways and major arterial highways which provide easy access to local and regional markets. Connecticut's Bradley International Airport is well situated for overseas airfreight operations and is readily accessible from all areas of the State. Railroad service is provided to most major towns and cities of Connecticut, providing connections with the major eastern railroads, as well as direct access to Canadian markets. In addition, Connecticut's proximity to the ports of New York and Boston provides favorable access to the European and Eastern South American export markets. Connecticut has operational harbors in Bridgeport and New Haven which accommodate most deep draft vessels.

Connecticut is highly urbanized with a population density of 714 persons for each of its 4,845.4 square miles of land, compared with 80 persons per square mile of land for the United States (3,536,338 square miles), based on 2002 figures from the Bureau of the Census. Hartford, the capital of Connecticut, is a center for the insurance industry and a major service center for business and commerce. The industrial activity of the State is concentrated in two regions. The first, the Naugatuck Valley, extends from Bridgeport north through Ansonia and Waterbury to Torrington, and has a high concentration of heavy industry. The second, a belt extending from Hartford southwest through New Britain, Middletown and Meriden to the coast in New Haven, is typified by highly skilled precision metal products manufacturing. In addition, a large submarine building firm, several chemical production facilities and two casino gaming enterprises exist in the Groton-New London area. Stamford, and the Southwestern portion of the state in general, has a high concentration of financial service industries. The area also serves as headquarters to numerous Fortune 500 companies due to the talented labor pool which resides there, the amenable environment of the region and proximity to New York City, the world's financial center.

Connecticut is a mature and highly developed state. Connecticut's leadership in the skills and techniques of modern manufacturing, trade, finance, insurance and other fields produced a record economic output and growth during the twentieth century while its revitalized transportation infrastructure made its products accessible to numerous markets. Connecticut's primary resources are the energies and skills of its citizens, who have benefited from the State's rich historical heritage and have continued its tradition of economic, social and cultural growth.

#### **Census Information**

On April 1, 2000, this nation's population was counted. The 2000 Census of Population and Housing was the 22nd in a series that began in 1790. At that time, the population numbered 4 million in the nation's 18 states. In 2000, the population totaled 281.4 million people in the 50

## Economic Report of the Governor

states and the District of Columbia. The following Table displays the change in resident population for the United States, New England and Connecticut with their corresponding census counts. Since 1930, the population has risen in all three data series for all decades. However, during the 1970s, 1980s and 1990s, the population growth in Connecticut and New England was significantly lower than the prior three decades.

**TABLE 1**  
**CENSUS POPULATION COUNTS\***  
**(In Thousands)**

<u>Year</u>	<u>United States</u>		<u>New England</u>		<u>Connecticut</u>	
	<u>Number</u>	<u>% Growth</u>	<u>Number</u>	<u>% Growth</u>	<u>Number</u>	<u>% Growth</u>
1930	123,203	16.3	8,166	10.3	1,607	16.3
1940	132,165	7.2	8,437	3.3	1,709	6.3
1950	151,326	14.5	9,314	10.3	2,007	17.4
1960	179,323	18.5	10,509	12.8	2,535	26.3
1970	203,302	13.4	11,847	12.6	3,032	19.6
1980	226,542	11.4	12,349	4.2	3,108	2.5
1990	248,710	9.8	13,207	6.9	3,287	5.8
2000	281,422	13.2	13,923	5.4	3,406	3.6

\* The census is taken on April 1 of each census year.

Source: U.S. Bureau of the Census

In the United States, the resident population, which excludes Armed Forces Overseas, increased from 248,709,873 in 1990 to 281,421,906 in 2000. This represents an increase of 13.2% for the 1990s, an increase from the 9.8% increase experienced in the 1980s and the 11.4% increase experienced in the 1970s. New England's population increased 5.4% from 1990 to 2000 after a 6.9% increase from 1980 to 1990. Within New England, only Vermont and New Hampshire experienced growth significantly higher than the region. According to projections made by the U.S. Bureau of the Census prior to the census, this trend is likely to continue.

During the last few decades, the heavily populated states experienced a slowdown in the growth of their populations. This slow growth phenomenon was common to the states in New England, the Middle Atlantic, the East North Central and the West North Central Regions. The fastest growing states were those in the West, the South, the Pacific and the southern portion of the Mountain regions. The apportionment of seats in the U.S. House of Representatives changed as a result of the 1990 Census, and has changed again as a result of the 2000 census. In addition, federal aid levels will continue to change as the state's estimated population size, relative to the nation's, changes each year. Federal programs which use population as the base include such grants as highway planning and construction, alcohol and drug abuse programs, low income energy assistance, community assistance grants and job training.

Resident population in Connecticut, according to figures from the 2000 census, was 3,405,565, an increase of 118,449 from the 3,287,116 figure of 1990. This represented a growth of 3.6% for the decade, slower growth than was experienced by either the New England Region or the

## Economic Report of the Governor

nation as a whole, for the third consecutive decade. In fact, between 1990 and 2000, the state's growth rate was the fourth lowest in the nation. During the last recession, Connecticut's population started declining as a result of the state's weak economy, the high relative cost of living, and a softened job market which collectively made the state less attractive. The minor population losses in the early 1990s were the result of small in-migration compared to a much larger out-migration. This net out-migration is not to be confused with overall population declines, since a surplus of births and an influx of foreign migration have offset domestic out-migration in most years. The migration of population to and from Connecticut during the late 1980s and 1990s parallels the performance of the state's economy, rising during the expansion, declining at the time of the recession, and rising again the last few years.

Population counts for Connecticut counties from the 1990 census and 2000 census with their corresponding percentage increases are shown in the following Table. Connecticut counties experiencing faster growth during the 1990s were those not dominated by large urban areas. Population counts by municipality are also available in the Appendix of this report.

**TABLE 2**  
**COUNTY POPULATION IN CONNECTICUT**

<u>County</u>	<u>1990 Census</u>	<u>2000 Census</u>	<u>Percent Change</u>
Fairfield	827,645	882,567	6.6
Hartford	851,783	857,183	0.6
Litchfield	174,092	182,193	4.7
Middlesex	143,196	155,071	8.3
New Haven	804,219	824,008	2.5
New London	254,957	259,088	1.6
Tolland	128,699	136,364	6.0
Windham	102,525	109,091	6.4

Source: U.S. Bureau of the Census, U.S. Department of Commerce

In September 1995, the Policy Development and Planning Division of Connecticut's Office of Policy and Management (OPM) published "Connecticut Population Projections, By Age and Sex: 1995, 2000, 2010 & 2020." The publication lists population projections by five-year intervals for the State, Counties and Municipalities, by age and sex. According to the projected data, Connecticut's total population was expected to remain virtually static through the year 2000. Thereafter, growth is projected at a cumulative 1.5% from 2000 to 2010. The growth for the following ten-year period from 2010 to 2020 is projected at 6.4%.

The national population is estimated monthly by the United States Bureau of the Census for total population which includes Armed Forces Overseas, resident population and civilian population. Population growth is a primary long-run determinant of the potential expansion path of the economy from both the supply and demand sides of the economy. The growth of the population and its composition have profound impacts on the labor force, education, housing, and the demand for consumer goods and services.

## Economic Report of the Governor

Annual estimates of population as of mid-calendar year for each state are vital for comparing standards of living through per capita income, productivity through per capita Gross State Product, or a state's private activity bond limitation which, under federal law, is capped at a level dependent upon the size of the population. Estimates are prepared by the U.S. Bureau of the Census based on the number of births and deaths as well as a variety of factors to approximate net migration changes. These factors can include medicare enrollees, motor vehicle registrations, building permits, licensed drivers, school enrollments, etc. In addition, to comply with the Connecticut General Statutes concerning state aid to municipalities, an annual mid-year estimate of population is also prepared by the Department of Public Health based on the number of births, deaths and school age population. The following Table shows the U.S. estimates for mid-year population for the United States, New England and Connecticut from the Bureau of the Census.

**TABLE 3**  
**MID-YEAR POPULATION**  
**(In Thousands)**

Mid Year	United States		New England		Connecticut	
	Number	% Growth	Number	% Growth	Number	% Growth
1993	259,919	1.3	13,334	0.5	3,309	0.3
1994	263,126	1.2	13,396	0.5	3,316	0.2
1995	266,278	1.2	13,473	0.6	3,324	0.2
1996	269,394	1.2	13,555	0.6	3,337	0.4
1997	272,647	1.2	13,642	0.6	3,349	0.4
1998	275,854	1.2	13,734	0.7	3,365	0.5
1999	279,040	1.2	13,838	0.8	3,386	0.6
2000	282,224	1.1	13,952	0.8	3,412	0.8
2001	285,318	1.1	14,052	0.7	3,435	0.7
2002	288,369	1.1	14,144	0.7	3,461	0.8

Source: U.S. Bureau of the Census, U.S. Department of Commerce

### Natural Change Rates

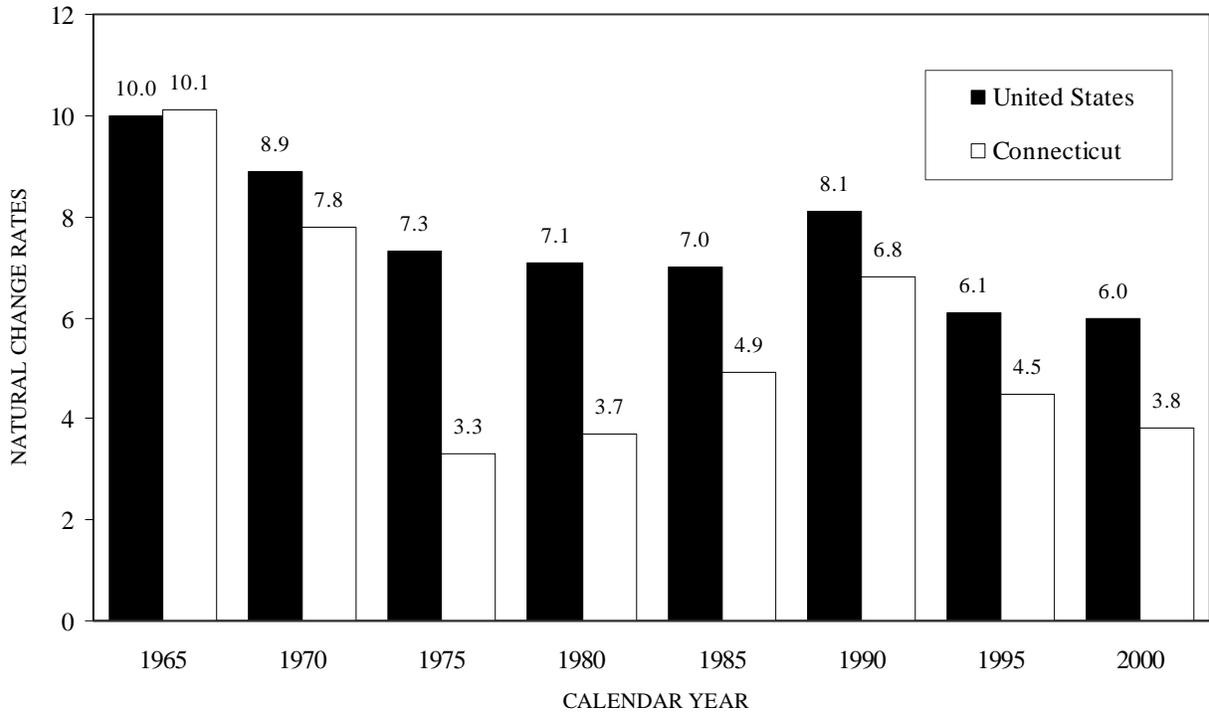
The natural change rate is defined as the difference between birth and death rates.

The birth rate in Connecticut has consistently remained below the national average, declining during the 1960s and 1970s and then slowly reversing itself, increasing gradually since the early 1980s and finally peaking in 1990. However, since reaching its peak of 15.2 births per 1,000, Connecticut's trend has followed that of the nation, declining gradually through the 1990s. In 2000, the Connecticut birth rate was approximately 13.0 per 1,000, compared to the national average of 14.7. This is a slight decrease from the 13.2 in 1999. The mortality rate for Connecticut for the last few years, however, has been gradually increasing, while the national death rate has been fairly stable. This has occurred despite the improvements in medicine and health care and is attributable to the aging of the population.

The following Chart and Table provide a graphic presentation of the natural change rates for the United States and Connecticut.

**Economic Report of the Governor**

**NATURAL CHANGE RATES  
PER THOUSAND**



Source: Connecticut Department of Health, & National Center for Health Statistics

**TABLE 4  
NATURAL CHANGE RATES PER THOUSAND POPULATION**

	<u>1965</u>	<u>1970</u>	<u>1975</u>	<u>1980</u>	<u>1985</u>	<u>1990</u>	<u>1995</u>	<u>2000</u>
<b><u>Birth Rates:</u></b>								
United States	19.4	18.4	16.1	15.9	15.8	16.7	14.8	14.7
Connecticut	19.2	16.7	11.6	12.5	13.7	15.2	13.4	13.0
<b><u>Death Rates:</u></b>								
United States	9.4	9.5	8.8	8.8	8.8	8.6	8.7	8.7
Connecticut	9.1	8.9	8.3	8.8	8.8	8.4	8.9	9.2
<b><u>Natural Change Rates:</u></b>								
United States	10.0	8.9	7.3	7.1	7.0	8.1	6.1	6.0
Connecticut	10.1	7.8	3.3	3.7	4.9	6.8	4.5	3.8

Source: Connecticut Department of Health, & National Center for Health Statistics

**Households**

Demand for housing, household goods and services depends upon the level of household income and the total number of households. The number of households is a function of

## Economic Report of the Governor

household size and population. For example, for a given population, as the size of the household declines, the number of households increases, which causes higher demand for housing and automobiles as well as household goods and services. The opposite is true when the size of household increases, the number of households decline. The following Table shows the household structures for the United States and Connecticut during the past decade.

**TABLE 5**  
**HOUSEHOLD STRUCTURE**  
**(In Thousands)**

	United States			Connecticut		
	1990 Number of Households	1995 Number of Households	2000 Number of Households	1990 Number of Households	1995 Number of Households	2000 Number of Households
Family	66,090	69,305	71,787	864	857	881
• Married	52,317	53,858	54,493	685	675	676
• Male	2,884	3,227	4,394	39	39	48
• Female	10,890	12,220	12,900	140	143	157
Non-Family	27,257	29,685	33,693	366	365	421
Total	93,347	98,990	105,480	1,230	1,222	1,302
	Percent of Households					
Family	70.8	70.0	68.1	70.2	70.1	67.7
• Married	56.0	54.4	51.7	55.7	55.2	51.9
• Male	3.1	3.3	4.2	3.2	3.2	3.7
• Female	11.7	12.3	12.2	11.4	11.7	12.1
Non-Family	29.2	30.0	31.9	29.8	29.9	32.3
Total	100.0	100.0	100.0	100.0	100.0	100.0
	% Change 1990-1995	% Change 1995-2000	% Change 1990-2000	% Change 1990-1995	% Change 1995-2000	% Change 1990-2000
Family	4.9	3.6	8.6	(0.8)	2.8	2.0
• Married	2.9	1.2	4.2	(1.5)	0.0	(1.3)
• Male	11.9	36.2	52.4	0.0	23.1	23.1
• Female	12.2	5.6	18.5	2.1	9.8	12.1
Non-Family	8.9	13.5	23.6	(0.8)	15.3	15.0
Total	5.7	6.6	13.0	(0.7)	6.5	5.9

Source: U.S. Bureau of the Census (Some numbers may not add due to rounding.)

The number of households in Connecticut, according to the 2000 U.S. Census, was 1,301,670, up 5.8% from 1,230,475 in the 1990 Census, and up 6.5% from the 1995 Census estimate of

## Economic Report of the Governor

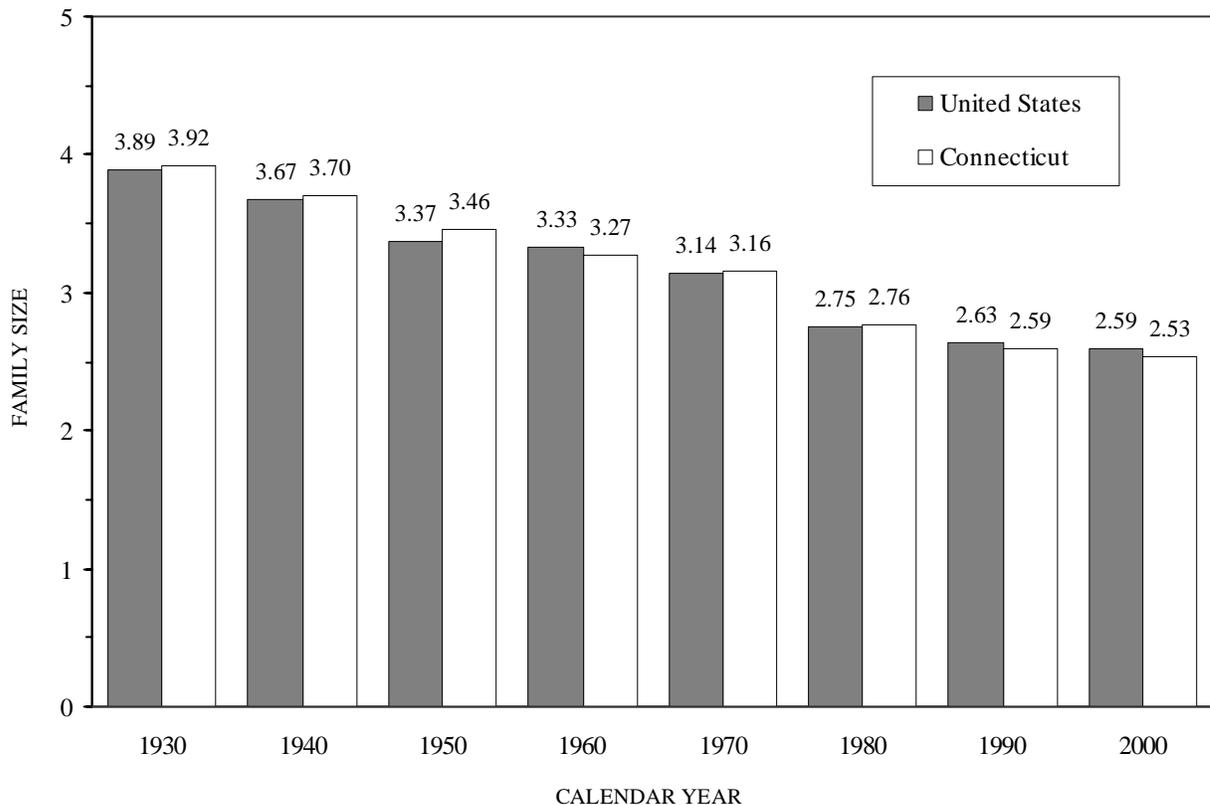
1,222,000. This is not unusual in that it reflects the decline in Connecticut's population during the early 1990s and the slow growth in population during the second half of the decade.

Family households include a householder and one or more other persons living in the same household who are related by birth, marriage or adoption. Non-family households include a householder living alone or with non-relatives. Both nationally and in Connecticut, some 70 percent of households are family households. However, five-year growth patterns in various structural components for the U.S. differ when compared to Connecticut. Family and non-family households, outside of female supported households, all declined or remained flat in the state, between 1990 and 1995, while expanding in the U.S. The out-migration of state residents during the early 1990s contributed significantly to the dip in overall household growth. As the economy improved, growth trends improved, especially at the state level.

Between 1990 and 1995, the relatively stable population, the decreasing number of households, and the changing mix in the types of households in Connecticut resulted in an increase in average population per household in the state. The following Chart, however, shows that household size has generally been edging downward in the state and for the nation. Note, that the trend for the last seven decades for the state follows that of the U.S. in both direction and magnitude. This relationship is important in forecasting Connecticut's household size.

### PERSONS PER HOUSEHOLD

1930 - 2000



Source: U.S. Bureau of the Census

## Economic Report of the Governor

The declines in household size can be considered indicators of social change. Society is adjusting its mores to fit the demands of new generations including: delaying marriage, both delaying and having fewer children and the establishment of one or two person households by career minded men and women. Other social changes that result in smaller households are the increase in the elderly population and the increasing numbers of one parent families that are the consequence of the general rise in the number of divorces.

### Age Cohorts

The distribution of the Connecticut population among age cohorts is somewhat different from that of the U.S. average. As shown in the following Table, the state has a lower concentration of persons aged 18 to 24 years and a higher concentration of persons aged 45 and over than either New England or the Nation as a whole. Growth in this older age cohort in Connecticut will accelerate as baby boomers age. The aging population will put pressure on state spending requirements, which could be exacerbated by state revenues which may not continue to grow at a rate equal to that of the last few years. The National Center for Health Statistics estimated average life expectancy at birth to be 76.7 years in 1999, up from 73.7 years in 1980, 75.4 years in 1990, and 75.8 years in 1995. As life spans continue to increase nationally, this trend is expected to impact retirement, social security, pension systems, health care, etc.

**TABLE 6**  
**POPULATION DISTRIBUTION BY AGE IN 2000**  
**(In Thousands)**

	<u>17 &amp; Less</u>	<u>18 to 24</u>	<u>25 to 44</u>	<u>45 to 64</u>	<u>65 &amp; Above</u>	<u>Total</u>
United States	72,294	27,143	85,040	61,953	34,992	281,422
% of Total	25.7	9.7	30.2	22.0	12.4	100.0
New England	3,348	1,221	4,261	3,200	1,892	13,923
% of Total	24.0	8.8	30.6	23.0	13.6	100.0
Connecticut	842	272	1,033	789	470	3,406
% of Total	24.7	8.0	30.3	23.2	13.8	100.0

Source: U.S. Bureau of the Census (Numbers may not add due to rounding.)

### Significant Trends

The following three Tables call attention to some implications of certain trends which might be considered as resource allocation decisions are made for the future.

First, as shown in the following Table, Connecticut is a very densely populated state in a very densely populated region of the country. This has implications for housing, transportation, law enforcement and natural resources, as well as other areas.

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**TABLE 7  
POPULATION DENSITY BY YEAR  
(Persons per Square Mile)**

	Census <u>1980</u>	Census <u>1990</u>	Census <u>2000</u>
United States	64.0	70.3	79.5
Northeast	301.9	313.1	330.1
Connecticut	637.9	678.4	702.9

Source: U.S. Bureau of the Census

In addition, as shown in the following Table, cultural implications might be suggested by the racial distribution of the population in the state. The white population is decreasing as a percentage of the total, as both the African-American and Hispanic groups increase as a percentage of the total population, with the Hispanic growth rate outpacing the African-American growth rate. Although Asians make up a very small percentage of the total population, Asians comprise the fastest growing group, while the American Indian population remains fairly stable. These same trends are occurring in the nation and the region.

**TABLE 8  
POPULATION DISTRIBUTION BY RACE AND YEAR  
(Percent of Total Population Based On Each Census)**

	United States			Northeast Region			Connecticut		
	<u>1980</u>	<u>1990</u>	<u>2000</u>	<u>1980</u>	<u>1990</u>	<u>2000</u>	<u>1980</u>	<u>1990</u>	<u>2000</u>
White	86.0	83.9	77.0	88.5	85.6	79.3	92.0	89.6	83.5
African-American	11.8	12.3	12.6	10.1	11.4	11.6	7.1	8.6	9.3
Asian	1.6	3.0	3.7	1.2	2.7	4.0	0.7	1.6	2.5
American Indian	0.6	0.8	0.9	0.2	0.3	0.3	0.2	0.2	0.3
Other	-	-	5.8	-	-	4.8	-	-	4.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Hispanic Origin	6.4	9.0	12.5	5.4	7.6	9.8	4.1	6.5	9.4

Note: The method of counting by race changed in 2000. Definitions of various race categories were changed and, for the first time, a respondent could check off more than one race.

Source: U.S. Bureau of the Census

Finally, a change is occurring in the age distribution of the population. As shown in the following Table, not only are the elderly increasing in number, but the non-elderly, on a relative scale, are decreasing, with the young and very young remaining a relatively stable

## Economic Report of the Governor

portion of the total. This means that increasing pressure will be brought upon those between the ages of 18 and 65 years of age to provide social and support services for the young and the elderly, particularly for the elderly. This will become increasingly significant as the “baby-boomers” begin to reach the age of sixty-five in the year 2011.

**TABLE 9**  
**DEPENDENCY RATIOS\***  
**(Number of Dependent Population per 100 Provider Population)**

	<u>1980</u>	<u>1990</u>	<u>2000</u>
<b><u>Dependency Ratio</u></b>			
United States	65.1	61.5	61.6
Northeast	63.9	59.0	61.5
Connecticut	61.9	57.0	62.7
<b><u>Youth Dependency Ratio</u></b>			
United States	46.5	41.3	41.5
Northeast	43.6	37.3	39.3
Connecticut	42.9	35.8	40.2
<b><u>Aged Dependency Ratio</u></b>			
United States	18.6	20.2	20.1
Northeast	20.3	21.7	22.2
Connecticut	19.0	21.2	22.5
<b><u>Aged Female Dependency Ratio</u></b>			
United States	11.1	12.1	11.8
Northeast	12.3	13.3	13.3
Connecticut	11.5	12.8	13.4

\* The Dependency Ratio is the number of the target dependent population (i.e., the aged or youth or the two groups combined) divided by the segment of the population which has traditionally provided for the dependent population, through taxes for health and social programs, volunteer activities, etc. The provider group is generally considered to be those older than 18 and less than 65 years of age.

Source: U.S. Bureau of the Census, Population Distribution Branch

### **Housing**

During fiscal 2002, the national housing market moved in the opposite direction of the U.S. economy. In fact, housing did not just hold its own during the mild recession, it exploded. A rare confluence of factors including low interest rates, easy lending standards and a tight housing supply combined to stimulate a surge in housing activity. Overall, housing starts in the U.S. increased 4.8% with more than 1.6 million starts being recorded nationally during fiscal 2002.

The remarkably strong housing sector has been one of the important pillars of the economy during this economic cycle. However, indicators that traditionally foretell weakness in the housing market are beginning to emerge. Lenders have started to tighten credit for some borrowers, mortgage delinquencies are at their highest level in a decade and speculative money

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that once went into the stock market increasingly has been flowing into housing and artificially pushing up prices. Such speculation tends to denote a market peak. This would suggest, at the very least, the explosive growth in the U.S. housing market is likely behind us. On the other hand, if inflation remains subdued, interest rates should remain low, and that bodes well for housing in general.

In the Northeast, the early 1990s saw the residential housing market slide into recession. The state's housing market remained in a slump through fiscal 1993. Beginning in 1994, spurred on by declining mortgage rates and rising consumer confidence, housing starts began to post a recovery. The upturn gained strength, as the late 1990s witnessed dazzling growth, culminating in a decade high for the northeast region in fiscal 1999. Since then, the pace of housing starts has been slowly diminishing to approximately 44,000 units annually.

The following Table provides a ten year historical profile of housing starts in the U.S., the New England Region, and Connecticut along with the average fixed rate for 30 year mortgages.

**TABLE 10  
HOUSING STARTS AND MORTGAGE RATES**

Fiscal Year	United States (000's)	New England (000's)	Connecticut (000's)	Mortgage Rate %
1992-93	1,212.5	38.9	8.4	7.38
1993-94	1,397.5	41.1	9.0	6.87
1994-95	1,382.5	42.2	10.1	7.74
1995-96	1,450.0	38.6	8.6	7.46
1996-97	1,457.5	41.4	9.4	7.68
1997-98	1,530.0	44.9	10.9	7.24
1998-99	1,657.5	47.4	11.5	6.89
1999-00	1,637.5	46.3	10.2	7.59
2000-01	1,567.5	44.4	10.0	7.15
2001-02	1,642.5	44.3	9.7	6.61

**PERCENT CHANGE IN HOUSING STARTS AND MORTGAGE RATES**

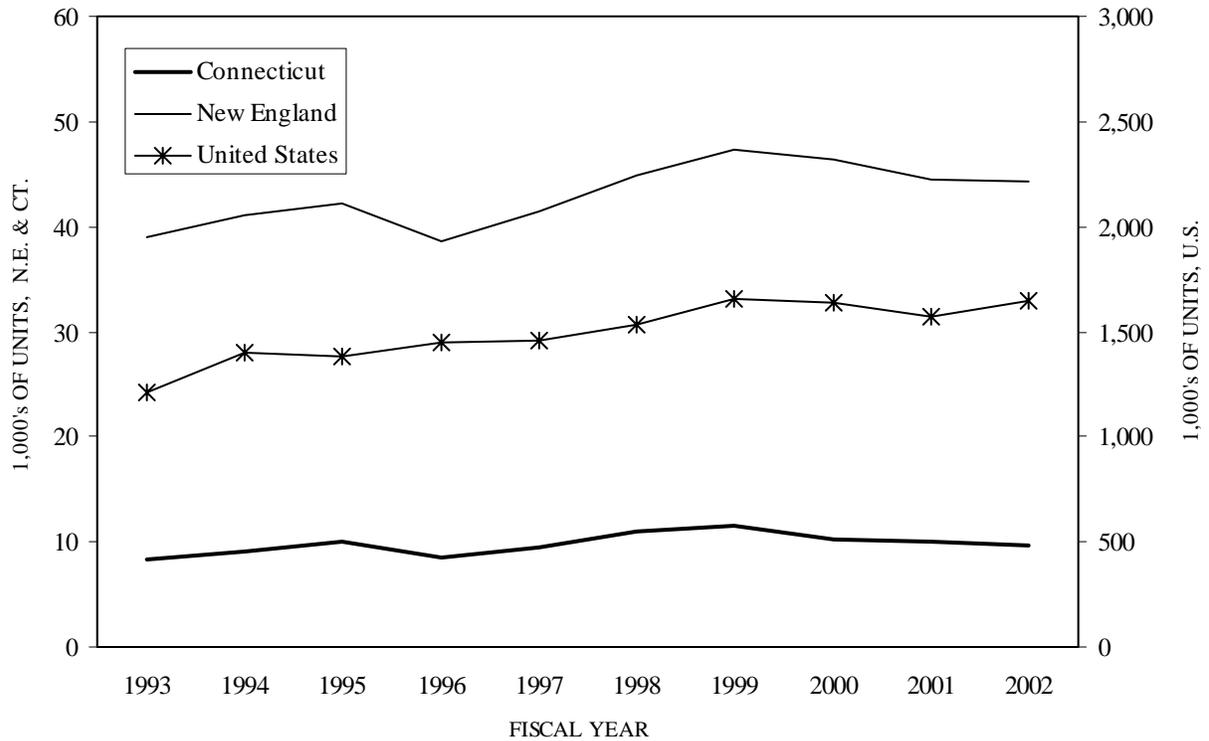
Fiscal Year	United States % Change	New England % Change	Connecticut % Change	Mortgage Rate % Change
1992-93	7.3	2.3	(6.6)	(12.8)
1993-94	15.3	5.8	6.3	(7.0)
1994-95	(1.1)	2.7	12.2	12.6
1995-96	4.9	(8.4)	(14.3)	(3.6)
1996-97	0.5	7.2	8.7	2.9
1997-98	5.0	8.5	16.5	(5.7)
1998-99	8.3	5.6	4.9	(5.0)
1999-00	(1.2)	(2.3)	(10.8)	10.1
2000-01	(4.3)	(4.2)	(1.9)	(5.7)
2001-02	4.8	(0.2)	(3.5)	(7.5)

Source: U.S. Department of Commerce, Bureau of the Census

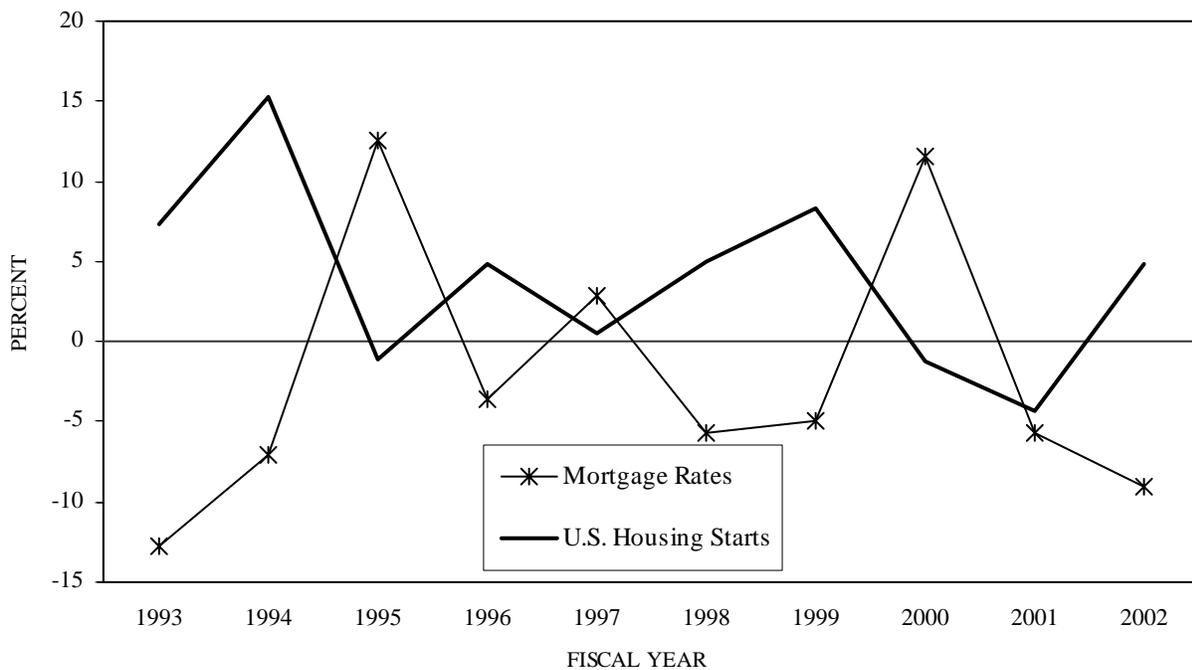
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The following Charts provide a graphic presentation of the growth in housing starts for the three entities over a ten year fiscal period

### HOUSING STARTS BY FISCAL YEAR



### COMPARISON OF THE PERCENT CHANGE U.S. HOUSING STARTS VS. MORTGAGE RATES



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Source: U.S. Department of Commerce, Bureau of the Census

In Connecticut, despite expectations of continued low mortgage rates, permits for new dwelling units declined in fiscal 2002. Although sales continued to drop back from the decade high set in fiscal 1999, their level through year-end remained in the vicinity of the last two fiscal years. For fiscal 2002 in total, the number of starts slowed to an annual rate of 9,660 units, slightly below the ten-year average of 9,770 units. While housing activity in Connecticut is expected to weaken in the near term, any decline should be limited. Low mortgage rates and the lack of any significant overbuilding anywhere in Connecticut place a solid floor under the market. Therefore, the severe real estate downturn of the early 1990s is unlikely to repeat itself this time.

A major indicator of housing activity is the number of building permits authorizing construction issued by local authorities. The Connecticut Department of Economic & Community Development (DECD), the lead agency for all matters relating to housing, tabulates this information and presents it in its annual report "Connecticut Housing Production & Permit Authorized Construction". It should be noted that construction is ultimately undertaken for all but a very small percentage of housing units authorized by permits. A major portion typically gets under way during the month of permit issuance and most of the remainder begins within the three following months. Because of this lag, housing permits reported do not represent the number of units actually put into construction for the period shown and should therefore not be interpreted as housing starts.

The following are the Connecticut counties in which privately owned housing permits were issued in calendar 2001, indicating the geographic distribution of housing construction activity.

<u>County</u>	<u>Total Units Authorized</u>	<u>Percent of Total</u>	<u>Growth Rate</u>
Fairfield	2,220	23.9	(2.5)
Hartford	2,026	21.8	18.8
Litchfield	764	8.2	5.4
Middlesex	799	8.6	(7.8)
New Haven	1,586	17.1	(17.3)
New London	782	8.4	(3.9)
Tolland	679	7.3	(2.0)
Windham	434	4.7	15.4
State Total	9,290	100.0	(0.9)

According to the report, calendar 2001 registered a slight year-over-year decline in housing permit activity. Permit activity totaling 9,290 units was authorized and added to the state's housing unit inventory, a modest decline of 0.9% when compared with the 9,376 units approved in 2000. In regard to local municipalities, the top five accounted for roughly 15% of the total permits authorized. The town of Stamford led all Connecticut communities with 394 permits issued followed by Norwalk, Danbury, Berlin and Southington.

In addition, residential demolition permits issued during calendar 2001 totaled 1,733. The town of Hartford issued the most demolition permits with 245, followed by West Haven, New

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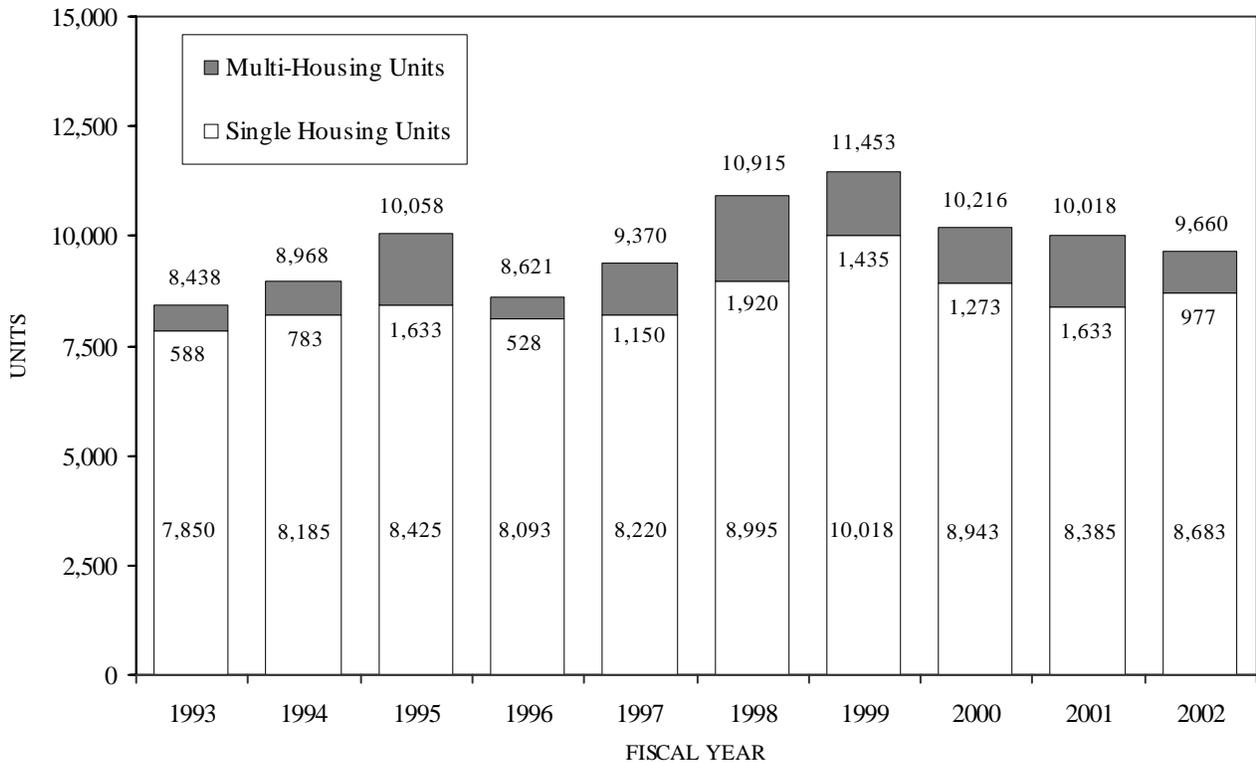
Haven, and Greenwich. These five cities accounted for 46% of all demolition permits. As a result, the net gain to Connecticut's housing inventory totaled 7,557 units in calendar 2001. This was a fairly small decrease of about 0.4% from 2000's net gain of 7,586 units. At the end of 2001, an estimated 1,385,975 housing units existed in Connecticut. This is based on a net gain of 7,557 housing units authorized from January of 2001 through December of 2001 added to the base of 1,385,975 housing units reported in the 2000 census. The following Table shows changes in Connecticut's housing unit inventory on a calendar basis from 2000 to 2001.

**TABLE 11  
CONNECTICUT HOUSING INVENTORY**

<u>Structure Type</u>	<u>Inventory 2000</u>	<u>% of Total</u>	<u>Inventory 2001</u>	<u>% of Total</u>	<u>Net Gain</u>	<u>Growth Rate</u>
One-Unit	887,891	64.1	895,726	64.3	7,835	0.9
Two-Unit	119,585	8.6	119,771	8.6	186	0.2
Three & Four-Unit	127,032	9.2	127,155	9.1	123	0.1
Five Or More Unit	239,273	17.3	240,419	17.3	1,146	0.5
Other	12,194	0.8	12,194	0.8	0	0.0
Demolitions	<u>0</u>	<u>0.0</u>	<u>(1,733)</u>	<u>(0.1)</u>	<u>(1,733)</u>	<u>NA</u>
Total Inventory	1,385,975	100.0	1,393,532	100.0	7,557	0.5

Source: Connecticut State Department of Economic and Community Development

## CONNECTICUT HOUSING STARTS



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Source: U.S. Department of Commerce, Bureau of the Census

The mix of housing construction in Connecticut (i.e., single unit versus multi-unit) has varied greatly during the last ten fiscal years. As shown in the Chart on the prior page, multi-unit construction ranged between a low of 528 units in fiscal 1996 (6.1% of total starts) and a high of 1,920 units in fiscal 1998 (17.6% of total starts).

In addition to the interest rate, there are other factors that influence both the demand for and mix of housing including average size of household, age of buyer or renter, available cash for downpayments and changes in the mortgage market.

### Average Size of Household

Average persons per household (PPH) have been declining nationally for several decades. In Connecticut, PPH fell from 3.70 in 1940 to 2.59 by 1990, a decline of 30%. The recent national census by the Bureau of the Census indicates PPH for 2000 approximates 2.59 nationally. Changes in household size can heavily influence housing construction activity. For example, between 1990 and 2000, PPH in Connecticut has fallen from 2.59 to 2.53, a decline of 2.3%. During the same period, population in Connecticut has risen from 3,287,100 to approximately 3,405,600, an increase of 118,500 or 3.6%. Dwelling unit stock, however, has risen from 1,319,741 units (as counted in the 1990 Census) to 1,385,975 units (as counted in the 2000 Census), an increase of 66,234 units or 5.0%.

### Age of Buyer or Renter

If the size of the 25-34 year old age group is large, the demand for new housing should be strong, as this is the largest first time homebuyer group. Should the age of the population 65 and older be large, there may be a shift from single units to rental apartments as this group, which no longer needs space for children and which may be unable or unwilling to maintain a single family residence, changes housing.

Listed below are actual statistics from the Bureau of the Census for 1980 - 2000. The 2005 and 2010 statistics are projections of population for Connecticut forecast by an econometric firm. The totals below illustrate the potential impact of the 25 to 34 year old homebuyer group and the 65 and older population. Population totals are in thousands.

<u>Years of Age</u>	<u>1980</u>	<u>1985</u>	<u>1990</u>	<u>1995</u>	<u>2000</u>	<u>2005</u>	<u>2010</u>
25-34	491	534	584	504	452	455	458
% Change		8.8%	9.4%	-13.7%	-10.3%	0.7%	0.7%
65 and over	365	408	446	469	470	500	537
% Change		11.8%	9.3%	5.2%	0.2%	6.4%	7.4%

Source: U.S. Bureau of the Census, Global Insight, "CT Economic Outlook", October 2002

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In Connecticut during the 1980s, the 25-34 year old homebuyer group increased in size by 93,000 individuals or 18.9%. However, the same age group, one decade later, declined by 132,000 individuals or 22.6%. Current projections anticipate tepid growth during the next decade. This is crucial for the housing market for two reasons. First, young adults are the prime source of household formation. Consequently, a declining population of young adults, similar to what occurred in Connecticut during the 1990s, will slow the formation of new households, thus reducing the demand for starter homes. Moreover, weak demand for starter homes makes it harder for maturing families who already own starter homes to move up, thus reducing demand and appreciation throughout the housing market.

The age group of citizens 65 and older grew during the 1990s, albeit at a very modest rate of less than 1%. However, the age group is projected to grow rapidly into the next decade. This creates a mixed blessing. Demand for rental units, particularly those targeted toward the elderly, will accelerate and boost the state's housing market, but at a cost. As the elderly population expands, additional benefits and services to care for this group will be required. How society will pay for these ever-expanding needs has yet to be determined.

### **Changes in the Mortgage Market**

Changes in the mortgage market significantly affects the demand for housing. These changes include not only variation in the price of borrowed money, i.e. the interest rate, but also other developments that affect the availability of credit. In the past twenty years, the market has seen the development of adjustable rate mortgages (ARMs) and the deregulation of the financial markets. These past two decades have also witnessed the impact that a severe economic contraction can have on housing and the resultant tightening of credit standards and credit availability. Furthermore, the ever-present Internet with its ability to provide consumers with a competitive edge in comparing among lenders has begun to make its presence felt in the mortgage market. The combination of these and other factors ultimately affect the availability and the price of credit.

In fiscal 2002, as was the case in fiscal 2001, thirty-year fixed rate loans and one-year adjustable rate loans began the fiscal year perched around their highs. The average for the thirty-year fixed and one-year adjustable rate was 7.0% and 5.7% respectively. By December, mortgage rates showed only a slight drop as the risks on the economic outlook remained tilted in the direction of sustainable growth. By January, mortgage rates began to decline as signs of slower economic growth appeared on the horizon. By March, thirty-year fixed-rate mortgages were 6.7%, their lowest levels since April of 1999. The catalyst this time around for lower rates was twofold, the slumping economy and the Federal Reserve's decision to move aggressively during the first half of fiscal 2002 by lowering the federal funds rate to 1.75% in the hope of boosting the economy. This indirectly caused mortgage rates to decline. By fiscal year end, rates on thirty-year fixed mortgages were as low as 6.4%, nearly setting 30 year lows, and the one-year adjustable-rate mortgages averaged 4.6%.

The climate of falling rates caused a shift in the balance between fixed-rate mortgages and ARMs. The share of thirty-year fixed rate loans to all loans slightly increased because most of the interest rate risk in the near term was expected to be in the short-term markets, where ARM

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rates are determined. Fifteen-year mortgages, a popular option for those refinancing mortgages ended fiscal 2002 at an average of 6.0%. A year ago, the rate averaged 6.6%.

### **State of Connecticut - Housing Programs**

The State of Connecticut continues to assist in helping low and moderate income families and individuals in the state fulfill their need for high quality, safe and affordable housing. The State's commitment is reflected in the programs of the Department of Economic & Community Development and the Connecticut Housing Finance Authority, which are committed to supporting and revitalizing the state's urban areas.

The Department of Economic and Community Development offers residents the most comprehensive package of housing assistance. These programs range from providing capital grants for new construction or rehabilitation of rental and low income housing to assisting low and moderate income buyers with downpayment loans of up to 25% of the purchase price. The state agency also administers federally funded programs that provide rent subsidies and emergency assistance repairs related to natural disasters for low and moderate income families and senior citizens.

The Connecticut Housing Finance Authority (a quasi-public agency) provides mortgage money to homebuyers and funding for the financing and purchasing of existing housing, rehabilitation of substandard housing and the construction of new housing for owner occupancy and rental. In 2001, CHFA expanded homeownership opportunities by providing \$412 million in mortgage financing to help 4,174 homebuyers statewide. Through the state's Down Payment Assistance Program, down payments and, in some cases, closing costs totaling \$7.2 million were provided for 1,390 low-to-moderate income homebuyers. CHFA mortgage loans and tax credits are often combined with municipal grants and state and private loans, to make rental housing projects feasible. In 2001, the Authority committed \$59.9 million in mortgage financing to support the development and rehabilitation of 1,408 rental-housing units. Furthermore, the Authority allocated \$10.2 million in low-income housing tax credits to support initiatives for 1,307 affordable rental-housing units. Finally, the Authority also allocated \$180,000 of Employer Assisted Housing Tax Credits in 2001 to four Connecticut companies to provide affordable housing assistance to help their low and moderate income employees with down payments and rental security deposits.

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### EMPLOYMENT PROFILE

#### Employment Estimates

The employment estimates for most of the tables included in this section are obtained through the U.S. Bureau of Labor Statistics and the Connecticut State Labor Department. They are developed as part of the federal-state cooperative Current Employment Statistics (CES) Program. The estimates for the state and the labor market areas are based on the responses to surveys of 5,000 Connecticut employers registered with the Unemployment Insurance Program. Companies are chosen to participate based on specifications from the U.S. Bureau of Labor Statistics. As a general rule, all large establishments are included in the survey as well as a sample of smaller employers. It should be noted, however, that this method of estimating employment may result in under counting jobs created by agricultural and private household employees, the self-employed and unpaid family workers who are not included in the sample. The survey only counts total business payroll employment in the economy.

In an effort to provide a broader employment picture, the following Table, based on residential employment, was developed. Total residential employment is estimated based on household surveys which include individuals excluded from establishment employment figures such as self employed and workers in the agricultural sector. By that measure, from fiscal 1996 to fiscal 2001, residential employment in Connecticut expanded by 77,500 jobs. However, as a result of the deceleration in economic growth, residential employment declined by 43,600 jobs in fiscal 2002. Likewise, establishment employment fell for the first time since fiscal 1993. In fiscal 2002, establishment employment in Connecticut declined by 16,500 jobs.

The following Table provides a ten fiscal year historical profile of establishment and residential employment in Connecticut.

**TABLE 12**  
**CONNECTICUT SURVEY EMPLOYMENT COMPARISONS**  
**(In Thousands)**

<u>Fiscal</u> <u>Year</u>	<u>Residential</u> <u>Employment</u>	<u>% Growth</u>	<u>Establishment</u> <u>Employment</u>	<u>% Growth</u>
1992-93	1,675.4	(1.14)	1,527.7	(0.47)
1993-94	1,653.7	(1.30)	1,533.1	0.35
1994-95	1,623.4	(1.83)	1,556.6	1.53
1995-96	1,614.8	(0.53)	1,568.5	0.76
1996-97	1,629.9	0.93	1,599.4	1.97
1997-98	1,644.9	0.92	1,627.6	1.76
1998-99	1,647.2	0.14	1,657.0	1.81
1999-00	1,684.2	2.24	1,682.5	1.53
2000-01	1,692.3	0.48	1,692.5	0.60
2001-02	1,648.7	(2.58)	1,676.0	(0.98)

Source: U.S. Bureau of Labor Statistics, Connecticut State Labor Department

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### Nonagricultural Employment

Nonagricultural employment includes all persons employed except federal military personnel, the self-employed, proprietors, unpaid family workers, farm and household domestic workers. Nonagricultural employment is comprised of the broad manufacturing sector and the nonmanufacturing sector. These two components of nonagricultural employment are discussed in detail in the following sections. The following Table shows a ten year historical profile of nonagricultural employment in the United States, the New England Region, and Connecticut.

**TABLE 13**  
**NONAGRICULTURAL EMPLOYMENT**  
**(In Thousands)**

Fiscal Year	United States		New England		Connecticut	
	Number	% Growth	Number	% Growth	Number	% Growth
1992-93	109,460	1.15	6,028.2	0.61	1,527.7	(0.47)
1993-94	112,260	2.56	6,133.2	1.74	1,533.1	0.35
1994-95	115,913	3.25	6,275.5	2.32	1,556.6	1.53
1995-96	118,263	2.03	6,371.5	1.53	1,568.5	0.76
1996-97	121,090	2.39	6,504.8	2.09	1,599.4	1.97
1997-98	124,310	2.66	6,650.0	2.23	1,627.6	1.76
1998-99	127,363	2.46	6,785.4	2.04	1,657.0	1.81
1999-00	130,535	2.49	6,937.5	2.24	1,682.5	1.53
2000-01	132,170	1.25	7,057.0	1.72	1,692.5	0.60
2001-02	131,135	(0.78)	6,997.8	(0.84)	1,676.0	(0.98)

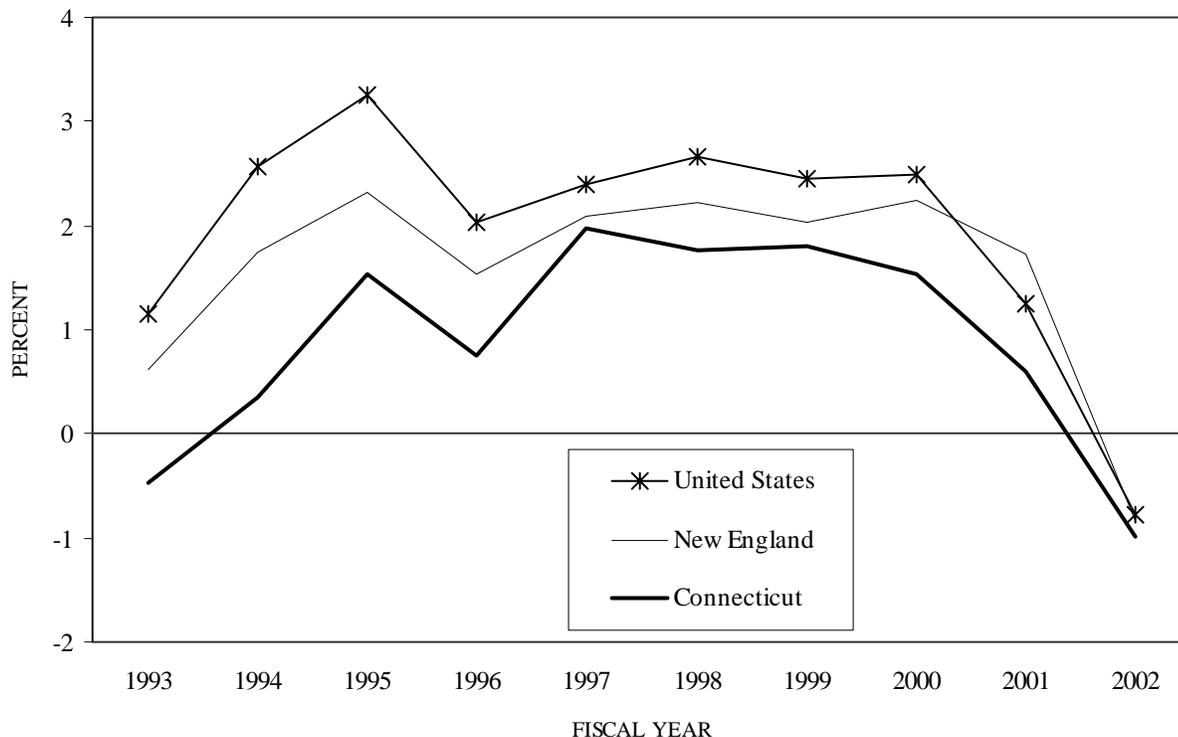
Source: U.S. Bureau of Labor Statistics, Connecticut State Labor Department

In Connecticut, approximately 60% of total personal income is derived from wages earned by workers classified in the nonagricultural employment sector. Thus, increases in employment in this sector lead to increases in personal income growth and consumer demand. In addition, nonagricultural employment can be used to compare similarities and differences between economies, whether state or regional, and to observe structural changes within. These factors make nonagricultural employment figures a valuable indicator of economic activity.

After establishing Connecticut's decade-long high in nonagricultural employment in 1989, nonagricultural employment levels began declining with the onset of the previous recession. This persisted through fiscal 1993. The state's economy lost 143,700 nonagricultural jobs during this period, a reduction of 8.6%. In fiscal 1994, the state's economy started to gain momentum and it steadily improved in each successive year through fiscal 2001, adding 164,800 new jobs and establishing a new high for nonagricultural employment in Connecticut. Unfortunately, the economic expansion that officially earned the distinction as the longest in U.S. history came to an abrupt end. Similarly, after adding jobs subsequent to regaining all of the nonagricultural jobs that were lost during the last recession, nonagricultural employment in Connecticut declined by 16,500 jobs in fiscal 2002 as the overall weakness of the economy forced businesses to cut their workforce as part of a restructuring intended to reduce costs, boost profits, and to stay competitive.

The following Chart provides a graphic presentation of the growth rates in nonagricultural employment for the three entities for a ten fiscal year period.

**NONAGRICULTURAL EMPLOYMENT  
FISCAL YEAR GROWTH BY PERCENT**



Source: U.S. Bureau of Labor Statistics, Connecticut State Labor Department

Throughout the last two decades, while manufacturing employment in Connecticut has been steadily declining, employment growth in nonmanufacturing industries has surged. Relatively rapid growth in the nonmanufacturing sector is a trend that is in evidence nationwide and reflects the increased importance of the service industry. This shift in employment provides for relatively more stable economic growth in the long run through the moderation of the peaks and troughs of economic cycles. In calendar 2001, approximately 85% of the state's workforce was employed in nonmanufacturing jobs, up from roughly 50% in the early 1950s.

Despite the fact that manufacturing is an economic base industry in Connecticut, the state still possesses a diversified economy. It is one of the few states whose service sector exports a product--insurance. For example, total premium and annuity income from policyholders of all lines of insurance to Connecticut based companies was \$99.9 billion in calendar 2001. Of the \$99.9 billion, \$12.5 billion or approximately 12.5% is derived from Connecticut residents. The other 87.5% is derived from sales outside of the state. This provides an additional source of incoming funds to bolster the economy of the state.

The following Table depicts the decrease in the ratio of manufacturing employment to total employment in Connecticut over the last 50 years.

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**TABLE 14  
CONNECTICUT RATIO OF MANUFACTURING EMPLOYMENT  
TO TOTAL EMPLOYMENT  
(In Thousands)**

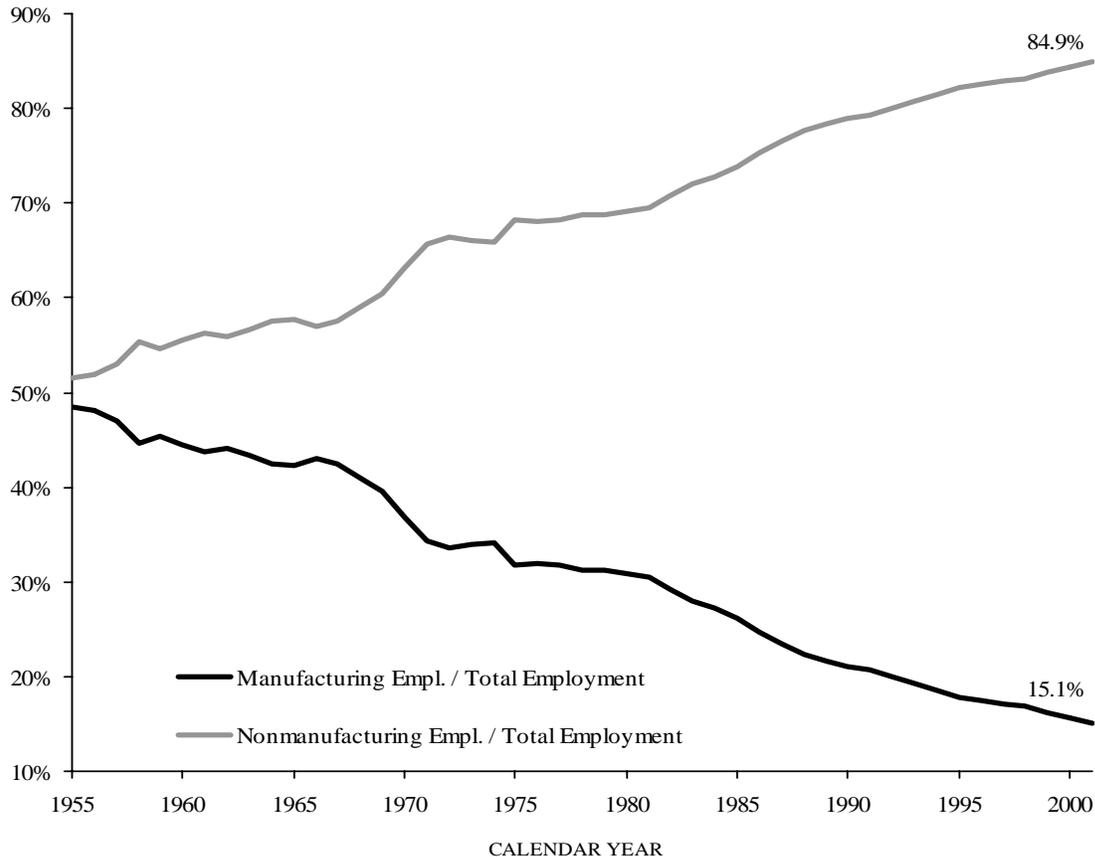
<u>Calendar Year</u>	<u>Total Employment</u>	<u>Manufacturing Employment</u>	<u>NonMfg. Employment</u>	<u>Ratio of Mfg. Employment to Total Employment</u>
1950	766.1	379.9	386.2	49.6
1955	874.7	423.2	451.6	48.4
1960	915.2	407.1	508.1	44.5
1965	1,033.0	436.2	596.8	42.2
1966	1,095.7	471.5	624.2	43.0
1967	1,130.3	479.6	650.7	42.4
1968	1,158.1	474.4	683.7	41.0
1969	1,194.5	471.7	722.8	39.5
1970	1,198.1	441.8	756.3	36.9
1971	1,164.9	398.9	766.0	34.2
1972	1,191.1	400.1	791.0	33.6
1973	1,239.5	420.2	819.3	33.9
1974	1,265.0	430.8	834.2	34.1
1975	1,224.6	389.8	834.8	31.8
1976	1,240.8	397.0	843.7	32.0
1977	1,283.2	406.8	876.4	31.7
1978	1,347.2	419.6	927.6	31.1
1979	1,399.4	436.6	962.8	31.2
1980	1,428.4	440.8	987.6	30.9
1981	1,440.1	439.0	1,001.1	30.5
1982	1,429.7	418.8	1,010.9	29.3
1983	1,446.2	403.3	1,042.9	27.9
1984	1,520.3	415.3	1,105.0	27.3
1985	1,558.2	408.0	1,150.2	26.2
1986	1,598.3	394.0	1,204.3	24.7
1987	1,638.0	384.1	1,259.4	23.5
1988	1,667.3	372.2	1,295.1	22.3
1989	1,665.6	359.3	1,306.3	21.6
1990	1,623.5	341.0	1,282.5	21.0
1991	1,555.1	322.4	1,232.7	20.7
1992	1,526.1	305.7	1,220.4	20.0
1993	1,531.1	294.2	1,236.9	19.2
1994	1,543.8	285.3	1,258.5	18.5
1995	1,561.8	279.0	1,282.8	17.9
1996	1,583.7	274.8	1,308.9	17.4
1997	1,612.4	276.0	1,336.4	17.1
1998	1,643.1	276.9	1,366.2	16.9
1999	1,668.8	268.4	1,400.3	16.1
2000	1,693.5	263.3	1,430.2	15.5
2001	1,682.8	253.9	1,428.9	15.1

Note: Totals may not agree with detail due to rounding.

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The following Chart provides a graphic presentation of the decrease in the state's ratio of manufacturing employment to total employment over the last five decades.

### RATIO OF MANUFACTURING EMPLOYMENT & NONMANUFACTURING TO TOTAL EMPLOYMENT



Source: Connecticut State Labor Department

#### **Manufacturing Employment**

The ratio of manufacturing employment to total employment defines Connecticut as one of the major manufacturing and industrial states in the country. Based on the level of personal income derived from this sector, Connecticut ranks thirteenth in the nation for its dependency on manufacturing. Within this broad definition, the manufacturing sector can be further broken down into the major components of the sector. One important component of this sector in Connecticut is defense-related business. The largest employers in these industries are United Technologies Corporation, including its Pratt & Whitney Aircraft Division in East Hartford, and General Dynamics Corporation's Electric Boat Division in Groton.

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In fiscal 2001 Connecticut ranked tenth in total defense dollars awarded and third in per capita dollars awarded. The state is one of the leading producers of military and civilian helicopters. The industry is well diversified, with transportation equipment (primarily aircraft engines, helicopters and submarines) the dominant industry. The transportation equipment sector is followed, in order of the total number employed, by fabricated metals, nonelectrical machinery and electrical equipment.

The following Table provides a ten year historical picture of the state's manufacturing employment in these four concentrated sectors.

**TABLE 15**  
**CONNECTICUT MANUFACTURING EMPLOYMENT\***  
**(In Thousands)**

<u>Fiscal Year</u>	<u>Transportation Equipment</u>	<u>Fabricated Metals</u>	<u>Nonelectrical Machinery</u>	<u>Electrical Equipment</u>
1992-93	66.7	33.4	36.6	28.5
1993-94	59.4	33.6	35.6	27.7
1994-95	54.7	34.4	35.3	27.8
1995-96	51.3	33.9	35.1	27.9
1996-97	50.3	34.4	34.4	28.6
1997-98	50.2	35.1	35.0	28.9
1998-99	49.7	34.7	34.0	27.7
1999-00	46.1	33.8	32.9	26.9
2000-01	46.1	32.9	32.5	27.3
2001-02	45.9	30.5	29.9	24.9

\* Excludes workers idled by labor management disputes.

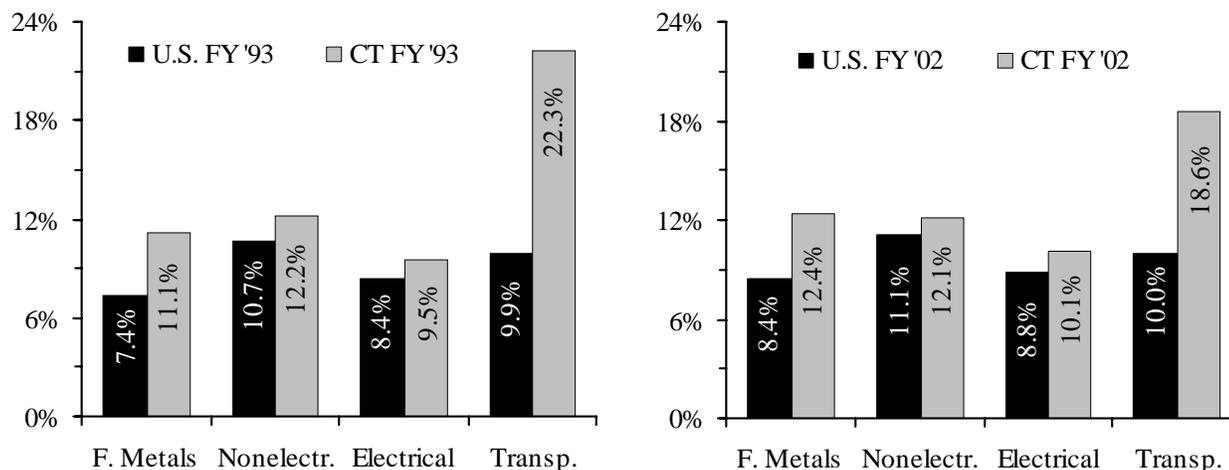
Source: U.S. Bureau of Labor Statistics, Connecticut State Labor Department

Over the last decade the state's manufacturing sector has become less dependent on defense related production, as the percentage of manufacturing employment in the transportation equipment sector (aircraft engines, helicopters & submarines) has fallen from 22.3% in fiscal 1993 to 18.6% by fiscal 2002. The transformation in the state's manufacturing base, illustrated on the following page, confirms that the state's employment levels in the manufacturing sector are much closer to reflecting nationwide trends. As a result, Connecticut has been successfully diversifying itself away from dependence on just one industry. With the state's share of prime defense contract awards below 1989 levels, the state's shift towards the national trend should result in a moderation of potential manufacturing job losses.

The following charts provide a historical comparison of the employment levels in the U.S. and in Connecticut in the state's most highly concentrated manufacturing sectors over the last ten fiscal years.

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### COMPARISON OF MANUFACTURING EMPLOYMENT IN CERTAIN SECTORS (As A Percentage Of Total Manufacturing Employment)



Source: U.S. Bureau of Labor Statistics, Connecticut State Labor Department

The following Table provides a ten year historical picture of manufacturing employment in the United States, the New England Region, and Connecticut.

**TABLE 16**  
**MANUFACTURING EMPLOYMENT**  
**(In Thousands)**

Fiscal Year	United States		New England		Connecticut	
	Number	% Growth	Number	% Growth	Number	% Growth
1992-93	18,080	(0.82)	1,081.2	(2.80)	299.6	(4.49)
1993-94	18,148	0.37	1,059.6	(1.99)	288.8	(3.59)
1994-95	18,488	1.87	1,052.9	(0.63)	282.8	(2.10)
1995-96	18,488	0.00	1,044.0	(0.84)	276.0	(2.38)
1996-97	18,555	0.37	1,040.0	(0.39)	275.0	(0.38)
1997-98	18,808	1.36	1,052.2	1.17	277.6	0.96
1998-99	18,668	(0.74)	1,030.1	(2.09)	273.0	(1.68)
1999-00	18,510	(0.84)	1,013.5	(1.62)	264.7	(3.04)
2000-01	18,240	(1.46)	1,008.2	(0.52)	261.1	(1.33)
2001-02	17,093	(6.29)	949.6	(5.82)	246.5	(5.61)

Source: U.S. Bureau of Labor Statistics, Connecticut State Labor Department

Historically, manufacturing employment closely parallels the business cycle, typically expanding when the economy is healthy and contracting during recessionary periods, as it did during the early 1980s. However, this phenomenon diverged in the latter part of the 1980s, as contractions in manufacturing employment were not initially accompanied by a recession. Other factors, such as

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heightened foreign competition, smaller defense budgets, and improved productivity, played a significant role in affecting the overall level of manufacturing employment in Connecticut. Consequently, during the past decade, the state's manufacturing sector diminished considerably. The sector shed nearly 13% of its employment from fiscal 1993 through fiscal 2001, a loss of around 38,500 jobs. The manufacturing sector suffered in large part because of the ramp down in defense spending during the 1990s. Faced with leaner times, Connecticut's manufacturers confronted the turbulent market conditions head-on and subsequently have restructured in response to global market forces: rapidly changing technologies, mounting competition from overseas markets, and shrinking defense spending.

Unfortunately, the sharp downturn in industrial activity that began at the end of last fiscal year and the additional burden of the soft national economy dimmed any prospect for employment stability in the manufacturing sector. Within Connecticut, the manufacturing sector struggled as the rate of job loss accelerated during fiscal 2002. The sector's workforce declined by roughly 5.6% as renewed weakness throughout the sector prompted manufacturer's to reduce employment levels by 14,600 jobs. The sharp cutback by durable goods industries to the tune of 10,300 jobs was the principal sector responsible for the contraction in manufacturing employment.

The following Chart provides growth rates in manufacturing employment in the United States, the New England Region and Connecticut over a ten year period.



Source: U.S. Bureau of Labor Statistics, Connecticut State Labor Department

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In fiscal 2002, activity in the manufacturing sector contracted considerably during the course of the fiscal year as output produced by manufacturers decreased by roughly 7.8%, as measured by the Connecticut Manufacturing Production Index, (CMPI). The steep drop off was attributed to the lack of pricing power, thanks to excess production capacity and global competition. In addition, total factory production work hours registered an annual average decline of 6.1%. This coupled with a minor gain of 1.6% in weekly manufacturing earnings suggests the sector could lag the recovery as some manufacturers will be less likely to invest in capital equipment and expand payrolls until the economy is uniformly supported by strong fundamentals. In addition, the continued erosion of the state's manufacturing base reflects the national trend away from traditional industries, both durable and nondurable. Even with the decrease, manufacturing employment in Connecticut still accounts for 14.7% of all nonfarm payroll jobs, compared to only 13.0% in the United States through fiscal 2002.

The following Table provides a breakdown of the state's manufacturing employment by industry and indicates percentage changes for the year and over a ten year period for each of the manufacturing sectors.

**TABLE 17**  
**CONNECTICUT MANUFACTURING EMPLOYMENT BY INDUSTRY**  
**(In Thousands)**

<u>Industry</u>	F.Y.	F.Y.	F.Y.	Percent Change	
	<u>2001-02</u>	<u>2000-01</u>	<u>1992-93</u>	<u>FY 2001 to</u> <u>FY 2002</u>	<u>FY 1993 to</u> <u>FY 2002</u>
<i>Durable Manufacturing</i>	172.03	182.33	215.68	(5.6)	(20.2)
Primary Metals	8.23	9.24	9.14	(11.0)	(10.0)
Fabricated Metals	30.49	32.90	33.38	(7.3)	(8.7)
Machinery - NonElectrical	29.92	32.45	36.63	(7.8)	(18.3)
Electrical Equipment	24.94	27.27	28.54	(8.5)	(12.6)
Transportation Equipment	45.89	46.09	66.68	(0.4)	(31.2)
Instruments and Clocks	18.29	19.31	26.83	(5.3)	(31.8)
<i>NonDurable Manufacturing</i>	74.45	78.81	83.88	(5.5)	(11.2)
Food	7.89	7.89	9.85	0.0	(19.9)
Textiles	1.72	2.05	2.34	(16.4)	(26.6)
Apparel	2.77	2.92	4.79	(5.1)	(42.1)
Paper	7.03	7.59	8.33	(7.4)	(15.6)
Printing and Publishing	21.59	23.52	24.88	(8.2)	(13.2)
Chemicals	22.23	22.60	20.90	(1.7)	6.4
Rubber & Misc. Plastic Products	10.11	10.42	11.36	(3.0)	(11.0)
Total Manufacturing Employment	246.48	261.13	299.56	(5.6)	(17.7)

Source: U.S. Bureau of Economic Analysis, Connecticut State Labor Department

In fiscal 2002, manufacturing employment in Connecticut contracted in every sector except for food. The state's durable goods sector, including nonelectrical equipment, instruments, and primary & fabricated metals industries all struggled with successive negative year-over-year growth while

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electrical equipment employment made a wholesale reversal, from a 1.5% gain in fiscal 2001 to a 8.5% loss in fiscal 2002. Despite the losses, the state's vital transportation sector showed signs of underlying strength, having fought back to near positive growth in fiscal 2002 after struggling for much of the last decade. With defense spending projected to experience sizable increases due to changing world events, (See Table 41 – Defense Contract Awards & Related Employment) some of Connecticut's defense-related industries could begin new rounds of hiring which could help stem the downward spiral in manufacturing employment. Military producers like Sikorsky Aircraft, Pratt & Whitney, Northrup-Grumman and Electric Boat are the most likely recipients of military contracts to build and supply hardware to the nation's armed forces. Likewise, specialized work could spillover to smaller manufacturers in the state, boosting both employment and industrial output. However, it is still anticipated that manufacturing employment will continue to decline as a share of total state employment well into the latter part of this decade.

The following Table illustrates average weekly earnings for Connecticut durable and nondurable manufacturing and construction workers. In addition, it provides a comparison of hourly wages and average workweek for each major sector of the manufacturing industry.

**TABLE 18**  
**AVERAGE WEEKLY EARNINGS, HOURS AND WAGES OF CONNECTICUT**  
**MANUFACTURING AND CONSTRUCTION WORKERS**

<u>Fiscal Year 2001-02</u>	<u>Weekly Earnings</u>	<u>Hourly Wages</u>	<u>Weekly Hours</u>
<i>Durable Manufacturing</i>	\$702.17	\$16.48	42.61
Primary Metals	680.90	15.51	43.92
Fabricated Metals	620.36	14.48	42.85
Machinery	758.28	17.57	43.16
Electrical Equipment	584.69	13.83	42.29
Transportation Equipment	892.39	20.99	42.53
Instruments and Clocks	611.56	14.81	41.31
<i>NonDurable Manufacturing</i>	644.80	15.33	42.08
Food	552.44	13.39	41.27
Printing and Publishing	653.45	16.01	40.82
Textiles	531.92	13.01	40.88
Apparel	398.48	9.90	40.25
Rubber & Misc. Plastic Products	572.98	13.68	41.90
Paper	734.97	16.66	44.12
Chemicals	788.63	18.51	42.60
Construction	908.19	22.59	40.21
Manufacturing	\$686.20	\$16.17	42.45

Source: U.S. Bureau of Economic Analysis, Connecticut State Labor Department

The following Table ranks the 50 states in terms of their relative dependence on manufacturing. Approximately 10.9% of total personal income is derived from manufacturing wages, which ranks Connecticut thirteenth in the United States. The surrounding states of Massachusetts, Rhode Island, New York and New Jersey possess the following percentages respectively: 8.8%, 8.6%, 5.9% and 8.2%.

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**TABLE 19**  
**MANUFACTURING WAGES AS A PERCENT OF PERSONAL INCOME BY STATE**  
**(In Millions of Dollars)**

<u>State</u>	<u>Personal</u> <u>Income</u>	<u>Mfg.</u> <u>Wages</u>	<u>%</u>	<u>FY 02</u> <u>Rank</u>	<u>State</u>	<u>Personal</u> <u>Income</u>	<u>Mfg.</u> <u>Wages</u>	<u>%</u>	<u>FY 02</u> <u>Rank</u>
Indiana	\$171,442	\$27,748	16.18	1	Washington	\$194,07	\$16,685	8.60	26
Michigan	299,384	47,656	15.92	2	Georgia	244,534	20,616	8.43	27
Wisconsin	160,334	23,565	14.70	3	Maine	35,078	2,911	8.30	28
Ohio	331,418	43,594	13.15	4	California	1,137,779	93,971	8.26	29
N.Hampshire	43,251	5,148	11.90	5	New Jersey	332,014	27,314	8.23	30
North Carolina	227,710	26,388	11.59	6	Utah	55,614	4,506	8.10	31
Iowa	80,793	9,326	11.54	7	Texas	615,168	46,758	7.60	32
Minnesota	166,402	19,204	11.54	8	Nebraska	50,695	3,764	7.42	33
South Carolina	102,430	11,798	11.52	9	West Virginia	42,008	2,995	7.13	34
Delaware	26,455	3,001	11.34	10	Arizona	139,677	9,804	7.02	35
Arkansas	62,846	7,098	11.29	11	Oklahoma	88,334	6,124	6.93	36
Kentucky	102,793	11,368	11.06	12	South Dakota	20,646	1,402	6.79	37
<u>Connecticut</u>	<u>145,836</u>	<u>15,950</u>	<u>10.94</u>	<u>13</u>	Louisiana	112,173	7,482	6.67	38
Vermont	17,808	1,936	10.87	14	Virginia	235,215	15,525	6.60	39
Tennessee	157,316	16,957	10.78	15	Colorado	148,286	9,314	6.28	40
Alabama	111,134	11,880	10.69	16	New York	682,347	40,037	5.87	41
Kansas	78,602	8,153	10.37	17	Maryland	192,643	10,012	5.20	42
Mississippi	63,385	6,552	10.34	18	North Dakota	16,774	776	4.63	43
Oregon	98,984	9,880	9.98	19	Florida	483,519	18,298	3.78	44
Pennsylvania	384,065	38,231	9.95	20	New Mexico	43,482	1,592	3.66	45
Illinois	414,475	40,881	9.86	21	Montana	21,982	774	3.52	46
Missouri	160,949	14,747	9.16	22	Nevada	64,124	1,806	2.82	47
Massachusetts	248,453	21,812	8.78	23	Wyoming	14,975	388	2.59	48
Idaho	33,112	2,891	8.73	24	Alaska	20,110	410	2.04	49
Rhode Island	32,686	2,816	8.62	25	Hawaii	36,154	504	1.39	50

Source: U.S. Department of Commerce, Bureau of Economic Analysis

### **Nonmanufacturing Employment**

The nonmanufacturing sector is comprised of industries that provide a service. Services differ significantly from manufactured goods in that the output is generally intangible, it is produced and consumed concurrently, and it cannot be inventoried. Connecticut's nonmanufacturing sector consists of the industries listed in the following Table. Over the last three decades, nonmanufacturing employment has risen in importance to the Connecticut economy, reflecting the overall national trend away from manufacturing (See Table 14). The following Table provides a

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breakdown of Connecticut's nonmanufacturing employment by industry and indicates percentage changes for the year and over a ten year period for each of the sectors.

**TABLE 20**  
**CONNECTICUT NONMANUFACTURING EMPLOYMENT BY INDUSTRY**  
**(In Thousands)**

Industry	F.Y. 2001-02	F.Y. 2000-01	F.Y. 1992-93	Percent Change	
				2000-01 To 2001-02	1992-93 To 2001-02
Construction	65.76	65.93	48.62	(0.3)	35.2
Transportation	44.55	46.32	38.41	(3.8)	16.0
Communications	20.33	20.94	16.72	(2.9)	21.6
Utilities	12.15	12.66	13.37	(4.1)	(9.2)
Trade	358.74	360.83	330.16	(0.6)	8.7
Wholesale	78.38	79.76	76.13	(1.7)	3.0
Retail	280.36	281.07	254.03	(0.3)	10.4
Finance (FIRE)	142.28	142.24	140.73	0.0	1.1
Finance & Real Estate	70.33	70.40	62.86	(0.1)	11.9
Insurance	71.95	71.84	77.88	0.2	(7.6)
Services	539.29	540.25	431.87	(0.2)	24.9
Business Services	109.94	117.17	74.19	(6.2)	48.2
Health Services	161.76	158.59	143.55	2.0	12.7
All Other Services	267.60	264.50	214.12	1.2	25.0
Government	246.39	242.19	208.22	1.7	18.3
Federal	21.37	22.07	24.82	(3.2)	(13.9)
State and Local	225.03	220.12	183.40	2.2	22.7
Total Nonmanufacturing Employment	1,429.49	1,431.36	1,228.10	(0.1)	16.4

Note: Totals may not agree with detail due to rounding.

Source: Connecticut State Labor Department

Last autumn, the sharp cutback in business investment translated into significant declines in manufacturing employment. More recently, employment in other economic sectors has fallen as economic growth has stagnated. As evidence of the spreading impact of the recession, nonmanufacturing employment in Connecticut contracted for the first time in a decade by nearly 1,900 jobs in fiscal 2002. Prior to fiscal 2002, approximately 203,300 jobs had been added in this sector since fiscal 1993. The new fiscal year brought a slow down, and in some cases a decline, to nearly all of the state's nonmanufacturing industries, as a weak stock market, corporate downsizing, and a national recession took their toll on the state's economy. With the exception of finance and government, the rest of the major sectors saw employment declines in fiscal 2002. Business services, which posted upbeat employment growth of 1.3% in 2001, dropped sharply in fiscal 2002, contracting 6.2% in the wake of the technology downturn. Similarly, the construction sector, where employment grew by 2.4% a year earlier, posted a decline of 0.3% despite lower mortgage rates. Smaller capital outlays, business downsizing and consolidation eroded employment gains in the communication,

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transportation, and utility sectors. While gains in health services and other miscellaneous services were not enough to offset the overall loss in nonmanufacturing employment, they were one of the main factors in keeping the net loss to a bare minimum. Finally, the government sector, accounting for the lion's share of job gains in the nonmanufacturing sector, exhibited healthy year-over-year growth of 1.7%, buoyed by solid state and local sector growth due in large part to the expansion of the facilities at the Mohegan Sun Casino. The decade long rise in government employment at the state level can be attributed to the Federal Government's decision to classify all workers employed on Indian Reservations as state government employees. (In June of 2002, per the state's Department of Labor, approximately 21,000 combined employees worked at the Foxwood Casino & Mohegan Sun Casino.)

The following Table provides a ten year profile of nonmanufacturing employment in the United States, the New England Region, and Connecticut.

**TABLE 21**  
**NONMANUFACTURING EMPLOYMENT**  
**(In Thousands)**

Fiscal Year	United States		New England		Connecticut	
	Number	% Growth	Number	% Growth	Number	% Growth
1992-93	91,380	1.54	4,932.2	1.39	1,228.1	0.56
1993-94	94,113	2.99	5,058.1	2.55	1,244.3	1.32
1994-95	97,425	3.52	5,206.7	2.94	1,273.9	2.38
1995-96	99,775	2.41	5,320.0	2.18	1,292.5	1.46
1996-97	102,535	2.77	5,464.8	2.72	1,324.5	2.47
1997-98	105,503	2.89	5,597.9	2.44	1,350.0	1.93
1998-99	108,695	3.03	5,755.3	2.81	1,384.1	2.53
1999-00	112,025	3.06	5,924.0	2.93	1,417.8	2.44
2000-01	113,930	1.70	6,048.8	2.11	1,431.4	0.96
2001-02	114,043	0.10	6,048.3	(0.01)	1,429.5	(0.13)

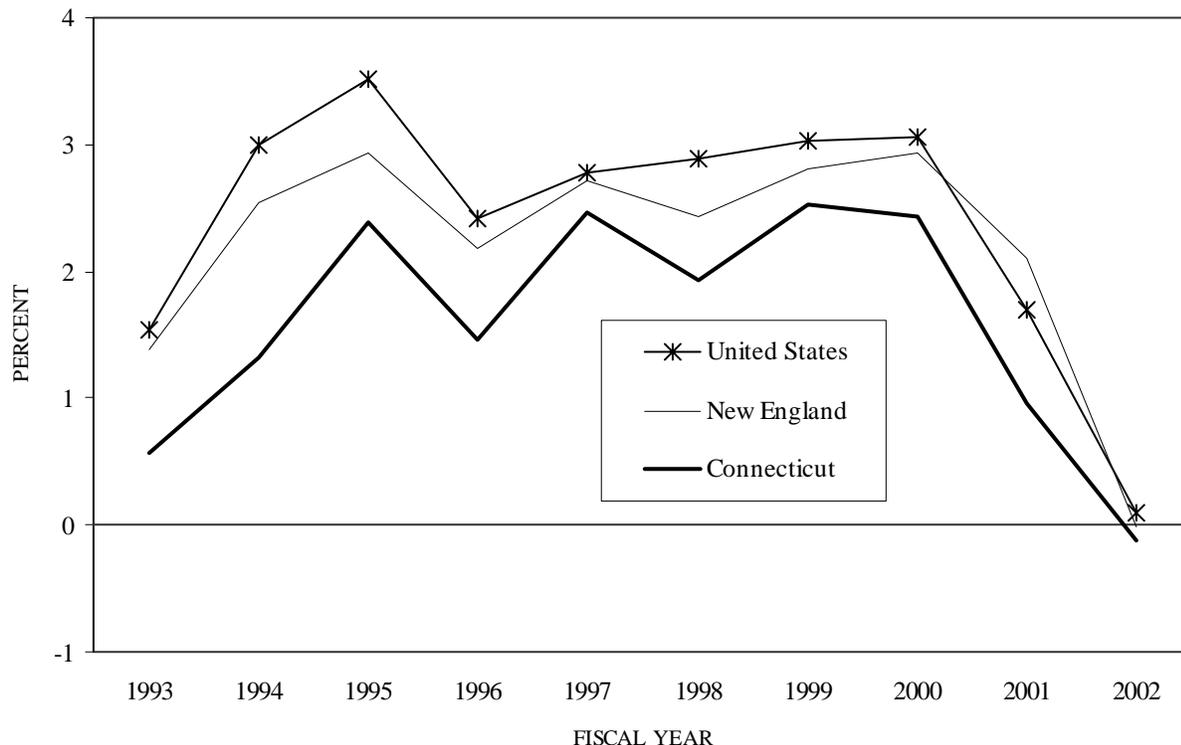
Source: U.S. Bureau of Labor Statistics, Connecticut State Labor Department

Impediments to nonmanufacturing employment growth in certain sectors still remain in the state. The FIRE sector could undergo a painful period of downsizing associated with the fallout from the bear market and corporate malfeasance. The nature of utilities in the region is also changing as the generation component of electric service has been opened up to competition. Finally, overall employment growth will be absent for a time because businesses are reluctant to expand, instead they are focused on cutting costs, since they have no real pricing power.

The following Chart provides a graphic presentation of the growth in nonmanufacturing employment in the United States, the New England Region, and Connecticut over a ten year period.

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**NONMANUFACTURING EMPLOYMENT  
FISCAL YEAR GROWTH BY PERCENT**



Source: U.S. Bureau of Labor Statistics, Connecticut State Labor Department

Annual salaries for Connecticut's nonmanufacturing industries are listed on the following Table. The figures were derived by dividing total wage and salary disbursements by employment. Percent changes over the previous year and over the decade are also provided.

**TABLE 22  
CONNECTICUT NONMANUFACTURING ANNUAL SALARIES**

	-- Calendar Year --			Percent Change	
	<u>2001</u>	<u>2000</u>	<u>1992</u>	<u>00 to 01</u>	<u>92 to 01</u>
Construction	\$30,393	\$28,871	\$21,011	5.3%	44.6%
Transport., Com. & Public Util.	44,664	43,629	32,357	2.4%	38.0%
Wholesale Trade	59,462	57,651	39,890	3.1%	49.1%
Retail Trade	20,637	21,188	14,812	(2.6%)	39.3%
Finance, Ins. & Real Estate	57,552	54,108	30,658	6.4%	87.7%
Service	31,111	29,967	21,720	3.8%	43.2%
Government	40,096	39,215	31,095	2.2%	28.9%

Source: U.S. Bureau of Economic Analysis

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### **Unemployment Rate**

The unemployment rate is the proportion of persons in the civilian labor force who do not have jobs but are actively looking for work. The unemployment rate is based upon a monthly survey in which household members are asked a series of questions, one of which determines if a jobless person has looked for work at some time during the preceding four weeks. Those looking for work are considered in the labor force but unemployed.

While the unemployment rate is one of the most closely watched statistics in the economy, there are problems inherent in it. First, the unemployment rate is the proportion of the unemployed to the civilian labor force; therefore, it does not reflect the problem of underemployment. This condition exists when an individual is currently working at a job not requiring the full utilization of his skills and knowledge.

The second problem is, that by definition, the civilian labor force includes only those persons actively seeking employment ignoring the discouraged worker. The discouraged worker is one who wants work but does not actively seek employment for various reasons. Finally, the unemployment rate fails to indicate particular areas where unemployment problems are most acute. The overall unemployment rate may be deemed satisfactory while the joblessness in a particular area is very high.

Nationally, minorities, women and youths tend to experience higher than average unemployment. Non-whites typically experience approximately twice the rate of joblessness as whites. Youths, particularly in large urban areas, are also subject to higher unemployment rates. Unemployment is concentrated among those who do not have basic skills, training or education. These persons are usually the first to be laid off during economic slowdowns and are often unemployable even when the economy is expanding.

To address some of the deficiencies in the unemployment number, the Bureau of Labor Statistics and the Census Bureau, beginning in January of 1994, revised the survey used to measure the unemployment rate in the United States and within individual states. These changes included revision of the survey questionnaire, incorporation of the 1990 census data, and changes to the regression model used to develop smaller state unemployment rates. From January 1994 forward, the forecast is based on the new methodology. The historical data has not been revised and is based on the old methodology. The expected net result of all these changes is to increase the unemployment rate by up to a half of a percentage point; however, the increase will be due to changes in survey methodology and not to any significant changes in economic activity.

Despite these problems, the unemployment rate is a widely accepted economic indicator and is utilized as a proxy for consumer confidence. In general, when the unemployment rate is low consumer spending is usually higher, and when the unemployment rate is high consumer spending is usually lower.

The following Table shows the unemployment rate for the United States, the New England Region, and Connecticut over a ten year period.

**Economic Report of the Governor**

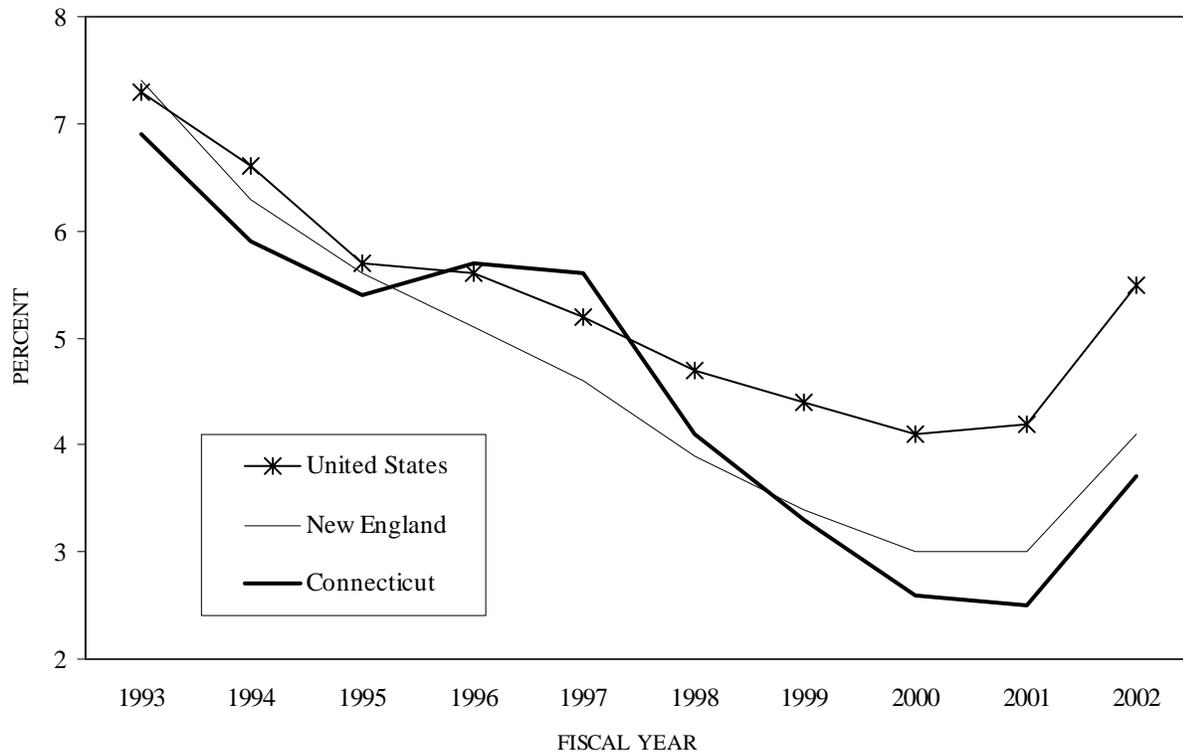
**TABLE 23  
UNEMPLOYMENT RATES**

<u>Fiscal Year</u>	<u>United States</u>	<u>New England</u>	<u>Connecticut</u>
1992-93	7.3	7.4	6.9
1993-94	6.6	6.3	5.9
1994-95	5.7	5.6	5.4
1995-96	5.6	5.1	5.7
1996-97	5.2	4.6	5.6
1997-98	4.7	3.9	4.1
1998-99	4.4	3.4	3.3
1999-00	4.1	3.0	2.6
2000-01	4.2	3.0	2.5
2001-02	5.5	4.1	3.7

Source: U.S. Bureau of Labor Statistics, Connecticut State Labor Department

The following Chart provides a graphic presentation of the unemployment rates for the United States, the New England Region, and Connecticut over a ten year period.

**UNEMPLOYMENT RATES  
BY FISCAL YEAR**



Source: U.S. Bureau of Labor Statistics, Connecticut State Labor Department

## **Economic Report of the Governor**

### **SECTOR ANALYSIS**

#### **Energy**

Over the past two hundred years, the history of energy supplies and the mode of energy use in the United States reflected the country's industrialization, economic development, and social transformation. As the U.S. becomes more dependent on imported energy, economic activity hinges more upon the availability and stability of its supply in the world market. In the past 30 years, all of the nation's four recessions were concurrent with the energy disruptions that occurred worldwide in 1991 (Iraq invaded Kuwait), in 1981 (Iran/Iraq war), in 1979 (Iranian Revolution), and in 1973 (Arab Oil Embargo). The latest recession, which began in March 2001, also follows an energy supply disturbance that occurred in late 2000 when petroleum inventories remained relatively low and the price reached a high of \$37.80 per barrel, the highest since the Gulf War 10 years ago.

At the birth of our nation in 1776, coal and petroleum lay untapped and undiscovered. Wood, human, and animal kinetic power supplied almost all energy. By the 1830s, coal and natural gas began to be used in blasting furnaces and for illumination while electricity and related technical innovations were only in the experimental stage. By the 1850s, the westbound expansion of the nation helped boost the demand for coal as railroad transportation and the metal industry needed an economical source of fuel. By the 1880s, the use of electricity began to expand.

By the end of World War I, coal accounted for about 75 percent of U.S. total energy consumption. Petroleum was just starting to be used as an illuminant. Common use of petroleum was supported by the discovery of oil in Texas in 1901 and a short time later by the mass production of automobiles. After WWII, coal gradually retreated from its place as the premier energy source, replaced by petroleum as trucking overtook the railroad industry and locomotives began switching to diesel. In the same period, natural gas gained popularity in households for its cooking and heating applications in ranges and furnaces. The coal industry, however, survived due partly to nationwide electrification, which increased the demand for coal, despite intense competition from hydroelectric power and petroleum-fired generation. Nuclear electric power also grew; nonetheless, its contribution to total energy production began to ebb after 1990. Renewable energy sources such as wind, solar, and geothermal energy still play little role in overall energy supplies.

Today the United States, like the rest of the industrialized world, relies heavily on three fossil fuels: coal, natural gas, and crude oil. In 2001, they accounted for 80% of total energy. The following three sections describe energy production and consumption for the world, the United States, and Connecticut.

#### **Worldwide**

In the world oil market, supply and demand among countries or regions is heavily imbalanced. The following Table illustrates the disparity between the world's suppliers of oil and its users. Members of the Organization of Petroleum Exporting Countries (OPEC) accounted for 39.2% of total world supply in 2001, down from 40.2% in 2000, with 65% of OPEC's oil production supplied by the Persian Gulf countries. OPEC is made up of Algeria, Gabon, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates, and Venezuela. OPEC's market share has been growing steadily, while the United States' market share has continued to decline.

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The United States consumed 19.65 million barrels of oil a day in 2001, representing 25.9% of total world demand. However, the United States produced only 8.96 million barrels per day (MBPD), or 11.7% of world supply, trending down from 9.28 MBPD, or 12.4% of world supply, in 1998, and 9.50 MBPD, or 13.0% of world supply, in 1997. In 1950, the United States accounted for 52% of world crude oil production.

**TABLE 24**  
**WORLD OIL SUPPLY AND DEMAND**  
**Calendar 2001**

	<b>Supply</b>			<b>Demand</b>	
	Millions of Barrels Per Day	% of Total		Millions of Barrels Per Day	% of Total
Total OECD	23.24	30.3	Total OECD	47.70	62.8
United States	8.96	11.7	United States	19.65	25.9
Canada	2.80	3.7	Canada	1.91	2.5
North Sea	6.27	8.2	Japan	5.42	7.1
Other OECD	1.63	2.1	Germany	2.81	3.7
			France	2.03	2.7
Total OPEC	30.08	39.2	Italy	1.87	2.5
Saudi Arabia	8.03	10.5	United Kingdom	1.72	2.3
Iran	3.72	4.8	Other OECD	12.29	16.2
Iraq	2.43	3.2			
Other OPEC	15.90	20.7			
Total Non-OECD	23.39	30.5	Total Non-OECD	28.30	37.2
Former USSR	8.84	11.5	China	4.86	6.4
China	3.30	4.3	Former USSR	3.63	4.8
Other	11.25	14.7	Other	19.81	26.1
<b>Total Supply</b>	<b>76.71</b>	<b>100.0</b>	<b>Total Demand</b>	<b>76.00</b>	<b>100.0</b>

Source: U.S. Department of Energy, Energy Information Administration, *“International Petroleum Monthly”*, August 2002

Other large oil consumers with big disparities between supply and demand include Japan, France, Italy, and Germany. Additionally, the gap between supply and demand for the larger economies remains large. For example, the Organization for Economic Cooperation and Development (OECD), which includes the United States, Western European countries, Australia, Canada, Japan, and New Zealand, consumed more and supplied less both in sheer number and in terms of relative share of the world oil market. In 2001, the OECD consumed 47.70 million barrels per day, or 62.8% of the world total, while supplying only 23.24 MBPD, or 30.3% of the world total, registering a 24.46 million barrel per day deficit. This compares to a 23.07 MBPD deficit in 2000. The countries making up the former USSR supplied more than they demanded. In 2001, the former USSR consumed 3.63 million barrels per day while supplying 8.84 MBPD, ranking it the second highest producer in the world and registering a 5.21 million barrel per day surplus, up from a 4.39 million barrel per day surplus in 2000. China, which switched from a net exporter of oil as recently as 1993, began running an oil deficit as its economy continued to grow at a fast pace and the demand for cars rose. In 2001, China consumed 4.86 million barrels per day while

## Economic Report of the Governor

supplying only 3.30 MBPD, leaving a 1.56 million barrel per day deficit, up from a 1.35 million barrel per day deficit in 2000. Demand for petroleum in China is expected to accelerate. China will import as much oil as the United States by 2030, according to the International Energy Agency in Paris. Currently, the Middle East supplied three-fifths of China's imports. The rising energy consumption in China reflects that the worldwide dependency upon the Middle Eastern region will not mitigate without the availability of other energy sources.

The oil supply deficit arising from this imbalance between demand and supply has created volatility in the world energy market and political arena. As the international energy market relies heavily on OPEC and major consumers produce inadequate levels for their own domestic markets, any supply disruption will only translate into economic and political turmoil. World energy reserves also mirror the same pattern of disparity as the oil supply market. The following Table shows world oil and natural gas reserves by country.

**TABLE 25**  
**WORLD OIL & NATURAL GAS RESERVES**  
**January 1, 2001**

	Oil		Gas	
	Billions of Barrels	% of Total	Trillions of Cubic Feet	% of Total
<b>North America</b>	<b>54.6</b>	<b>5.4</b>	<b>281.0</b>	<b>5.2</b>
United States	22.0	2.2	177.4	3.3
Mexico	26.9	2.7	30.4	0.6
Canada	5.6	0.6	61.0	1.1
<b>Central &amp; South America</b>	<b>67.5</b>	<b>6.7</b>	<b>234.4</b>	<b>4.3</b>
Venezuela	47.6	4.7	147.6	2.7
<b>Middle East</b>	<b>654.6</b>	<b>65.2</b>	<b>1,985.3</b>	<b>36.4</b>
Saudi Arabia	265.3	26.4	214.0	3.9
Iraq	115.0	11.5	112.6	2.1
Kuwait	98.8	9.8	56.6	1.0
Iran	96.4	9.6	929.1	17.0
Other Mid. East	79.1	7.9	673.0	12.3
<b>Western Europe</b>	<b>17.6</b>	<b>1.8</b>	<b>150.0</b>	<b>2.8</b>
<b>E. Europe &amp; Former USSR</b>	<b>66.1</b>	<b>6.6</b>	<b>1,944.0</b>	<b>35.7</b>
<b>Africa</b>	<b>86.4</b>	<b>8.6</b>	<b>413.7</b>	<b>7.6</b>
<b>Far East &amp; Others</b>	<b>57.2</b>	<b>5.7</b>	<b>441.8</b>	<b>8.1</b>
Total	1,004.1	100.0	5,450.2	100.0

Note: Totals may not add due to rounding.

Source: U.S. Department of Energy, Energy Information Administration, "Annual Energy Review 2001", October 2002

The share of world oil reserves held by all OPEC countries is 75%. Among the total, the Middle East controls approximately 65% of world oil reserves with Saudi Arabia alone controlling more than one-quarter of the total, followed by Iraq's 11.5%. Only a very small amount of world oil

## Economic Report of the Governor

reserves are in countries with which the U.S. has stable relations. The United States, Canada, Mexico, and Western Europe together control roughly 7% of the world's oil reserves. While the Middle East countries dominate crude oil reserves, they share almost equally with Eastern Europe and the countries comprising the former USSR for the bulk of natural gas reserves. Together, these two regions hold approximately 75% of the world's gas reserves. The United States, Canada, Mexico, and Western Europe control approximately 8% of world gas reserves.

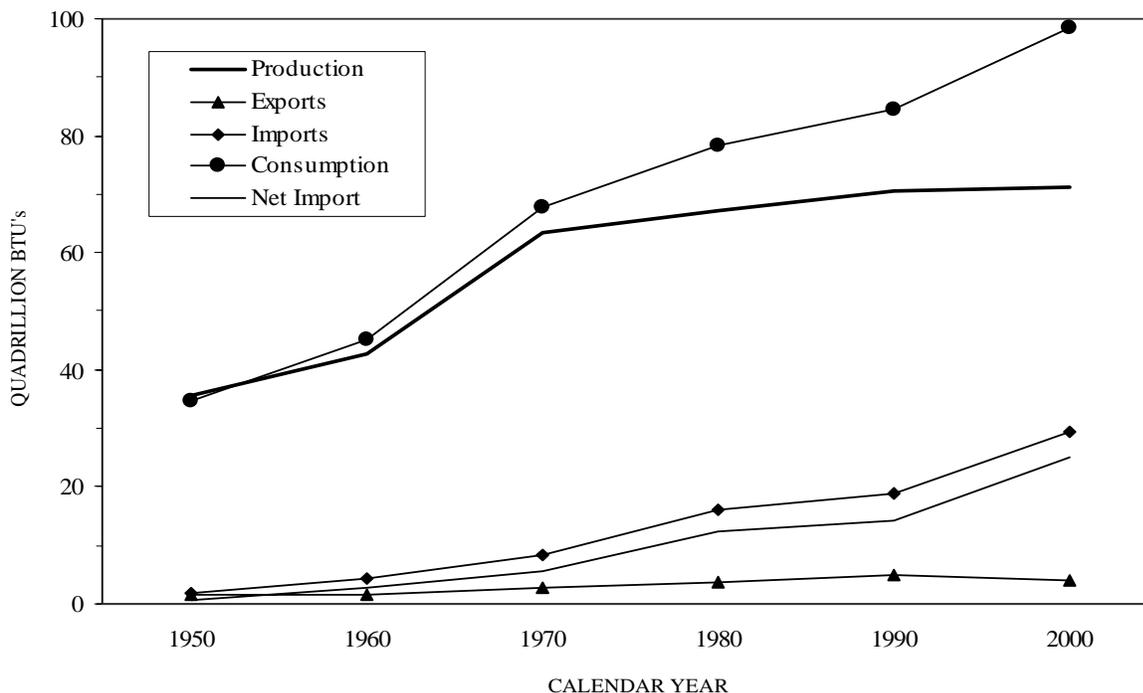
As the economy grows, the United States continues to deplete its energy reserves. U.S. crude oil and natural gas reserves in 2001 were estimated at 22.0 billion barrels and 177.4 trillion cubic feet, or 2.2% and 3.3%, respectively, of the world's reserve. These were down about 30% and 20%, respectively, from 1977 levels, the year when the U.S. Department of Energy, Energy Information Administration started assembling the reserve data. Oil or natural gas reserves are the estimated quantities that are recoverable in the future from known reservoirs under existing economic and operating conditions. Given certain market prices, oil and natural gas now can be produced more economically due to improved technology that helps identify potential reserve sites and assists in production from marginal fields.

With the concern for stability in the global oil market mounting, the U.S. continues to seek supplies of oil outside the volatile Middle East for its growing needs. While oil reserves outside the Middle East area account for 36% of total, the U.S. nonetheless receives 78% of its imports from the non-Middle East area with approximately 50% coming from Canada, Venezuela, Mexico, and Nigeria. Efforts by the U.S. government and energy companies have focused on the former USSR (Russia and Eastern Europe), West Africa, South America, and China. Russia is the world's second largest oil producer, just behind the U.S. and larger than Saudi Arabia, and has the largest natural gas reserves in the world. The U.S. imports about 3.2 million barrels a day from Russia, which accounted for about 40% of the country's exports. While economic reform and progress are underway, the country is preparing to become an even bigger producer. However, the efforts to diversify U.S. supply may take time to materialize as the progress in Russia is still slow. Operations there by foreign companies are confronting resistance.

### United States

The following Chart demonstrates the history of the supply and demand of energy in the U.S. The nation has long been a net energy importer. In 1960, the U.S. produced less energy than it consumed with net imports (imports less exports) accounting for 6.1% of national consumption. By 1970, net imports grew to 8.4% of consumption. Gaps between production and consumption continued to expand in the 1970s. By 1980, net imports deteriorated to 15.6% of consumption. Since then, disparities have widened, approaching 20% in the late 1990s. In 2001, the ratio reached 26.8%, creeping up from 25.4% in 2000. According to the *Annual Energy Review 2001* which is published by the U.S. Department of Energy, the U.S. consumed 96.95 quadrillion British Thermal Units (BTU's) of energy, 2.2 times the 1960 level. Whereas the U.S. produced only 71.67 quadrillion BTU's and exported 3.92 quadrillion BTU's, it required net imports of 26.03 quadrillion BTU's, which represented 26.8% of total national consumption. Although U.S. energy production comes from many sources, fossil fuels that include coal, natural gas, crude oil, and natural gas plant liquids far exceed all other forms such as nuclear electric power, wood and waste, and hydroelectric power, etc. In 2001, fossil fuels accounted for 81.2% of total energy production with coal accounting for 32.7%; natural gas, 27.7%; crude oil, 17.3% and natural gas plant liquids 3.5%.

### U.S. ENERGY SUPPLY & DEMAND



Source: U.S. Department of Energy, Energy Information Administration "Annual Energy Review 2001", October 2001

National energy consumption has increased at an average annual rate of 1.2% over the past two decades. Growth in energy consumption has trended along with economic conditions, up during periods of healthy economic growth and down during periods of sluggish growth. Growth in energy consumption also reflects the movement of prices, higher during periods of relatively low or stable prices and down during periods of price increases. The following Table illustrates the breakdown of energy usage in the U.S. in 2001 by fuel type and by economic sector. According to the August 2002 issue of "Monthly Energy Review", petroleum products are the most important energy source for the U.S. economy. In 2001, the U.S. consumed 96.35 quadrillion BTU's of energy. (The figure differs slightly from the 96.95 quadrillion BTU's reported on the prior page due to a difference in the estimation approach). The 38.33 quadrillion petroleum generated BTU's accounted for 39.8% of U.S. fuel consumption. Natural gas consumption of 22.01 quadrillion BTU's made up 22.8% of the total. Coal followed with 21.84 quadrillion BTU's, accounting for 22.7% of consumption. These three fuel sources together accounted for 85.3% of U.S. fuel consumption. Nuclear and hydroelectric power were distant followers.

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**TABLE 26**  
**U.S. ENERGY CONSUMPTION**  
**Calendar 2001**

### **A. By Fuel and Sector (Quadrillion BTU's)**

<u>Fuels</u>	<u>Residential</u>	<u>Commercial</u>	<u>Industrial</u>	<u>Transportation</u>	<u>Electric Generation</u>	<u>Total</u>
Natural Gas	4.94	3.27	10.44	0.63	2.74	22.01
Petroleum	1.50	0.74	9.05	26.21	0.83	38.33
Coal	0.04	0.06	2.17	0.00	19.57	21.84
Nuclear	0.00	0.00	0.00	0.00	8.17	8.17
Hydroelectric	0.00	0.00	0.00	0.00	2.40	2.40
Other	0.50	0.06	1.99	0.00	0.05	2.61
Electricity	4.10	4.08	3.39	0.02	0.99	12.58
<u>Electric Losses</u>	<u>8.19</u>	<u>8.16</u>	<u>6.78</u>	<u>0.04</u>	<u>(34.75)</u>	<u>(11.59)</u>
Total Demand	19.27	16.36	33.82	26.90	0.00	96.35

### **B. As a Percentage of Total**

<u>Fuels</u>	<u>Residential</u>	<u>Commercial</u>	<u>Industrial</u>	<u>Transportation</u>	<u>Electric Generation</u>	<u>Total</u>
Natural Gas	5.1%	3.4%	10.8%	0.7%	2.8%	22.8%
Petroleum	1.6%	0.8%	9.4%	27.2%	0.9%	39.8%
Coal	0.0%	0.1%	2.3%	0.0%	20.3%	22.7%
Nuclear	0.0%	0.0%	0.0%	0.0%	8.5%	8.5%
Hydroelectric	0.0%	0.0%	0.0%	0.0%	2.5%	2.5%
Other	0.5%	0.1%	2.1%	0.0%	0.1%	2.7%
Electricity	4.3%	4.2%	3.5%	0.0%	1.0%	13.1%
<u>Electric</u>	<u>8.5%</u>	<u>8.5%</u>	<u>7.0%</u>	<u>0.0%</u>	<u>(36.1%)</u>	<u>(12.0%)</u>
Total Demand	20.0%	17.0%	35.1%	27.9%	0.0%	100.0%

Note: Totals may not add due to rounding.

Source: U.S. Department of Energy, Energy Information Administration, "Monthly Energy Review", August 2002

There are five energy-use sectors: residential, commercial, industrial, transportation, and electric power generation. The first four sectors are end-users while the last one is the intermediate-user that consists of all utility and non-utility facilities and equipment used to generate, transmit, and distribute electricity. Of the four end-users, the industrial sector was the largest energy consumer in 2001, consuming 33.82 quadrillion BTU's or accounting for 35.1% of total energy. The industrial sector was followed by transportation at 27.9%, residential at 20.0%, and commercial at 17.0%. In contrast to the relatively smooth trends in the other sectors, industrial consumption has fluctuated sharply. About three-fifths of the energy consumed in the industrial sector is used for manufacturing, with the remainder going for mining and construction, etc. The electric power generation sector consumes and also produces energy. Energy losses occur throughout the entire electrical system beginning with utility generation in fossil-fired, nuclear or hydroelectric power plants all the way to the end-users. Energy losses are approximately two-thirds of total energy input during the conversion process of heat energy into mechanical energy for turning electric generators. Of the electricity generated, about 5% is lost in plant use and 9% is lost in transmission and distribution.

## Economic Report of the Governor

The industrial sector in 2001 used natural gas and petroleum as the predominant fuel sources. The transportation sector was overwhelmingly dependent on petroleum. The electric generation sector's major fuel source was coal that accounted for 57% of its consumption, followed by nuclear generation with 24%. Nationally, 23% of all residential and commercial energy consumption was provided by natural gas. As mentioned previously, petroleum accounts for about 40% of all energy requirements in the United States. The increasing disparity between oil demand and supply along with the increasing dependency on imported oil creates the potential for instability in both petroleum's price and availability in the U.S. The following Table and Chart illustrate refiners' crude oil prices and the U.S. dependence on imported oil.

**TABLE 27**  
**CRUDE OIL PRICES AND U.S. DEPENDENCE ON IMPORTED OIL**

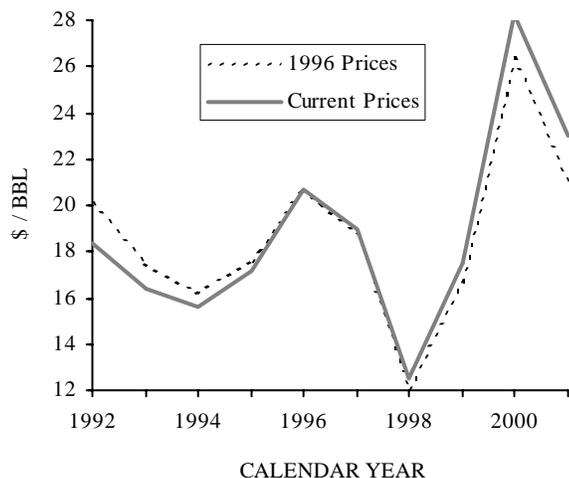
<u>Refiners' Crude Oil Acquisition Costs</u>			<u>Import % Share of U.S. Oil Consumption</u>					
<u>Year</u>	<u>\$/BL</u> <u>Current \$</u>	<u>\$/BL</u> <u>Chained</u> <u>1996\$</u>	<u>Year</u>	<u>Persian</u> <u>Gulf</u> <u>(%)</u>	<u>Other</u> <u>OPEC</u> <u>(%)</u>	<u>Non-</u> <u>OPEC</u> <u>(%)</u>	<u>Total</u> <u>Imports</u> <u>(%)</u>	<u>Total</u> <u>Demand</u> <u>(MBPD)</u>
1970	3.40	11.70	1970	N.A.	N.A.	N.A.	N.A.	14,697
1975	10.38	25.93	1975	7	15	15	37	16,302
1980	28.07	49.21	1980	9	16	15	41	17,056
1985	26.75	36.30	1985	2	10	21	32	15,726
1990	22.22	25.68	1990	12	14	22	47	16,988
1991	19.06	21.26	1991	11	13	21	46	16,714
1992	18.43	20.07	1992	10	14	22	46	17,033
1993	16.41	17.45	1993	10	14	25	50	17,237
1994	15.59	16.24	1994	10	14	27	51	17,718
1995	17.23	17.56	1995	9	14	27	50	17,725
1996	20.71	20.71	1996	9	14	29	52	18,309
1997	19.04	18.68	1997	9	15	29	53	18,620
1998	12.52	12.13	1998	11	15	30	57	18,917
1999	17.51	16.73	1999	12	12	29	54	19,519
2000	28.26	26.40	2000	13	14	31	57	19,701
2001	22.96	20.99	2001	14	14	32	59	19,593

Note: Refiner's crude oil acquisition costs peaked at \$35.24 per barrel in 1981. Its inflation-adjusted cost of \$56.50 (chained 1996 dollars) per barrel was also a record high.

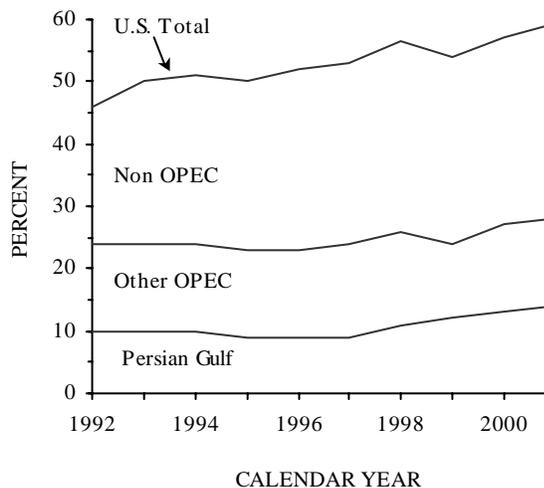
Source: U.S. Department of Energy, Energy Information Administration, "Annual Energy Review 2001", October 2002

## Economic Report of the Governor

### REFINERS' CRUDE OIL ACQUISITION COSTS



### U.S. OIL IMPORTS AS A % OF CONSUMPTION



Source: U.S. Department of Energy, Energy Information Administration, "Annual Energy Review 2001", October 2002

### Oil Prices

Crude oil prices have a long history of large fluctuations that affect the world and U.S. economies as well as inflation levels. In 1973, the year of the Arab Oil Embargo, crude oil prices in the U.S. measured by the composite Refiners' Acquisition Cost averaged \$4.15 per barrel. Oil prices reached their peak in 1981 at \$35.24 per barrel after two consecutive supply disturbances brought on by the Iranian Revolution in 1979 and the Iran-Iraq war in 1980. Since then, long-term prices have trended down until late 2000 when low inventory levels caused a price spike. The downward trend in oil prices for the past three decades has been due to increasing supplies from non-OPEC sources, mounting competition from natural gas, lower production costs from technology improvements in exploration and development, and a consistent overproduction above established quotas by members of OPEC.

In 1973, oil production by OPEC members registered 30.63 million barrels per day and accounted for 55% of total world production of 55.68 MBPD. By 2001, oil production by OPEC members rose slightly to 30.08 MBPD, with their share of production dropping to 39.2% of the total of 76.71 MBPD. Non-OPEC countries production increased from 25.05 MBPD in 1973 to 46.63 MBPD in 2001, increasing their share from 45.0% in 1973 to 60.8% in 2001. However, the OPEC cartel still plays a significant role in the world oil market, albeit with less market share.

The average price of crude oil in 2001 declined to \$22.96 per barrel after reaching a decade high of \$28.26 per barrel in 2000. In 2000, crude oil prices (West Texas Intermediate) rose to \$37.80 a barrel in late September, the highest since the Gulf War 10 years ago. This followed a summer when gasoline prices soared under strong demand and supply constrictions brought about by the marketing of reformulated gasoline in the mid-west, followed by a significant draw down in global inventories. Oil prices fell to the high teens per barrel in late 2001 and early 2002 as demand was sharply reduced, caused by a contraction in the U.S. economy, reduced travel due to the September 11th attack, along with a slowdown in the world economy. Oil prices rose to \$24.07 a barrel in 2002 as OPEC continued to keep production at a level sufficient to maintain the price

## **Economic Report of the Governor**

within a \$22-\$28 range. Oil prices jumped to \$35 a barrel in early 2003 as the anxiety surrounding a potential war in the Persian Gulf spread through the oil market and stockpiles of oil have reached their lowest levels since 1975. OPEC has kept formal production quotas at their lowest level in a decade in an attempt to bolster prices. However, actual production has been above its official ceiling. In October 2002, for example, OPEC is estimated to have produced more than 3 million barrels per day, or 15 percent above its official ceiling.

### **Oil Consumption**

Petroleum consumption in the United States has steadily grown from 15.2 MBPD in 1983 to an all-time high of 19.6 MBPD in 2001. As shown in the Table on U.S. Energy Consumption, in 2001, petroleum consumption accounted for approximately 40% of total U.S. energy, while the transportation sector alone used two-thirds of all petroleum. Despite the fact that oil efficiency continues to improve, an increase in both population and the number of cars per household along with the shift in driving tastes from traditional vehicles to light utility trucks added to the demand for oil. Per capita oil consumption, however, has remained relatively steady at 25.1 barrels per capita in 2001, gradually rising from 24 barrels in 1983. This would indicate that although overall consumption has increased, efficiency on average has also improved, albeit at a lower rate, thereby resulting in a slower rise in per capita consumption.

### **Oil Imports Share**

The share of imported oil to total U.S. consumption in the late 1970s and early 1980s declined notably, down from a high of 47.8% in 1977 to a low of 32.2% in 1985. High oil prices prompted consumers to conserve energy and to seek energy substitutes. However, the downward trend in the percentage of consumption met by imports reversed itself as oil prices dropped from \$49.21 in real dollars per barrel in 1980 to \$12.14 per barrel in 1998. The share of total U.S. consumption attributable to imported oil has consistently risen over the years reaching 59.0% in 2001.

### **Efficiency**

Increasing efficiency has spearheaded the nation's energy conservation policy. Energy regulatory agencies have been aggressively promoting energy-efficient products over the past two decades, and efforts have been especially enhanced since the mid 1990s. The National Appliance Energy Conservation Act of 1987 set minimum efficiency standards for 13 appliances and prohibited the sale if standards were not met. In 1991, the U.S. Environmental Protection Agency (EPA) introduced the Green Lights Program, designed to promote efficient lighting systems in commercial and industrial buildings. In 1992, the EPA embarked upon "*Energy Star*" as a voluntary labeling program to identify and promote energy-efficient products to reduce greenhouse gas emissions. The first labeled products were computers and monitors. By 1995, the EPA expanded the label program to additional office equipment such as copiers and transformers as well as residential heating and cooling equipment such as furnaces and air conditioners. In 1996, the EPA partnered with the U.S. Department of Energy for the *Energy Star* labeling program and added dishwashers, refrigerators, and room air-conditioners to its list. The "*Energy Star*" label is now applicable to electronics such as TVs, DVDs, cordless phones, residential dehumidifiers, windows, traffic signals, new homes, and commercial and industrial buildings, totaling over 30 product categories and thousands of models. The *Energy Star* label is granted for qualified commercial products. Manufacturers having commercial products with scores higher than energy efficiency standards can apply and display this label on their product to convey excellent

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performance. These certified products carry out the same or better functions and use less energy as compared to older models. For example, a refrigerator, the single biggest power consumer in most households, labeled with an *Energy Star* can save 50% of the energy of a 10-year old model.

Other than energy conservation for consumption, increases in productivity also play a vital role for efficiency. Productivity, a crucial ingredient in the economy's long-term vitality, is a measure of economic efficiency which shows how effectively economic inputs are converted into output. Productivity is measured by comparing the amount of goods and services produced with the inputs that are used in production. A measure of the efficiency of the overall economy in the U.S. is the amount of energy used to produce a dollar of Gross Domestic Product (GDP). The following Table and Chart compares U.S. consumption of fuel sources and illustrates the nation's improvement in energy efficiency.

**TABLE 28**  
**U.S. PRIMARY ENERGY CONSUMPTION, PRODUCTIVITY, & ENERGY EFFICIENCY**

	U.S. Energy Consumption*					%	Million BTU per 96\$ GDP			Avg.**	
	Petro- leum	Natural		Other	Total		Billion (96\$)	Million			Product.
		Coal	Gas					Per 96\$	%		
					Change		Change	Change	Change		
<b>A. Five-Year Comparison</b>											
1975	32.7	12.7	19.9	5.2	72.0		4,085	17.64		2.36	
1980	34.2	15.4	20.4	5.9	78.4	8.87	4,901	16.00	(9.26)	1.16	
1985	30.9	17.5	17.8	7.7	77.1	(1.75)	5,717	13.48	(15.77)	1.72	
1990	33.6	19.1	19.3	9.3	84.3	9.45	6,708	12.57	(6.72)	1.32	
1995	34.6	20.0	22.2	14.2	90.9	7.82	7,544	12.06	(4.12)	1.52	
2000	38.4	22.4	23.1	14.9	98.8	1.99	9,191	10.75	(10.86)	2.48	
<b>B. One-Year Comparison</b>											
1995	34.6	20.0	22.2	14.2	90.9	1.94	7,544	12.06	(0.71)	0.9	
1996	35.8	20.9	22.6	14.6	93.9	3.29	7,813	12.02	(0.28)	2.5	
1997	36.3	21.4	22.5	14.1	94.3	0.44	8,160	11.56	(3.83)	2.0	
1998	36.9	21.7	21.9	14.1	94.6	0.28	8,509	11.12	(3.83)	2.6	
1999	38.0	21.7	22.3	14.9	96.9	2.37	8,859	10.93	(1.67)	2.4	
2000	38.4	22.4	23.1	14.9	98.8	2.01	9,191	10.75	(1.68)	2.9	
2001	38.3	21.8	22.0	14.2	96.3	(2.54)	9,215	10.45	(2.78)	1.1	

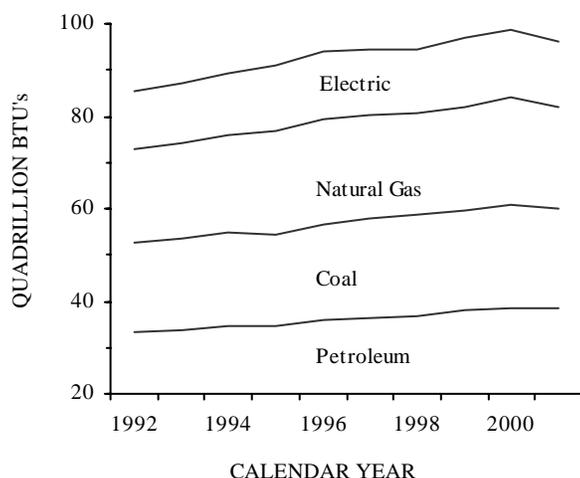
Note: \* Units are in quadrillion BTU's.

\*\* Average productivity for the one-year comparison is the percentage change from one year ago for nonfarm business based on per hour labor output. Average productivity for the 5-year comparison is the average productivity changes for this year and the past four years.

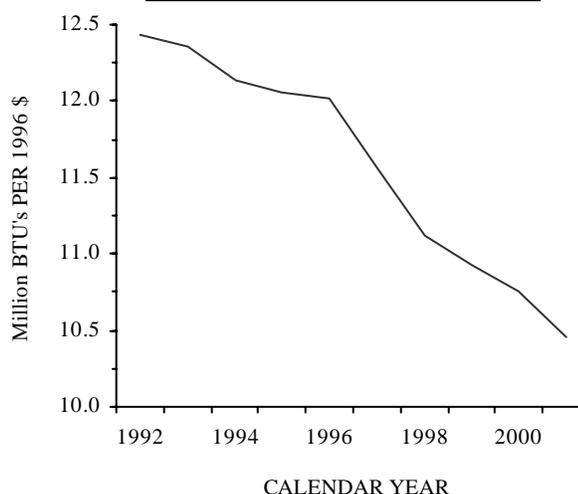
Source: U.S. Department of Energy, "*Monthly Energy Review*", October 2002  
U.S. Department of Labor, Bureau of Labor Statistics

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### U.S. PRIMARY ENERGY CONSUMPTION



### U.S. ENERGY EFFICIENCY



Source: U.S. Department of Energy, "Monthly Energy Review", October 2002  
U.S. Department of labor, Bureau of Labor Statistics

In 1980, it required 16.00 million BTU's of energy to produce \$1 of GDP measured in 1996 dollars. This gradually fell to 12.57 million BTU's by 1990 and 10.75 million BTU's by 2000. This reflects that energy efficiency has increased at an average annual rate of 1.6% over the past 20 years. During the 10-year period between 1980 and 1990, the number of BTU's used per constant dollar of GDP declined 21.4% compared to a 14.5% reduction for the period between 1990 and 2000. The slowdown in energy efficiency reflects that improvements tend to stagnate when fuel prices decline. As oil prices fell, the incentive to conserve energy diminished. A continuing shift in car purchases from the smaller sized models to the sought-after, less-efficient utility and larger models also dramatically reduced the pace of improvement in energy efficiency. With the advancement in productivity in the economy due to innovative technologies, rapid increases in energy efficiency were achieved by the end of the 1990s. Energy efficiency increased at an average rate of 10.86% from 1995 to 2000 compared to only a 4.12% increase between 1990 and 1995. According to the U.S. Department of Labor, Bureau of Labor Statistics, productivity for the non-farm business sector in the U.S. has increased from an average of 1.52% during the first half of the 1990s to 2.48% during the second half of the 1990s.

### **Oil Stability Program**

To protect against supply disruptions, the United States began to create a Strategic Petroleum Reserve (SPR) under the Energy Policy and Conservation Act of 1975 (EPCA). The SPR program was established as a 750 million barrel capacity crude oil reserve with the objective to achieve a maximum draw down rate within 15 days of the notice to proceed. By 1985 the reserve's holdings reached 493 million barrels, which would have provided enough crude oil to replace about 115 days' worth of net petroleum imports that year when the import rate was 4.3 million barrels per day. As of the end of 2001, the reserve held 550 million barrels of crude oil. Due to the increased rate of imports at an average of 11 million barrels per day, that amount would replace only 52 days' worth of net imported petroleum. The crude oil is stored in underground salt caverns along

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the coastline of the Gulf of Mexico and the maximum storage capacity was reduced to 700 million barrels as a result of the decommissioning of one storage site.

In early 2000, a shortage of home heating oil sent prices to a high of \$2.45 a gallon compared to \$1.00 a gallon the year before. To reduce the risk of a heating oil shortage and assist in crises that impact the commercial heating oil supply and distribution, then President Clinton on July 10, 2000 directed the U.S. Department of Energy to establish the Northeast Heating Oil Reserve under the SPR program. The maximum inventory of heating oil in the reserve is 2 million barrels, which will provide relief from weather-related shortages for approximately 10 days. The heating oil is stored in Woodbridge, New Jersey; New Haven, Connecticut; and Providence, Rhode Island. Recognizing the importance of the function of this Heating Reserve, President George W. Bush reinforced the program and, on March 6, 2001, notified Congress that the Reserve was established as a permanent part of America's energy readiness effort, separating it from the Strategic Petroleum Reserve.

Connecticut has two Heating Oil Reserve sites in the New Haven area with a total of 850 thousand barrels of reserve capacity. Connecticut's ports serve as a major point to supply petroleum products, especially the distillate fuel oil used during the winter season. Heating oil is the dominant fuel used for home heating in Connecticut with 52% of all homes in Connecticut use heating oil as the primary heating fuel.

On the international front, the International Energy Agency (IEA) was set up by the major industrial nations in the wake of the Arab embargo and the oil crises of the early 1970s to control worldwide oil in an emergency. The IEA, which is headquartered in Paris and includes 26 countries such as the U.S., Canada, Japan, Australia, and western Europe, has 1.3 billion barrels of reserves held by member governments and can access 2.5 billion barrels of commercial inventories within their countries. In case of a supply disruption, the IEA can release oil onto the world market to fill the gap.

### **Connecticut**

When compared to the national average, Connecticut residents are moderate energy consumers. Connecticut consumed 255.7 million BTU's (MBTU) of energy per person in 1999, according to the latest available data compiled by Department of Energy, compared to the national average of 350.9 MBTU's. Connecticut consumed 27% less than the national average, ranking it 44th among the 50 states. These figures were far less than Alaska's consumption of 1,121.5 MBTU's and Wyoming's at 879.4 MBTU's, the largest two consumers in the nation. Because the state lacks indigenous energy sources, it must import nearly all the energy that it consumes. This situation affects Connecticut's energy choices and results in prices that are more than 24% higher than the national average, according to the American Chamber of Consumer Research Association (please see the section "Cost of Living Index" elsewhere in this publication).

The following Table shows a breakdown of the amount and percentage share of total energy consumed in Connecticut by fuel in 1999, the latest available data. Because it is more easily transported than other types of fuel, petroleum has come to supply 52% of all Connecticut's energy needs. This compares to only about 40% for the United States. Therefore, Connecticut is more susceptible to variations in imported oil's price and availability.

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**TABLE 29**  
**CONNECTICUT ENERGY CONSUMPTION IN 1999**

### **A. By Fuel and by Sector (Trillion BTU's)**

<u>Fuels</u>	<u>Residential</u>	<u>Commercial</u>	<u>Industrial</u>	<u>Transportation</u>	<u>Electric Generation</u>	<u>Total</u>
Natural Gas	39.3	48.7	32.8	0.8	13.4	135.0
Petroleum	80.9	22.4	39.8	234.1	62.9	440.1
Coal	0.1	0.0	0.0	0.0	0.0	0.1
Nuclear	0.0	0.0	0.0	0.0	134.6	134.6
Hydroelectric	0.0	0.0	0.6	0.0	13.7	14.3
Other	7.6	1.0	30.3	0.0	4.8	43.7
Deliv. Elec.	39.6	42.1	19.9	0.0	5.9	107.5
Deliv. Losses	77.7	82.6	39.0	0.0	(235.3)	(36.0)
Total Demand	245.2	196.8	162.4	234.9	0.0	839.3

### **B. As a Percentage of Total**

<u>Fuels</u>	<u>Residential</u>	<u>Commercial</u>	<u>Industrial</u>	<u>Transportation</u>	<u>Electric Generation</u>	<u>Total</u>
Natural Gas	4.7%	5.8%	3.9%	0.1%	1.6%	16.1%
Petroleum	9.6%	2.7%	4.7%	27.9%	7.5%	52.4%
Coal	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Nuclear	0.0%	0.0%	0.0%	0.0%	16.0%	16.0%
Hydroelectric	0.0%	0.0%	0.1%	0.0%	1.6%	1.7%
Other	0.9%	0.1%	3.6%	0.0%	0.6%	5.2%
Deliv. Elec.	4.7%	5.0%	2.4%	0.0%	0.7%	12.8%
Deliv. Losses	9.3%	9.8%	4.6%	0.0%	(28.0%)	(4.3%)
Total Demand	29.2%	23.4%	19.3%	28.0%	0.0%	100.0%

Note: Totals may not add due to rounding.

Source: U.S. Department of Energy, "State Energy Data Report, 1999", May 2001

Examination of individual sectors reveals that Connecticut is much more dependent upon petroleum based fuels in its residential and commercial sectors than the rest of the U.S. While petroleum in the U.S. residential and commercial sectors accounts for only 2.2% of total consumption, in Connecticut it accounts for 12.3%. When compared to the rest of the U.S., Connecticut consumes proportionately much less natural gas. Connecticut consumed 16.1% of natural gas energy versus 23.6% for the nation. A comparison of the U.S. and Connecticut's electric generation sectors shows additional differences in energy mixes. The United States is much more dependent on coal and less reliant on nuclear energy than is Connecticut.

The state has long been an electricity importer, a condition that was only further exacerbated when the nuclear plants were shut down. Generation of electricity by nuclear plants has been unstable in recent years. There were originally four plants located in the state, each with a generation capacity slightly over 6.0 gigawatt hours of electricity annually. In 1997, all four plants were shut down as two were decommissioned and the other two were not operating due to a variety of safety problems. In July of 1998, one was reopened and in 1999, the other one resumed operations. In 2000, according to the U.S. Department of Energy, Energy Information

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Administration, the state generated 16,993 gigawatt hours out of total electricity sales of 29,917 gigawatt hours. This implies that, in 2000, the state generated only 56.8% of its demand, relying heavily on imports from other states and Canada for the balance of its need.

The power grid that supplies electricity to the entire state is owned and operated by both private and municipal electric companies. Transmission lines connect Connecticut with New York, New England and Canada. These interconnections allow the companies serving Connecticut to meet large or unexpected electric load requirements from resources located outside of Connecticut's boundaries. All electric utilities in the State are members of the New England Power Pool and operate as part of the regional bulk power system. An independent system operator, ISO New England Inc., operates this regional system.

Legislation passed in 1998 provided for the restructuring of the electric industry in Connecticut. The electricity is delivered to the consumer over the wires of the regulated distribution companies (United Illuminating Company and Connecticut Light & Power Company). Electric suppliers are not subject to rate regulation by the Department of Public Utility Control (DPUC), but must receive a license issued by the DPUC before commencing service to consumers. In general, Connecticut consumers located in a municipally owned electric service territory are not subject to the 1998 restructuring legislation. These consumers continue to purchase and receive their electrical needs from the municipal electric company. The Connecticut deregulation law requires the sale of nuclear assets by 2004. In August 2000, Northeast Utilities (NU) announced that Dominion Resources would acquire its three-unit Millstone nuclear station. Finally, in 2000, there were 1.5 million electricity consumers in Connecticut, consuming nearly 30 gigawatt hours of electricity provided by ten investor and publicly owned utility companies. The following Table shows that approximately 95% of the electricity was sold by two investor-owned companies.

**TABLE 30  
CONNECTICUT ELECTRICITY SUPPLIERS IN 2000**

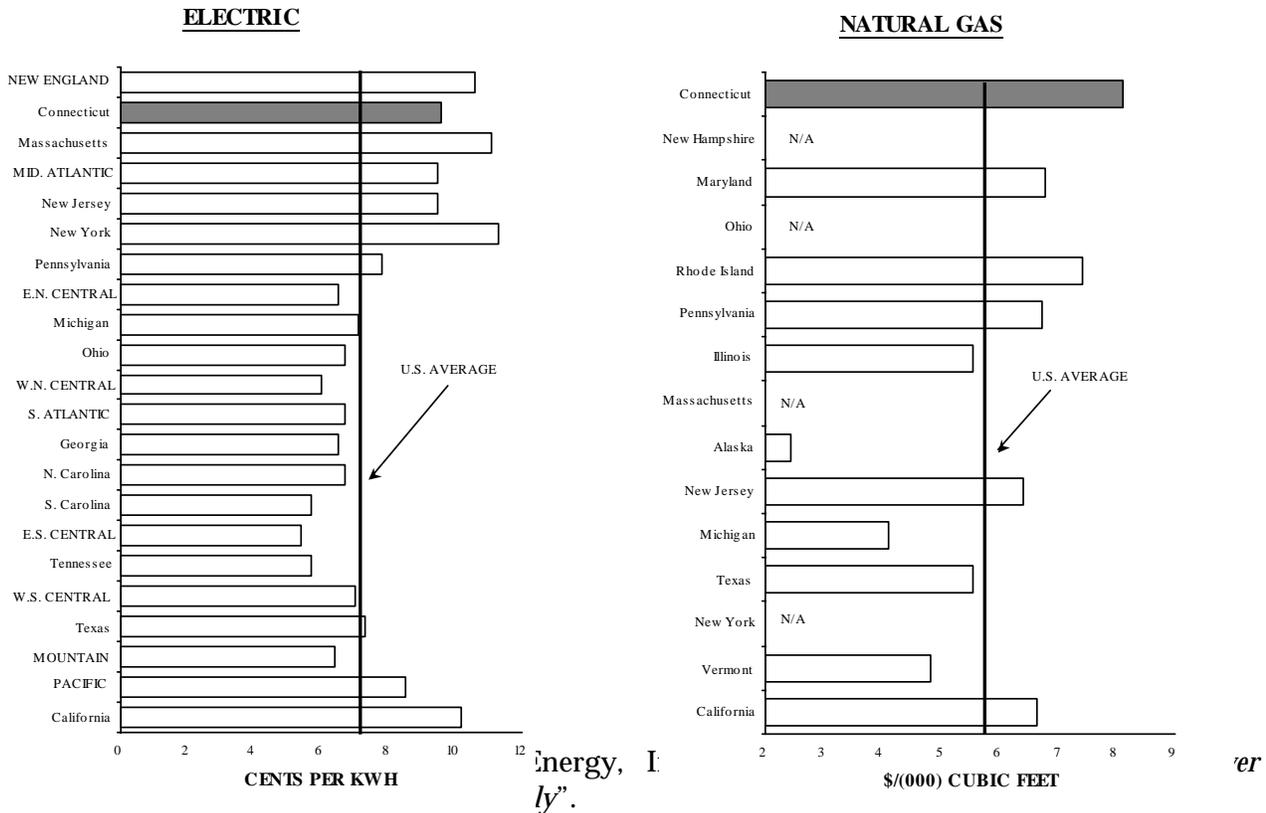
<u>Entities</u>	<u>Ownership</u>	<u>Total Consumers</u>	<u>% of Total</u>	<u>Sales (1000 kwh)</u>	<u>% of Total</u>	<u>Cents per KWH</u>
Bozrah Light & Power Co.	Public	2,421	0.2%	193,766	0.6%	4.59
Conn. Light & Power Co.	Investor	1,121,521	74.5%	22,406,969	74.8%	9.41
Farmington River Power Co.	Investor	1	0.0%	33,336	0.1%	1.92
Groton City	Public	11,440	0.8%	559,856	1.9%	7.36
Jewett City	Public	1,949	0.1%	18,501	0.1%	11.86
Norwalk 3rd Taxing District	Public	3,722	0.2%	58,224	0.2%	10.10
Norwich City	Public	18,030	1.2%	354,738	1.2%	9.15
South Norwalk City	Public	5,897	0.4%	78,463	0.3%	10.87
United Illuminating Co.	Investor	317,663	21.1%	5,653,726	18.9%	10.65
Wallingford Town	Public	<u>23,267</u>	<u>1.5%</u>	<u>594,828</u>	<u>2.0%</u>	<u>6.83</u>
Total		1,505,911	100%	29,952,407	100%	9.52

Source: U.S. Department of Energy, "States Energy Report", October 2002

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As do most of the other northeastern states, Connecticut residents and industries pay high electric prices. The following Charts compare the state's average electric and natural gas prices for all sectors including residential, commercial, and industrial with other national regions and states for 2001.

### COMPARATIVE UTILITY PRICES IN 2001



In 2001, the average cost of electricity was 9.6 cents per kilowatt-hour for all end-users, compared to 7.2 cents in the nation. Rates in 2001 for both Connecticut and the nation were higher. In 2000, the average cost of electricity for Connecticut and the nation was 9.5 cents and 6.7 cents, respectively. The high electric price in Connecticut is partially the result of a lack of low cost indigenous fuel sources. It also reflects higher overall costs of operating in the Northeast and the employment of less polluting electric generating processes. Public Act 98-28 authorized the restructuring of the electric industry in Connecticut. The Act allows consumers to choose their electric suppliers from among suppliers licensed by the Department of Public Utility Control, and requires electric utilities to separate their electric generation function from their transmission and distribution functions. The Act mandates a 10 percent reduction in total rates from 1996 levels, subject to specified adjustments, during the period from 2000 to 2003 for all but special contract and flexible rate customers. In 1996, the average cost of electricity was 10.5 cents per kilowatt-hour for all end-users. This “standard offer” service is available to all consumers except those that had already entered into special contracts with the electric companies. The act also provides a procedure for recovery of stranded costs, including the issuance of revenue bonds backed by part

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of the competitive transition assessments levied on consumers, to be established by the Department of Public Utility Control.

Natural gas prices are also substantially higher in Connecticut compared with the rest of the U.S. In 2001, the average cost of natural gas was \$8.12 per 1,000 cubic feet, compared to \$5.77 in the nation. As with electric prices, this is partially the result of the state's lack of indigenous fuel sources. Connecticut is also situated far from sources of supply and must rely on pipelines that have capacity limitations during periods of peak demand. Since 1996, the Department of Public Utility Control has allowed some competitive market forces to enter the natural gas industry in the state. Commercial and industrial gas consumers can choose non-regulated suppliers for their natural gas requirements. In 2000, Connecticut had 458,388 residential and 52,384 commercial customers. They consumed 42 billion and 49 billion cubic feet of natural gas, respectively. The gas is delivered to the consumer using the local distribution company's mains and pipelines.

### **Gasoline Consumption and Automotive Fuel Economy**

In the United States, highway vehicles consume approximately 98% of all gasoline. Only about 2% is used for other purposes such as agriculture, aviation, industrial, commercial, construction and boating. During 2000, the latest available data year, gasoline consumption in the United States totaled 132.3 billion gallons, the equivalent of 3,149.5 million barrels annually or 8.63 million barrels per day. This is the ninth yearly increase since 1992. It is estimated that the average American consumed 470 gallons of gasoline. Over the past twenty years, gasoline consumption has varied. Consecutive drops in gasoline consumption occurred from 1979 to 1982, the period when gasoline prices rose sharply. Before 1978, gasoline consumption had been rising at an average rate of approximately 3% per year, which is higher than the growth registered in the recent past.

In Connecticut, gasoline consumption totaled 1.48 billion gallons or 35.2 million barrels during 2000. Consumption declined by 4.8%, versus remaining flat at the national level. This converts to consumption of 456 gallons per Connecticut resident versus 470 gallons for the nation. The lower per capita consumption may be attributable to several factors. As one of the smallest states in size in the nation, generally residents commute shorter distances to work and shop. In addition, gasoline prices in Connecticut are relatively higher than the national average, which tends to encourage conservation by the state's residents. Connecticut's small size also increases the likelihood that gasoline may be purchased outside our borders, particularly if there is incentive to do so due to price differentials.

The following Table shows gasoline consumption during the past ten years for the United States and Connecticut.

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**TABLE 31**  
**GASOLINE CONSUMPTION IN THE UNITED STATES & CONNECTICUT**

Calendar <u>Year</u>	U.S. <u>Gallons (000's)</u>	Percent <u>Change</u>	Connecticut <u>Gallons (000's)</u>	Percent <u>Change</u>
1991	107,948,371	(2.0)	1,302,750	0.1
1992	110,950,359	2.8	1,311,247	0.7
1993	113,704,395	2.5	1,321,880	0.8
1994	115,007,612	1.1	1,328,585	0.5
1995	120,875,789	5.1	1,292,233	(2.7)
1996	123,326,745	2.0	1,390,385	7.6
1997	125,399,139	1.7	1,400,016	0.7
1998	127,977,505	2.1	1,425,178	1.8
1999	132,260,590	3.3	1,551,446	8.9
2000	132,279,950	0.0	1,476,340	(4.8)

Source: U. S. Department of Transportation, Office of Highway Information Management, "Highway Statistics 2000", November 2001

In 1975, the U.S. Congress authorized the Department of Transportation to set and enforce automobile efficiency standards, known as Corporate Average Fuel Economy (CAFE). These regulations mandate that automobile makers achieve a fleet wide minimum for fuel efficiency. The average miles per gallon (MPG) for automobiles and light trucks increased from 15.3 MPG in model year (MY) 1975 to 26.2 MPG in MY 1987. After MY 1988, new passenger vehicle efficiency gradually drifted down to 24.4 MPG in MY 2001, with only a slight, short-lived improvement to 24.8 MPG in MY 2000. The increase in fuel efficiency during the 1970s and 1980s and a slowdown in the 1990s reflect the change in driver's tastes and a lower emphasis by consumers on energy conservation. During the 1970s and 1980s, more efficient engines and smaller cars were produced, with lighter and stronger vehicle components installed. During the 1990s and into 2000s, light trucks gained market share while sales for high-powered, four-wheel drive cars increased, reducing the average MPG rating for new vehicles. The average for future model years is expected to decline below the 24-MPG mark as the trend continues.

The following Table details the CAFE standards along with fleet wide average miles per gallon by model year. Light trucks include, minivans, sport utility vehicles (SUVs), and small pick-up trucks that are generally less efficient than cars. As market demand for heavier, larger and high performance passenger cars resumed, car manufacturers continued to provide larger, less fuel-efficient models. The minivan emerged in the early 1980s and the SUVs popularity rose in the 1990s. In 1990, there were 29 SUV models on the market, rising to around 65 in 2002 with more to come in the future. Light truck sales increased from 4.43 million units in MY 1990 to 8.69 million units in MY 2001. In terms of market share, sales of light trucks increased from 31.3% in MY 1990 to 50.8% in MY 2001. In MY 2001, a portion of the vehicles had MPGs that not only declined below MY 1999 levels, but also did not achieve their CAFE standards. Those manufacturers with under-performing products are subject to civil penalties for non-compliance. The penalty is \$5.00 for each 0.1 mpg the fleet sales falls below the standard multiplied by the number of vehicles produced. However, civil penalties might not be collected because the credits earned in earlier

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years may offset the shortfalls. In addition, some manufacturers may file carryback plans to demonstrate that they anticipate earning credits in future years to offset current deficits.

The following Table also shows that foreign imports generally have been getting higher than average MPG than American cars; however, the gap has continually been narrowing since 1995 with only a very small margin in MY 1999. This gap was reversed in MY 2000 as fuel economy performance in domestic passenger cars continued to improve while imported cars experienced a decline. Foreign cars with higher performance features continued to be imported as demand increased. For example, the average curb weight for the foreign produced fleet in MY 2001 increased by 39 pounds from MY 2000 to 3,154 pounds compared to only an 11 pound increase to 3,144 pounds for the domestically produced fleet. This followed an increase of 108 pounds for imported cars and only 5 pounds for the domestically produced fleet in MY 1999. The average fuel efficiency of foreign produced 2001 model year passenger cars was 28.4 MPG, up slightly from 28.3 MPG for MY 2000, but down from more than 29.0 MPG for most of the MY 1990s.

**TABLE 32**  
**AUTOMOTIVE FUEL ECONOMY**  
**Domestic vs. Imported Passenger Cars & Trucks**  
 (Model Year, Average Miles Per Gallon)

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
<b><u>CAFE Standards</u></b>										
Passenger Cars	27.5	27.5	27.5	27.5	27.5	27.5	27.5	27.5	27.5	27.5
Light Trucks	20.2	20.4	20.5	20.6	20.7	20.7	20.7	20.7	20.7	20.7
<b>Cars Produced</b>	27.9	28.4	28.3	28.6	28.5	28.7	28.8	28.3	28.5	28.6
Domestic Cars	27.0	27.8	27.5	27.7	28.1	27.8	28.6	28.0	28.5	28.8
Import Cars	29.2	29.6	29.6	30.3	29.6	30.1	29.2	29.0	28.3	28.4
<b>Light Trucks Produced</b> (up to 8,500 lbs.)	20.8	21.0	20.8	20.5	20.8	20.6	21.1	20.9	21.3	20.9
<b>Total Fleet</b>	25.1	25.2	24.7	24.9	24.9	24.6	24.7	24.5	24.8	24.4

Source: U.S. Department of Transportation, National Highway Traffic Safety Administration, "Automotive Fuel Economy Program, Annual Update Calendar Year 2001"

Fuel economy for passenger cars varies, depending upon the car size, manual or automatic transmission, or type of travel, etc. For MY 2003, the two-seater Honda Insight, for example, using a hybrid electric system with 5-speed manual transmission gets 68 miles per gallon on the highway, while the mid-size Toyota Camry SE and Ford Taurus LX Standard Sedan using gasoline gets only 24 miles and 20 miles, respectively, in the city. CAFE standards for passenger cars have remained at 27.5 miles per gallon since 1990 and light trucks at 20.7 miles since 1996. As the economy continues to rely on foreign oil and seeks to increase energy efficiency, tougher auto fuel-economy standards have been fiercely debated for both energy security and environmental concerns. In 2001, a National Academy of Sciences study concluded that a 40% increase in CAFE is technically and economically feasible. The American Council for an Energy-Efficient Economy supports increasing the CAFE standards to 40 mpg for cars and 33 mpg for light trucks by 2012. On the other hand, the Alliance for Automobile Manufacturers challenged that raising the CAFE would add to the cost and may affect safety, at a time when the demand for bigger cars and SUVs

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continues to increase. On December 12, 2002, President Bush approved the National Highway Traffic Safety Administration's rule, raising fuel efficiency standards for new light trucks to 22.2 MPG by MY 2008. A mandated increase in the CAFE standard would have a beneficial impact on engine technologies, automotive design and the use of materials as well as the consumption of energy.

To date, hybrid-electric vehicles, which combine the best features of internal combustion engines and electric motors, attain the highest fuel economy. When braking or coasting to a stop, the hybrid vehicle uses its electric motor as a generator to produce electricity, which is then stored in its battery pack. Unlike battery-powered electric cars, which were introduced in California in the 1990s and are required to be recharged by plugging in, the hybrid vehicle can charge as the vehicle runs. There are three hybrid models of passenger cars on the market - all are foreign cars. U.S. carmakers plan to start selling hybrids as early as next year, primarily targeting sport-utility vehicles and pick-up trucks. Recently, fuel cell technology has been developing in the auto industry as an alternative energy source. A fuel cell is a device that directly and indirectly produces electricity from hydrogen or hydrocarbon fuel through a non-combustive electro-chemical process. However, hybrid-electric vehicles are expected to be on the road in large numbers before fuel cell powered cars hit the market. To encourage the development of this new technology, the State's Public Act 01-6 exempts sales tax on materials, tools, fuel, machinery and equipment used in a fuel cell manufacturing facility in Connecticut.

### **Reformulated Gasoline**

According to the Clean Air Act, as amended in 1990, the U.S. Environmental Protection Agency (EPA) requires the sale of reformulated gasoline (RFG) in metropolitan areas that do not meet federal air quality standards. The burning of RFG reduces emissions of ozone-forming and toxic air pollutants. Those areas include Hartford and other big cities such as Baltimore, Boston, Chicago, Dallas, Denver, Houston, Kansas City, Louisville, Milwaukee, New York, Norfolk, Philadelphia, Richmond (VA), St. Louis, and Washington D.C. RFG is blended with domestically produced ethanol to burn cleaner than conventional gasoline, producing approximately 15% to 17% less pollution. After implementing Phase I of the Clean Air program that ran from 1995 through 1999, the Phase II RFG program was begun in 2000, and is designed to result in greater emissions reductions for areas with the worst smog problems, reducing 22% of total toxic pollutants versus 17% for Phase I of the program. California has been enforcing its own reformulated gas rule since 1996, with the whole state already meeting the Phase II RFG program requirements. Reformulated gasoline has been sold in Connecticut since January 1, 1995. All towns in Fairfield and New Haven counties and partial areas of the rest of the 6 counties in Connecticut are required to participate in the Phase II RFG program.

Most gas stations in Connecticut are required to have in place vapor recovery systems on every pump to prevent release into the atmosphere. This typically involves a vacuum system that draws gasoline vapors out of a vehicle's fuel tank during refueling and returns them to the underground storage tank. The cost of installing and maintaining this equipment has had a negligible affect on the cost per gallon. It is through the combination of the above efforts that Connecticut's environmental authorities expect to reduce mobile source emissions of ozone-forming pollutants by significant percentages and comply with federal regulations.

### **Fluctuations in Gasoline Prices**

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The price of gasoline is one of the most closely watched items by consumers in the nation. The U.S. Bureau of Labor Statistics assigns a 2.54% relative weight to this single component to calculate the CPI-U index, the consumer price index for all urban consumers. Due to their more volatile price fluctuations, energy prices, as well as food prices, are sometimes excluded from the CPI-U index to measure the "core inflation" rate in order to understand underlying price changes.

Short-term gasoline prices have long been known for their drastic volatility, often increasing and dropping markedly during relatively short periods of time. For example, regular gasoline in the U.S. averaged \$1.19 per gallon in January 2002, down from \$1.48 and \$1.63 in January and September of 2001, respectively, then, just three months after, shot back up to \$1.42 in April 2002. Gasoline price fluctuations are caused by many factors, but are basically determined by the fundamental law of supply and demand of fuel due to the changes in the price of crude oil, any disruption of refinery operations, inventory levels, seasonality and weather conditions, the regulation of environmental standards and geopolitical conditions, etc. In addition, gasoline prices tend to go up faster than they go down when there is turbulence in the energy markets. The long run price, however, shows a relatively stable upward trend except for a 3-year sharp uptick in the early 1980s. Gasoline prices averaged approximately 30 cents a gallon during the period between the 1950s and the early 1970s. After the Arab oil embargo in 1973, gasoline prices gradually increased to hover around \$1.50 a gallon. To remove the effects of inflation, the use of inflation-adjusted prices for comparison can better reflect the real price changes. The following Table shows that the average real gasoline price for the past five decades was \$1.38 per gallon, with the 1980s much higher and the 1990s much lower than the norm, and with the past two years right on the average.

**TABLE 33**  
**RETAIL MOTOR GASOLINE PRICES**  
(Dollars per Gallon, Regular Gasoline)

<u>Calendar Year</u>	<u>Nominal Price</u>	<u>Real Price</u>	<u>Average Real Price (for the Decade of)</u>
1950	\$0.27	\$1.54	\$1.46
1960	0.31	1.40	1.32
1970	0.36	1.23	1.33
1980	1.25	2.18	1.63
1990	1.16	1.16	1.19
1995	1.15	1.35	-
1997	1.23	1.21	-
1999	1.17	1.11	-
2000	1.51	1.41	1.38
2001	1.46	1.34	-
Average			\$1.38

Note: Prices for 1950, 1960, and 1970 are leaded regular and after 1980, unleaded regular. Real prices are in chained 1996 dollars, calculated by using GDP implicit price deflators.

Source: U.S. Dept. of Energy, Energy Information Admin. "Annual Energy Review," Oct. 2002

### Gasoline Prices In Developed Countries

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The retail price of gasoline in the U.S. averaged \$1.48 per gallon in September 2002, compared to \$4.63 in the U.K. and \$4.21 in Germany. Gasoline prices in the U.S. are only about one third that of European countries. Gasoline prices in the U.S. may rank among the lowest in the world for oil-importing countries. The following Table shows the retail price of gasoline among developed countries. International gasoline prices are determined by global supply and demand, technological levels, differing consumer tastes, and non-economic factors such as heightened consciousness of energy conservation and the environment. In Europe, these non-economic factors play the primary role in driving up gasoline prices. To conserve energy and prevent environmental damage, large gas taxes, in addition to steep taxes on car purchases and ownership, are levied to discourage car use and hence gasoline consumption. The tax portion of the price of gasoline in the U.S. accounted for only 27% of the retail price in September 2002, compared to 77% in the U.K. and 73% in France. Of the 40-cent tax in the U.S., 18.4 cents was the federal fuel tax with the remainder attributable to state taxes. In 2002, the highest state fuel tax was Hawaii, at 28.1%, and the lowest was Georgia, at 7.5% (please see section entitled Motor Fuel Tax under the "Major Revenue Raising Taxes" Chapter of this report.)

**TABLE 34**  
**END-USER GASOLINE PRICES AMONG DEVELOPED COUNTRIES**  
September 2002

	Before		End-User	Tax As A	U.S. End-User
	<u>Tax</u>	<u>Tax</u>	<u>Price</u>	<u>Percent</u>	<u>Price As A % Of</u>
				<u>Of Price</u>	<u>Other Country</u>
France	1.10	2.98	4.09	73%	36%
Germany	1.18	3.03	4.21	72%	35%
Italy	1.35	2.82	4.17	68%	36%
United Kingdom	1.08	3.54	4.63	77%	32%
<b>Average of Above</b>	<b>1.18</b>	<b>3.10</b>	<b>4.27</b>	<b>72%</b>	<b>35%</b>
Japan	1.50	1.95	3.44	57%	43%
Canada	1.09	0.76	1.85	41%	80%
USA	1.07	0.40	1.48	27%	

Note: Unleaded premium gasoline for France, Germany, Italy, and the U.K.; regular unleaded gasoline for Canada, Japan, and the USA.

Source: U.S. Department of Energy, Information Administration, International Energy Agency, October 2002

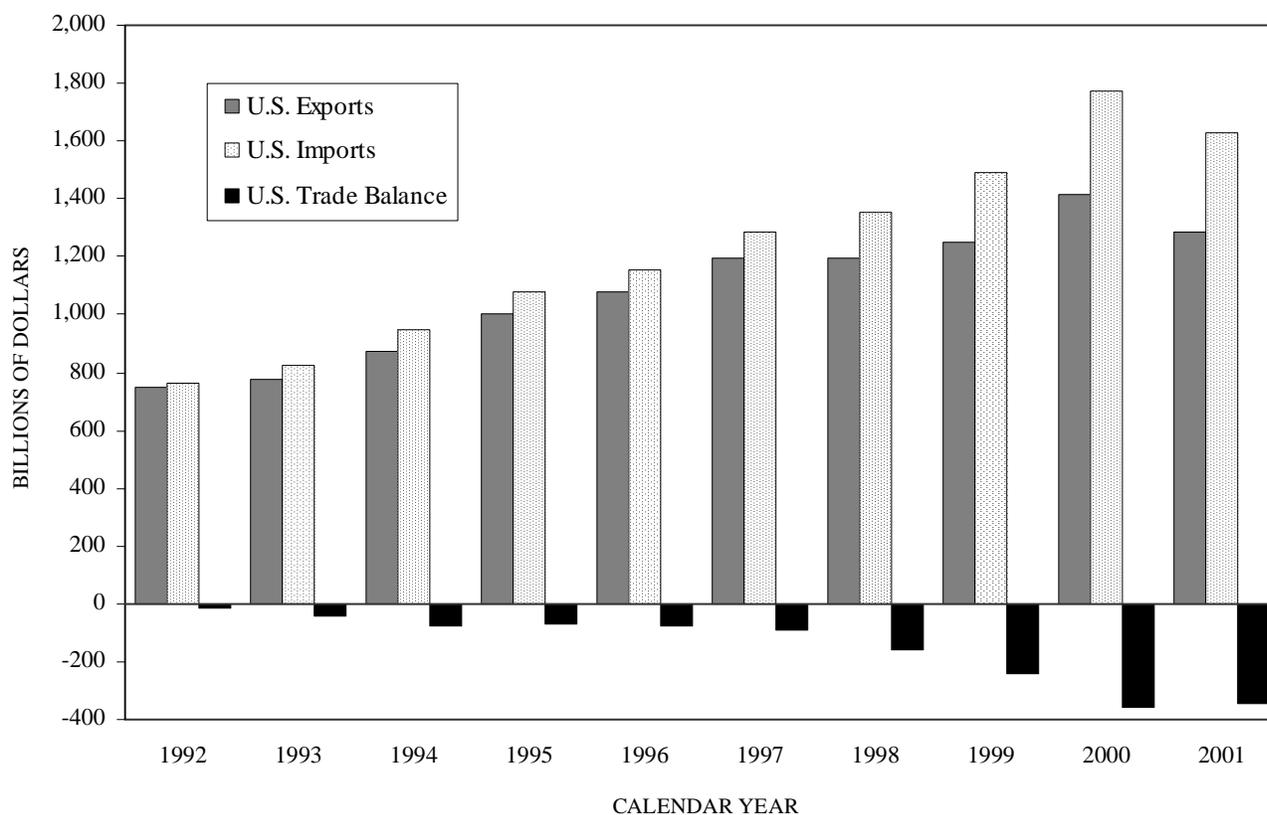
### **Export Sector**

The United States is increasingly becoming a world trade oriented economy. U.S. real exports and imports accounted for 27.9% of Gross Domestic Product (GDP) in 2001, down from 29.1% in 2000, but up from 27.0% in 1999, 19.4% in 1990, 13.8% in 1980, 12.4% in 1970, and 9.4% in 1960. The decline in the 2001 share was due to a slowdown in the U.S. and worldwide economies, which impeded foreign trade activities. Exports, and a favorable balance of payments, have traditionally been important to the growth of the United States, affecting employment, production, and income. Real exports of goods and services significantly boosted economic growth over the past decade,

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accounting for 11.7% of real GDP in 2001, down from 12.4% in 2000, but gradually up from 10.4% in 1990, 8.5% in 1980, and 5.6% in 1970. The following Chart illustrates the United States' trade balance for the past ten years. The trade deficit from merchandise, services and investment income reached its prior peak in 1987 at \$137.4 billion, caused primarily by the relatively high value of the dollar between 1983 and 1986. In 1990, the deficit fell to \$52.3 billion and further dropped to \$7.0 billion by 1991. However, it bounced back and grew rapidly to a new record high of \$356.9 billion by 2000 due to rapid growth in imports over exports. A combination of strong U.S. economic growth and weakness abroad has widened the U.S. trade gap. In 2001, the deficit fell slightly to \$343.9 billion, brought about by a decrease in the deficit on goods combined with a continued surplus in services and investment income.

### U.S. TRADE BALANCE BY CALENDAR YEAR



The United States' trade balances in the past decade generally improved during recession years, and deteriorated during recovery and expansionary periods. Trade deficits narrowed in 1991 and 2001 when the U.S. experienced an economic slowdown whereas deficits widened during the boom years that were experienced during most of the 1990s. The U.S. elasticity of demand for foreign goods and services is greater than our major trade partners' elasticity of demand for U.S. goods and services resulting in unfavorable trade balances during U.S. economic recoveries.

According to the U.S. Department of Commerce, international trade is classified into three categories: merchandise trade, service transactions, and investment income. The decline in the

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international trade deficit in the late 1980s resulted from an improvement in merchandise trade, enhanced balances in service transactions and a continued surplus in investment income. However, the favorable trade situation turned around in 1991 with widening deficits in merchandise and narrowing surpluses in investment income and services. In 2001, the surplus in services fell to \$68.9 billion from \$73.7 billion in 2000 and \$83.8 billion in 1999 and the surplus in investment income declined to \$14.4 billion from \$21.8 billion in 2000 and \$18.1 billion in 1999. The deficit in merchandise expanded from \$76.9 billion in 1991 to \$427.2 billion in 2001. However, this was a slight decline from the \$452.4 billion in 2000. The total trade deficit registered \$343.9 billion in 2001, down from \$356.9 billion in 2000.

In 2001, all major categories of imports including merchandise, services, and investment income declined, as did the growth in exports. This was attributed to a slowdown in the worldwide economy. Most of America's major trade partners in 2001 experienced either a negative or lackluster growth in real GDP. Countries with falling real GDP included Mexico (-0.3% vs. 6.6% in 2000), Japan (-0.3% vs. 2.4% in 2000), Taiwan (-1.9% vs. 5.9% in 2000), and Singapore (-2.0% vs. 10.3% in 2000). Countries experiencing anemic growth included Germany (0.6% vs. 2.9% in 2000), Canada (1.5% vs. 4.5% in 2000), France (1.8% vs. 4.2% in 2000), and the UK (1.9% vs. 3.1% in 2000). The European Union, which is comprised of 15 countries, including the United Kingdom, France, and Germany grew 1.5% in real GDP after a growth of 3.5% in 2000. Real GDP in the U.S. grew 0.3% in 2001, after an expansion of 3.8% in 2000. U.S. imports fell as the economy weakened. A two-year listing of the detail for these three categories is broken down in the following Table.

### **Merchandise Trade**

There are six subcategories within merchandise trade, including foods, feeds and beverages; industrial supplies and materials; capital goods excluding autos; consumer goods and others. The deficit in merchandise trade registered \$427.2 billion in 2001, falling from its recent high of \$452.4 billion in 2000, but up from \$346.0 billion in 1999 and much higher than the recent low of \$76.9 billion in 1991. Before 1991, the merchandise trade deficit had declined as exports grew faster than imports. After 1991, however, the situation reversed itself; imports climbed faster than exports, resulting in a continued increase in the trade deficit. The decrease in 2001's deficit in merchandise trades ran counter to the trend. Exports of merchandise in 2001 fell 6.9%, which was greater than the decline in U.S. imports of 6.4%. U.S. imports registered increases of 18.9% in 2000 and 12.3% in 1999 compared to increases of 12.9% in 2000 and 2.0% in 1999 for exports.

United States exports have been concentrated in two categories: capital goods and industrial supplies & materials. These two categories hovered around two thirds of total merchandise exports over the past decade. In contrast, U.S. imports have been evenly distributed among four categories: industrial supplies and materials; capital goods excluding autos; autos; and consumer goods. They accounted for more than 90% of total merchandise imports over the past decade. This implies that, as imports are evenly distributed across categories, the U.S. could mitigate its foreign trade imbalances if net exports in these two major categories improve. The decrease in the merchandise trade deficit of \$25.2 billion in 2001, from deficit of \$452.4 billion to \$427.2 billion, reflects concentrated improvements in these two categories. The surplus on capital goods in 2001 increased \$13.7 billion from \$10.0 billion to \$23.7 billion and the deficit in industrial supplies and materials fell \$13.6 billion from \$129.5 billion to \$115.9 billion.

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**TABLE 35**  
**U.S. TRADE DEFICIT BY CATEGORY**  
(In Billions of Dollars)

	2000			2001		
	Exports	Imports	Balance	Exports	Imports	Balance
<b><u>Total Trade</u></b>	<b>1,417.2</b>	<b>1,774.1</b>	<b>(356.9)</b>	<b>1,281.0</b>	<b>1,625.7</b>	<b>(343.9)</b>
<b>Merchandise</b>	<b>772.0</b>	<b>1,224.4</b>	<b>(452.4)</b>	<b>718.8</b>	<b>1,145.9</b>	<b>(427.2)</b>
Foods/Beverages	46.0	47.9	(1.9)	46.6	49.4	(2.8)
Industrial Supplies & Materials	172.7	302.1	(129.5)	160.2	276.1	(115.9)
Capital Goods, Excluding Autos	357.0	347.0	10.0	321.7	298.0	23.7
Autos	80.4	195.9	(115.5)	75.4	189.8	(114.3)
Consumer Goods	89.4	282.0	(192.6)	88.3	284.5	(196.2)
Others	26.6	49.5	(22.9)	26.4	48.1	(21.7)
<b>Services</b>	<b>292.2</b>	<b>218.5</b>	<b>73.7</b>	<b>279.3</b>	<b>210.4</b>	<b>68.9</b>
Travel & Transportation	133.2	130.7	2.5	119.4	121.4	(1.9)
Royalties, License fees, etc.	144.3	71.4	72.9	146.8	70.9	75.8
Other Services	14.8	16.4	(1.7)	13.1	18.1	(5.0)
<b>Investment Income</b>	<b>353.0</b>	<b>331.2</b>	<b>21.8</b>	<b>283.8</b>	<b>269.4</b>	<b>14.4</b>
Receipts/Payments on Assets						
Direct Investment	149.7	60.8	88.9	126.0	23.4	102.6
Other Private Investment	197.1	179.2	17.9	151.8	156.8	(5.0)
U.S. Gov't Receipts/Payments	3.8	83.0	(79.1)	3.6	80.7	(77.1)
Compensation of Employees	2.3	8.2	(5.9)	2.4	8.5	(6.2)
	<u>Percent Change From Previous Year</u>					
<b><u>Total Trade</u></b>	<b>13.6</b>	<b>18.9</b>	<b>46.2</b>	<b>(9.6)</b>	<b>(8.4)</b>	<b>(3.6)</b>
<b>Merchandise</b>	<b>12.9</b>	<b>18.9</b>	<b>30.7</b>	<b>(6.9)</b>	<b>(6.4)</b>	<b>(5.6)</b>
Foods/Beverages	0.0	9.8	(179.7)	1.4	3.2	46.0
Industrial Supplies & Materials	16.9	34.8	69.3	(7.2)	(8.6)	(10.5)
Capital Goods, Excluding Autos	14.7	17.3	(35.8)	(9.9)	(14.1)	137.9
Autos	6.8	9.4	11.4	(6.1)	(3.1)	(1.0)
Consumer Goods	10.4	16.5	19.6	(1.2)	0.9	1.8
Others	16.2	8.7	1.1	(0.8)	(2.8)	(5.2)
<b>Services</b>	<b>7.0</b>	<b>15.4</b>	<b>(12.0)</b>	<b>(4.4)</b>	<b>(3.7)</b>	<b>(6.6)</b>
Travel & Transportation	9.7	14.3	(65.2)	(10.3)	(7.1)	(177.9)
Royalties, License fees, etc.	6.9	21.1	(4.2)	1.7	(0.6)	4.0
Other Services	(11.5)	1.8	(413.9)	(11.6)	10.0	200.1
<b>Investment Income</b>	<b>21.5</b>	<b>21.6</b>	<b>20.1</b>	<b>(19.6)</b>	<b>(18.7)</b>	<b>(34.0)</b>
Receipts/Payments on Assets						
Direct Investment	16.5	13.8	18.5	(15.8)	(61.5)	15.5
Other Private Investment	25.8	31.3	(11.4)	(23.0)	(12.5)	(127.6)
U.S. Gov't Receipts/Payments	20.3	11.3	10.9	(7.4)	(2.8)	(2.6)
Compensation of Employees	5.9	3.3	2.3	1.8	4.0	4.9

Note: Percent changes were derived before rounding to billions.

Source: U.S. Department of Commerce, "Survey of Current Business", July 2002

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Of the total deficit of \$427.2 billion, consumer goods accounted for the largest portion of the deficit, reaching \$196.2 billion in 2001. This category registered a 1.8% increase after double-digit growth of 19.6% in 2000 and 17.7% in 1999. Consumer goods consist of durables and nondurables. Durable goods including household and kitchen appliances such as radio and stereo equipment, televisions and video receivers, bicycles, watches and clocks, toys and sporting goods. Nondurables include footwear, apparel, medical, dental and pharmaceutical preparations.

Industrial supplies and materials including energy products, iron and steel, metal products, lumber and paper and chemicals accounted for the second highest portion of the deficit. As worldwide demand for final goods declined, so did the need for industrial materials. Imports decreased 8.6% to \$276.1 billion and exports decreased 7.2% to \$160.2 billion, resulting in a \$115.9 billion deficit, which was smaller than the previous year's \$129.5 billion deficit. Imports of petroleum decreased, down 14% to \$103.6 billion, after rising to \$120.2 billion the year before. The imported price of petroleum, measured by the refiner's acquisition cost of crude oil, averaged \$22.96 per barrel in 2001 compared to \$28.26 in 2000.

The third largest portion of the deficit occurred in the auto category at \$114.3 billion, a 1.0% decrease from 2000's deficit of \$115.5 billion. Both exports and imports experienced single-digit negative growth. Exports of automotive vehicles, engines, and parts declined 6.1%, mostly due to declining shipments to Canada of completed autos, trucks, buses, and parts. Imports of automotive products declined 3.1%, compared to increases of 9.4% in 2000 and 20.4% in 1999. Imports of complete automotive vehicles from Canada and Mexico, as well as parts and accessories from Canada and Japan declined. Overall, U.S. imports of cars and light trucks rose from 2.8 million units (MU) to 3.1 MU, capturing 18.0% of the domestic market, up from 16.1% in 2000 and 14.9% in 1999.

Capital goods continued to post a surplus at \$23.7 billion in 2001, after a surplus of \$10.0 billion in 2000 and \$15.5 billion in 1999. This sector, which excludes autos, includes machine tools, telecommunications equipment, hospital and scientific instruments, industrial engines, and oil drilling and mining equipment. The increase in surplus was caused by a faster decline in imports than exports. Imports declined by 14.1% in 2001 compared to a 9.9% decrease in exports. As the worldwide boom in the production and sales of high-technology equipment and components halted, trade declined. The decrease in imports was attributable to a weak demand for high-technology products, primarily for computers & parts, semiconductors telecommunications equipment, and electronic products. As international competition intensified, prices fell, especially for semiconductors. Exports of civilian aircraft, engines and parts, however, increased slightly to \$52.8 billion from \$48.1 billion in 2000. Imports of civilian aircraft, engines, and parts increased to \$31.2 billion from \$26.4 billion in 2000.

### **Service Transactions**

The United States is highly competitive in the delivery of services. It is estimated that the U.S. is 20% more productive than our major foreign competitors in this area. The surplus has been generated from travel, passenger fares, royalties and license fees, as well as private services including education, finance, insurance, telecommunications, and business services. Despite the vital role the surplus in service transactions continued to play in the balance of trade, it declined to \$68.9 billion in 2001 from \$73.7 million in 2000 and \$83.8 million in 1999. The surplus has hovered between \$70 billion and \$85 billion over the past four years. Both exports and imports of services in 2001 defied the upward trend, falling 4.4% and 3.7%, respectively. Faster declines in exports than

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imports led to the decline in the surplus. Spending by foreign visitors dropped 10.3% over the previous year as slowing growth in major economies abroad limited the number of visitors to America, and likewise visits abroad by U.S. residents decreased by 7.1%. The aftermath of September 11th attack continued to haunt the travel and transportation industry and pushed the transportation fare rate substantially lower because of weak demand. Receipts from royalty and license fees were the major contributor to the surplus in services, and its role continues to be more favorable to the trade balance. Of the \$68.9 billion total surplus in 2001, \$75.8 billion was attributable to royalty and license fees, which more than offset the deficits in travel and other services. This ratio rose to 101% in 2001, up from 99% in 2000 and 91% in 1999. This reflects that the U.S. continues to lead in technology worldwide.

### **Investment Income**

The balance in investment income registered a surplus of \$14.4 billion in 2001, down from \$21.8 billion in 2000. This component had traditionally experienced higher surpluses in the \$30 billion to \$40 billion range in early 1980s, but has been drifting down as foreign-owned assets in the U.S. continue to increase. Investment income contains two components: 1) receipts generated from U.S.-owned assets abroad including direct investments, other private securities such as the U.S. government-owned securities as well as corporate bonds and stocks, and 2) compensation receipts of workers employed abroad in international organizations and foreign embassies stationed in the U.S., including wages, salaries, and benefits. Payments are the counterpart of U.S. receipts; they are in contrast paid on foreign-owned assets invested in the U.S.

The surplus in direct investment income increased 15.5% to \$102.6 billion. Receipts from U.S. direct investment abroad declined 15.8% compared to a 61.5% decrease in payments on foreign investments in the U.S. The decrease of U.S. earnings from direct investment abroad reflected a slowdown in global economic growth along with the appreciation of the dollar that deflated the earnings of affiliates located abroad. The decrease in payments on foreign investments in the U.S. reflected primarily the economic slowdown in the U.S. The turnaround of the surplus to a deficit of \$5.0 billion in the "other private income" category was due to a larger decrease in receipts than payments. Receipts from foreign financial accounts, stocks, and bonds dropped 23.0% to \$151.8 billion while payments of income to foreign investors decreased 12.5% to \$156.8 billion. Lower interest receipts accounted for the major losses as average interest rates declined more than 200 basis points. Dividends earned on stocks fell, reflecting poor global economic conditions and the weakness in operational profitability.

The deficit in government receipts/payments account declined. U.S. government receipts were \$3.6 billion in 2001 whereas payments on U.S. government liabilities declined to \$80.7 billion, resulting in a deficit of \$77.1 billion, compared to a deficit of \$79.1 billion in the previous year. Despite increased net purchases of Treasury securities by foreign holders in 2001, yields declined as interest on short-term bills dropped 150 basis points and long-term bonds fell 125 basis points. The deficit in compensation receipts/payments of employees remained virtually unchanged. Payments to foreign employees include those Canadian and Mexican workers who commute to work in the U.S., foreign professionals, temporary agricultural workers, and students studying in the U.S.

As described on the previous page and listed on the following Table, there are five major types of foreign assets in the United States including U.S. government securities held by foreign governments and the private sector, direct investments, and liabilities captured by private bonds, corporate stocks, and U.S. banks.

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**TABLE 36**  
**INTERNATIONAL INVESTMENT**  
(Millions of Dollars At Current Cost)

	<u>2000</u>	<u>2001</u>	<u>Change</u>	<u>Percent Change</u>
<b>A. U.S.-owned assets abroad</b>	<b>6,191,934</b>	<b>6,196,139</b>	<b>4,205</b>	<b>0.1%</b>
U.S. official reserve assets	128,400	129,961	1,561	1.2%
U.S. government assets	85,164	85,650	486	0.6%
U.S. credit & long-term assets	82,570	83,128	558	0.7%
Currency holdings & short-term assets	2,594	2,522	(72)	(2.8%)
U.S. private assets	5,978,370	5,980,528	2,158	0.0%
Direct investment abroad	1,515,279	1,623,122	107,843	7.1%
Foreign securities	2,389,427	2,110,520	(278,907)	(11.7%)
Bonds	577,019	545,782	(11,237)	(2.0%)
Stocks	1,832,408	1,564,738	(267,670)	(14.6%)
Financial instruments	2,073,664	2,246,886	173,222	8.4%
<b>B. Foreign-owned assets in the U.S.</b>	<b>7,542,725</b>	<b>8,144,273</b>	<b>601,548</b>	<b>8.0%</b>
Foreign official assets	1,008,890	1,021,738	12,848	1.3%
Government securities	749,904	798,844	48,940	6.5%
Others	258,986	222,894	(36,092)	(13.9%)
Foreign private assets	6,533,835	7,122,535	588,700	9.0%
Direct investment	1,374,752	1,498,924	124,172	9.0%
Foreign securities	3,276,380	3,520,997	244,617	7.5%
Treasury securities & currency	652,752	664,343	11,591	1.8%
Corporate & Municipal Bonds	1,075,988	1,392,620	316,632	29.4%
Stocks	1,547,640	1,464,034	(83,606)	(5.4%)
Financial instruments	1,882,703	2,102,614	219,911	11.7%
<b>C. Net U.S. Total Investment Position (A-B)</b>	<b>(1,350,791)</b>	<b>(1,948,134)</b>	<b>(597,343)</b>	<b>44.2%</b>
Net U.S. private investment position	(555,465)	(1,142,007)	(586,542)	105.6%
Direct Investment	140,527	124,198	(16,329)	(11.6%)
Other Indirect investment	(886,953)	(1,410,477)	(523,524)	59.0%
Net Bond and Stock Investment	(234,201)	(746,134)	(511,933)	218.6%
Net Government liabilities and Others	(795,326)	(806,127)	(10,801)	1.4%

Source: U.S. Department of Commerce, "Survey of Current Business", July 2002

According to the U.S. Department of Commerce, in calendar 2001, foreign assets in the U.S., measured at current cost, increased by \$601.5 billion, or 8.0%, to \$8,144.3 billion, compared to an anemic increase of \$4.2 billion, or 0.1%, to \$6,196.1 billion for U.S. assets abroad. This placed U.S. international investment at a net negative of \$1,948.1 billion, which deteriorated notably from \$1,350.8 billion in 2000 and \$784.1 billion in 1999. U.S. direct investment in assets abroad continues to exceed foreign direct investment in the U.S., but with a smaller margin. In 2001, the U.S.'s direct investment abroad was \$1,623.1 billion and foreign direct investment in the U.S. was \$1,498.9

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billion, registering \$124.2 billion in net investment, down from \$140.5 billion in 2000. Foreign assets in the U.S. are mostly in securities such as bonds and stocks issued by the Treasury and corporations. Net foreign purchases of U.S. stocks and bonds posted a record in 2001 with a 218.6% increase to \$746.1 billion.

The following Table shows U.S. trade transactions by area. The deficit on goods and services in 2001 was \$343.9 billion, a reduction of \$13.0 billion. A larger reduction in imports than in exports, mostly from Japan, the Asian area and Canada, contributed to the improvement in the trade deficit. Most of the reductions for Japan and the Asian area were in the high-technology components of capital goods while for Canada in capital goods, automotive products, and industrial supplies and materials. Deficits in Western Europe and Latin America increased as a result of a larger reduction in exports than in imports in capital goods.

TABLE 37  
**U.S. INTERNATIONAL TRANSACTIONS**  
**(By Area, In Billions of Dollars)**

	1999			2000			2001		
	<u>Exports</u>	<u>Import</u>	<u>Bal.</u>	<u>Exports</u>	<u>Imports</u>	<u>Bal.</u>	<u>Exports</u>	<u>Imports</u>	<u>Bal.</u>
<b>Total Trade</b>	<b>1,247.7</b>	<b>1,491.8</b>	<b>(244.1)</b>	<b>1,417.2</b>	<b>1,774.1</b>	<b>(356.9)</b>	<b>1,281.8</b>	<b>1,625.7</b>	<b>(343.9)</b>
Western Europe	388.1	426.6	(38.6)	438.8	496.2	(57.4)	397.1	460.4	(63.3)
Canada	211.3	225.0	(13.8)	230.2	259.9	(29.8)	209.7	235.4	(25.8)
Japan	98.8	179.1	(80.4)	112.8	202.8	(90.0)	97.1	175.1	(78.0)
Australia	22.9	10.3	12.7	25.5	12.5	13.0	20.4	10.4	10.0
Eastern Europe	12.6	16.4	(3.8)	13.8	21.7	(7.8)	14.3	19.9	(5.6)
Latin America (1)	255.9	256.3	(0.4)	302.8	318.6	(15.8)	274.6	296.3	(21.7)
Asia & Africa (2)	222.8	364.6	(141.9)	258.3	445.7	(187.3)	235.5	413.2	(177.7)
Others (3)	35.4	13.3	22.1	35.1	16.8	18.3	33.1	15.0	18.2

(1) Includes Brazil, Mexico, Venezuela and other Western Hemisphere countries.

(2) Includes members of OPEC, China, Hong Kong, South Korea, New Zealand, Singapore, Taiwan and South Africa.

(3) Includes figures for International Organizations and unallocated areas.

Source: U.S. Department of Commerce, "Survey of Current Business", July 2002

### Connecticut Exports

In Connecticut, the export sector has assumed an increasingly important role in overall economic growth. At a time when the defense industry has been pared back, manufacturing exports have been an engine for expansion in the state's economy and have helped boost personal income. State exports of goods for the past five years averaged 5.1% of the State's Gross State Product (GSP).

According to figures published by the United States Department of Commerce, which were adjusted and enhanced by the University of Massachusetts (MISER) to capture a greater percent of indirect exports, Connecticut exports of commodities totaled \$8,610.4 million in 2001. The State's economy benefits from goods produced not only for direct shipment abroad but also from those that are ultimately exported from other states. These indirect exports are important in industries

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whose products require further processing such as primary metals, fabricated metal products and chemicals. In addition, indirect exports are important in industries whose products constitute components and parts for assembly into machinery, electrical equipment and transportation equipment.

Exports of services of approximately \$3.3 billion and income receipts of approximately \$3.4 billion on Connecticut direct investment abroad also play a vital role in Connecticut. These bring Connecticut's total export related receipts to \$15.4 billion, or approximately 9.5% of the State's GSP. Exports of services include foreign transactions generated from travel, royalties and license fees, as well as private services including education and business services. Income receipts on Connecticut investment abroad include profits, interest, dividends and capital gains generated from direct investment and securities owned by the state's citizens or companies. As a high-tech state with excellent institutes of higher education and growing entertainment attractions, along with superior expertise in finance and insurance, Connecticut's service exports and investment income are estimated to be relatively higher than the national average.

Exports of educational services also play an important role in the state's economy. The number of foreign students studying in Connecticut educational institutions continues to increase at a faster pace than the national rate. There were 8,050 foreign students attending Connecticut colleges in the 2001-02 school year, accounting for 1.38% of the national total, up 9.4% from 2000-01 school year and compared to the national increase of 6.5%, according to the *Institute of International Education*. It is estimated that this total would rise to 8,500 foreign students if those who attend secondary and middle schools were included. It is estimated foreign students spend \$230 million on tuition, room and board, and the other incidentals of everyday life. Tourism receipts had also steadily increased up until the September 11th attack. It is estimated that as many as 200,000 people from other countries visit Connecticut and spend \$300 million annually, partially as a result of casino related businesses.

Connecticut industries that rely most heavily on exports are Transportation Equipment (NAICS 336), Nonelectrical Machinery (NAICS 333), Computer & Electronic (NAICS 334), Chemicals (NAICS 325), Miscellaneous Manufacturing (NAICS 339), Fabricated Metal (NAICS 332), and Electrical Equipment (NAICS 335). NAICS refers to the North American Industry Classification System, which replaced the Standard Industrial Classification (SIC) system and was implemented in 1997. The top seven industries account for about 85% of Connecticut's foreign sales. The following Table shows the breakdown of major products by NAICS code for the past five years. In 2001, Transportation Equipment, which includes aircraft engines and spare parts, gas turbines, and helicopters, spacecraft, etc. accounted for 46.3% of total exports, followed by Nonelectrical Machinery at 10.4%, Computer & Electronic at 9.3%, Chemicals at 6.6%, Miscellaneous Manufacturing at 5.0%, and Fabricated Metal at 4.5%. The industrial machinery and equipment related sector, which includes NAICS 332, 333, 334 and 335, accounts for 29.8% of total. In terms of average annual growth for this period, Transportation Equipment posted the strongest growth at 18.6%, followed by increases of 3.3% in Nonelectrical Machinery and 2.6% in Fabricated Metal. The industry that posted the biggest loss was Primary Metal (NAICS 331) at negative 5.5%, followed by Electrical Equipment (NAICS 335) at negative 3.3% and Miscellaneous Manufacturing (NAICS 339) at negative 2.6%. The Miscellaneous Manufacturing industry produces medical and surgical equipment and instruments.

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**TABLE 38**  
**COMMODITY EXPORTS ORIGINATING IN CONNECTICUT BY PRODUCT**  
**(In Millions of Dollars)**

<b>Commodity (NAICS Code)</b>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	% of 2001 Total	Average Growth 97-01
336 Transportation Equip.	2,067.6	2,665.3	2,599.0	3,168.5	3,988.3	46.3%	18.6%
333 Machinery, exc. Elec.	831.4	801.4	755.7	1,005.2	898.0	10.4%	3.3%
334 Computer & Electronic	807.5	762.6	877.6	904.5	804.4	9.3%	0.4%
325 Chemicals	560.4	557.0	547.7	612.8	567.3	6.6%	0.5%
339 Miscellaneous MFG	515.0	568.3	581.5	395.1	430.3	5.0%	(2.6%)
332 Fabricated Metal	360.5	312.9	328.5	369.8	391.5	4.5%	2.6%
335 Electrical Equipment	315.0	242.9	242.9	292.9	259.8	3.0%	(3.3%)
331 Primary Metal	309.0	182.1	191.1	247.0	210.1	2.4%	(5.5%)
326 Plastics & Rubber	159.5	159.6	153.1	144.6	152.0	1.8%	(1.1%)
332 Paper	154.3	134.1	139.5	150.8	139.5	1.6%	(2.1%)
<u>Others</u>	<u>977.9</u>	<u>916.3</u>	<u>814.5</u>	<u>755.7</u>	<u>769.1</u>	<u>8.9%</u>	<u>(5.7%)</u>
<b>Total Commodity Exports</b>	<b>7,058.1</b>	<b>7,297.1</b>	<b>7,231.2</b>	<b>8,046.8</b>	<b>8,610.4</b>	<b>100.0%</b>	<b>5.2%</b>
% Growth		3.4%	(0.9%)	11.3%	7.0%		
<b>Gross State Product (\$M)</b>	134,968	142,701	149,483	159,288	163,436		4.9%
% Growth		5.73%	4.75%	6.56%	2.60%		
Exports as a % of GSP	5.23%	5.11%	4.84%	5.05%	5.27%		

Note: GSP for 2001 is estimated to grow at the same rate as wage income derived from the manufacturing sector, estimated by the U.S. Department of Commerce, Bureau of Economic Analysis.

Source: U.S. Department of Commerce, & University of Massachusetts (MISER)

Overall growth in exports of commodities for the past five years averaged 5.2%. Exports of \$8.6 billion for 2001 is estimated to account for 5.27% of Connecticut Gross State Product (GSP), gradually expanding from 4.2% of Gross State Product in 1987 to a high of 5.9% in 1993, then edging down to hover between 5.1% and 5.3% for the past five years. Commodities, or goods, exports which include products in the manufacturing, agricultural, and mining industries in Connecticut have improved since the late 1980s. However, exports of commodities grew more or less proportionately with overall goods production as measured by the GSP, resulting in a fairly stable percentage of exported goods relative to GSP.

Individual Connecticut firms with the highest export sales include General Electric, United Technologies, Xerox, Champion, Perkin & Elmer, Pitney Bowes, and the Stanley Works.

The bulk of Connecticut's exports are shipped by air from Bradley International Airport and by sea from our leading port of New Haven. In 2001, exports originating from Connecticut totaled \$8,610.4 million, with 60.9% of the total being shipped by air, 17.0% being delivered by sea, and the remaining 22.1% being transported inland by railroad or truck to Canada, Mexico or other states for

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further shipment to other countries. This compares with 55.4% by air, 17.6% by sea, and 27.5% by land for exports totaling \$4,488.2 million in 1990. This reflects the demand for meeting just-in-time inventory requirements, as the majority of goods produced are transported by air as it provides more frequent departures and faster transit times.

The following Table shows the ten major foreign countries to which state firms export their products. In 2001, Canada remained by far the largest destination country at 20.1%, followed by France, Germany, Japan, and the United Kingdom. These five countries accounted for 56.9% of total state exports in 2001. Exports to Canada have been fairly stable in the past five years, hovering between \$1.73 billion and \$1.83 billion. Exports to Canada benefited from proximity, similar cultural backgrounds, and the North American Free Trade Agreement (NAFTA). Exports to Canada accounted for only 17.9% of Connecticut's total exports in 1988, the year before NAFTA. The extension of NAFTA to include Mexico in 1994, however, seems not to have yielded a noticeable benefit to the State due in part the geographical distance. Exports to Mexico for the past five years stayed in the \$0.3 billion to \$0.4 billion range. The share of the State's exports to Mexico accounted for 3.8% in 2001, down from 4.7% in 1997, and compared to 13.9% for the Nation. Exports to our major partners in East Asia including Singapore, Taiwan and South Korea played an important role. Exports to these three countries totaled \$838 million, accounting for 9.7% of exports.

**TABLE 39**  
**COMMODITY EXPORTS ORIGINATING IN CONNECTICUT BY COUNTRY**  
**(In Millions of Dollars)**

<u>Destination</u>	<u>2001 Rank</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	Percent of 2001 <u>Total</u>	1997-01 Average Growth <u>Rate</u>
Canada	1	1,735.1	1,771.7	1,780.4	1,831.2	1,728.8	20.1%	0.0%
France	2	379.4	885.4	959.8	1,112.3	1,416.3	16.4%	46.2%
Germany	3	437.3	467.0	403.8	561.2	675.4	7.8%	13.1%
Japan	4	535.2	458.8	516.1	508.3	616.6	7.2%	4.5%
United Kingdom	5	600.7	437.4	431.0	471.2	462.4	5.4%	(5.3%)
Singapore	6	231.6	236.7	180.5	198.5	413.5	4.8%	24.2%
Mexico	7	335.0	302.2	333.3	404.9	326.6	3.8%	0.7%
Taiwan	8	126.0	219.1	111.6	374.7	233.6	2.7%	55.7%
Australia	9	80.7	83.7	81.1	99.2	210.1	2.4%	33.7%
South Korea	10	306.7	238.8	314.9	158.4	190.9	2.2%	(4.9%)
Other Areas		<u>2,290.5</u>	<u>2,196.4</u>	<u>2,118.8</u>	<u>2,326.9</u>	<u>2,336.3</u>	<u>27.1%</u>	<u>0.6%</u>
<b>TOTAL</b>		7,058.1	7,297.1	7,231.2	8,046.8	8,610.4	100.0%	5.2%

Source: Connecticut Department of Economic Development

Connecticut's exports have also experienced geographical diversification. Connecticut's trade area has expanded from traditional big partners such as Canada, the United Kingdom, and Japan to emerging markets in Southern and Central America, Eastern Europe, Asia and the Middle East. Connecticut's firms exported to approximately 180 countries worldwide in 2001. A breakdown of Connecticut's exports by region shows that while trade volume and the share of exports to Europe, Asia, and Latin America continued to increase over the past five years, both trade volume and the

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share to Africa have declined, with volume dropping from \$168.6 million in 1998 to \$47.3 million in 2001 when the share declined from 2.3% in 1998 to 0.5% in 2001. Africa may represent a potential market that Connecticut's manufacturers can expand their exporting efforts.

Increased exports play an important role in the State's employment growth. According to the U.S. Department of Commerce, through the development of an input-output modeling analysis, each additional one million in 1992 dollars of output in Connecticut creates an additional 15.1 jobs in the instrument industry, an additional 16.9 jobs in transportation equipment, and an additional 10.8 jobs in the chemical industry. In 2001, Connecticut had an estimated 128,560 jobs directly related to exports that comprised approximately 51% of the state's work force in the manufacturing sector. These jobs, which were directly involved in exporting, in turn, generated an estimated 94,600 jobs in the service sector in areas such as transportation, communication, retail sales, as well as banking and financial services, bringing the total to 223,200 jobs that are directly or indirectly associated with exports. This implies that, in Connecticut, 157 out of every 1,000 private sector workers were employed in export related jobs in 2001.

In an effort to create jobs and investment, the Department of Economic and Community Development has been working with a number of foreign companies regarding the establishment of branches in Connecticut. As a result of this work, foreign countries continually invest and own firms in Connecticut. This foreign investment is an important stimulant for Connecticut's economic growth and future productivity. As of 2000, there were 813 manufacturing and non-manufacturing foreign affiliates in Connecticut, employing 116,000 workers with \$13.22 billion of investment. This compares to 806 foreign affiliates employing 103,400 workers with \$11.38 billion of investment in 1999. A foreign affiliate is defined as a single foreign person owning or controlling, directly or indirectly, 10% or more of the voting securities.

In 2000, Germany comprised 20.8% of total foreign investment at \$2.69 billion, followed by the United Kingdom at \$2.63 billion, the Netherlands at \$1.25 billion, Japan at \$0.99 billion, and France at \$0.94 billion. While overall foreign investment in Connecticut continued to grow, changes in direct investment among major trade partners varied. Canadian firms have been taking advantage of the integrating markets established by the NAFTA agreement. The Canadian firms, through economies of scale or comparative advantage, increased Canadian production of goods to be sold in the U.S. As a result, two-way trade continued to expand while investment slowed. Canadian investment in Connecticut registered \$852 million in 2000, gradually rising from \$716 million in 1999 and \$627 million in 1998, but still well below the peak of \$1,270 million in 1992.

In order to increase global competitiveness and sustain the state's economic growth and prosperity by expanding the state's international business and investment, the Connecticut Department of Economic and Community Development launched an international trade initiative and set up foreign trade representatives in Africa, Argentina, Brazil, China, Israel, Mexico, and Turkey. The state also provides several specific services to aid in the overall effort to increase exports. For further information regarding assistance, services, or publications, please contact:

State of Connecticut  
Department of Economic and Community Development  
505 Hudson Street  
Hartford, Connecticut  
06106  
(860) 270-8166, or 270-8067 and 270-8068

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Or visit their web-site, <http://www.state.ct.us/ecd/international/index.html> for more details.

### **Connecticut's Defense Industry**

The defense industry is an integral part of Connecticut's manufacturing sector, and has been since the inception of the United States as a nation. The state's economy is still affected by the volume of defense contracts awarded or subcontracted to Connecticut firms.

In FFY 2001, according to information supplied by the U.S. Department of Defense, Connecticut received \$4.27 billion in defense-related prime contract awards. This was up 96.1% from the \$2.18 billion received in awards for FFY 2000, and was down 29.8% from the peak of \$6.08 billion in FFY 1989. The Table on the following page shows the breakdown by type and value of contracts since FFY 1992. Connecticut's total defense awards, based on a three year moving average, have declined at an average annual rate of 2.7% during this time. This compares to an average growth of 2.1% for the nation. This is because Connecticut is much more dependent on supply contracts than is the nation as a whole, and they declined through most of the 1990s. Supply contracts, which include procurement of aircraft, ships, weapons, and equipment, etc., accounted for an average of 73.6% of Connecticut's total awards over the period, falling from 81.4% in FFY 1991 to 61.0% in FFY 1997, and rebounding to 81.2% in FFY 2001. Construction contracts experienced the greatest growth nationally during this period, but only accounted for an average of 0.4% of the state's total. During the 1990s, defense policy strategies shifted from a focus on the threat of global conflict to regional contingencies. Procurement practices had shifted from an emphasis on full production of new systems to the development of prototypes; therefore, defense procurement had been falling at a faster rate than overall defense spending, although the war on terrorism may have begun another shift in procurement strategy.

The analysis of contract awards shows that, through 2000, Connecticut's defense industry had been especially vulnerable to contractions in defense spending because of its particular dollar distribution or mix of awards. The state had relied too heavily on supply contracts that experienced a sharp decline while those contracts that experienced relative stability accounted for only a small portion of Connecticut's total. This particular composition had a detrimental impact on the state's economy through most of the last decade. The election of President George W. Bush, however, may have reversed this trend, given the level of awards for 2001.

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**TABLE 40**  
**CONNECTICUT PRIME CONTRACT AWARDS**  
**(In Thousands of Dollars)**

Type of Contract	Supply	R&D*	Service	Construction	Civil Function	Total
FFY 1992	2,291,285	163,054	631,135	9,744	4,226	3,099,444
(% of Total)	73.9	5.3	20.4	0.3	0.1	100.0
FFY 1993	2,243,995	181,214	458,044	6,629	4,755	2,894,637
(% of Total)	77.5	6.3	15.8	0.2	0.2	100.0
FFY 1994	1,721,722	234,234	465,955	18,143	10,015	2,450,069
(% of Total)	70.3	9.6	19.0	0.7	0.4	100.0
FFY 1995	2,049,584	203,244	442,984	2,931	19,278	2,718,021
(% of Total)	75.4	7.5	16.3	0.1	0.7	100.0
FFY 1996	1,736,339	457,348	390,336	1,009	53,228	2,638,260
(% of Total)	65.8	17.3	14.8	0.0	2.0	100.0
FFY 1997	1,547,402	551,643	380,827	25,629	30,480	2,535,981
(% of Total)	61.0	21.8	15.0	1.0	1.2	100.0
FFY 1998	2,320,505	753,632	310,177	17,824	6,582	3,408,719
(% of Total)	68.1	22.1	9.1	0.5	0.2	100.0
FFY 1999	2,581,519	245,473	328,573	8,137	5,692	3,169,394
(% of Total)	81.4	7.7	10.4	0.3	0.2	100.0
FFY 2000	1,636,417	223,364	303,910	7,012	6,762	2,177,465
(% of Total)	75.2	10.2	14.0	0.3	0.3	100.0
FFY 2001	3,468,084	376,018	390,812	30,075	4,555	4,269,544
(% of Total)	81.2	8.8	9.2	0.7	0.1	100.0
Average % of Total	73.6	11.5	14.0	0.4	0.5	100.0
Average Growth** (FFY 1992-01)	(3.3)	6.7	(7.7)	(4.8)	2.5	(2.7)
U.S. FFY 2001	63,018,523	21,085,479	43,625,967	4,394,114	3,101,044	135,225,127
(% of Total)	46.6	15.6	32.3	3.2	2.3	100.0

Note: \* Denotes Research & Development.

\*\* Average annual growth rate of 3 year moving average trend.

Source: U.S. Department of Defense, "Atlas/Data Abstract for the U. S. and Selected Areas"

In FFY 2001, contractors in the state were awarded \$4.3 billion worth of defense-related prime contracts, with the heaviest concentration in the state's transportation equipment sector. Of the total awarded, \$3.7 billion, or 87.2%, went to the following five companies listed on the next page primarily for the described areas of work:

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1. United Technologies Corp.	\$2,001,195,000	Aircraft Rotary Wing
2. General Dynamics Corp.	\$1,576,327,000	Submarines
3. Azimuth Technologies Inc.	\$52,434,000	Engineering Technical Services
4. Volmar Construction, Inc.	\$48,041,000	Construction
5. Engineered Support Systems, Inc.	\$47,162,000	Military Support Equipment

Prime defense contracts have tended to be "leading" indicators of the state's economic activity. This means that changes in defense contract awards precede changes in employment. However, new defense contract awards cannot be directly converted into anticipated employment gains or losses because: a) contracts have different terms and different completion dates; b) subcontracting on prime awards may be done by firms in different states; c) research and development contracts are usually capital intensive rather than labor intensive; and d) there often exists a time lag between awarding the contract and having the necessary funding become available. Although employment is affected by the defense budget, the state's economic activity is not immediately impacted by fluctuations in defense contracts. The following Table compares defense contract awards with employment in Connecticut's transportation equipment sector.

To compare the relative volatility of contract awards with employment, the coefficient of variation is used: the larger the number, the greater the volatility. It is derived by dividing the standard deviation of a variable by its mean. The Table also shows that the coefficient of variation for the state's real defense contract awards, over the past decade, was 0.181 compared with only 0.162 for transportation equipment employment. This implies that, in general, the fluctuations in employment are milder than the fluctuations in defense contract awards. Since most defense contract awards are long-term projects, there is usually a backlog of unfinished orders in the pipeline, allowing continued employment even if new contracts are not received.

**TABLE 41**  
**CONNECTICUT DEFENSE CONTRACT AWARDS AND RELATED EMPLOYMENT**

Federal Fiscal Year	Defense Contract Awards (000's)	%	Connecticut Transportation Equipment Employment (000's)	%	Defense Contract Awards '96 Dollars (000's)	%
		Growth		Growth		Growth
1991-92	3,099,444	(37.7)	72.81	(7.3)	3,466,164	(39.6)
1992-93	2,894,638	(6.6)	64.57	(11.3)	3,143,036	(9.3)
1993-94	2,450,069	(15.4)	58.27	(9.8)	2,593,899	(17.5)
1994-95	2,718,021	10.9	53.53	(8.1)	2,798,278	7.9
1995-96	2,638,260	(2.9)	50.94	(4.8)	2,638,260	(5.7)
1996-97	2,535,981	(3.9)	50.21	(1.4)	2,478,806	(6.0)
1997-98	3,408,719	34.4	50.24	0.1	3,281,153	32.4
1998-99	3,169,394	(7.0)	48.24	(4.0)	2,984,861	(9.0)
1999-00	2,177,465	(31.3)	45.69	(5.3)	1,983,997	(33.5)
2000-01	4,269,544	96.1	46.02	0.7	3,782,560	90.7
Coefficient of Variation	0.203		0.162		0.181	

Sources: U.S. Department of Defense, Bureau of Labor Statistics, & Department of Labor

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The prior Table also shows real contract awards for the past decade by taking into account the erosion of the dollar by adjusting contracts for inflation. From \$3.5 billion in FFY 1992, real defense contract awards increased to \$3.8 billion in FFY 2001. This represents an average growth of 1.0% per year from FFY 1992 to FFY 2001, with virtually all of the growth occurring in the last year, most likely spurred by the war on terrorism.

Connecticut's defense contract awards have become extremely volatile since the late 1980s and are much less stable when compared with other states or the nation as a whole. The following Table shows the coefficient of variation for Connecticut, over the past decade, was 0.203, compared to 0.076 for the U.S., reflecting the fluctuations in the state's annual levels of defense contract awards.

**TABLE 42  
COMPARISON OF U.S. AND CONNECTICUT DEFENSE CONTRACT AWARDS**

Federal Fiscal Year	Connecticut			U.S.				
	Defense Contract Awards (Millions \$)	% Growth	3-year Moving Average (Millions \$)	% Growth	Defense Contract Awards (Millions \$)	% Growth	3-year Moving Average (Millions \$)	% Growth
1991-92	3,099	(37.7)	4,106	(19.5)	112,285	(9.5)	119,219	(2.1)
1992-93	2,895	(6.6)	3,658	(10.9)	114,145	1.7	116,850	(2.0)
1993-94	2,450	(15.4)	2,815	(23.0)	110,316	(3.4)	112,249	(3.9)
1994-95	2,718	10.9	2,688	(4.5)	109,005	(1.2)	111,155	(1.0)
1995-96	2,638	(2.9)	2,602	(3.2)	109,408	0.4	109,576	(1.4)
1996-97	2,536	(3.9)	2,631	1.1	106,561	(2.6)	108,325	(1.1)
1997-98	3,409	34.4	2,861	8.8	109,386	2.7	108,452	0.1
1998-99	3,169	(7.0)	3,038	6.2	114,875	5.0	110,274	1.7
1999-00	2,177	(31.3)	2,918	(3.9)	123,295	7.3	115,852	5.1
2000-01	4,270	96.1	3,205	9.8	135,225	9.7	124,465	7.4
Coefficient of Variation					0.203			
					0.076			

Source: United States Department of Defense

As defense contract awards normally take several years to complete, one can use the 3-year moving average method to better reflect actual production activities. The prior Table shows that overall defense cuts in Connecticut have been more severe and more volatile than the national average. Both of these factors have had increasingly negative implications for the state's economy. Volatility imposes difficulties for the industry in terms of long term planning, making future capital investment less likely and decreasing the dollars devoted to Research and Development. In addition, a severe loss in market share could result in the deterioration of the fundamental industrial base and erosion of the competitive edge established in the past. The loss of defense jobs also has a profound implication on both the state's income and employment mix. Based on a three-year moving average, awards reached a low point in 1996, and have begun to show signs of reversal in the last few years.

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Over the last several years, defense contract projects have become fewer in number, larger in size and the market is much more competitive than it has been historically. The lack of continuity in full funding for new submarine awards, coupled with prior year defense reductions, dramatically increased the volatility of Connecticut's awards.

Over the last ten years, the relative share of defense related production activities, measured by the size of the moving average of defense contract awards compared to GSP, has been drifting down from 4.0% in FFY 1992 to around 2.0% in FFY 2001. This decline, shown in the following Table, has been the result of dwindling defense contract awards, increasingly competitive defense markets as well as an expansion in the nonmanufacturing sector.

**TABLE 43  
CONNECTICUT DEFENSE CONTRACT AWARDS AND GSP**

Federal Fiscal Year	Connecticut Defense Contract Awards (Millions)	U.S. Defense Contract Awards (Millions)	% of CT to U.S.	Cal. Year CT GSP Current Dollars (Millions)	3-year Average CT Awards (Millions)	CT Awards as % of CT GSP
1991-92	3,099	112,285	2.8	103,794	4,106	4.0
1992-93	2,895	114,145	2.5	107,924	3,658	3.4
1993-94	2,450	110,316	2.2	112,395	2,815	2.5
1994-95	2,718	109,005	2.5	118,645	2,688	2.3
1995-96	2,638	109,408	2.4	124,157	2,602	2.1
1996-97	2,536	106,561	2.4	134,968	2,631	1.9
1997-98	3,409	109,386	3.1	142,701	2,861	2.0
1998-99	3,169	114,875	2.8	149,483	3,038	2.0
1999-00	2,177	123,295	1.8	159,288	2,918	1.8
2000-01	4,270	135,225	3.2	163,436	3,205	2.0
Coefficient of Variation	0.203	0.076				

Note: GSP for 2001 is assumed to grow at the same rate as income derived from wages and salaries estimated by the U.S. Department of Commerce, Bureau of Economic Analysis.

Source: United States Department of Defense and Department of Commerce

In federal fiscal 2001, while Connecticut ranked tenth in total defense contracts awarded, it ranked third in per capita defense dollars awarded with a figure of \$1,243. This figure was more than 2.4 times the national average of \$513. In 2000, Connecticut ranked seventeenth in total defense contracts awarded and ninth in per capita defense dollars awarded with a figure of \$639. This was more than 45% greater than the national average of \$439 for that year.

The Table on the following page shows, by state, federal fiscal year 2001 total awards, per capita awards and their corresponding rank.

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**TABLE 44  
COMPARISON OF STATE PRIME CONTRACT AWARDS  
Federal Fiscal Year 2001**

State	Prime Contract Awards	Rank	Per Capita Prime Contract Awards	Rank	State	Prime Contract Awards	Rank	Per Capita Prime Contract Awards	Rank
	\$ (000)					\$ (000)			
Virginia	18,411,792	2	\$2,558	1	New Jersey	2,807,748	15	330	26
Alaska	836,664	33	1,320	2	Indiana	1,824,030	19	298	27
<u>Connecticut</u>	<u>4,269,536</u>	<u>10</u>	<u>1,243</u>	<u>3</u>	Kentucky	1,180,261	28	290	28
Hawaii	1,307,386	26	1,065	4	Ohio	3,302,983	14	290	29
Arizona	4,904,858	9	924	5	Minnesota	1,386,777	25	278	30
Maryland	4,970,015	8	923	6	Rhode Island	283,475	42	268	31
Missouri	5,186,822	7	920	7	South Carolina	1,029,638	29	253	32
Massachusetts	5,247,752	6	820	8	North Dakota	159,179	44	250	33
Alabama	3,424,969	12	766	9	Michigan	2,281,812	18	228	34
Georgia	5,999,682	5	714	10	Wyoming	92,230	49	187	35
California	19,939,088	1	576	11	North Carolina	1,477,799	23	180	36
Utah	1,250,523	27	549	12	Tennessee	1,028,116	30	179	37
Colorado	2,302,817	17	520	13	New York	3,405,165	13	178	38
Vermont	307,653	41	502	14	Iowa	503,120	35	172	39
Mississippi	1,425,561	24	498	15	Wisconsin	911,227	32	169	40
Oklahoma	1,594,898	21	460	16	South Dakota	118,175	47	156	41
Texas	9,538,770	3	446	17	Nevada	323,633	40	154	42
New Mexico	763,065	34	417	18	Arkansas	382,437	39	142	43
Florida	6,712,819	4	410	19	Montana	127,442	46	141	44
Washington	2,446,151	16	408	20	Illinois	1,727,695	20	138	45
New Hampsh.	488,969	37	388	21	Oregon	393,771	38	113	46
Maine	496,525	36	387	22	Idaho	147,837	45	112	47
Pennsylvania	4,244,938	11	345	23	Nebraska	190,861	43	111	48
Kansas	930,042	31	344	24	Delaware	84,241	50	106	49
Louisiana	1,487,320	22	333	25	West Virginia	106,966	48	59	50
U.S. Total	135,224,752		\$513						

Source: U.S. Department of Defense, "Atlas/Data Abstract for the United States and Selected Areas" U.S. Department of Commerce, Bureau of the Census

The Table on the following page summarizes some programs of particular interest to the State of Connecticut contained in the Department of Defense Budget for 2003.

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**TABLE 45  
SAMPLES OF U.S. DEFENSE PROGRAMS OF INTEREST TO CONNECTICUT**

<u>Item</u>	<u>Contractor</u>	<u>Component</u>	<u>Budget FFY 2002 (\$M)</u>	<u>Proposed 2003 by DoD (\$M)</u>	<u>Quantity</u>	
RAH-66 Commanche Helicopter	Sikorsky Aircraft	Airframe and avionics systems development	\$781.3	\$910.2	N/A	(a)
UH-60 Blackhawk Hel.	Sikorsky Aircraft	Prime Contractor for production	\$416.3	\$279.3	22 in 2002 & 12 in 2003	
MH-60R Helicopter	Sikorsky Aircraft	Prime Contractor for airframe dev.	\$158.0	\$205.2	N/A	(b)
MH-60S Helicopter	Sikorsky Aircraft	Prime Contractor for production	\$298.3	\$395.5	13 in 2002 & 15 in 2003	
C-17 Airlift Aircraft	Pratt & Whitney	Engine production	\$3,871.8	\$3,983.9	15 in 2002 & 12 in 2003	(b) (c)
F-15E Eagle Fighter	Pratt & Whitney	Prime Contractor for engine	\$349.0	\$314.2	N/A	(b)
F-16 Falcon Fighter	Pratt & Whitney	Contin. engine development	\$346.4	\$346.3	N/A	(d)
F-22 Advanced Tactical Fighter	Pratt & Whitney	Engine production	\$3,918.8	\$5,248.3	13 in 2002 & 23 in 2003	(e)
F-35 Joint Strike Fighter	Pratt & Whitney	Engine develop. and evaluation	\$1,524.9	\$3,471.2	N/A	(f)
Virginia Class Submarine	Electric Boat Div. of General Dynamics	Prime Contractor, design, joint production	\$2,467.9	\$2,457.4	1 in 2004	(g)

(a) Currently in development phase. Joint venture with Boeing.

(b) Includes research, development, testing and evaluation.

(c) Replacement for C-141.

(d) Joint venture with General Electric. To be replaced by Joint Strike Fighter.

(e) To replace F-15 aircraft.

(f) To replace F-16, AV-8B & F/A-18.

(g) Will replace retiring submarines. Total of four now planned.

Source: U.S. Department of Defense

Moreover, the Table on the following page displays a number of fairly recent contract awards made to state firms by the Department of Defense in areas other than transportation manufacturing.

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**TABLE 46**  
**SAMPLES OF RECENT DEFENSE CONTRACTS AWARDED TO STATE FIRMS**  
**NOT RELATED TO TRANSPORTATION EQUIPMENT MANUFACTURING**

<u>Contractor</u>	<u>Work Location</u>	<u>Date of Award</u>	<u>Amount (\$Mill.)</u>	<u>Type of Work</u>	<u>Completion</u>
Newfield Construction Co.	Hartford, New London, Groton, CT	9/30	\$10.6	Building construction, renovation and repair	9/2005
Colt's Manuf. Co. Inc.	Hartford, CT	7/31	\$18.5	Produce 25,764 M4 carbines and 300 M4A1 carbines	9/2004
Sempra Energy Trading Corp.	Stamford, CT and PA, NY and NM	7/1	\$8.1	Provide direct supply of natural gas	9/2005
Cianbro Corp.	Bloomfield, CT and Cape Cod, Buzzard's Bay, MA	6/24	\$12.2	Rehabilitate existing bridge and misc. operating systems	9/2003
McLaughlin Research Corp.	New London, CT and RI	5/2	\$26.5	Provide professional management services incl. organizational, facility and program planning	8/2006
Fuji Films Medical Systems USA Inc.	Stamford, CT	4/2	\$5.0	Provide imaging systems	2/2003
B.F. Goodrich Co.	Danbury, CT	3/13	\$11.6	Develop and test sensor technology to detect and study laser energy	6/2010

Source: U.S. Department of Defense

While defense budgets for the foreseeable future had been expected to be leaner than ten years ago, the Bush Administration is expected to reverse the declining trend seen over most of the last decade, especially given the war in Afghanistan and the war on terrorism. These new conflicts can be expected to create a need for replacements for lost equipment and systems, spare parts, and new features on existing systems as new needs are identified in the ever-changing environment. Additionally, with previously awarded contracts and ongoing construction contracts for aircraft engines, helicopters and submarines, production activity in Connecticut will extend well into the future.

Over the last decade, the defense industry reacted to defense cutbacks in various ways. With fewer contracts to compete for, companies consolidated, leaving fewer companies to compete for the shrinking pie. As the federal budget experienced slower growth and the defense industry

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consolidated through mergers and acquisitions, Connecticut continued to experience additional job losses, similar to other states in the northeast region. However, the pace of job reductions has slowed down as the largest defense cuts are in the past and the industry diversified into commercial markets. Former prime contractors have now become subcontractors. Companies also engaged in aggressive cost cutting measures. These moves led to severe downward pressure on employment in these industries. The transportation equipment and instrument industries have continued to lead the employment declines over the last few years. With the concentration within the state of major contractors by geographic location, certain areas within the state were harder hit than others. Amid rounds of cuts in employment among major defense companies, a spirit of cooperation and coordination between unions and employers as well as between the private sector and government helped mitigate the impact of the cuts on the state. To aid the defense industry as well as boost the overall business climate, the state enacted some innovative legislation in the form of tax credits, exemptions, and reductions for both specific industries and businesses in general. These changes created a more friendly business climate, provided long-term economic benefit, and aided in the revitalization of the economy. These companies responded further by developing new technologies, new products, and new markets at home and abroad. Again, however, the administration in Washington has stated a commitment to increased defense spending, and contracts for 2001 have begun to hint at a dramatic reversal of the trend of the last half of the 1990s .

The prior Table demonstrates that there is defense-related activity occurring in the state outside of the transportation equipment manufacturing industry. Larger firms, as well as a number of smaller firms, are finding different ways to do business with the government. This non-weapons-systems approach could play an important and vital role in the future of the state's economy.

### **Retail Trade in Connecticut**

Consumer spending on goods and services, ranging from pencils to refrigerators to haircuts to electricity, accounts for two-thirds of the gross state product (GSP). According to statistics, approximately half of economic spending is done through retail stores, implying that retail trade constitutes approximately one third of the state's economic activity. During the last decade, variations in retail trade closely matched variations in GSP growth, making retail trade an important barometer of economic health.

The Standard Industrial Classification Manual, 1987 includes establishments that engage in selling merchandise for personal or household consumption and rendering services incidental to the sale of the goods in the retail trade industry. The Standard Industrial Classification (SIC) codes for retail trade are from SIC 52 to SIC 59. In general, retail establishments are classified in these codes according to the principal lines of commodities sold (apparel, groceries, etc.) or the usual trade designation (liquor store, drug store, etc.).

The following Table shows the major group in each SIC code as well as the state's retail trade history for the past five fiscal years. (Retail Trade was redefined by the new North American Industry Classification System (NAICS) in 1997. The state is in the process of converting from the SIC system to the NAIC system. Data based on NAICS is expected to be available by 2004.)

Retail sales reflect the pulse of economic conditions: they perform strongly as the economy expands whereas they perform poorly during a recession. The following Table demonstrates the fluctuating pattern of retail sales in the state. Connecticut retail trade in fiscal 2002 totaled \$43.9 billion, a 4.0% increase that followed a decline of 0.9% the year before. The decline in 2001 reflected the state's

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economic slowdown after a continued, lengthy expansion in the state's economy experienced throughout most of the 1990s. Between fiscal 1995 and fiscal 1999, retail sales increased between 4.8% and 7.1%. This followed an anemic growth of 0.8% in fiscal 1993 and an actual decline of 2.5% in fiscal 1992 when the state's economy was experiencing a recession.

**TABLE 47**  
**RETAIL TRADE IN CONNECTICUT**  
**(In Millions of Dollars)**

<u>SIC</u>	<u>FY</u> <u>1998</u>	<u>% of</u> <u>Total</u>	<u>FY</u> <u>1999</u>	<u>FY</u> <u>2000</u>	<u>FY</u> <u>2001</u>	<u>FY</u> <u>2002</u>	<u>% of</u> <u>Total</u>
<b><u>A. Amounts of Retail Trade</u></b>							
52 Hardware Stores	1,512	4.0%	2,320	2,418	2,376	2,751	6.3%
53 General Merchandise	3,793	10.0%	3,742	3,744	3,024	4,002	9.1%
54 Food Products	6,479	17.1%	6,922	7,139	7,521	8,127	18.5%
55 Automotive Products	7,654	20.2%	7,963	8,712	8,531	8,605	19.6%
56 Apparel & Accessory	1,896	5.0%	2,047	2,195	2,237	2,274	5.2%
57 Furniture & Appliances	4,333	11.4%	4,011	4,299	3,971	3,629	8.3%
58 Eating & Drinking	2,799	7.4%	2,966	3,148	3,327	3,374	7.7%
59 <u>Misc. Shopping Stores</u>	<u>9,425</u>	<u>24.9%</u>	<u>9,865</u>	<u>10,975</u>	<u>11,247</u>	<u>11,161</u>	<u>25.4%</u>
Total	37,891	100.0%	39,836	42,630	42,234	43,924	100.0%
Durables (SIC 52,55,57)	13,499	35.6%	14,294	15,429	14,878	14,986	34.1%
Nondurables (All Other SIC)	24,392	64.4%	25,542	27,201	27,356	28,939	65.9%
							FY 98 -02 Average <u>Growth</u>
<b><u>B. Change from Previous Year</u></b>							
52 Hardware Stores	5.3%		53.4%	4.2%	(1.7%)	15.8%	17.9%
55 Automotive Products	2.2%		4.0%	9.4%	(2.1%)	0.9%	3.1%
57 Furniture & Appliances	16.4%		(7.4%)	7.2%	(7.6%)	(8.6%)	(4.1%)
Durables (SIC 52,55,57)	6.7%		5.9%	7.9%	(3.6%)	0.7%	2.7%
53 General Merchandise	4.3%		(1.3%)	0.0%	(19.2%)	32.3%	3.0%
54 Food Products	5.8%		6.8%	3.1%	5.3%	8.1%	5.8%
56 Apparel & Accessory	11.8%		7.9%	7.2%	1.9%	1.6%	4.7%
58 Eating & Drinking	4.2%		6.0%	6.1%	5.7%	1.4%	4.8%
59 Misc. Shopping Stores	9.9%		4.7%	11.3%	2.5%	(0.8%)	4.4%
Nondurables (All Other SICs)	7.3%		4.7%	6.5%	0.6%	5.8%	4.4%
Total	7.1%		5.1%	7.0%	(0.9%)	4.0%	3.8%

Source: Connecticut Department of Revenue Services

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Retail trade can be broken down into two major categories, durable and nondurable goods. Durable goods are items that presumably last three years or more and include such items as automobiles, furniture, and appliances. Nondurable goods have a shorter life span and include such items as food, gas, apparel, and other miscellaneous products. Durable goods are normally big-ticket items that are sensitive to interest rates and the overall economic climate. Purchases of durable goods drop off when interest rates increase or individuals encounter a slowdown in income growth or become concerned about future employment and income stream prospects. Since the last recessionary year, 1992, sales of durable goods had been gradually rising each year. In fiscal 2001, that trend reversed itself and fell 3.6%, followed by an anemic increase of 0.7% in 2002. This occurred despite the decline in interest rates to a four-decade low, zero percent interest rates on vehicles, and a healthy appreciation in home equity. Connecticut's employment started to decline in July 2000. Changes in equity values, which are not included in the estimate of personal income, also dropped substantially from their recent peak. Nationally, stock values are estimated to have declined from a high of \$12.7 trillion in the first quarter of 2000 to \$7.8 trillion at the end of June 2002, a whopping 38% erosion in equity wealth. Connecticut residents, which tend to hold more equity assets, may have experienced more financial losses, therefore generating a bigger negative wealth effect and thereby inhibiting retail trade growth.

Sales of durable goods experienced greater fluctuations during changing economic conditions. Growth in sales at retail stores that concentrate on durable goods tends to increase faster than the growth in gross state product during expansionary years and experience greater declines during recessionary years. Sales of nondurable goods are typically less volatile as most items are deemed "necessities" and relatively inelastic regardless of price variations. Necessities include such items as food, footwear, clothing, gasoline, as well as drugs. The previous Table shows that Connecticut sales of durable goods had a paltry 0.7% gain, after a decline of 3.6% in 2001 and healthy increases of between 5.9% and 7.9% in the previous three years. The 0.7% increase translates into a 1.1% reduction when deflated by the 1.8% increase in the CPI-U for fiscal 2002. Nondurables, by contrast, increased 5.8% after an increase of 0.6% in 2001 with an annual growth between 4.7% and 7.3% in the previous three years.

Within durables, growth for the three sales categories (SIC 52, 55, and 57) varied widely from an 8.6% loss to a 15.8% gain in fiscal 2002 after all declined in fiscal 2001. Furniture & appliances establishments (SIC 57) continued to experience a loss due to the lack of aggressive financial incentive programs offered by the industry and a precipitous 61.4% decline in computer and software sales, while hardware stores (SIC 52) gained 15.8%, due to a booming housing market inspired by a stimulative monetary policy. Federal funds rates were reduced six times from 6.0% to 1.75% in 2001 and mortgage rates reached a 4-decade low. Retail sales in automotive products (SIC 55) grew by a scant 0.9% despite more aggressive incentive programs that provided wider model selections with more frequent zero percent financing programs after the September 11th attacks. The auto market seemed saturated after several rounds of promotions. The 0.9% growth translates into a 0.9% reduction in real dollars.

Within nondurables, sales at general merchandise stores (SIC 53), typically businesses that carry a mix of durables and nondurables, experienced a healthy 32.3% growth. Like hardware stores (SIC 52), sales at general merchandise stores also benefited in part from the booming housing market. Sales in food products increased by 8.1%, followed by 1.6% in apparel & accessory (SIC 56), and 1.4% in eating and drinking establishments (SIC 58). Sales in miscellaneous shopping stores (SIC 59) declined 0.8%.

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Retail sales at home improvement related establishments including hardware stores (SIC 52) and general merchandise stores (SIC 53) registered \$6.75 billion, up 25.0% from \$5.40 billion in fiscal 2001. This sharp increase was attributable to a booming housing market combined with the impact of the September 11th attacks. In response to this disaster, people tended to “rest”, curtailing travel and vacations, but devoting more resources to improve their living environment. Retail sales other than these two entities registered \$37.17 billion, up 0.9% from \$36.83 billion in fiscal 2001. The 0.9% growth translates into a 0.9% reduction in real dollars. Detailed sales for each industry in sequence by NAICS follow:

Sales by hardware stores (SIC 52), which include establishments selling lumber and building materials, paint, wallpaper, and hardware registered \$2.75 billion in fiscal 2002, a 15.8% increase from fiscal 2001, with sales of lumber and building materials increasing 19.8% to \$2.13 billion. Although the State's non-agricultural employment started falling in July 2000 and continued through 2002, an historically low inflation rate coupled with favorable mortgage interest rates and the shift of investment dollars from equities into the housing market created a strong demand for new and existing housing. Housing starts in Connecticut gradually fell from 10,200 units in fiscal 2000 to 9,700 units in 2002, due primarily to a limited supply of available land. However, new home construction costs continued to rise due mainly to an increase in home size. Average construction costs for a new home excluding on-site development and improvements, heating, plumbing, and electrical installations is estimated at \$162,000 in 2002, up 13% from \$144,000 in 2001. Existing home sales and residential construction continued to grow. According to the Federal Reserve Bank of Boston, total existing home sales in Connecticut were 54,525 units in fiscal 2002, up from 53,850 units in fiscal 2001 and 52,350 units in fiscal 2000. The index on the value of overall residential construction contracts, including expansion and remodeling of existing homes, registered 335.1 (1980 =100) in fiscal 2002, up 18.0% from 284.0 in fiscal 2001 and 274.9 in fiscal 2000. New houses only accounted for 0.7% of total housing inventory (Please see the Housing sector).

Sales in the general merchandise category (SIC 53) were \$4.00 billion, a sharp increase of 32.3% from \$3.02 billion in fiscal 2001, which was down 19.2% from fiscal 2000. General merchandise includes three types of department stores. These are national chain stores such as Sears, conventional stores such as Filenes, and discount stores such as Wal-Mart and Target. These merchandise stores carry a diverse range of commodities, including items such as appliances, radios, TVs, home furnishings, household linens, dry goods, and a general line of apparel. A sharp increase in sales at general merchandise stores reflects the ferocious competition in pricing and the continued evolution of product sources in this industry. While consumers have become more value-conscious, the industry has strived to restructure itself by establishing more attractive discount stores and “super stores” with products that are mainly produced in countries with lower labor costs. Super stores such as Sam’s Club and Costco combine a traditional discount store with a supermarket. In addition, the emergence of large discount retail companies carrying a full product line in a focused category of goods has also increased competition with local stores.

Sales by food product stores (SIC 54), which include establishments selling meat, fish, fruit, dairy products, as well as candy and confectionary products for home preparation and consumption, registered \$8.13 billion in fiscal 2002, up 8.1% from \$7.52 billion in fiscal 2001. Sales by fruit and vegetable stores increased 21.9% to \$0.04 billion, followed by increases of 9.5% in cannery & confectionary stores to \$1.19 billion, and 9.1% in grocery stores to \$6.43 billion. In contrast, sales by dairy products stores fell 29.4% to \$0.02 billion in fiscal 2002, followed by a decline of 16.0% at retail bakeries that registered \$0.11 billion. Sales at retail bakeries continued to loss ground to the super-

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grocery stores. Food products are necessary goods; therefore, consumption is less affected by economic conditions.

Sales of automotive products (SIC 55) were \$8.61 billion, a scant 0.9% increase from the \$8.53 billion in fiscal 2001. Automotive product stores play an important role in the retail industry, generating approximately 20% of total retail trade. Auto dealers include new and used passenger cars, light trucks, and other vehicles such as boats and motorcycles, as well as recreational trailers and campers. The increase in fiscal 2002 sales mostly reflected activity at dealers of new and used cars, recreation and utility trailers, and motorcycles. Receipts at auto service facilities and gas stations dropped 42.4%, caused in part by a fall in gasoline prices in fiscal 2002. New car registrations in Connecticut slowed to 231,841 units in fiscal 2002, after reaching an all-time high of 245,033 units in fiscal 2001, compared to fiscal 2000's 233,764 units, 1999's 224,614 units and 1998's 187,227 units. Waves of incentive programs have been employed since the September 11th attacks, including zero interest rate financing, discounts, cash rebates, and no-money-down deals on a more extensive selection of models.

Increased demand for minivans and light trucks, which offer both recreational and utility features with increased capacities for passengers, load-carrying, towing, and four-wheel drive functions, continued to help boost new car sales. Minivans and light trucks, which have gained popularity at the expense of station wagons and sedans, are estimated to account for 50.5% of 2001 model sales, up from 48.7% for 2000 and 48.1% for 1999, according to U.S. Department of Commerce, "*Survey of Current Business*." While sales of new cars fluctuated within a narrow range of 9.0 million units (MU) in 1994 to 8.1 MU in 1998 and back up to 8.4 MU in 2001, new truck sales have consistently increased from 5.7 MU in 1993 to 8.6 MU in 2001. There are some 35 major domestic and foreign manufacturers providing approximately 350 models of passenger cars and 150 models of light trucks. As vehicles become more reliable, consumers are able to hold onto their cars longer, thereby extending the replacement cycle. The introduction of crossover vehicles that feature an SUV on car platforms have started to create another wave of buyer interest.

Sales by apparel and accessory stores (SIC 56) were \$2.27 billion in fiscal 2002, up 1.6% from fiscal 2001. Apparel and accessory stores include establishments for men's & boys' clothing, women's clothing, women's accessory & specialty goods, children's & infants' wear, family clothing and shoes. Shoe sales and clothing sales by women's, men's & boys' stores showed healthy growth in fiscal 2002, up 10.4%, 6.8%, and 6.1%, respectively. On the other hand, sales in women's accessory & specialty, children & infants, and family clothing stores dropped, falling 39.3%, 18.5% and 4.0%, respectively.

Sales by home furniture and appliance stores (SIC 57) registered \$3.63 billion in fiscal 2002, down 8.6% from \$3.97 billion in fiscal 2001. These establishments are comprised of computer and software stores, furniture stores, and home furnishing stores. Sales by home improvement related stores increased sharply, while sales of computer related items fell significantly, reflecting mixed business conditions in a sagging economy. Sales at computer and software stores plummeted 61.4% to \$0.57 billion, caused by poor sales combined with deep price cuts. After a period of strong demand experienced in most of the 1990s, sales of computers and software, consumer digital electronics such as cameras, toys and games, handheld devices & players, radios, televisions, and communication devices flattened out in fiscal 2001. For the past decade, personal computers have been highly sought after as they become more powerful, cheaper, and include more attractive functions. Boosted by high-speed networking systems, the integration of entertainment features

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with information and education has been evolving into mammoth “infotainment” and “edutainment” markets. The increasing usage of the Internet for transacting business through online services also creates a massive demand for these types of electronics. However, no red-hot gadgets and no must-have products combined with a weak economy to hamper sales. Sales increases were registered in musical instruments (49.0%), drapery (32.6%), furniture stores (30.2%), floor covering (14.9%), household appliances (14.3%), radio, TV & electronics (14.1%), and home furniture stores (13.8%). An increase in music related business reflects a continued change in consumer lifestyles and tastes as well as a restructuring of the market in order to resolve the piracy problems.

Sales by eating and drinking establishments (SIC 58) were \$3.37 billion in fiscal 2002, up 1.4% from fiscal 2001. Of the total, sales in eating places were \$3.22 billion, up 1.23% from \$3.18 billion in fiscal 2001. Sales in drinking places rose by 6.0% to \$0.15 billion from \$0.14 billion in fiscal 2001.

Sales by miscellaneous shopping stores (SIC 59) were \$11.16 billion in fiscal 2002, down 0.8% from fiscal 2001. Sales dropped after consistent growth had formerly registered for this type of retail establishment. Miscellaneous shopping stores include a wide range of stores such as drugs, liquor & cigar, sporting goods, books and stationery, jewelry, gifts and souvenirs, catalog and mail order, direct selling organizations, optical goods, and other miscellaneous retail in arts, pet foods, and telephones, etc. Sales at drug stores increased dramatically by 51.3%, followed by sewing needlework shops (23.4%), gift novelty & souvenir stores (19.4%), book stores (17.0%), and florist stores (14.5%). In contrast, sales at fuel dealers declined 40.0%, followed by decreases at camera & photo supply stores (18.6%), used merchandise shops (18.6%), stationery stores (18.4%), and hobby & toy, game stores (13.8%).

As people become more conscientious about their health and the population ages, demand for nutritional supplements (such as vitamins or herbal drugs and medicines for preventive purposes) and fitness & exercise equipment has increased. Sales by drug stores reflected this trend, growing 51.3% in fiscal 2002. Although the need for health care drugs and supplements grows with an aging population, drug stores at the same time face fierce competition. Traditional and chain drug stores have been yielding market share to supermarkets and discount stores. Sales of bicycles, treadmills, and cross-country ski machines were weak, down 13.0% after a long-term upward trend. Sales by direct selling organizations such as Amway and Tupperware continued to grow, up 9.0% to \$1.04 billion in fiscal 2002, while sales by mail order houses fell 1.8% to \$0.85 billion.

In addition to the traditional transactions occurring in Connecticut based “bricks and mortar” establishments, a significant amount of retail activity is also taking place within and beyond the state’s borders through mail and on-line order sales. While mail order sales have been around for a century they became much more popular in the past three decades. As computer technology advances rapidly, so do on-line sales through the Internet. The revolutionary on-line transactions provide sufficient product information and often offer favorable discounts. In addition, they are convenient to access, virtually open around the clock and involve no travel. As more merchants find that opening a store on the Internet is more cost effective or more attractive than opening a store in a mall, transactions through the Internet are expected to increase rapidly. These direct purchases primarily include personal computers, electronic gadgets, furniture, sporting goods, books, music, apparel, flowers & cards, and toys etc.

U.S. Supreme Court rulings forbid states from forcing retailers to collect sales tax unless the seller

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has a physical presence in the state where the purchase is made (nexus). In 1994, the Advisory Commission on Intergovernmental Relations (ACIR) estimated \$1.4 billion of retail mail order activity from Connecticut residents and businesses. It is estimated these mail order sales increased to \$3.5 billion in fiscal 2001. As retail sales via the Internet grew rapidly, the U.S. Department of Commerce started estimating e-commerce quarterly transactions in late 1999. In fiscal 2002, national retail e-commerce sales are estimated at \$39.56 billion, accounting for 1.23% of total retail sales of \$3,207.4 billion. Total e-commerce sales of approximately \$40.0 billion were estimated to include \$10.0 billion (or 25%) for computers and accessories, \$4.7 billion (or 12%) for clothes, and \$2.8 billion (or 7%) for books. Retail transactions through the Internet have increased much faster than traditional brick and mortar sales. E-commerce retail sales rose 19.1% in fiscal 2002 compared to a 3.3% increase for traditional retail sales. The estimate of e-commerce sales does not include travel agencies, financial services, manufacturers, and wholesalers.

Sales via the Internet continue to grow at a brisk pace. According to the Bureau of Census, national e-commerce retail sales in the third quarter of 2002 was estimated to grow 34.3% from the same period a year ago, up dramatically from 24.5%, 19.7%, and 18.2%, respectively, for the previous three quarters. As a result, the share of e-commerce retail sales to total retail sales continues to increase, accounting for 1.34% in the third quarter of 2002, up from 1.05% for the 3rd quarter of 2001 and 0.95% for the 3rd quarter of 2000. As most residents fail to file use taxes for the purchase of goods and services made over the Internet, the increase in on-line businesses, accompanied with stepped up competition among national electronic retailers, has eroded Connecticut's tax base while detrimentally affecting the business of the state's main street retailers. Several studies have predicted tens of billions of sales tax losses nationwide due to e-commerce. A study by the University of Tennessee estimated a \$13.3 billion loss in sales tax in 2001. This loss is projected to increase to \$45 billion by 2006 as predicted by the Utah-based Institute for State Studies. Retail e-commerce sales in Connecticut were estimated at \$800 million in fiscal 2002.

Currently, a joint effort by state and local governments as well as the private sector on the Streamlined Sales Tax Project (SSTP) has been undertaken, aimed at fundamentally restructuring the national sales tax system by creating a uniform taxable base and simplifying tax administration among the states. The SSTP, which is a voluntary system, reached an agreement among the 35 implementing states on November 11th, 2002. As of the beginning of 2003, 30 states have sought legislative approval of modifications to their tax codes to conform to SSTP recommendations. Connecticut is currently a non-voting participant state. If enough states make the required changes to their tax codes to bring about national uniformity, it will be one less legal obstacle for states to face in collecting revenue from Internet transactions. Momentum for the project is likely to grow as many states confront fiscal difficulties over the next year. The likelihood of Congressional action on the issue also increases as more states adopt the streamlined approach.

Retail trade as a percentage of disposable income in Connecticut decreased to 36.7% in 2001, down from 37.6% in 2000 and 39.0% in 1999, compared to a national average of 42.9% in 2001 that was down from 43.0% in 2000 and 43.3% in 1999. The decrease reflects a slower growth in the demand for goods, and to a lesser extent for services, than disposable income. This lower percentage in Connecticut was attributable to its higher disposable income and a higher proportion of income being spent on services, which is only partially included in the retail trade figures. The state's per capita disposable income of \$34,135 in 2001 was 32% above the national average of \$25,872. In 2001, Connecticut per capita retail trade was estimated at \$12,296, which was 11% higher than the national average of \$11,107. The state's above average spending is primarily related to our higher

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income levels and our overall standard of living. In general, wealthier people tend to purchase more expensive cars and replace them more frequently. The same may be applicable for other durable goods such as computer equipment, appliances and furniture. Additional factors, which affect the level of expenditures, can include tax burden, consumer confidence, economic climate as well as the condition of a household's balance sheet.

According to the 1997 economic census on retail sales, a survey that is done once every 5 years by the U.S. Department of Commerce, Connecticut had \$34.9 billion of retail sales, up from \$27.8 billion in 1992. Retail sales varied among the state's eight counties with most sales concentrated in Fairfield, Hartford, and New Haven. These three counties accounted for 80.5% of total sales, with the remaining 19.5% spread among the other five counties. The Table on the following page shows retail sales activity by county. Growth in sales also varied among counties. Between 1992 and 1997, Fairfield increased the fastest at 34.5%, followed by Litchfield at 34.2%, compared to a less than 20% growth for Hartford, Tolland, and Windham. As a result, the share of total sales in Fairfield and Litchfield rose while in Hartford, Tolland, and Windham declined.

Although the retail trade sector is one of the major sources of jobs in the Connecticut economy, both the number of establishments and employment has declined. In 1997, the sector had 14,574 establishments that employed 186,935 persons. Establishments were down from 21,012 in 1992 and 21,688 in 1987 while employment was down from 240,885 in 1992 and 267,611 in 1987. This downward trend in establishments and employment reflects an overall change in the economic structure, operational management, and technological revolution in this sector. With the implementation of just-in-time inventory strategy assisted by advancements in computer management aids, job hiring was suppressed. As mega-sized discount and chain stores continued to grow and on-line order accessibility increased, markets became more competitive, forcing average sized retailers out of business. Aside from the expansion of catalog marketing, electronic retailing has exploded, shifting sales away from in-state retailers and putting downward pressure on job growth. The greater availability of electronic devices that provide more efficient market information and offer convenient shopping alternatives only exerts mounting pressure on the local "main street" businesses.

This sector is expected to undergo continual evolution and encounter profound competition in the future. As the economy becomes more global, competition will continue to heighten and require revisions in strategies to prevent declining market shares and falling profit margins. As transformations in demographics occur, such as more young adults living alone and persons per household declining, domestic retailers shall have to reassess and adjust their traditional selling strategies to fit these new consumption patterns.

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**TABLE 48**  
**RETAIL SALES IN CONNECTICUT BY COUNTY**

	Sales (\$M)	% of Total	Number of Employees	Per Employee Sales (\$ 000's)	Employees Per Establish.	Number of Establish.	Annual Payroll (\$M)	% of Total
<b>A. 1992 Economic Census</b>								
Fairfield	8,599.2	31.0%	63,773	134.8	11.3	5,652	1,076.5	31.1%
Hartford	7,476.0	26.9%	69,508	107.6	13.0	5,351	952.2	27.5%
Litchfield	1,200.5	4.3%	10,222	117.4	8.8	1,158	145.5	4.2%
Middlesex	1,075.0	3.9%	9,555	112.5	10.3	932	134.9	3.9%
New Haven	6,241.3	22.5%	56,078	111.3	11.2	4,997	756.3	21.8%
New London	1,906.2	6.9%	18,742	101.7	10.8	1,740	239.6	6.9%
Tolland	659.3	2.4%	7,126	92.5	11.8	604	85.4	2.5%
<u>Windham</u>	<u>596.3</u>	<u>2.1%</u>	<u>5,881</u>	<u>101.4</u>	<u>10.2</u>	<u>578</u>	<u>73.8</u>	<u>2.1%</u>
Total	27,753.8	100.0%	240,885	115.2	11.5	21,012	3,464.2	100.0%
<b>B. 1997 Economic Census</b>								
Fairfield	11,563.9	33.1%	54,012	214.1	13.5	4,008	1,218.0	33.5%
Hartford	8,829.0	25.3%	51,121	172.7	13.9	3,683	943.6	26.0%
Litchfield	1,611.0	4.6%	8,193	196.6	10.0	816	158.0	4.3%
Middlesex	1,345.0	3.8%	8,050	167.1	10.8	742	143.1	3.9%
New Haven	7,725.2	22.1%	41,942	184.2	12.6	3,335	775.9	21.3%
New London	2,405.0	6.9%	13,923	172.7	11.8	1,182	240.3	6.6%
Tolland	763.9	2.2%	5,028	151.9	11.7	428	81.8	2.3%
<u>Windham</u>	<u>695.8</u>	<u>2.0%</u>	<u>4,666</u>	<u>149.1</u>	<u>12.3</u>	<u>380</u>	<u>73.6</u>	<u>2.0%</u>
Total	34,938.8	100.0%	186,935	186.9	12.8	14,574	3,634.3	100.0%
<b>C. Growth (%) from 1992 to 1997</b>								
Fairfield	34.5		(15.3)	58.8	19.3	(29.1)	13.1	
Hartford	18.1		(26.5)	60.5	6.8	(31.2)	(0.9)	
Litchfield	34.2		(19.8)	67.5	14.1	(29.5)	8.6	
Middlesex	25.1		(15.8)	48.5	5.3	(20.4)	6.1	
New Haven	23.8		(25.2)	65.5	12.3	(33.3)	2.6	
New London	26.2		(25.7)	69.8	9.1	(32.1)	0.3	
Tolland	15.9		(29.4)	64.2	(0.4)	(29.1)	(4.2)	
Windham	16.7		(20.7)	47.1	20.4	(34.3)	(0.3)	
Total	25.9		(22.4)	62.2	11.5	(30.6)	4.9	

Source: U.S. Department of Commerce, "Census of Retail Trade, Connecticut"

The following Table using the most recently collected data from 1997 compares retail sales with personal income growth and changes in population. Slower sales growth in Hartford reflected

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below average growth in income and a decline in population while the healthy sales growth in Fairfield reflected the then strong economic growth due to the gains in the stock market and the high concentration of similar sources of unearned income.

**TABLE 49  
RETAIL SALES, INCOME AND POPULATION BY COUNTY**

	Retail Sales	Personal Income (\$B)			Population (000's)		
	% Change			% Change			
	'92 to '97	1992	1997	'92 to '97	1992	1997	'92 to '97
Fairfield	34.5%	31.46	42.05	33.6%	825.5	834.0	1.0%
Hartford	18.1%	22.73	27.28	20.0%	845.1	827.1	(2.1%)
Litchfield	34.2%	4.49	5.58	24.3%	176.4	180.6	2.3%
Middlesex	25.1%	3.74	4.67	24.9%	144.0	148.8	3.3%
New Haven	23.8%	19.73	24.51	24.2%	801.7	792.4	(1.2%)
New London	26.2%	5.71	7.08	24.1%	247.7	248.8	0.4%
Tolland	15.9%	2.84	3.50	23.2%	128.5	130.8	1.8%
Windham	16.7%	2.04	2.49	21.9%	103.2	104.8	1.6%
Connecticut	25.9%	92.75	117.17	26.3%	3,272.2	3,267.2	(0.2%)

Source: U.S. Department of Commerce, Bureau of Economic Analysis

### **Small Business in Connecticut**

Small businesses in the nation, as well as in Connecticut, have been playing an increasingly important role in overall economic activity. Small businesses are often cited as the major labor generators, the important job providers, and the primary technological innovators. Studies have shown that small businesses contributed the majority of the scientific and technological advances and developments in the twentieth century. They tend to be externally efficient which leads to the creation of new products, new jobs, and new processes. On the other hand, large business firms tend to be internally efficient, which leads to substituting capital for labor and focusing on cutting operational costs. In addition, small businesses help develop the free enterprise system, deterring monopoly formation by providing competition. With greater innovation and product differentiation occurring within small businesses, large firms are forced to improve productivity in order to respond to marketplace competition, thereby increasing society's social well-being and standard of living.

Structurally, small business tends mostly to be sole proprietorships and partnerships, and, to a lesser extent, corporations. These organizations range from "mom & pop" stores to high-tech instrument laboratories and cover businesses from garage operations to legal and business services. The definition of a small business, however, is prolific and controversial, varying among government agencies, private organizations, and researchers. The definition may even change by the same entity as time goes by, depending upon the entity's focus on either policy or operation.

Theoretically, a small business firm is one that does not benefit from an economy of scale available to large firms. The U.S. Small Business Administration (SBA), in determining eligibility for loans and assistance, takes into account whether the entity concerned is dominant in its market. Other

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criteria include a range of 500 to 1,500 employees for manufacturing, annual receipts not over \$14.5 million for retail sales, and up to 100 employees for wholesale trade. The definition of small business varies from state to state based on their comparative size in the regional economy, industrial structure, and policy emphasis. In New York, for example, small business is commonly defined as a firm with 100 or fewer employees, while in Washington, 50 or fewer employees.

According to Connecticut General Statutes, Chapter 588r, a small business is a firm with an employee size of 500 or less. It includes employees in any subsidiary or affiliate of a corporation, partnership, or sole proprietorship, operating for profit. For entities focused on special innovative research programs, the size of a small business is based upon federal guidelines.

According to the classification of the U.S. Department of Commerce, businesses can be broken down into several groups by employment size. Since the definition for small business is not generally agreed upon, the Department of Commerce, rather than identifying them by specific size, simply lists all employment classes for comparison.

In 2000, the latest year for which data is available, among the total 92,436 establishments employing 1,546,250 persons in Connecticut, small businesses with fewer than 100 employees accounted for 97.4% of total establishments and 50.9% of the total labor force.

The Table on the following page shows the breakdown of employment for manufacturing and non-manufacturing sectors and the distribution statistics for establishments and employment by business size in Connecticut. This Table demonstrates that small businesses constitute a major part of the state's employment and have generated new jobs for the overall economy, especially since the mid-1990's.

The following Table also shows that small business firms played a more important role in the nonmanufacturing sector. Businesses with more than 500 employees accounted for only 20.9% of total employment in nonmanufacturing, compared to 31.8% in manufacturing. This lower percentage is indicative of the concentration of small business in service activities where substitutions are uncommon and services are inherently specialized while goods production occurs in larger firms with economies of scale in both labor and capital. The following Table also depicts the distribution of Connecticut's establishments and employment according to the size of business for 2000. The share of employment by size of business firm ranges from 5.6% in firms with 1-4 employees to 22.5% for businesses with 500 or more employees. Determining whether small or large businesses create more jobs depends upon the point in the economic cycle when the assessment begins. This section compares the changes in employment between 1989 and 2000. The data reveals that, during this period, small businesses with 20 to 249 employees were the establishments experiencing the greatest positive job growth. Splitting this time into two separate periods, however, shows how vigorous smaller businesses have really become.

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**TABLE 50  
SMALL BUSINESS EMPLOYMENT IN CONNECTICUT  
(Size of Employment in Thousands)**

<u>Calendar Year</u>	<u>1-4</u>	<u>5-9</u>	<u>10-19</u>	<u>20-49</u>	<u>50-99</u>	<u>100-249</u>	<u>250-499</u>	<u>500&amp;up</u>	<u>Total</u>
<b>A. Employment</b>									
Manufacturing Employment									
1989	3.9	7.8	14.4	35.4	37.8	69.3	54.9	149.8	373.4
1995	3.8	7.2	13.9	30.1	35.8	53.3	40.8	103.3	288.2
2000	3.7	6.5	13.1	28.6	29.7	46.7	30.4	74.0	232.8
(# Change, 89-00)	(0.2)	(1.3)	(1.3)	(6.8)	(8.1)	(22.6)	(24.5)	(75.8)	(140.6)
(% Growth, 89-00)	(7.3%)	(17.1%)	(9.0%)	(19.2%)	(21.4%)	(32.5%)	(44.6%)	(50.6%)	(37.7%)
(% Growth, 89-95)	(2.6%)	(8.2%)	(3.4%)	(15.0%)	(5.3%)	(23.1%)	(25.7%)	(31.1%)	(22.8%)
(% Growth, 95-00)	(4.8%)	(9.7%)	(5.8%)	(4.9%)	(17.0%)	(12.3%)	(25.4%)	(28.3%)	(19.2%)
Nonmanufacturing Employment									
1989	85.9	116.4	141.5	191.8	141.5	166.0	89.4	191.7	1,124.1
1995	83.7	110.7	134.7	181.1	134.6	178.2	91.7	212.4	1,127.2
2000	83.0	113.6	143.9	208.9	156.0	219.2	114.6	274.4	1,313.5
(# Change, 89-00)	(2.9)	(2.8)	2.4	17.1	14.5	53.2	25.2	82.7	189.4
(% Growth, 89-00)	(3.4%)	(2.4%)	1.7%	8.9%	10.3%	32.0%	28.2%	43.1%	16.8%
(% Growth, 89-95)	(2.5%)	(4.8%)	(4.8%)	(5.6%)	(4.8%)	7.3%	2.6%	10.8%	0.3%
(% Growth, 95-00)	(0.9%)	2.5%	6.8%	15.4%	15.9%	23.0%	25.0%	29.2%	16.5%
Total Employment									
1989	89.8	124.2	155.9	227.2	179.3	235.3	144.3	341.5	1,497.5
1995	87.6	117.9	148.6	211.1	170.4	231.5	132.5	315.7	1,415.4
2000	86.6	120.1	157.0	237.5	185.7	265.9	145.1	348.4	1,546.3
(# Change, 89-00)	(3.2)	(4.1)	1.1	10.3	6.4	30.6	0.8	6.9	48.8
(% Growth, 89-00)	(3.5%)	(3.3%)	0.8%	4.5%	3.6%	13.0%	0.5%	2.0%	3.3%
(% Growth, 89-95)	(2.5%)	(5.1%)	(4.6%)	(7.1%)	(4.9%)	(1.6%)	(8.2%)	(7.5%)	(5.5%)
(% Growth, 95-00)	(1.1%)	1.8%	5.7%	12.5%	9.0%	14.9%	9.5%	10.4%	9.2%
<b>B. Total Establishments, 1998</b>									
	49.7	18.2	11.6	7.8	2.7	1.8	0.4	0.2	92.4
<b>C. Distribution of Establishments and Employment, 2000</b>									
Establishments	53.8%	19.6%	12.6%	8.5%	2.9%	1.9%	0.5%	0.3%	100.0%
Cumulative	53.8%	73.4%	86.0%	94.5%	97.4%	99.3%	99.7%	100.0%	
Total Employment	5.6%	7.8%	10.2%	15.4%	12.0%	17.2%	9.4%	22.5%	100.0%
Cumulative	5.6%	13.4%	23.5%	38.9%	50.9%	68.1%	77.5%	100.0%	
Nonmfg Employ.	6.3%	8.6%	11.0%	15.9%	11.9%	16.7%	8.7%	20.9%	100.0%
Cumulative	6.3%	15.0%	25.9%	41.8%	53.7%	70.4%	79.1%	100.0%	

Source: U.S. Department of Commerce, Bureau of the Census, "County Business Patterns"

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Small businesses in Connecticut fared well in job creation when the economy was expanding. Relative to larger firms, they also were less vulnerable when the economy weakened. During the 1995-2000 period of economic expansion, total employment grew by 9.2%. While employment in the large firms with 500 employees or more grew 10.4%, job growth was particularly strong in small businesses with 20 to 249 employees, growing 11.9%.

A dissection of total employment into manufacturing and nonmanufacturing sectors reflects different growth patterns for various firm sizes. As the prior Table shows, during the 1989-2000 period, the employment increase was solely in the nonmanufacturing sector which continually absorbed the outflow from the manufacturing sector, further shifting the economic activity of the state toward services.

Manufacturing employment in Connecticut has continued on a downward trend through 2000 since its peak in 1984. The loss of manufacturing employment occurred across the board with the smallest decrease in firms employing less than 50, but especially 1-4 persons. Business firms with fewer than 4 employees are not as susceptible to the vagaries of the economy. They are generally less capitalized and managed by family owners or by a joint venture operated by closely related members. These businesses are more self-sustaining and are willing to bear greater cost pressures, making them relatively recession proof and less mobile geographically. Large manufacturing businesses have been more responsive to economic conditions by adjusting their workforce size or moving out of the State. The downward trend is a common phenomenon for states in the Northeast because of unique regional economic factors. The decline has been more rapid recently, spurred by globalization, deregulation, technology improvements, and budget cuts. These factors create more competition in the already fiercely competitive marketplace, resulting in lower employment in the manufacturing sector.

Negative factors affecting small businesses include higher operating costs, tighter credit availability, and less price flexibility. Material purchases and transaction costs for small business firms are normally not large enough to take advantage of volume discounts, creating a cost disadvantage. Small business firms may lack financial strength or enough assets to be used as collateral for financing purposes. Without name recognition and long track records, obtaining credit can be constrained, thereby limiting a firm's growth potential. Major corporate loans are normally negotiated at the prime rate while small sized businesses are charged additional points above prime. When costs increase, small business firms are generally unable to adjust prices to fully recover their costs from customers, thereby reducing profit margins. Larger firms generally can exert control over costs and prices as well as increase their economic power by expanding market share.

Small businesses are constantly facing operational difficulties and at the same time confronting competition with larger firms. To ensure constant growth for the economy, it is imperative that policy makers pay special attention to small businesses. Recognizing that small business is an important engine of economic growth, the State has aggressively created and provided a wide range of programs and services aimed to help expand or set-up new businesses. The Connecticut Department of Economic and Community Development (DECD) has partnered with the Connecticut Economic Resource Center, Inc. to provide programs such as counseling, training, financing, technical assistance, and trade information to assist this important sector.

For more information, please write or contact the following:

## **Economic Report of the Governor**

Connecticut Economic Resource Center, Inc.  
805 Brook Street  
Rocky Hill, CT 06067  
1-(800)-392-2122

Connecticut Department of Economic & Community Development  
Research Division  
505 Hudson Street  
Hartford, CT 06106  
(860)-270-8165

### **Nonfinancial Debt**

For many years, national attention has centered on the issue of the federal budget and trade deficits, as well as the level of indebtedness of domestic nonfinancial entities. Domestic Nonfinancial Debt (DNFD) is the aggregate net indebtedness of all nonfinancial borrowers in the United States. It includes the borrowings of all levels of government, business and households. It excludes the debt of foreigners and the liabilities of financial intermediaries such as commercial banks, thrift institutions and finance companies. As required by the Full Employment and Balanced Growth Act of 1978, Domestic Nonfinancial Debt is compiled quarterly by the Federal Reserve.

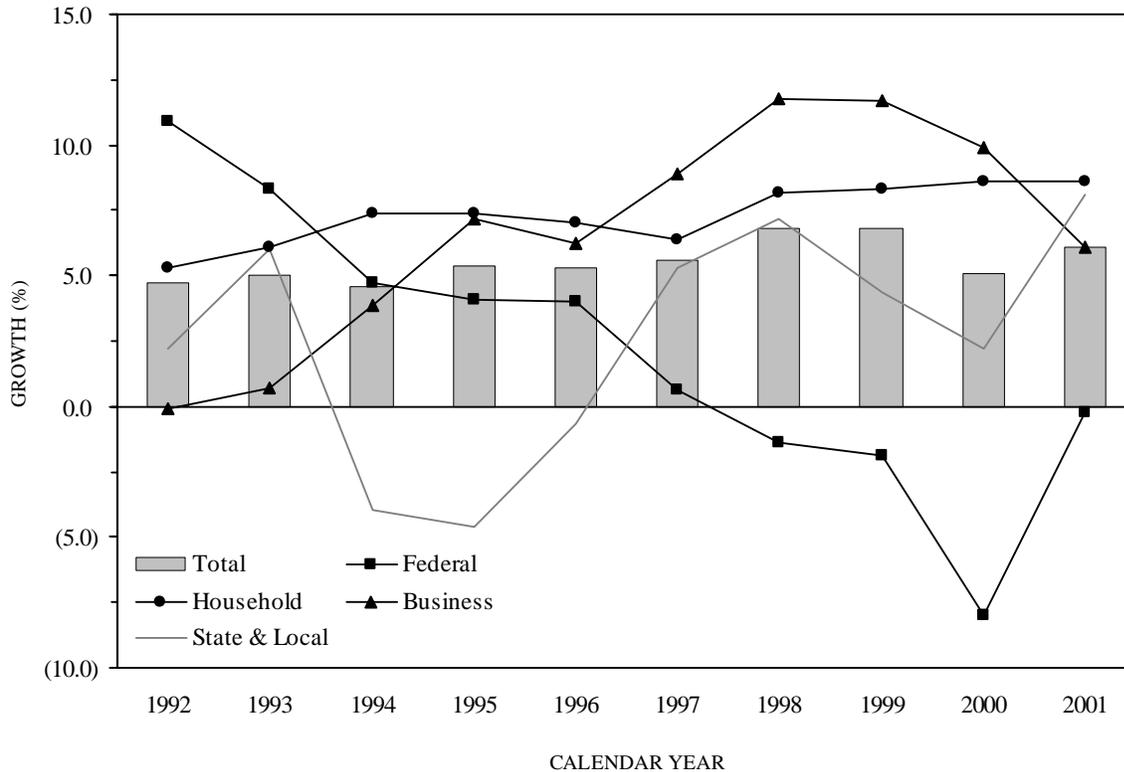
The Chart on the following page depicts the 10-year growth history for total DNFD and each of its components. Growth in total DNFD, which registered double-digit growth rates in the mid 1980s, slowed to between 4.0% and 7.0% for the past 10 years. It grew 6.1% in 2001, up from 5.1% in 2000. The average growth for the past decade was 5.5%. Among the four components, only the growth in debt of nonfinancial businesses slowed, the other three showed either a continued rapid increase or a pause in its downward trend. The debt growth in the household sector continued at a brisk pace and the growth in the state and local government's debt jumped to a decade high. The improvement in debt outstanding of the federal government stalled after a persistent downward course since 1992. The turnabout for the federal government was due to a reduction in revenue from tax cuts, a slowdown in the economy, an increase in spending related to the fight against terrorism at home and abroad, as well as other functions such as the rising cost of health care. Growth in household borrowings jumped as interest rates sank to a four-decade low that spurred demand for housing and resulted in substantial appreciation in home values and equity. Growth in state and local government's debt financings climbed in 2001 as financial conditions turned sour. As interest rates were at a record low, it permitted large refinancings for debt retirement. Growth in the business sector continued to show signs of slowing in 2000 and 2001 after a decade of fast paced expansion, reflecting a decline in fixed investment and inventories due to a weakening economy. Details for each sector are described beginning on the next page.

In 2001, according to the Federal Reserve, the seasonally adjusted year-end total domestic nonfinancial debt outstanding was \$19,376.3 billion for its four major components: households, nonfinancial businesses, the federal government, and state and local governments. Of the total debt, households accounted for 39.6% of the total, followed by nonfinancial businesses at 35.8%, the federal government at 17.4%, and state and local governments at 7.1%. Prior to 1990, household borrowings trailed those of businesses; however, faster growth since 1991 in home

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mortgages and consumer credit coupled with a steady increase in income helped catapult household borrowings to the top. Over the past decade, the private sector has increasingly played a more important role in the debt market. Debt outstanding in the household and nonfinancial business sectors accounted for 75.5% of the total in 2001, up from 64.7% for 1992. Rapid growth of debt in the household and nonfinancial business sectors was accompanied by a gradual decline in federal as well as state & local government debt. From 1992 to 2001, total debt balances increased 59%. Among the four categories, the household sector grew 92%, followed by nonfinancial business at 89%; state and local governments at 25%; and the federal government at 10%.

### GROWTH OF INDEBTEDNESS



Source: Board of Governors of the Federal Reserve System and U.S. Department of Commerce

The DNFD-to-GDP ratio stood at 188.8% in 2001, up from 182.2% in 2000, 185.6% in 1990 and 140.9% in 1980. The cumulative effect of faster DNFD growth in the 1980s has resulted in DNFD levels roughly twice that of GDP. The total DNFD-to-GDP ratio reached 190% in the late 1980s as a result of a combination of nearly double-digit increases in federal borrowings and the deregulation of the financial markets. During the 1980s, non-bank financial institutions funneled funds more freely between the suppliers of capital and its consumers, creating a more competitive and efficient market. The decline in the late 1990s in the ratio can be attributed to a decline in federal debt accompanied by more robust GDP growth. However, the ratio has increased lately as economic conditions changed. Of the total DNFD-to-GDP ratio of 188.8 in 2001, households

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accounted for 74.8%, followed by nonfinancial businesses at 67.6%, the federal government at 32.9%, and state and local governments at 13.5%.

### **Household Borrowing**

Household borrowings, which accounted for almost 40% of total non-financial debt, include home mortgages, consumer credit, and other miscellaneous items. The chart shows that until 1995, the growth in household borrowings surpassed that of business. Growth in household borrowings accelerated to an annual average rate of 8.4% for the past four years.

Growth in household borrowings is closely related to economic conditions. When employment and income expand, it nurtures consumer spending and confidence, and then sustains consumer spending and borrowings. During the second half of the 1980s, when growth averaged 9.0%, a buildup of wealth, generated by increases in income and appreciation of real estate and stocks, as well as innovations in the financial market and remarkably low interest rates created a borrowing binge. In the first half of the 1990s, when growth averaged 6.3%, sluggish income growth, the depressed value of real estate, an uncertain economy, and increased health insurance and educational costs made consumers more cautious.

Household borrowings nonetheless climbed to 7.7% on average in the second half of the 1990s as a result of the continued strong economy, a healthy growth in income from wages, capital gains, and an appreciation in home values. The rapid growth in household borrowings continued in 2001 and extended into 2002 despite a slowing economy and sharply eroded stock values. The value of stocks dropped 38% by the second quarter of 2002 to \$7.9 trillion from their peak in the first quarter of 2000. However, due to the continued decline of mortgage rates to a four-decade low, home values increased 29% to \$13.1 trillion during the same period, according to the Board of Governors of the Federal Reserve System. Continued appreciation in home values and a decline in interest rates have created a vibrant housing market, helping dilute the negative wealth impact brought about by a sharp decline in the stock market. The economy continues to grow as families use home equity to finance spending, trade up, or invest in new construction amid a time when business investment has been on the wane. The ratio of net home equity to disposable personal income, one of the measures of the wealth effect, increased from a ratio of 1.49 in the first quarter of 2000 to 1.70 in late 2001. The share of net home equity, which is the value of one's home less a home mortgage, in total family net assets has become more important, increasing from 30% to 49% during the same period.

Among total household borrowings of \$7.68 trillion in 2001, home mortgage loans accounted for \$5.38 trillion, or 70.0%, followed by consumer credit at \$1.70 trillion, or 22.2%, with the remainder in other miscellaneous items. The resurgence of household borrowings reflects strength in both home mortgages and consumer credit despite a slow down in the economy. In 2001, demand for homes and refinancing remained brisk, mainly supported by extraordinarily favorable mortgage rates, aggressive mortgage lending and the sell off in the stock market. Higher housing turnover rates have accelerated one-time purchases of investment type spending such as home furniture, appliances, tools, and others. Research findings show that rising home prices have a bigger influence on credit creation and spending than that of rising equity prices. Home value appreciation is perceived more permanent and consistent with a higher propensity to consume by consumers relative to gains in the stock market that are volatile and ephemeral in nature. Unlike capital gains on stocks, benefits realized through mortgage refinancing due to the appreciation of homes or lower mortgage rates can be cashed out without tax liability. Refinancing will free up

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more money for spending or paying off old debts. It is estimated that approximately one-tenth of cashed-out mortgage refinancing dollars is for consumption purposes. Of the 1.2% of annualized GDP growth registered in 2001, it is estimated that nearly 50% was spurred by refinancing activity. Total outstanding home mortgages registered \$5,734 billion in late 2001, up \$530 billion, or 10.2%, from a year ago. Home mortgages continued to expand into 2002 as 30-year mortgage rates averaged 6%. Of the total, loans made under home equity lines of credit and home equity loans secured by junior liens registered \$699 billion, up \$69 billion, or 11.0%, during the same period. As a result of the fast increase in mortgage loans, the household mortgage debt-service burden, measured by payments as a percentage of disposable personal income, also reached its recent high at 6.35%. The previous high was 6.28% registered in early 1991. The tapping of home equity for spending on items other than home improvements or upgrading concerns economists. When housing prices stop rising and interest rates creep up, consumer spending may negatively affect the economy if personal income only increases modestly.

Consumer credit not secured by real estate, including automobile loans, personal loans, and revolving credit (which includes credit card debt and store charges) registered \$1,703 billion in late 2001, up \$110 billion, or 6.9%, from a year ago. This helped finance a large expansion in spending for consumer non-durables. Credit card debt continues to increase at a rapid pace as convenience and security continue to improve, and more consumers rely on credit cards for making purchases online or by telephone. It is estimated that 61% of American have one or more credit cards. This sector not only offers "teaser" rates to lure new clients with rates as low as a 0% for a portion of a year, but also has lowered the minimum payments to 2% of balances from 3% or 4% in the last five years. In addition, credit cards have been making inroads in the purchases of other goods and services. Use of credit cards for groceries, college expenses, medical and dental expenses, and government taxes and fees have risen sharply. The frequent flyer mileage and hotel discount programs, as well as credits or reimbursements toward the purchase of commodities, also contributed to an increase in credit card debt. Business use of credit cards has also increased rapidly. Due to simplicity, speed and the convenience of credit cards, more small businesses use them as one of the ways to finance their operations, including leasing of items such as vehicles and computer equipment. Small-business suppliers, wholesalers, and distributors are also increasingly accepting credit cards. It is estimated that 47% of small businesses used credit cards as a financing source in 2001, double the amount from two years ago. Credit card usage has even gained widespread penetration at the college level. Research shows that 60 percent of college students have at least one credit card and carry an average balance of more than \$1,800.

As consumer debt increased, the quality of consumer credit declined. Consumer debt as a percentage of disposable income grew constantly from 16.4% at the year-end of 1992 to 21.9% in 2000 and 23.0% in 2001. As competition mounted and credit card lenders fought to maintain revenue gains, loans have been extended to sub-prime customers with poor credit or low income. The increase in the consumer loan delinquency rate prompted federal regulators to ask lenders to set aside extra funding for reserves and change accounting and lending practices. Despite increased consumer debt, the household debt-service burden edged up only slowly. The household debt-service burden, measured by payments as a percentage of disposable personal income, registered 14.4% over the year ending 2001, up from 13.9% in 2000. The ratio has been hovering between 12.5% and 14.2% in the past two decades. Historically, growth in personal income has surpassed that of consumer spending, yielding net savings for the economy. However, starting in the early 1980s, trends reversed; growth in consumer spending exceeded that of personal income, resulting in a deterioration in personal savings. The saving rates, the ratio of personal savings to disposable personal income, reached a high of 10.9% in 1982, then gradually

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edged down to 4.7% in 1998 and plummeted to 2.3% in 2001. The savings rate was, however, improved to 3.7% in the first 9 months of 2002 as the increase in disposable income rose more than that of total income. Consumers become cautious as the economic outlook remains uncertain and equity wealth has been eroded.

### **Business Borrowing**

Business borrowing includes debts owed by corporations, nonfarm noncorporations and farms. Total borrowing grew by 6.1% to \$6.93 trillion at the end of 2001. The bulk of the debts are owed by corporations that account for 70% of the total. Corporate borrowings grew slowly by 5.1% to \$4.85 trillion at the end of 2001, the slowest growth year since 1994, due to an over-investment in the past years and uncertainty in the economy. Borrowing instruments include corporate bonds, commercial paper, municipal securities, bank loans, mortgages, and others. Corporate bonds comprised the major portion of the total, accounting for 39.2%, followed by mortgages at 30.7%, and bank loans at 18.3%. Both corporate bonds and mortgages grew substantially as both interest rates and the spreads over Treasury security yields remained low. Financing through nontraditional channels such as mutual funds, venture capital, and initial public offerings declined as the stock market performed poorly. The NSADAQ Index, for example, declined about 60% by the end of 2001 from its peak in the first quarter of 2000. Real investment weakened in 2001, with capital investment, which includes spending on new equipment, software and structures, and inventory dropping from a year ago. Financings through venture capital investment in the U.S. for 2001 fell sharply to \$40 billion, or 62%, from \$105 billion a year ago. Borrowings related to mergers and acquisitions also dropped dramatically. Merger activity in 2001 totaled \$0.8 trillion, down from a record of \$1.7 trillion in 2000 and \$1.5 trillion in 1999.

Corporate bonds issued as of the 3rd quarter of 2002 declined from the same period a year ago, despite interest rates remaining at encouraging low levels. While mergers and acquisitions as well as equity initial public offerings continued to weaken, the credit spreads increased sharply. The spread of investment-grade corporate bonds over Treasury bonds reached its all time high at 2.35% versus 2.0% or below normally, up from 1.5% at year-end 2001. The rates in the junk bond market were about 10%, up from 8% in the late 1990s. Concerns over corporate earnings and balance sheets were aggravated by a series of major corporate scandals. For example, corporate bonds issued by Ford Motor Company, at one time considered blue chip, are traded at near junk-bond levels. This creates more difficulty amid a time when the economy is teetering between recovery and recession. While the growth in business debt has slowed, the overall quality of business financials measured by balance sheet analysis has continued to worsen. Total debt owed by non-farm non-financial businesses accounted for 56.2% of total net worth, up from 51.5% in 2000. It edged up to 57.1% in the second quarter of 2002. In 1985, the ratio of debt to net worth was 38.8%. Net worth is total financial assets less total liabilities.

U.S. businesses depend more upon the capital markets than the banking system for their financing. This is cited as one of the reasons that the U.S.'s current economic path will not follow Japan's recession that has been lingering since the early 1990s. As mentioned on the prior page, borrowings by U.S. businesses through the capital market that is made up of corporate bonds and mortgages accounts for 70% of total liability. Bank loans only account for 18.3%. In contrast, bank loans in Japan account for approximately 60% of all corporate debts. Unlike the banking system, the capital markets reflect economic conditions through the pricing function in real time and quickly correct for market problems. In 2001, the ratio of business debts to GDP in the U.S. was 70%, versus 225% in Japan.

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### **Government Borrowing**

In the 1970s, the federal deficit surged. To mitigate the recessions experienced in the early 1980s, the federal administration applied an expansionary fiscal policy to stimulate aggregate demand. At the same time, a tax cut was implemented in an attempt to sacrifice a short-term loss in revenue for a long-term gain by reducing spending and increasing revenues through more rapid economic growth. This expectation, however, was not realized and deficits persisted during the mid 1980s when the economy was booming.

In fiscal 1992, the federal deficit, based on a unified budget that includes Social Security and Medicare reached its zenith at \$290.4 billion as a result of the recession that occurred between July 1990 and March 1991. It fell to \$107.5 billion in fiscal 1996 and then plummeted to \$21.9 billion in fiscal 1997. The situation continued to improve, resulting in a surplus of \$69.3 billion in fiscal 1998, the first surplus since 1969, a surplus of \$236.9 billion in fiscal 2000 and \$127 billion in fiscal 2001. The fiscal year that ended September 30, 2002, however, returned to a deficit of \$159 billion, according to a joint statement of Treasury and the Congressional Budget Office of October 2002, with total receipts of \$1,853 billion and total outlays of \$2,012 billion.

The turn from a consecutive 4-year surplus to a deficit was due to the combination of a decline in revenue accompanied by an increase in outlays. All the major revenue categories registered a decline with sharp drops in personal income and corporation taxes associated with the softened stock market. Outlays grew by double-digit growth rates almost across the board, including national defense, health, and transfer payments. Thanks to an accommodative monetary policy, Federal Funds interest rates have fallen to 1.75%, which markedly reduced interest payments. As the federal operating results turned, so did the increase in the national debt. By the end of federal fiscal year 2002, gross debt outstanding registered \$6,228.2 billion, up 7.2% from \$5,807.5 billion in fiscal 2001, compared to increases of 2.3% and 0.3% for the two previous years. Growth in federal gross debt has been gradually moderating from a high of 13.4% in 1991 to low single-digit growth rates. Gross debt outstanding as a percentage of GDP also declined to an estimated 60.9% for federal fiscal year 2002, down from a recent high of 66.1% in 1995 but up from 56.9% in 2001. Federal statutes limit national debt. The debt ceiling was raised to \$6,400 billion in June 2002, up from the \$5,950 billion set nearly six years ago.

Of the 2002 federal gross total of \$6,288.2 billion in debt, \$3,553.2 billion is held by the public and \$2,675.1 billion by intra-governmental agencies. Public holders include individuals, corporations, state or local governments, foreign governments, and other entities outside of the United States while intergovernmental agencies hold federal securities in trust funds, revolving funds, and other special funds. The federal statutes authorize federal agencies such as the Federal Reserve Bank and various trust funds to invest in Treasury securities. In the past few years, while the federal government continues to shed publicly held debt, intra-governmental holdings, on the contrary, continue to build, resulting in a net increase in total national debt. From fiscal 1997, intra-governmental holdings increased by \$1,051.6 billion, which more than offset the reduction of \$236.5 billion in public holdings, bringing a net increase of \$815.1 billion in total national debt. Intra-governmental holdings accounted for 43% of total national debt in fiscal 2002, up from 30% in fiscal 1997.

Total state and local government's debt outstanding spiked in 2001. It totaled \$1.38 trillion at the end of 2001, an 8.1% growth after increases of 2.2% and 4.4% in 2000 and 1999, respectively. This

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compares with its peak increase of 32.0% in 1985. State and local government includes states, counties, municipalities and other local entities. State coffers shrank as the increase in current expenditures exceeded the increase in current receipts. Current receipts registered \$1,261.3 billion versus \$1,292.6 billion for current expenditures, yielding a deficit of \$31.3 billion for 2001. This deficit reversed surpluses of \$18.0 billion in 1999 and \$40.7 billion in 1998. The last time total state and local governments registered a deficit was in the early 1990s: \$7.8 billion in 1991 and \$4.9 billion in 1992. State and local government's financial conditions continued to deteriorate in 2002. The deficit as of the second quarter of 2002 is estimated at \$43.2 billion, compared to a deficit of \$32.3 billion a year ago. State and local government's major receipts include the personal income tax, property tax, and federal grants-in-aid.

According to the U.S. Department of Commerce's "State Government Finances," state and local government debt outstanding in Connecticut, from all obligations at the end of fiscal 1999, the latest available year, was \$22.24 billion. Per capita state and local government debt was \$6,776 compared with \$5,021 for the nation. Connecticut state government debt outstanding totaled \$18.45 billion in 2000, compared to \$17.50 billion in 1999 and \$17.73 billion in 1998. Per capita state debt was \$5,419 in fiscal 2000, compared to \$5,334 in fiscal 1999 and \$5,414 in fiscal 1998. Corresponding figures for the national average were \$1,951 in fiscal 2000, \$1,872 in fiscal 1999, and \$1,791 in fiscal 1998.

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### **PERFORMANCE INDICATORS**

This section is devoted to performance trends of various economic indicators for three entities; the United States, the New England Region and Connecticut. These statistics will indicate the relative economic performance of the entities showing both their strong and weak points.

#### **Gross Product**

Gross National Product (GNP) is defined as the aggregate current market value of final goods and services produced by a nation's citizens and capital, regardless of location, in a given period of time. Formerly, GNP was generally used as a measure of a nation's economic performance, tracking the cyclical ups and downs of the economy. However, GNP reflects more than domestic activity as products produced by citizens outside territorial borders are included, while products produced by foreign workers and capital located in the nation are excluded. As a result, Gross Domestic Product (GDP) which measures all economic activity within a territory, and is consistent with other economic indicators such as employment and shipments of manufactured goods, has been adopted as a better measure of economic activity within a territory.

Because prices of goods and services change over time, both GNP and GDP may also change, even if there has been no change in physical output. Therefore, to measure changes in real output, they are adjusted by an index of the general price level and expressed in constant dollars. Other things being equal, when real gross product rises the economy is experiencing an expansion, when real gross product falls the economy is experiencing a decline. In the past, a fixed-weighted inflation index, the GDP deflator, had been used to measure real output. However, with the rapid change in technology, price movements for certain commodities actually grew less than the price for all goods on average. As such, the traditional measurement of real product had misstated the growth in output as it moved away from the base year, creating what is known as substitution bias. To correct for this bias, the U.S. Department of Commerce, Bureau of Economic Analysis introduced a chained-type inflation index based on 1992, and has since revised the base year to 1996.

One measure of a state's economic performance is Gross State Product (GSP). Like GDP, GSP is the current market value of all final goods and services produced by labor and property located in a state. In 2000, the State of Connecticut produced \$159.3 billion worth of goods and services and \$149.6 billion worth of goods and services in 1996 chained type dollars. The following Table provides a ten-year comparison of nominal and real gross products for Connecticut, the New England Region and the Nation as a whole.

Table Number 52, which provides gross state product by source in 2000, shows Connecticut's production concentrated in three areas: finance, insurance and real estate (FIRE) which contributed \$47.0 billion or 29.5%; services which contributed \$35.2 billion or 22.1%; and manufacturing which contributed \$24.9 billion or 15.6% to total production. Production in these three industries accounted for 67.2% of total production in Connecticut compared to 57.1% for the nation and was up from 64.4% in 1991. This demonstrates that Connecticut's economy is more heavily concentrated in a few industries than the nation as a whole and this concentration also increased over the decade.

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**TABLE 51**  
**GROSS PRODUCT**

Calendar Year	United States *		New England *		Connecticut	
	Dollars	% Growth	Dollars	% Growth	Dollars	% Growth
<b>A. Millions of Current Dollars</b>						
1991	5,895,430	3.3	344,025	1.3	100,395	1.5
1992	6,209,096	5.3	357,145	3.8	103,794	3.4
1993	6,513,026	4.9	373,298	4.5	107,924	4.0
1994	6,930,791	6.4	394,406	5.7	112,395	4.1
1995	7,309,516	5.5	416,166	5.5	118,645	5.6
1996	7,715,901	5.6	439,596	5.6	124,157	4.6
1997	8,224,960	6.6	471,336	7.2	134,968	8.7
1998	8,750,174	6.4	503,940	6.9	142,701	5.7
1999	9,279,697	6.1	537,962	6.8	149,483	4.8
2000	9,941,552	7.1	582,776	8.3	159,288	6.6
% Increase ('91 to '00)		68.6			69.4	58.7
<b>B. Constant Dollars**</b>						
1991	6,615,685	(0.2)	388,572	(2.5)	114,576	(2.3)
1992	6,774,505	2.4	391,385	0.7	114,830	0.2
1993	6,918,388	2.1	397,470	1.6	115,725	0.8
1994	7,203,002	4.1	410,014	3.2	117,489	1.5
1995	7,433,965	3.2	422,524	3.1	120,792	2.8
1996	7,715,901	3.8	439,596	4.0	124,157	2.8
1997	8,093,396	4.9	463,498	5.4	132,620	6.8
1998	8,502,663	5.1	488,673	5.4	138,159	4.2
1999	8,915,954	4.9	517,174	5.8	143,500	3.9
2000	9,314,279	4.5	549,304	6.2	149,649	4.3
% Increase ('91 to '00)		40.8			41.4	30.6

\* Sum of State's Gross State Products.

\*\* 1996 chained dollar series are calculated as the product of the chain-type quantity index and the 1996 current-dollar value of the corresponding series, divided by 100.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

The output contribution of manufacturing, however, has been declining over time as the contributions of finance, insurance and real estate and services have been rapidly increasing. The share of production from the manufacturing sector decreased, caused by increased competition with foreign countries and other states as well as declining defense expenditures. The broadly defined services in the private sector, which includes industries in transportation & utilities, trade, FIRE and other services, have increased to 71.7% of total GSP in 2000 from 66.4% in 1991. The shift toward services in Connecticut has been moving faster than the Nation. During the past decade cited, the share of service production increased 5.3 percentage points (8.0%) in Connecticut versus only 3.7

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percentage points (6.0%) for the nation. The increasing share of service production may help smooth the business cycle, prolonging the length of expansion and reducing the span and depth of recession. Normally, activities in service sectors relative to manufacturing are less susceptible to pent-up demand, less subject to inventory-induced swings, less intensive in capital requirements, and less vulnerable to foreign competition. Therefore, this shift to the service sectors should smooth output fluctuations.

**TABLE 52**  
**GROSS PRODUCT BY SOURCE**  
**(In Billions of Current Dollars)**

<u>Industry</u>	----- Calendar 1991 -----				----- Calendar 2000 -----			
	<u>U.S.</u>	<u>%</u>	<u>CT</u>	<u>%</u>	<u>U.S.</u>	<u>%</u>	<u>CT</u>	<u>%</u>
Agriculture, Forest & Fisheries	102.9	1.7	0.660	0.7	135.8	1.4	1.090	0.7
Mining	96.7	1.6	0.061	0.1	127.1	1.3	0.112	0.1
Construction	232.7	3.9	3.483	3.5	463.6	4.7	5.579	3.5
Manufacturing	1,043.5	17.7	19.901	19.8	1,566.6	15.8	24.897	15.6
Transportation & Utilities	518.3	8.8	6.803	6.8	825.0	8.3	9.399	5.9
Wholesale Trade	395.6	6.7	6.762	6.7	674.1	6.8	9.726	6.1
Retail Trade	523.7	8.9	8.361	8.3	893.9	9.0	12.876	8.1
Finance, Insurance, Real Estate	1,072.2	18.2	25.258	25.2	1,936.3	19.5	47.045	29.5
Services	1,123.8	19.1	19.470	19.4	2,164.6	21.8	35.235	22.1
Government	786.0	13.3	9.636	9.6	1,154.6	11.6	13.328	8.4
<b>Total</b>	<b>5,895.4</b>	<b>100.0</b>	<b>100.395</b>	<b>100.0</b>	<b>9,941.6</b>	<b>100.0</b>	<b>159.288</b>	<b>100.0</b>
Sum of Three Major Industries		55.0		64.4		57.1		67.2
Broadly Defined Services		61.6		66.4		65.3		71.7
CT as a % of U.S. Total GSP				1.70				1.60

Source: U.S. Department of Commerce, Bureau of Economic Analysis

### Per Capita Gross Product

Growth in gross product may not sufficiently reflect the overall improvement in the well being of an economy. Gross product may rise significantly; however, population may increase even more rapidly, signifying no real improvement in the well being of the economy. Therefore, real per capita gross product, which takes into account increases in population and inflation provides a better measure of the standard of living among differing economies. The following Table provides a comparison of annual nominal and real per capita output for the United States, the New England Region and Connecticut.

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**TABLE 53  
PER CAPITA GROSS PRODUCT**

### A. In Current Dollars

Calendar Year	United States		New England		Connecticut		
	Dollars	% Growth	Dollars	% Growth	Dollars	% Growth	% of U.S.
1991	23,304	3.3	25,969	1.3	30,396	1.5	130
1992	24,206	3.9	26,912	3.6	31,446	3.5	130
1993	25,058	3.5	27,995	4.0	32,614	3.7	130
1994	26,340	5.1	29,441	5.2	33,894	3.9	129
1995	27,451	4.2	30,890	4.9	35,692	5.3	130
1996	28,642	4.3	32,431	5.0	37,210	4.3	130
1997	30,167	5.3	34,550	6.5	40,297	8.3	134
1998	31,720	5.1	36,693	6.2	42,403	5.2	134
1999	33,256	4.8	38,877	6.0	44,142	4.1	133
2000	35,226	5.9	41,770	7.4	46,685	5.8	133
% Increase ('91 to '00)		51.2		60.8		53.6	

### B. In 1996 Chained Dollars

Calendar Year	United States		New England		Connecticut		
	Dollars	% Growth	Dollars	% Growth	Dollars	% Growth	% of U.S.
1991	26,151	(0.2)	29,331	(2.5)	34,690	(2.3)	133
1992	26,410	1.0	29,492	0.5	34,789	0.3	132
1993	26,618	0.8	29,808	1.1	34,971	0.5	131
1994	27,375	2.8	30,606	2.7	35,430	1.3	129
1995	27,918	2.0	31,362	2.5	36,338	2.6	130
1996	28,642	2.6	32,431	3.4	37,210	2.4	130
1997	29,685	3.6	33,975	4.8	39,596	6.4	133
1998	30,823	3.8	35,582	4.7	41,053	3.7	133
1999	31,952	3.7	37,374	5.0	42,375	3.2	133
2000	33,003	3.3	39,371	5.3	43,860	3.5	133
% Increase ('91 to '00)		26.2		34.2		26.4	

Source: U.S. Department of Commerce, Bureau of Economic Analysis & Bureau of the Census

During the 1980s, both real per capita output levels and nominal rates of growth in Connecticut exceeded those for the nation. Growth in Connecticut dropped in 1990 and 1991, reflecting a synchronized but deeper recession when compared with the United States. The ratio of Connecticut's real per capita output relative to the United States fluctuated between 1991 and 2000, registering 133% in both years, after reaching a low point of 129% in 1994. This suggests that, although the recession in Connecticut was deeper, overall productivity in the state since the recession increased faster than the U.S. average. The latest data shows that, between 1994 and 2000, Connecticut's real per capita output increased 23.8%, compared to 20.6% nationally for the same period, and has exhibited greater strength coming out of that recession than originally thought. The absolute higher per capita gross state product in Connecticut is attributed to several factors: a high concentration of "high-tech" industries, a better educational and financial environment, more progressive technology and faster improvements in the quality of labor and capital.

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### Productivity and Unit Labor Cost

Gross State Product provides the information to gauge Connecticut's efficiency in the use of labor, i.e. labor productivity. Rising productivity leads to an improved standard of living and curbs inflationary pressures. In the following Table, the column entitled Hourly Production shows labor productivity as the ratio of total output to total workhours in Connecticut's manufacturing sector. On an hourly basis, nominal output in the manufacturing sector increased from \$54.8 in 1991 to \$84.3 in 2000, a 53.8% increase in output per hour over the decade compared to only a 26.4% increase in the Consumer Price Index.

**TABLE 54  
CONNECTICUT'S MANUFACTURING LABOR PRODUCTIVITY**

<u>Cal. Year</u>	<u>GSP (Million)</u>	<u>Production Workhours (Million)</u>	<u>Hourly Production (Output Per Hour)</u>	<u>Total Wages (Million)</u>	<u>Average Hourly Wages</u>	<u>Unit Labor Cost (¢ Per \$1 Output)</u>
1991	\$19,901	363.4	\$54.8	\$4,654.0	\$12.8	23.4¢
1992	\$19,452	352.1	\$55.2	\$4,751.8	\$13.5	24.4¢
1993	\$18,420	336.5	\$54.7	\$4,555.0	\$13.5	24.7¢
1994	\$18,983	328.0	\$57.9	\$4,596.4	\$14.0	24.2¢
1995	\$20,017	328.2	\$61.0	\$4,603.7	\$14.0	23.0¢
1996	\$21,233	321.3	\$66.1	\$4,699.1	\$14.6	22.1¢
1997	\$22,998	315.1	\$73.0	\$4,878.0	\$15.5	21.2¢
1998	\$24,045	320.0	\$73.5	\$5,064.6	\$15.8	21.5¢
1999	\$23,921	298.2	\$80.2	\$4,946.5	\$16.6	20.7¢
2000	\$24,897	295.2	\$84.3	\$5,012.2	\$17.0	20.1¢
% Increase ('91-'00)			53.8		32.8	(14.1)

Source: U.S. Department of Commerce, Bureau of Economic Analysis  
U.S. Department of Commerce, Bureau of the Census, "Annual Survey of Manufactures"

Another approach allows for the assessment of the labor cost for each \$1 of product produced - the unit labor cost. Labor cost is one of the major input costs and is often cited as a critical indicator of competitiveness. The column entitled Unit Labor Cost shows the monetary cost which is equal to the average hourly wages of each worker divided by productivity. Connecticut continues to enjoy a downward trend in labor costs when productivity is factored in. Per \$1 of output costs, the unit labor cost has declined from 23.4 cents in 1991 to 20.1 cents in 2000, a 14.1% reduction over the decade.

Overall, productivity depends upon a broad range of factors. Other than wages, the quality of management as well as the size of and quantity of capital stock invested in the form of plant, machinery and equipment, and the employment of new technologies impact productivity. Any increase in labor productivity is the combined result of all these factors.

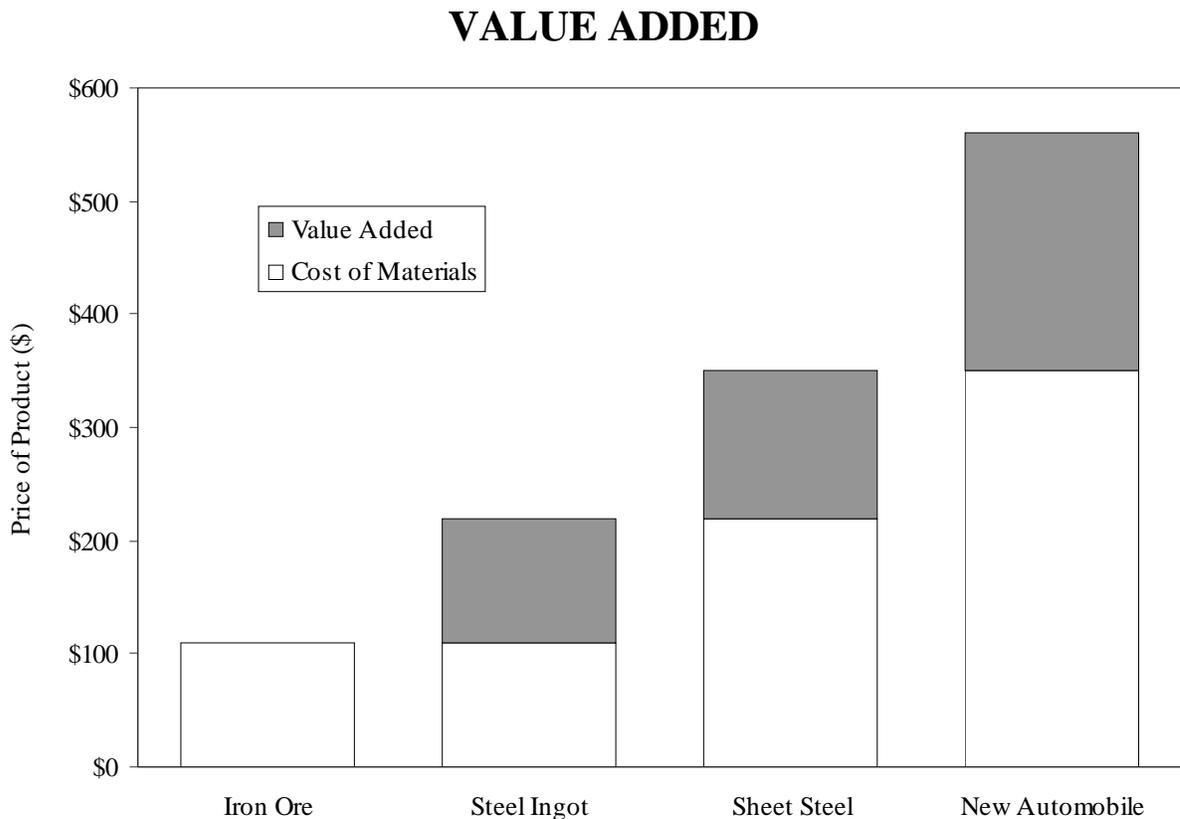
## Economic Report of the Governor

### Value Added

In order to more accurately assess the performance of the manufacturing sector, one must look beyond employment figures. Employment figures provide only a one dimensional view of what is actually occurring in the manufacturing sector of the Connecticut economy. Although Connecticut has lost 143,500 manufacturing jobs between calendar year 1977 and 2000, this is being partially mitigated by a long-term increase in productivity per worker.

Value added is the market value of a firm's output less the value of inputs which it purchased from other firms. Changes in productivity over time can be measured by dividing the value that is added to a product by the total number of production workers involved in producing that good.

The following Chart illustrates the value added concept as raw materials are transformed into a new automobile.



The following Table lists value added per production worker for Connecticut and the United States. Connecticut's value added per production worker has steadily increased over every period covered in the table. Moreover, by 2000, Connecticut's value added per production worker was 113% of the national average, up from 100% in 1977.

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**TABLE 55**  
**VALUE ADDED PER PRODUCTION WORKER**  
**(In Current Dollars)**

Cal. Year	Conn.	United States	% Change From Prior Period		Cumulative % Change From 1997		Ratio of CT Value Added to U.S.
			Conn.	U.S.	Conn.	U.S.	
1977	42,828	42,741	61.9	63.3			1.002
1982	66,830	66,458	56.0	55.5			1.006
1987	103,228	94,927	54.5	42.8			1.087
1992	143,074	122,387	38.6	28.9			1.169
1997	179,595	151,317	25.5	23.6			1.187
1998	183,424	155,155	2.1	2.5	2.1	2.5	1.182
1999	188,914	163,185	3.0	5.2	5.2	7.9	1.158
2000	189,771	167,457	0.5	5.7	5.7	10.7	1.133

Note: Value Added Per Production Worker =  $\frac{\text{Total Value Added by Manufacture}}{\text{Number of Production Workers}}$

Source: U.S. Department of Commerce, "Annual Survey of Manufactures"

The following Table lists value added after removing the effects of inflation for both the United States and Connecticut. In 2000, Connecticut's value added per production worker failed to keep pace with the growth in inflation as measured by the GDP deflator.

**TABLE 56**  
**VALUE ADDED PER PRODUCTION WORKER**  
**(In Constant Dollars, 1996 = 100)**

Cal. Year	Conn.	United States	% Change From Prior Period		Cumulative % Change From 1997		Ratio of CT Value Added to U.S.
			Conn.	U.S.	Conn.	U.S.	
1977	95,151	94,959					1.002
1982	100,861	100,299	6.0	5.6			1.006
1987	133,077	122,376	31.9	22.0			1.087
1992	155,787	133,262	17.1	8.9			1.169
1997	176,178	148,438	13.1	11.4			1.187
1998	177,702	150,315	0.9	1.3	0.9	1.3	1.182
1999	180,261	155,711	1.4	3.6	2.3	4.9	1.158
2000	177,356	156,502	(1.6)	0.5	0.7	5.4	1.133

Note: Value Added Per Production Worker =  $\frac{\text{Total Value Added by Manufacture}}{\text{GDP Deflator X Production Workers}}$

Source: U.S. Department of Commerce, "Annual Survey of Manufactures"

Value added per production worker can vary greatly among manufacturing sectors. Factors which may contribute to this variance include: the mix between labor and capital, the overall cost structure for an industry, the volume of production and the prevailing markup or profit on a product. The

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following Table segments value added per production worker by industry in Connecticut for calendar year 1999 and 2000.

TABLE 57  
**VALUE ADDED PER PRODUCTION WORKER IN CONNECTICUT**  
**(In Current Dollars)**

<u>Industry</u>	<u>1999</u>	<u>2000</u>	<u>% Change</u>
Manufacturing	188,914	189,771	0.5
Food	196,441	230,509	17.3
Printing	106,307	113,372	6.6
Paper	227,444	203,311	(10.6)
Chemical	844,286	737,880	(12.6)
Plastics & Rubber	121,544	114,850	(5.5)
Primary Metals	154,486	128,205	(17.0)
Fabricated Metals	118,325	118,768	0.4
Machinery	224,212	233,041	3.9
Computer & Electronic	196,222	170,215	(13.3)
Electrical Equipment	146,920	163,282	11.1
Transportation Equipment	197,024	239,500	21.6

Note: Value Added Per Production Worker =  $\frac{\text{Total Value Added by Manufacture}}{\text{Number of Production Workers}}$

Source: U.S. Department of Commerce, "Annual Survey of Manufactures"

### **Capital Expenditures**

Connecticut's manufacturers have also been making substantial investments in capital equipment. Total capital expenditures are defined as outlays for permanent additions and major alterations to manufacturing establishments and investments in new machinery and equipment used for replacement and additions to plant capacity. Organizations undertake capital projects for various reasons including: to reduce costs, improve efficiencies, upgrade product quality, develop new products and to implement environmental and safety technology. According to the Annual Survey of Manufactures, for the past 10 years, the level of capital expenditures within Connecticut has remained well above the one billion dollar figure. Although capital expenditure figures tend to fluctuate substantially each calendar year, the levels sustained during the past ten years were the highest ever recorded since the U.S. Department of Commerce began tracking such data in 1955. The following Table details capital expenditures in Connecticut.

To further promote the expansion of manufacturing firms in Connecticut, the Legislature passed and the Governor signed into law, the Manufacturing Assistance Act of 1990 and the Manufacturing Recovery Act of 1992. These laws provide substantial incentives for manufacturers to make capital expenditures within Connecticut. The main tenet of the acts is a five year alleviation of local property taxes on all new or newly acquired machinery used in the production process. The machinery must be of the type classified by the Internal Revenue Service as five or seven year property. Beginning in fiscal 2002, towns are eligible to receive 80% reimbursement from the state for the property taxes

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foregone on such machinery. Municipalities must then abate the remaining 20% of property taxes on such machinery.

**TABLE 58**  
**TOTAL CAPITAL EXPENDITURES IN CONNECTICUT**  
**(In Millions of Dollars)**

<u>Calendar</u> <u>Year</u>	<u>Connecticut</u> <u>Capital Expenditures</u>	<u>Percent</u> <u>Change</u>
1991	1,358.6	(5.7)
1992	1,513.6	11.4
1993	1,642.0	8.5
1994	1,586.6	(3.5)
1995	1,517.1	(4.4)
1996	1,768.9	16.6
1997	1,867.8	5.6
1998	1,900.9	1.8
1999	1,715.9	(9.7)
2000	1,861.6	8.5

Source: U.S. Department of Commerce, "Annual Survey of Manufactures"

### **Total Personal Income**

Total personal income, defined as current income received by persons from all sources including public and private transfer payments but excluding transfers among persons, is a good reliable measure of economic performance. Total personal income captures the manufacturing sector through manufacturing wages; the nonmanufacturing sector through wages in government, wholesale/retail trade, utilities, transportation, mining, personal services, etc.; the private sector through proprietor's income, etc.; and a part of agricultural activity via farm properties' income. Personal income is approximately 86% of Gross Domestic Product; hence, the two are well correlated.

The U.S. Department of Commerce, defines the various sources of personal income as the following:

**Wages and Salaries** - the monetary remuneration of employees, including the compensation of corporate officers; commissions, tips and bonuses; and receipts in kind that represent income to the recipient. Wages and salaries are measured before deductions such as social security contributions and union dues.

**Other Labor Income** - consists primarily of employer contributions to private pension and private welfare funds, including privately administered workers' compensation funds. Other items included are directors' fees, compensation to prison inmates and judicial fees.

**Property Income** - income from Dividends, Interest and Rents.

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Dividends are payments in cash or other assets, excluding stock, by corporations organized for profit to non-corporate stockholders who are U.S. residents.

Interest is the monetary and imputed interest income of persons from all sources. Imputed interest represents the excess of income received by financial intermediaries from funds entrusted to them by persons, over income disbursed by these intermediaries to persons. Part of imputed interest reflects the value of financial services rendered without charge to persons by depository institutions. The remainder is property income held by life insurance companies and private non-insured pension funds on behalf of persons; one example is the additions to policyholder reserves held by life insurance companies.

Rental income is the monetary income of persons (except those primarily engaged in the real estate business) from the rental of real property (including mobile homes); the imputed net rental income of owner-occupants of nonfarm dwellings; and the royalties received by persons from patents, copyrights, and rights to natural resources.

**Proprietors' Income** - the income, including income-in-kind, of sole proprietorships and partnerships and of tax-exempt cooperatives. The imputed net rental income of owner occupants of farm dwellings with certain adjustments is included.

**Transfer Payments** - income payments to persons, generally in monetary form, for which they do not render current services. These include payments by the government and business to individuals and nonprofit institutions.

**Personal Contributions to Social Insurance** - contributions made by individuals under the various social insurance programs. Payments by employees and the self-employed (farm and nonfarm) are included as well as contributions that are sometimes made by employers on behalf of their employees (i.e., those customarily paid by the employee but, under special arrangement, paid by the employer).

The correlation between Gross Domestic Product and personal income provides another basis of comparison among individual states. A comparison of growth rates in personal income is a good indicator of a state's present and future performance.

According to figures provided by the U.S. Bureau of Economic Analysis, personal income to Connecticut residents during fiscal year 2002 was \$145.8 billion, a 0.8% increase over fiscal 2001. Total personal income in Connecticut increased 53.2% from fiscal 1993 to 2002. For the United States, total personal income increased 59.7%, and in the New England Region, the increase for the identical period was 59.9%.

The following Table shows personal income for the United States, the New England Region, and Connecticut.

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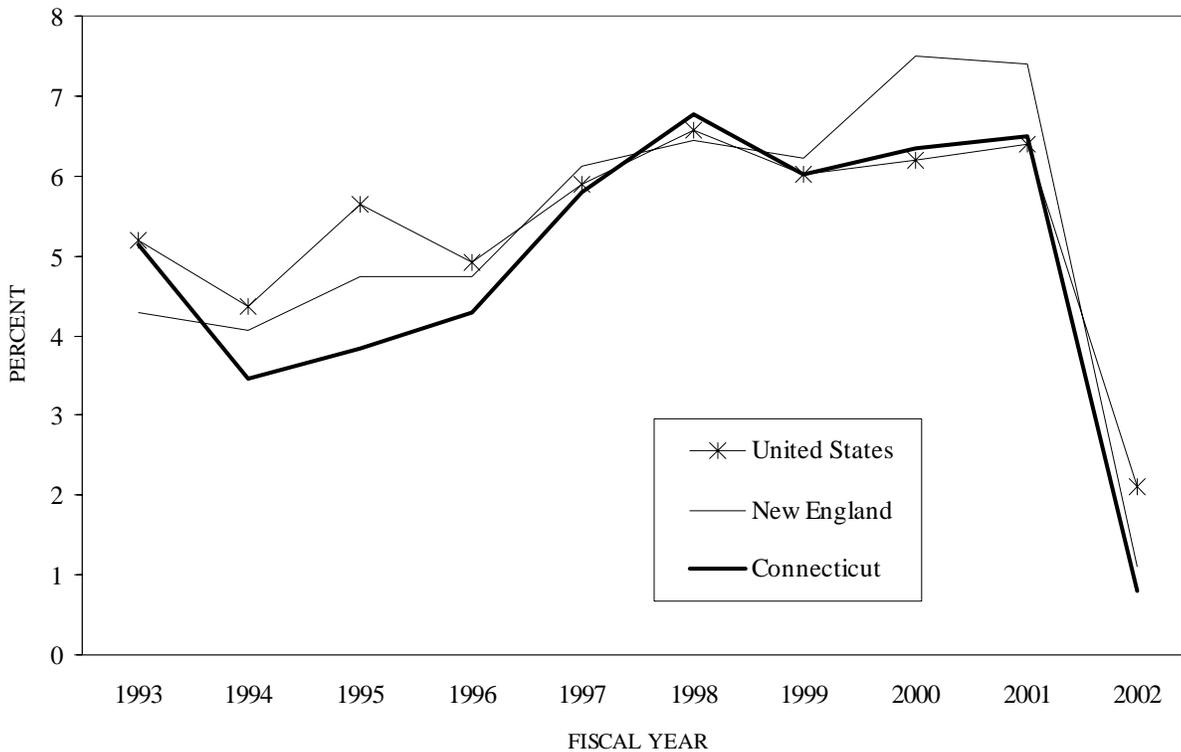
**TABLE 59**  
**PERSONAL INCOME**  
**(In Millions)**

Fiscal Year	United States		New England		Connecticut	
	Dollars	% Growth	Dollars	% Growth	Dollars	% Growth
1992-93	5,498,400	5.20	327,049	4.29	95,182	5.15
1993-94	5,738,325	4.36	340,360	4.07	98,488	3.47
1994-95	6,062,725	5.65	356,463	4.73	102,264	3.83
1995-96	6,361,250	4.92	373,373	4.74	106,652	4.29
1996-97	6,736,625	5.90	396,274	6.13	112,829	5.79
1997-98	7,178,543	6.56	421,821	6.45	120,463	6.77
1998-99	7,611,145	6.03	448,078	6.22	127,722	6.03
1999-00	8,082,435	6.19	481,731	7.51	135,835	6.35
2000-01	8,599,668	6.40	517,392	7.40	144,660	6.50
2001-02	8,781,063	2.11	523,112	1.11	145,836	0.81

Source: U.S. Department of Commerce, Bureau of Economic Analysis

The following Chart provides a graphic presentation of the growth rates in personal income for the three entities over a ten year fiscal period.

**PERSONAL INCOME GROWTH**  
**FISCAL YEAR GROWTH BY PERCENT**



Source: U.S. Department of Commerce, Bureau of Economic Analysis

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The State of Connecticut's sources of personal income vary slightly from those of the United States, with wages and employee salaries accounting for approximately 60% of total personal income compared to slightly more than 56% for the nation. The following Table shows a comparative study of the sources of personal income for the United States and Connecticut for a two fiscal year period.

TABLE 60  
**SOURCES OF PERSONAL INCOME**  
**(In Billions of Dollars)**

	<u>FISCAL YEAR 2000-01</u>				<u>FISCAL YEAR 2001-02</u>			
	<u>U.S.</u>	<u>%</u>	<u>CT</u>	<u>%</u>	<u>U.S.</u>	<u>%</u>	<u>CT</u>	<u>%</u>
Manufacturing Salaries & Wages	815.1	9.5	17.2	11.9	768.6	8.8	15.9	11.0
Nonmanufacturing Salaries & Wages	4,113.5	47.8	70.4	48.7	4,191.4	47.7	71.3	48.9
Proprietors Income	721.4	8.4	11.8	8.1	739.9	8.4	12.1	8.3
Property Income	1,640.4	19.1	27.1	18.7	1,642.2	18.7	26.9	18.4
Other Labor Income	559.8	6.5	9.2	6.3	585.9	6.7	9.5	6.5
Transfer Payments Less Payments to Social Insurance	<u>749.5</u>	<u>8.7</u>	<u>9.0</u>	<u>6.3</u>	<u>853.1</u>	<u>9.7</u>	<u>10.1</u>	<u>6.9</u>
Total	8,599.7	100.0	144.7	100.0	8,781.1	100.0	145.8	100.0

Note: Totals may not agree with detail due to rounding.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

### **Per Capita Personal Income**

One of the more important single indicators of a state's performance is the growth in per capita personal income. This is total personal income divided by the population. On a per capita basis, personal income growth in Connecticut increased 46.5% from fiscal 1993 to 2002, compared to a national increase of 43.9% and a New England Region increase of nearly 50.8%.

Per capita personal income in Connecticut, for the most recent fiscal year, was 13.9% higher than for the New England Region and 38.4% higher than for the United States. Connecticut's per capita personal income continues to be at a higher level than that of the nation and New England due to the concentration of manufacturing in relatively high paying manufacturing industries and major corporate headquarters within the state.

The following Table shows the growth in per capita personal income for ten fiscal years for the United States, the New England Region and Connecticut. The Chart following the Table provides a graphic representation of the growth rates in per capita personal income for the three entities over a ten year fiscal period.

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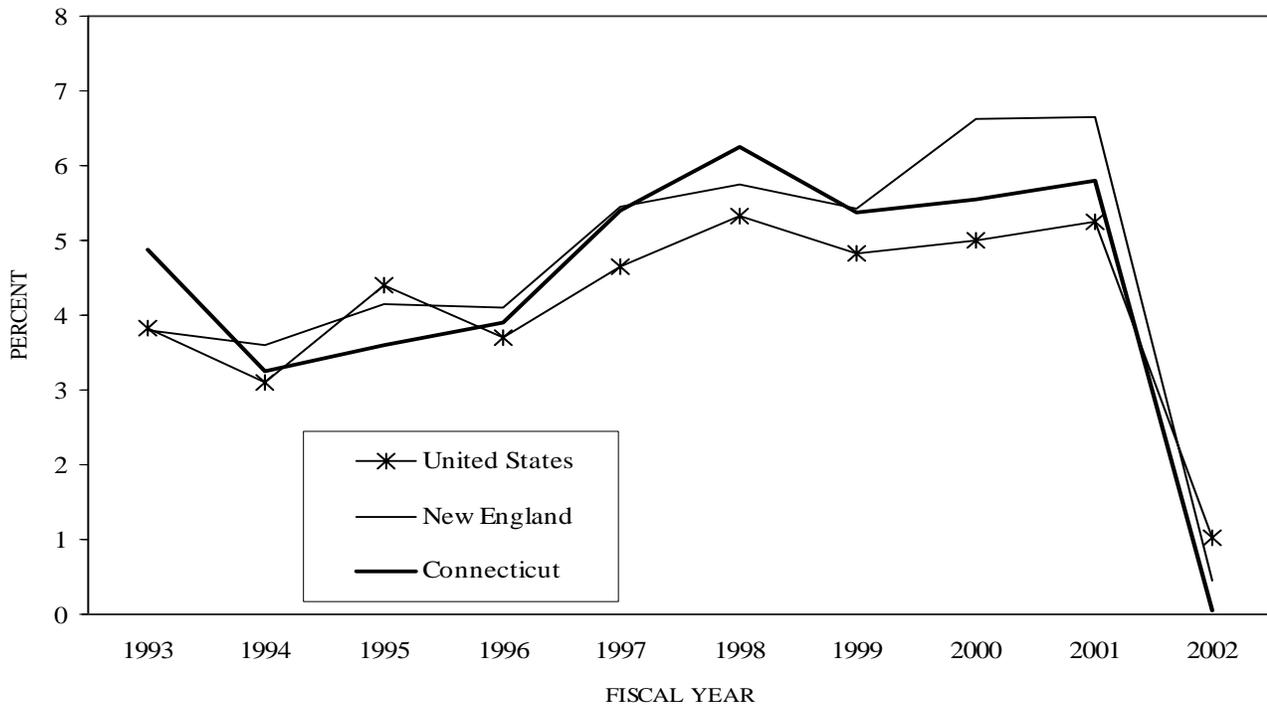
**TABLE 61**  
**PER CAPITA PERSONAL INCOME**

Fiscal Year	United States		New England		Connecticut	
	Dollars	% Growth	Dollars	% Growth	Dollars	% Growth
1992-93	21,154	3.82	24,527	3.79	28,763	4.88
1993-94	21,808	3.09	25,407	3.59	29,700	3.26
1994-95	22,768	4.40	26,458	4.14	30,764	3.58
1995-96	23,613	3.71	27,545	4.11	31,963	3.90
1996-97	24,708	4.64	29,048	5.45	33,687	5.39
1997-98	26,023	5.32	30,714	5.74	35,794	6.26
1998-99	27,276	4.82	32,381	5.43	37,716	5.37
1999-00	28,638	5.99	34,527	6.63	39,811	5.55
2000-01	30,141	5.25	36,819	6.64	42,118	5.80
2001-02	30,451	1.03	36,984	0.45	42,143	0.06

Source: U.S. Department of Commerce, Bureau of Economic Analysis

All figures derived by:  $\frac{\text{Total Personal Income}}{\text{Population}}$

**PER CAPITA PERSONAL INCOME**  
**FISCAL YEAR GROWTH BY PERCENT**



Source: U.S. Department of Commerce, Bureau of Economic Analysis

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The following Table shows per capita income for each of the fifty states with their corresponding ranking for fiscal year 2002. In 2002, the \$42,143 figure for Connecticut per capita personal income remained more than 38% higher than the national average.

TABLE 62  
**PER CAPITA PERSONAL INCOME BY STATE**  
**(Fiscal 2002)**

<u>State</u>	<u>Per Capita Income</u>	<u>Rank</u>	<u>State</u>	<u>Per Capita Income</u>	<u>Rank</u>
Connecticut	<u>\$42,143</u>	<u>1</u>	Vermont	\$28,881	26
Massachusetts	38,653	2	Georgia	28,566	27
New Jersey	38,650	3	Missouri	28,373	28
New York	35,618	4	Texas	28,245	29
Maryland	35,295	5	Oregon	28,108	30
New Hampshire	33,920	6	Indiana	27,836	31
Minnesota	33,150	7	Iowa	27,511	32
Colorado	32,905	8	North Carolina	27,369	33
Illinois	32,893	9	Tennessee	27,136	34
Delaware	32,765	10	South Dakota	27,126	35
California	32,401	11	Maine	27,098	36
Virginia	32,250	12	North Dakota	26,452	37
Washington	31,978	13	Arizona	25,598	38
Alaska	31,237	14	Oklahoma	25,284	39
Pennsylvania	31,136	15	Kentucky	25,115	40
Rhode Island	30,556	16	Louisiana	25,024	41
Wyoming	30,027	17	South Carolina	24,939	42
Michigan	29,788	18	Alabama	24,771	43
Nevada	29,503	19	Idaho	24,690	44
Wisconsin	29,467	20	Montana	24,169	45
Nebraska	29,317	21	Utah	24,010	46
Hawaii	29,042	22	New Mexico	23,439	47
Ohio	29,017	23	West Virginia	23,313	48
Kansas	28,942	24	Arkansas	23,190	49
Florida	28,931	25	Mississippi	22,071	50
U.S. Average	\$30,451				

Source: U.S. Department of Commerce, Bureau of Economic Analysis

All figures derived by: 
$$\frac{\text{Personal Income}}{\text{Population}}$$

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### Per Capita Disposable Personal Income

The following Table shows per capita disposable income for each of the fifty states with their corresponding ranking for fiscal year 2002.

**TABLE 63**  
**PER CAPITA DISPOSABLE PERSONAL INCOME BY STATE**  
**(Fiscal 2002)**

<u>State</u>	<u>Per Capita Disposable Income</u>	<u>Rank</u>	<u>State</u>	<u>Per Capita Disposable Income</u>	<u>Rank</u>
Connecticut	\$34,731	1	Ohio	25,139	26
New Jersey	32,810	2	Texas	25,132	27
Massachusetts	32,231	3	Missouri	24,859	28
Maryland	29,972	4	Georgia	24,838	29
New York	29,881	5	South Dakota	24,507	30
New Hampshire	29,699	6	Tennessee	24,475	31
Minnesota	28,433	7	Indiana	24,425	32
Illinois	28,299	8	Iowa	24,265	33
Colorado	28,263	9	Oregon	24,172	34
Delaware	28,238	10	North Carolina	23,894	35
Washington	27,697	11	North Dakota	23,758	36
Alaska	27,647	12	Maine	23,603	37
Virginia	27,514	13	Arizona	22,484	38
California	27,288	14	Louisiana	22,379	39
Pennsylvania	27,038	15	Oklahoma	22,329	40
Rhode Island	26,630	16	South Carolina	22,055	41
Wyoming	26,044	17	Alabama	22,045	42
Michigan	25,826	18	Kentucky	21,955	43
Nevada	25,730	19	Idaho	21,695	44
Nebraska	25,683	20	Montana	21,404	45
Wisconsin	25,603	21	Utah	20,931	46
Hawaii	25,581	22	West Virginia	20,813	47
Florida	25,367	23	New Mexico	20,802	48
Vermont	25,269	24	Arkansas	20,604	49
Kansas	25,224	25	Mississippi	19,987	50
U.S. Average	\$26,328				

Source: U.S. Department of Commerce, Bureau of Economic Analysis

All figures derived by: Disposable Personal Income  
Population

Per capita disposable income is defined as the income available to an individual for spending or saving. It is per capita personal income less personal tax and nontax payments. Personal taxes are composed of federal, state and local income taxes, as well as, personal property taxes and estate and

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gift taxes. Nontax payments are made up of fines and fees for certain services such as education and hospitals.

### **Inflation and Its Effect On Personal Income**

Inflation is defined as a rise in the general price level (or average level of prices) of all goods and services, or equivalently a decline in the purchasing power of a unit of money. The general price level varies inversely with the purchasing power of a unit of money. Hence, when prices increase purchasing power declines.

To take into account the erosion of income due to increasing prices, income is deflated by a consumer price index. The Consumer Price Index (CPI) is a measure of the average change in prices over time for a fixed market basket of goods and services. The Bureau of Labor Statistics publishes CPI's for two population groups: a CPI for All Urban Consumers (CPI-U) which covers approximately 80 percent of the total population; and a CPI for Urban Wage Earners and Clerical Workers (CPI-W) which covers 32 percent of the total population. The CPI-U includes, in addition to wage earners and clerical workers, groups such as professional, managerial and technical workers, the self employed, short-term workers, the unemployed, retirees and others not in the labor force.

The following Table shows the Consumer Price Index for All Urban Consumers and its growth over a ten year fiscal period.

**TABLE 64**  
**THE U.S. CONSUMER PRICE INDEX**  
**(1982-84=100)**

<u>Fiscal Year</u>	<u>C.P.I.</u>	<u>% Growth</u>
1992-93	142.5	2.89
1993-94	146.5	2.81
1994-95	150.5	2.73
1995-96	154.5	2.66
1996-97	159.0	2.91
1997-98	162.0	1.89
1998-99	164.5	1.54
1999-00	169.0	2.74
2000-01	175.0	3.55
2001-02	178.3	1.86

Source: U.S. Bureau of Labor Statistics

The CPI is based on prices of food, clothing, shelter, fuels, transportation fares, and charges for doctors' and dentists' services, drugs, and the other goods that people buy for day-to-day living. In addition, all taxes directly associated with the purchase and use of items and services are included in the index. In calculating the index, price changes for the various items in 85 urban areas across the country are averaged together with weights which represent their importance in the spending of the appropriate population group. Local data is then combined to obtain a U.S. city average. Movements of the indexes from one month to another are usually expressed as percentage changes rather than

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changes in index points, because index point changes are effected by the level of the index in relation to its base period while percent changes are not.

### **Real Personal Income**

Real personal income is total personal income deflated by the Consumer Price Index, a measure of personal income that usually includes adjustments for changes in prices since the base period of 1982-84. The following Table shows real personal income growth for the United States, the New England Region and Connecticut. These figures, because they take into account the effects of inflation, provide a better perspective of overall gains in personal income.

**TABLE 65**  
**REAL PERSONAL INCOME**  
**(In Millions)**

Fiscal Year	United States		New England		Connecticut	
	Dollars	% Growth	Dollars	% Growth	Dollars	% Growth
1992-93	3,856,526	2.25	229,508	1.36	66,795	2.20
1993-94	3,916,945	1.51	232,328	1.23	67,227	0.65
1994-95	4,028,389	2.85	236,852	1.95	67,950	1.07
1995-96	4,117,314	2.21	241,665	2.03	69,031	1.59
1996-97	4,236,871	2.90	249,229	3.13	70,961	2.80
1997-98	4,431,199	4.59	260,383	4.48	74,360	4.79
1998-99	4,626,836	4.41	272,388	4.61	77,642	4.41
1999-00	4,782,506	3.36	285,048	4.65	80,376	3.52
2000-01	4,914,096	2.75	295,653	3.72	82,663	2.85
2001-02	4,926,262	0.25	293,471	(0.74)	81,815	(1.03)

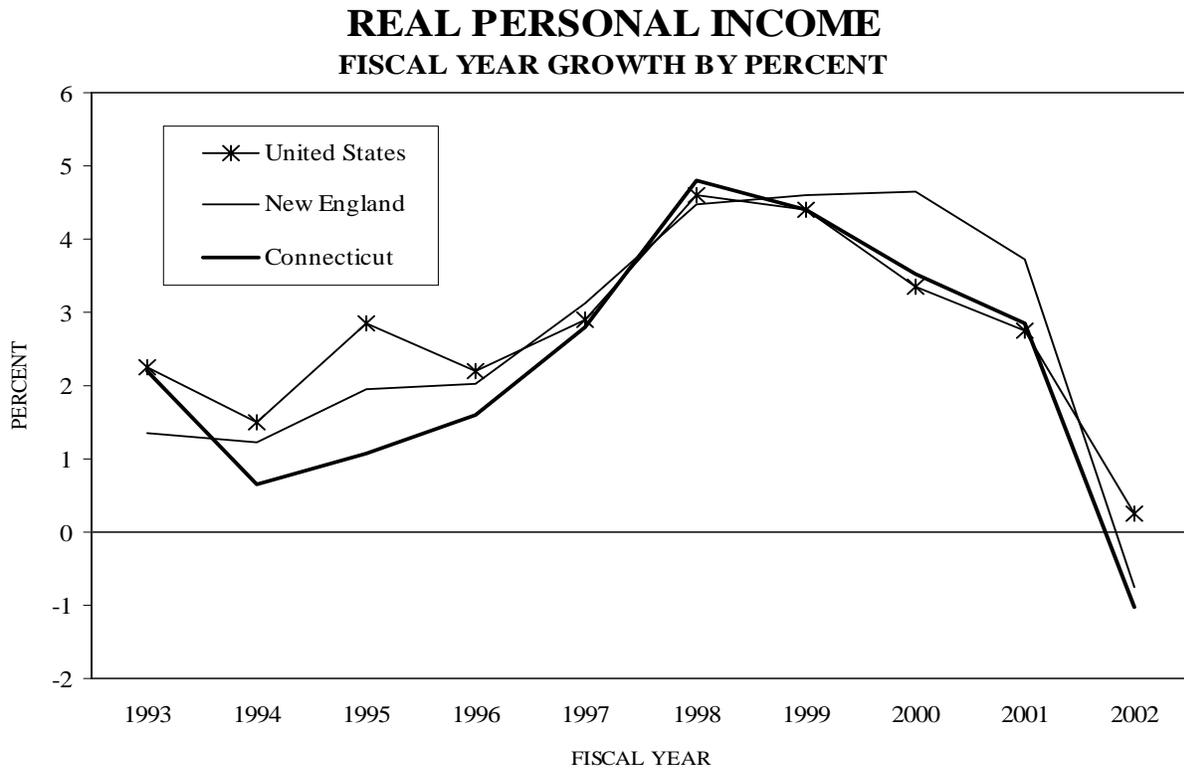
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

All figures derived by: 
$$\frac{\text{Total Personal Income}}{\text{CPI}}$$

It is necessary to point out that there exist regional differences in prices. Local area CPI indexes are by-products of the national CPI program. Because each local index is a small subset of the national index, it has a smaller sample size and is therefore subject to substantially more sampling and other measurement error than the national index. Therefore, local area indexes show greater volatility than the national index in the short run, although their long-term trends are quite similar. Therefore, the National Consumer Price Index was utilized in the Table above to provide the comparison among the United States, the New England Region and Connecticut.

## Economic Report of the Governor

The following Chart provides a graphic presentation of the growth in real personal income for the three entities over a ten year fiscal period.



Source: U.S. Department of Commerce, Bureau of Economic Analysis

### **Real Per Capita Personal Income**

Real per capita personal income is per capita personal income deflated by the Consumer Price Index and shows how individuals comprising a geographical entity have fared after adjusting for the effects of inflation. A comparison of the growth rates measures the relative economic performance of each entity as it adjusts personal income growth by population changes.

The following Table shows the growth in real per capita personal income for the United States, the New England Region, and Connecticut. The Chart following the Table provides a graphic presentation of the growth in real per capita personal income for the three entities over a ten year fiscal period.

**Economic Report of the Governor**

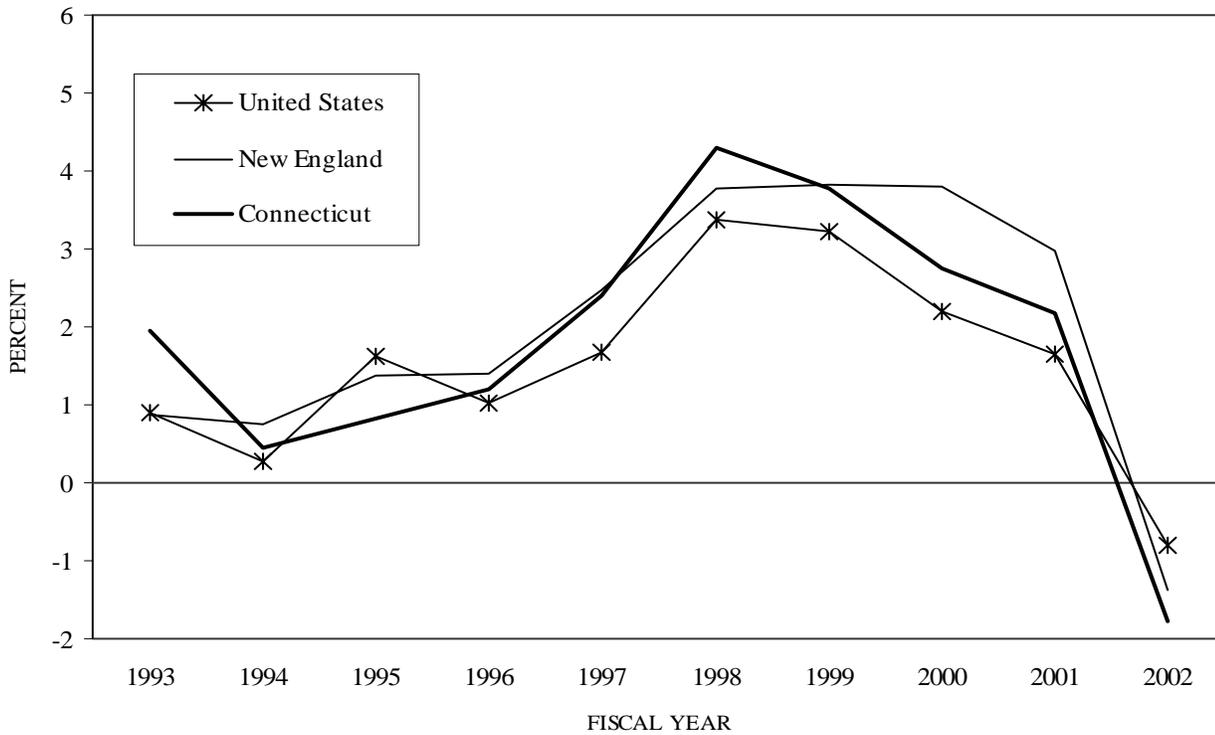
**TABLE 66  
REAL PER CAPITA PERSONAL INCOME**

Fiscal Year	United States		New England		Connecticut	
	Dollars	% Growth	Dollars	% Growth	Dollars	% Growth
1992-93	14,845	0.91	17,212	0.88	20,185	1.94
1993-94	14,886	0.28	17,343	0.76	20,273	0.44
1994-95	15,128	1.63	17,580	1.37	20,442	0.83
1995-96	15,284	1.03	17,829	1.41	20,688	1.21
1996-97	15,540	1.68	18,269	2.47	21,187	2.41
1997-98	16,064	3.37	18,959	3.78	22,095	4.29
1998-99	16,581	3.22	19,684	3.83	22,928	3.77
1999-00	16,946	2.20	20,430	3.79	23,557	2.74
2000-01	17,223	1.64	21,040	2.98	24,068	2.17
2001-02	17,083	(0.81)	20,749	(1.38)	23,643	(1.77)

Source: U.S. Department of Commerce, Bureau of Economic Analysis

All figures derived by:  $\frac{\text{Total Personal Income}}{\text{CPI} \times \text{Population}}$

**REAL PER CAPITA INCOME  
FISCAL YEAR GROWTH BY PERCENT**



Source: U.S. Department of Commerce, Bureau of Economic Analysis

## Economic Report of the Governor

### Cost of Living Index

Statistics regarding inflation and the cost of living for Connecticut are frequently requested by the public. The two indicators are not the same. The inflation index is used to measure purchasing power relative to its historical past, while the cost of living index is used to measure purchasing power relative to one's geographical peers. In other words, the cost of living index is produced to measure the relative price level of consumer goods and services for a specific area relative to other jurisdictions at a given time.

The Cost of Living Index, produced by the American Chamber of Commerce Research Association (ACCRA), is utilized by the U.S. Department of Commerce and is regularly included in its publication, *The Statistical Abstract of The United States*. A Cost of Living Index is available for approximately 300 Metropolitan Statistical Areas (MSAs). An MSA is a statistical area defined by the U.S. Office of Management and Budget (OMB). The Primary Metropolitan Statistical Area (PMSA) is a component area of the MSA. In Connecticut, the New Haven-Meriden PMSA is regularly included in the survey, while the Hartford MSA, along with other areas, is occasionally included.

The Cost of Living Composite Index for each MSA/PMSA is weighed by a "market basket" of approximately 60 goods and services for the typical mid-management household. It is further broken down into six categories including grocery items, housing, utilities, transportation, health care, and other. The index for the New Haven area for the second quarter of 2002 was 120.5 compared to the national average of 100. This index demonstrates that the overall living cost in the New Haven-Meriden PMSA area was higher than the national average by 20.5%. For the six categories, the housing index category registered the highest level at 147.4, followed by the utilities index at 141.0, the health care index at 138.7, grocery items at 111.2, the transportation index at 103.4, and the miscellaneous goods and services index at 99.7. In other words, among the six categories, the cost of housing in the New Haven-Meriden PMSA area was the most expensive item, a full 47.4% higher than the national average, while the miscellaneous category is approximately on-par with the national average, lower only by 0.3%. The index, updated quarterly, does not measure tax differentials.

The following Table shows the cost of living comparison for three neighboring cities: Boston, New Haven, and New York in the second quarter of 2002.

**TABLE 67**  
**COMPARISON OF COST OF LIVING**

2 <sup>nd</sup> Quarter 2002 MSA/PMSA	Composite <u>Index</u>	Grocery <u>Items</u>	<u>Housing</u>	<u>Utilities</u>	<u>Transportation</u>	Health <u>Care</u>	<u>Misc.</u>
New Haven, CT	120.5	111.2	147.4	141.0	103.4	138.7	99.7
Boston, MA	136.8	122.4	181.3	163.6	105.7	132.8	109.4
New York, NY	220.1	142.7	421.3	158.7	117.9	167.9	140.7
Index Weights	100%	16%	28%	8%	10%	5%	33%

Source: The American Chamber of Commerce Research Association, "ACCRA Cost of Living Index", Second Quarter 2002

## Economic Report of the Governor

In the second quarter of 2002, numerous cities had a relatively higher cost of living than the New Haven-Meriden area. These include, for example, New York City (Manhattan) at 220.1; San Francisco, California at 176.3; Boston, Massachusetts at 136.8; Kodiak, Alaska at 128.6; and Los Alamos, New Mexico at 122.4. The cost of living in the New Haven-Meriden area was collectively on par with the Sacramento, California or Hunterdon, New Jersey areas, which registered 120.0 and 120.2, respectively. The cost of living index can provide very useful information for relocation decisions. If someone is contemplating a job offer in a certain area, he or she may use this index as a guide to evaluate the financial merits of the move. For example, if a New Haven resident is considering a move to New York City (Manhattan) and wants to maintain his current mid-management lifestyle, other things being equal, his or her after-tax income level has to increase by 82.7%,  $(220.1-120.5)/120.5$ , in order to compensate for the higher cost of living. On the contrary, if a New York City resident is contemplating a move to New Haven, his or her after-tax income level can be reduced by 45.3%,  $(120.5-220.1)/220.1$ , in order to sustain the same current life style.

The cost of living for metropolitan areas within Connecticut also varies. For the second quarter of 2002, ACCRA recorded the cost of living for the Stamford-Norwalk PMSA area at 152.1, the Hartford MSA area at 123.2 and the New London-Norwich MSA area at 128.1, compared to 120.5 for the New Haven-Meriden PMSA. These four metropolitan statistical areas accounted for 70% of the state's total population. The following Table demonstrates the relative index of the components for these four Connecticut regions.

**TABLE 68**  
**COMPARISON OF COST OF LIVING IN CONNECTICUT**  
**New Haven and Stamford PMSAs, Hartford and New London MSAs**

2 <sup>nd</sup> Quarter 2002 MSA/PMSA	Composite Index	Grocery Items	Housing	Utilities	Transportation	Health Care	Misc.
New Haven PMSA	120.5	111.2	147.4	141.0	103.4	138.7	99.7
Hartford MSA	123.2	118.5	148.5	129.0	119.7	131.3	102.6
New-London MSA	128.1	128.5	152.0	124.6	100.7	123.3	117.6
Stamford PMSA	152.1	118.9	245.0	123.8	110.8	139.6	110.8

Source: The American Chamber of Commerce Research Association, "ACCRA Cost of Living Index", Second Quarter 2002

## Economic Report of the Governor

### THE MAJOR REVENUE RAISING TAXES IN THE STATE OF CONNECTICUT

In fiscal 2001, Connecticut derived 71 percent of its revenue from the collection of taxes. To provide an analysis of the overall tax burden on the individuals of each state, the following Table was prepared for fiscal 2001. The Table shows overall state tax collections as a percentage of personal income. In the Table, note that Connecticut ranks 19th signifying that in 18 other states a greater percentage of an individual's income is going for state taxes than in Connecticut.

**TABLE 69**  
**STATE TAX COLLECTIONS AS A PERCENTAGE OF PERSONAL INCOME**  
**Fiscal 2001**

<u>State</u>	<u>Percentage</u>	<u>Rank</u>	<u>State</u>	<u>Percentage</u>	<u>Rank</u>
Hawaii	9.88	1	Louisiana	6.57	26
New Mexico	9.45	2	New York	6.55	27
Vermont	8.86	3	Kansas	6.49	28
Delaware	8.41	4	Iowa	6.46	29
West Virginia	8.30	5	Arizona	6.16	30
Minnesota	8.22	6	Nebraska	6.12	31
California	8.02	7	Nevada	6.09	32
Arkansas	7.97	8	South Carolina	6.08	33
Idaho	7.87	9	Oregon	6.02	34
Maine	7.76	10	Indiana	6.01	35
Kentucky	7.75	11	Ohio	5.99	36
Wyoming	7.73	12	Pennsylvania	5.98	37
Mississippi	7.64	13	Georgia	5.96	38
North Dakota	7.49	14	New Jersey	5.89	39
Michigan	7.48	15	Alabama	5.80	40
Wisconsin	7.44	16	Maryland	5.70	41
Utah	7.41	17	Illinois	5.62	42
Oklahoma	7.31	18	Virginia	5.61	43
<u>Connecticut</u>	<u>7.29</u>	<u>19</u>	Missouri	5.56	44
Alaska	7.27	20	Florida	5.25	45
Rhode Island	7.01	21	Colorado	5.12	46
Massachusetts	6.94	22	Tennessee	5.05	47
North Carolina	6.94	23	South Dakota	4.85	48
Montana	6.90	24	Texas	4.83	49
Washington	6.61	25	New Hampshire	4.13	50
U.S. Average	6.45				

Source: U.S. Department of Commerce, "State Government Finances, 2001"

Following is a discussion of the major revenue raising taxes in the State of Connecticut.

## Economic Report of the Governor

### **Personal Income Tax**

For income years commencing on or after January 1, 1991, a personal income tax was imposed upon income of residents of the State (including resident trusts and estates), part-year residents and certain non-residents who have taxable income derived from or connected with sources within Connecticut. For tax years commencing on or after January 1, 1991, and prior to January 1, 1992, the tax was imposed at the rate of 1.5% on Connecticut taxable income. For tax years commencing on or after January 1, 1992, the separate tax on capital gains, dividends and interest was repealed, and the tax was imposed at the rate of 4.5% of Connecticut taxable income. Beginning with tax years commencing on or after January 1, 1996, a second, lower tax rate of 3% was introduced for a certain portion of taxable income. The amount of taxable income subject to the lower tax rate has been expanded as set forth in the Table below. Depending on federal income tax filing status and Connecticut adjusted gross income, personal exemptions ranging from \$12,500 to \$24,000 are available to taxpayers, with such exemptions phased out at certain higher income levels. Legislation enacted in 1999 increases the exemption amount for single filers over a certain number of years from \$12,000 to \$15,000. In addition, tax credits ranging from 75% to 1% of a taxpayer's Connecticut tax liability are also available, again dependent upon federal income tax filing status and Connecticut adjusted gross income (See Table 72 for more details). Neither the personal exemption nor the tax credit is available to a trust or an estate. Also commencing in income year 1996, personal income taxpayers were eligible for up to a \$100 credit for property taxes paid on their primary residence or on their motor vehicle. This credit increased to \$215 for income year 1997, \$350 for income year 1998, \$425 for income year 1999, and to \$500 thereafter, with amounts above the initial \$100 phased-out at higher income levels.

The Personal Income Tax generated \$4,265.9 million in fiscal year 2001-02, \$4,744.2 million in fiscal year 2000-01 and \$4,238.2 million in fiscal year 1999-2000. In fiscal year 2001-02, this tax accounted for 39.3% of total revenue and 49.7% of total tax collections while in fiscal 2000-01 it accounted for 39.6% of total revenue and 50.3% of total tax collections.

**TABLE 70**  
**TAXABLE INCOME AMOUNTS SUBJECT TO THE 3% RATE**  
**WITH THE REMAINDER SUBJECT TO THE 4.5% RATE**

<u>Income Year</u>	<u>Single</u>	<u>Joint</u>	<u>Head of Household</u>
1996	\$ 2,250	\$ 4,500	\$ 3,500
1997	\$ 6,250	\$12,500	\$10,000
1998	\$ 7,500	\$15,000	\$12,000
1999 & Thereafter	\$10,000	\$20,000	\$16,000

## Economic Report of the Governor

The following Table compares the personal income tax collections as a percentage of personal income for the fifty states for fiscal 2001.

**TABLE 71**  
**STATE INCOME TAX COLLECTIONS AS A PERCENTAGE OF PERSONAL INCOME**  
**Fiscal 2001**

<u>State</u>	<u>Percentage</u>	<u>Rank</u>	<u>State</u>	<u>Percentage</u>	<u>Rank</u>
Oregon	4.48	1	Arkansas	2.54	23
Massachusetts	3.99	2	Ohio	2.53	24
California	3.95	3	Maryland	2.50	25
New York	3.86	4	Nebraska	2.48	26
Minnesota	3.59	5	West Virginia	2.48	27
Maine	3.38	6	New Jersey	2.45	28
North Carolina	3.34	7	Missouri	2.40	29
Wisconsin	3.26	8	Iowa	2.36	30
Idaho	3.17	9	Michigan	2.28	31
Hawaii	3.11	10	Indiana	2.22	32
Utah	3.11	11	South Carolina	2.11	33
Virginia	3.10	12	New Mexico	1.96	34
Connecticut	3.07	13	Alabama	1.92	35
Rhode Island	2.90	14	Pennsylvania	1.90	36
Georgia	2.88	15	Illinois	1.86	37
Delaware	2.79	16	Arizona	1.68	38
Vermont	2.76	17	Mississippi	1.66	39
Colorado	2.63	18	Louisiana	1.60	40
Oklahoma	2.63	19	North Dakota	1.30	41
Kentucky	2.62	20	New Hampshire	0.18	42
Kansas	2.58	21	Tennessee	0.13	43
Montana	2.57	22			
U.S. Average	2.39				

Note: The following states do not levy an income tax: Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming.

Source: U.S. Department of Commerce, "State Government Finances, 2001"

## Economic Report of the Governor

The following Table shows Connecticut personal income tax exemptions ranging from \$12,500 to \$24,000 including the phase out as income levels rise depending on adjusted gross income for each income tax filing status.

**TABLE 72**  
**CONNECTICUT PERSONAL INCOME TAX CREDITS & EXEMPTIONS**  
**Income Year 2002**

<u>Single</u>			<u>Married Filing Jointly</u>			<u>Head of Household</u>		
Exemption: \$12,500			Exemption: \$24,000			Exemption: \$19,000		
Phase Out: \$1K of exemption for each \$1K from \$25.0K to \$37.0K			Phase Out: \$1K of exemption for each \$1K from \$48K to \$72K			Phase Out: \$1K of exemption for each \$1K from \$38K to \$57K		
AGI From	AGI To	% of Tax	AGI From	AGI To	% of Tax	AGI From	AGI To	% of Tax
\$12,500	\$15,600	75%	\$24,000	\$30,000	75%	\$19,000	\$24,000	75%
\$15,600	\$16,100	70%	\$30,000	\$30,500	70%	\$24,000	\$24,500	70%
\$16,100	\$16,600	65%	\$30,500	\$31,000	65%	\$24,500	\$25,000	65%
\$16,600	\$17,100	60%	\$31,000	\$31,500	60%	\$25,000	\$25,500	60%
\$17,100	\$17,600	55%	\$31,500	\$32,000	55%	\$25,500	\$26,000	55%
\$17,600	\$18,100	50%	\$32,000	\$32,500	50%	\$26,000	\$26,500	50%
\$18,100	\$18,600	45%	\$32,500	\$33,000	45%	\$26,500	\$27,000	45%
\$18,600	\$19,100	40%	\$33,000	\$33,500	40%	\$27,000	\$27,500	40%
\$19,100	\$20,800	35%	\$33,500	\$40,000	35%	\$27,500	\$34,000	35%
\$20,800	\$21,300	30%	\$40,000	\$40,500	30%	\$34,000	\$34,500	30%
\$21,300	\$21,800	25%	\$40,500	\$41,000	25%	\$34,500	\$35,000	25%
\$21,800	\$22,300	20%	\$41,000	\$41,500	20%	\$35,000	\$35,500	20%
\$22,300	\$26,000	15%	\$41,500	\$50,000	15%	\$35,500	\$44,000	15%
\$26,000	\$26,500	14%	\$50,000	\$50,500	14%	\$44,000	\$44,500	14%
\$26,500	\$27,000	13%	\$50,500	\$51,000	13%	\$44,500	\$45,000	13%
\$27,000	\$27,500	12%	\$51,000	\$51,500	12%	\$45,000	\$45,500	12%
\$27,500	\$28,000	11%	\$51,500	\$52,000	11%	\$45,500	\$46,000	11%
\$28,000	\$50,000	10%	\$52,000	\$96,000	10%	\$46,000	\$74,000	10%
\$50,000	\$50,500	9%	\$96,000	\$96,500	9%	\$74,000	\$74,500	9%
\$50,500	\$51,000	8%	\$96,500	\$97,000	8%	\$74,500	\$75,000	8%
\$51,000	\$51,500	7%	\$97,000	\$97,500	7%	\$75,000	\$75,500	7%
\$51,500	\$52,000	6%	\$97,500	\$98,000	6%	\$75,500	\$76,000	6%
\$52,000	\$52,500	5%	\$98,000	\$98,500	5%	\$76,000	\$76,500	5%
\$52,500	\$53,000	4%	\$98,500	\$99,000	4%	\$76,500	\$77,000	4%
\$53,000	\$53,500	3%	\$99,000	\$99,500	3%	\$77,000	\$77,500	3%
\$53,500	\$54,000	2%	\$99,500	\$100,000	2%	\$77,500	\$78,000	2%
\$54,000	\$54,500	1%	\$100,000	\$100,500	1%	\$78,000	\$78,500	1%

Source: General Statutes of the State of Connecticut

## Economic Report of the Governor

The following Table shows whether state and local governmental obligations are included in the definition of state income for tax purposes.

**TABLE 73**  
**STATE AND LOCAL GOVERNMENT OBLIGATIONS EXEMPTIONS**  
**FOR DETERMINING INDIVIDUAL'S STATE INCOME**

<u>State</u>	<u>Own</u> <u>Securities</u>	<u>Other</u> <u>State's</u> <u>Securities</u>	<u>State</u>	<u>Own</u> <u>Securities</u>	<u>Other</u> <u>State's</u> <u>Securities</u>
Alabama	E	T	Montana	E	T
Alaska (no tax)			Nebraska	E	T
Arizona	E	T	Nevada (no tax)		
Arkansas	E	T	New Hampshire	E	E
California	E	T	New Jersey	E	T
Colorado	E	T	New Mexico	E	T
Connecticut	E	T	New York	E	T
Delaware	E	T	North Carolina	E	T
Florida (no tax)			North Dakota	E	T
Georgia	E	T	Ohio	E	T
Hawaii	E	T	Oklahoma	T (2)	T
Idaho	E	T	Oregon	E	T
Illinois	T (1)	T	Pennsylvania	E	T
Indiana	E	E	Rhode Island	E	T
Iowa	T (1)	T	South Carolina	E	T
Kansas	E	T	South Dakota (no tax)		
Kentucky	E	T	Tennessee	E	T
Louisiana	E	T	Texas (no tax)		
Maine	E	T	Utah	E	E
Maryland	E	T	Vermont	E	T
Massachusetts	E	T	Virginia	E	T
Michigan	E	T	Washington (no tax)		
Minnesota	E	T	West Virginia	E	T
Mississippi	E	T	Wisconsin	T (1)	T
Missouri	E	T	Wyoming (no tax)		

T = Taxable / E = Exempt

(1) Interest earned from some qualified obligations is exempt from the tax.

(2) Some bonds may be exempt by state law.

Source: Commerce Clearing House, Inc., State Tax Guide, Second Edition

The following Table compares the personal income tax rates and bases for the fifty states and the District of Columbia.

## Economic Report of the Governor

TABLE 74  
PERSONAL INCOME TAX BY STATE\*

State	<u>Low Bracket</u>		<u>High Bracket</u>		State	<u>Low Bracket</u>		<u>High Bracket</u>	
	Rate	To Net Income	Rate	From Net Income		Rate	To Net Income	Rate	From Net Income
Alabama (2)	2.0	1,000	5.0	6,000	Missouri (1)	1.5	1,000	6.0	9,000
Arizona (1)	2.87	20,000	5.04	300,001	Montana (1)	2.0	2,199	11.0	76,200
Arkansas (4)	1.0	3,199	7.0	26,700	Nebraska (1)	2.51	2,400	6.68	26,500
California (1)	1.0	11,668	9.3	76,582	New Hampshire (b)				
Colorado (2)	4.63	All			New Jersey (4)	1.4	20,000	6.37	150,000
Connecticut (1)	3.0	20,000	4.5	20,000	New Mexico (1)	1.7	8,000	8.2	100,000
Delaware (1)	2.2	5,000	5.95	60,000	New York (1)	4.0	16,000	6.85	40,000
Georgia (1)	1.0	1,000	6.0	10,000	N. Carolina (2)	6.0	21,250	8.25	200,000
Hawaii (2)	1.4	4,000	8.25	80,000	N. Dakota (2)	2.1	46,700	5.54	307,050
Idaho (2)	1.6	1,087	7.8	21,730	Ohio (1)	0.74	5,000	7.5	200,000
Illinois (1)	3.0	All			Oklahoma (1)	0.5	2,000	7.0	21,000
Indiana (1)	3.4	All			Oregon (2)	5.0	5,000	9.0	12,500
Iowa (1)	0.36	1,211	8.98	54,495	Pennsylvania (4)	2.8	All		
Kansas (1)	3.5	15,000	6.45	30,000	Rhode Island (3)	25.0	All		
Kentucky (1)	2.0	3,000	6.0	8,000	S. Carolina (2)	2.5	2,400	7.0	12,000
Louisiana (1)	2.0	10,000	6.0	50,000	Tennessee (b)				
Maine (1)	2.0	8,399	8.5	33,400	Utah (2)	2.3	1,500	7.0	7,500
Maryland (1)	2.0	1,000	4.8	3,000	Vermont (3)	24.0	All		
Massachusetts (1)	5.3	All	(a)		Virginia (1)	2.0	3,000	5.75	17,000
Michigan (1)	4.1	All			W. Virginia (1)	3.0	10,000	6.5	60,000
Minnesota (2)	5.35	27,350	7.85	92,560	Wisconsin (1)	4.6	8,280	6.75	124,000
Mississippi (4)	3.0	5,000	5.0	10,000	Dist. of Col. (1)	5.0	10,000	9.0	30,000

\* The following states do not levy an income tax: Alaska, Florida, Nevada, South Dakota, Texas, Washington & Wyoming.

Note: Tax rates are for married filers filing joint returns and do not include income taxes levied at the local level.

Base: (1) – Modified Federal Adjusted Gross Income  
 (2) – Modified Federal Taxable Income  
 (3) – Federal Tax Liability  
 (4) – State’s Individual Definition of Taxable Income

(a) The rate is 12% for interest, dividends, and net capital gains.

(b) Income taxes are limited to interest and dividends: 5.0% in New Hampshire and 6.0% in Tennessee.

Source: Commerce Clearing House, Inc., State Tax Guide, Second Edition

## **Economic Report of the Governor**

### **Sales and Use Tax**

The sales tax is imposed, subject to certain limitations, on the gross receipts from certain transactions within the State of persons engaged in business in the state including: 1) retail sales of tangible personal property; 2) the sale of certain services; 3) the leasing or rental of tangible personal property; 4) the producing, fabricating, processing, printing, or imprinting of tangible personal property to special order or with material furnished by the consumer; 5) the furnishing, preparing or serving of food, meals or drinks; and 6) the occupancy of hotels or lodging house rooms for a period not exceeding thirty consecutive calendar days.

The use tax is imposed on the consideration paid for certain services or purchases or rentals of tangible personal property used within the state and not subject to the sales tax.

Both the sales and use taxes are levied at a rate of six percent. Various exemptions from the tax are provided, based on the nature, use, or price of the property or services involved or the identity of the purchaser. Hotel rooms are taxed at 12%, with a portion of the tax collections distributed to the tourism districts for the promotion of tourism activities.

The sales and use tax is an important source of revenue for the State of Connecticut. In fiscal 2001-02, sales and use taxes accounted for 27.6% of total revenue and 38.8% of total tax collections, compared to 26.1% and 35.9%, respectively, in fiscal 2000-01.

When analyzing sales taxes, a simple comparison of rates is not an effective way to measure the tax burden imposed. An analysis of the tax base must be included to provide a more meaningful comparison.

In an attempt to provide a more relevant comparison of the sales tax burden, two studies are presented. The first study shows sales tax collections as a percentage of personal income. The larger the percentage of personal income going to sales tax collections, the heavier the burden of that tax. The following Table shows sales tax collections as a percentage of personal income and the corresponding ranking of the states. Note that Connecticut's tax burden is significantly less than several other states. The comparison is based on fiscal year 2001 data. From fiscal 1991 to fiscal 2001, Connecticut's sales tax collections as a percentage of personal income dropped from 3.15% with a rank of ninth to 2.39% with a rank of 17th. This change was primarily due to the reduction in Connecticut's sales tax rate from 8% to 6% and an expansion of the exemptions on certain services and goods.

The second study provides an analysis of major sales tax exemptions by state. Connecticut excludes from its sales tax such major items as food products for human consumption, drugs and medicines used by humans, clothing and footwear up to \$75, machinery, professional services, residential utilities and motor fuels. Table Number 76 shows the comparison for major sales tax exemptions.

## Economic Report of the Governor

TABLE 75  
SALES TAX COLLECTIONS AS A PERCENTAGE OF PERSONAL INCOME  
Fiscal 2001

<u>State</u>	<u>Sales Tax Rate</u>	<u>%</u>	<u>Rank</u>	<u>State</u>	<u>Sales Tax Rate</u>	<u>%</u>	<u>Rank</u>
Hawaii	4.0*	4.62	1	Iowa	5.0*	2.20	24
Washington	6.5*	4.21	2	Louisiana	4.0*	2.19	25
New Mexico	5.0	3.83	3	Rhode Island	7.0	2.18	26
Mississippi	7.0	3.74	4	California	6.0*	2.15	27
Nevada	6.5**	3.25	5	Indiana	5.0	2.12	28
Florida	6.0*	3.10	6	North Dakota	5.0*	2.07	29
Tennessee	7.0*	2.89	7	Nebraska	5.0*	2.07	30
Arkansas	5.125*	2.88	8	Georgia	4.0*	2.04	31
Arizona	5.6*	2.86	9	Ohio	5.0*	1.92	32
Wyoming	4.0*	2.79	10	Pennsylvania	6.0*	1.92	33
Utah	4.75*	2.70	11	Oklahoma	4.5*	1.77	34
Michigan	6.0	2.59	12	Missouri	4.225*	1.77	35
South Dakota	4.0*	2.55	13	New Jersey	6.0	1.76	36
South Carolina	5.0*	2.46	14	Alabama	4.0*	1.55	37
Texas	6.25*	2.41	15	North Carolina	4.5*	1.53	38
Idaho	5.0	2.40	16	Illinois	6.25*	1.53	39
Connecticut	6.0	2.39	17	Massachusetts	5.0	1.51	40
Maine	5.0	2.38	18	Maryland	5.0	1.40	41
Minnesota	6.5*	2.29	19	Colorado	2.9*	1.33	42
Wisconsin	5.0*	2.28	20	New York	4.0*	1.28	43
Kansas	5.3*	2.27	21	Vermont	5.0	1.22	44
West Virginia	6.0	2.25	22	Virginia	3.5*	1.13	45
Kentucky	6.0*	2.23	23				
U.S. Average		2.07					

\* Local tax rates are additional.

\*\* Tax rate includes a composite of a 2% state rate plus a 4.5% state-mandated county rate.

Note: Alaska, Delaware, Montana, New Hampshire, and Oregon do not levy a sales tax. The state of Delaware imposes a merchants' and manufacturers' license tax and a use tax on leases.

Source: Commerce Clearing House, Inc., State Tax Guide, Second Edition, U.S. Department of Commerce, "State Government Finances", 2001

## Economic Report of the Governor

**TABLE 76**  
**MAJOR SALES TAX EXEMPTIONS BY STATE**

State	Food	Prescription Drugs	Motor Fuels	Services	Clothes	Cig's	Computer Software (Canned)	Computer Software (Custom)
Alabama	T	E	E	E	T	T	E	E
Arizona	E	E	E	T	T	T	E	E
Arkansas	T	E	E	T	T	T	T	T
California	E	E	T	E	T	E	E	E
Colorado	E	E	E	E	T	T	E	E
Connecticut	E	E	E	T	E (2)	T	T	T
Florida	E	E	T	T	T	T	E	E
Georgia	E	E	T (1)	E	T	T	T	E
Hawaii	T	E	T	T	T	T	T	T
Idaho	T	E	E	E	T	T	E	E
Illinois	T (1)	E	T	E	T	T	E	E
Indiana	E	E	T	E	T	T	T	E
Iowa	E	E	E	T	T	T	E	E
Kansas	T	E	E	T	T	T	T	T
Kentucky	E	E	E	E	T	T	E	E
Louisiana	T	E	E	E	T	T	T	T
Maine	E	E	E	E	T	T	E	E
Maryland	T	E	E	E	T	T	E	E
Massachusetts	E	E	E	E	E (3)	T	E	E
Michigan	E	E	T	E	T	T	E	E
Minnesota	E	E	T	T	E	T	E	E
Mississippi	T	E	E	T	T	T	T	T
Missouri	T (1)	E	E	E	T	T	T	E
Nebraska	E	E	E	E	T	T	T	T
Nevada	E	E	E	E	T	T	E	E
New Jersey	E	E	T	E	E	T	E	E
New Mexico	T	E	E	T	T	T	T	T
New York	E	E	T	T	E (4)	T	E	E
North Carolina	T (1)	E	E	E	T	T	E	E
North Dakota	E	E	E	E	T	T	E	E
Ohio	E	E	E	T	T	T	T	T (5)
Oklahoma	T	E	E	T	T	T	T	E
Pennsylvania	E	E	E	T	E	T	T	E
Rhode Island	E	E	E	E	E	T	T	E
South Carolina	T	E	E	E	T	T	T	T
South Dakota	T	E	E	T	T	T	T	T
Tennessee	T (1)	E	E	E	T	T	T	T
Texas	E	E	E	T	T	T	T	T
Utah	T	E	E	T	T	T	E	E
Vermont	E	E	E	E	E (4)	T	E	E
Virginia	T	E	E	E	T	T	E	E
Washington	E	E	T	T	T	T	E	E
West Virginia	T	E	T	T	T	T	T	T
Wisconsin	E	E	E	T	T	T	E	E
Wyoming	T	E	E	E	T	T	T	E
Dist. of Columbia	E	E	E	T	T	T	T	T
Total Taxable	20	0	12	21	38	45	22	15

Note: These states do not levy a sales tax: Alaska, Delaware, Montana, New Hampshire & Oregon.

T = Taxable under the sales tax, E = Exempt from the sales tax

(1) Taxed at a reduced rate. (2) Up to a sales price of \$75 per item. (3) Up to a sales price of \$175 per item. (4) Up to a sales price of \$110 per item. (5) Custom systems software sold to a business is taxable, but custom application software is not taxable.

Source: Commerce Clearing House, Inc., State Tax Guide, Second Edition

## **Economic Report of the Governor**

### **Corporation Business Tax**

The Corporation Business Tax is imposed on any corporation, joint stock company or association or fiduciary of any of the foregoing which carries on or has the right to carry on business within the state or owns or leases property or maintains an office within the state. The Corporation Business Tax consists of three components. The taxpayer's liability is the greatest amount computed under any of the three components. The first is a tax measured by the net income of a taxpayer (the "Income-Base Tax"). Net income means federal gross income (with limited variations) less certain deductions, most of which correspond to the deductions allowed under the Internal Revenue Code of 1986, as amended from time to time. In fiscal 2001-02, the Corporation Business Tax accounted for 3.5% of total revenue and 4.4% of total tax collections, while in fiscal 2000-2001 they were 4.6% and 5.8% respectively.

If a taxpayer is taxable solely within the state, the Income-Base Tax is measured by, and based upon, its entire net income. If a taxpayer is taxable in another state in which it conducts business, the base against which the Income-Base Tax is measured is the portion of the taxpayer's entire net income assigned to the state, pursuant to a statutory formula designed to identify the proportion of the taxpayer's trade or business conducted within the state. Currently, the Income-Base Tax is levied at the rate of seven and one half percent.

The second part of the Corporation Business Tax is an additional tax on capital (the "Additional Tax"). The Additional Tax Base is determined either as a specific maximum dollar amount or at a flat rate on a defined base, usually related in whole or part to its capital stock and balance sheet surplus, profit and deficit. If a taxpayer is also taxable in another state in which it conducts business, the defined base is apportioned most often to the value of certain assets having tax situs within the state. The third component of the Corporation Business Tax is the Minimum Tax, which is \$250. Corporations must compute their tax under all three bases and then pay the tax under the highest computation.

Numerous tax credits are also available to corporations including, but not limited to, research and development credits of 1% to 6%, credits for property taxes paid on electronic and data processing equipment, and a 5% credit for investments in fixed and human capital.

The following Table provides a comparison of the assessed rates for the corporation business tax for the fifty states and the District of Columbia.

## Economic Report of the Governor

**TABLE 77  
CORPORATION TAX BY STATE**

State	Low Bracket		High Bracket		State	Low Bracket		High Bracket	
	Rate	To Net Income	Rate	From Net Income		Rate	To Net Income	Rate	From Net Income
Alabama	6.5	All			Mississippi	3.0	5,000	5.0	10,000
Alaska	1.0	10,000	9.4	90,000	Missouri	6.25	All		
Arizona	6.96	All			Montana	6.75	All		
Arkansas	1.0	3,000	6.5	100,000	Nebraska	5.58	50,000	7.81	50,000
California (1)	8.84	All			New Hampshire	8.5	All		
Colorado	4.63	All			New Jersey (6)	9.0	All		
Connecticut	7.5	All			New Mexico	4.8	500,000	7.6	1.0M
Delaware	8.7	All			New York	7.5	All		
Florida (1)	5.5	All			N. Carolina	6.9	All		
Georgia	6.0	All			N. Dakota	3.0	3,000	10.5	50,000
Hawaii	4.4	25,000	6.4	100,000	Ohio	5.1	50,000	8.5	50,001
Idaho (2)	7.6	All			Oklahoma	6.0	All		
Illinois (3)	4.8	All			Oregon	6.6	All		
Indiana (4)	3.4	All			Pennsylvania	9.99	All		
Iowa	6.0	25,000	12.0	250,000	Rhode Island	9.0	All		
Kansas (5)	4.0	All			S. Carolina	5.0	All		
Kentucky	4.0	25,000	8.25	250,000	Tennessee (7)	6.5	All		
Louisiana	4.0	25,000	8.0	200,000	Utah	5.0	All		
Maine	3.5	25,000	8.93	250,000	Vermont	7.0	10,000	9.75	250,000
Maryland	7.0	All			Virginia	6.0	All		
Massachusetts (4)	9.5	All			West Virginia	9.0	All		
Michigan	1.9	All			Wisconsin (4)	7.9	All		
Minnesota	9.8	All			District of Col.	9.5	All		

Note: The table does not include corporate income taxes levied at the local level. These states do not levy a corporate income tax: Nevada, South Dakota, Texas, Washington & Wyoming. The following states require a minimum tax: Arizona \$50; California \$800; Connecticut \$250; Idaho \$20; Massachusetts \$456; Montana \$50; New Jersey \$500; New York \$100-\$1,500; Ohio \$50; Oregon \$10; Rhode Island \$250; Utah \$100; Vermont \$250; and District of Columbia \$100.

- (1) An alternative minimum tax imposed: 6.65% in California and 3.3% in Florida.
- (2) Plus an additional \$10.00 on each corporation filing a return.
- (3) Additional personal property replacement tax is imposed at the rate of 2.5% of net income.
- (4) A surtax is imposed: Indiana 4.5% on net income, 14% in Massachusetts on tax liability, and in Wisconsin the surcharge rate is set annually.
- (5) A surtax of 3.35% on taxable incomes in excess of \$50,000 is imposed.
- (6) Foreign corporations with income from New Jersey sources are subject to the corporation income tax at a rate of 7.25% on entire net income allocable to New Jersey.
- (7) Corporations are also subject to the tax on interest and dividends.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

## **Economic Report of the Governor**

### **Motor Fuels Tax**

The state imposes a tax, subject to certain limitations, (1) on gasoline and certain other liquids which are prepared, advertised, offered for sale, sold for use as, or commonly and commercially used as, a fuel in internal combustion engines ("gasoline" or "gasohol") and (2) on all combustible gases and liquids which are suitable and used for generation of power to propel motor vehicles ("special fuels"). The distributors liable for these taxes are those entities which distribute fuel within the state, import fuel into the State for distribution within the State, or produce or refine fuels within the State.

The Gasoline Tax is imposed on each gallon of gasoline or gasohol sold (other than to another distributor) or used within the state by a distributor. The tax on special fuels (the "Special Fuel Tax") is assessed on each gallon of special fuels used within the State in a motor vehicle licensed, or required to be licensed, to operate upon the public highways of the state.

The Special Fuels Tax is paid by vehicle users, and is generally collected by retail dealers of special fuels (primarily diesel fuel). Various exemptions from both taxes are provided among which are sales to, or use by: the United States, the state or its municipalities.

The Motor Carrier Road Tax is imposed upon gallons of fuel (again, primarily diesel fuel) used by business entities ("motor carriers") which operate any of the following vehicles in the State: (i) passenger vehicles seating more than nine persons; (ii) road tractors or tractor trucks; or (iii) trucks having a registered gross weight in excess of eighteen thousand pounds. Such motor carriers pay the tax on the gallons of fuel which they use while operating such vehicles in the state. The number of gallons subject to the tax is determined by multiplying the total number of gallons of fuel used by the motor carrier during each year by a fraction, the numerator of which is the total number of miles traveled by the motor carrier's vehicles within the state during the year, and the denominator of which is the total number of miles traveled by the motor carrier's vehicles both within and outside the state during the year.

The Gasoline Tax is twenty-five cents per gallon while the tax on gasohol is twenty-four cents per gallon. The Special Fuels and Motor Carrier Taxes are twenty-six cents per gallon. The 1983 session of the General Assembly enacted a Special Transportation Fund for highway construction and maintenance and 1¢ per gallon of the motor fuels tax, or a total of \$14.2 million, was dedicated to this fund. Beginning July 1, 1984, the Special Transportation Fund was expanded to include all collections from the motor fuels tax.

In future years, consumption of motor fuels will continue to be affected by the Conservation Act of 1975 (see section on "Automotive Fuel Economy") which required motor companies to drastically increase the miles per gallon that each motor vehicle attains and by the Clean Air Act of 1990 which requires metropolitan areas to significantly reduce noxious emissions from automobiles.

The following Table shows the comparative rates for Motor Fuel Taxes for the 50 states.

## Economic Report of the Governor

### TABLE 78 MOTOR FUEL TAXES BY STATE

<u>State</u>	<u>Excise Tax</u>	<u>Sales Tax Rate</u>	<u>Total Tax*</u>	<u>State</u>	<u>Excise Tax</u>	<u>Sales Tax Rate</u>	<u>Total Tax*</u>
Alabama	16.0¢	-	16.0¢	Montana	27.0¢	-	27.0¢
Alaska	8.0	-	8.0	Nebraska (d)	24.5	-	22.5
Arizona	18.0	-	18.0	Nevada	23.0	-	23.0
Arkansas	21.5	-	21.5	New Hampshire	18.0	-	18.0
California	18.0	6.00	26.5	New Jersey	10.5	6.00	18.5
Colorado	22.0	-	22.0	New Mexico	17.0	-	17.0
Connecticut	25.0	-	25.0	New York	8.0	4.00	13.2
Delaware	23.0	-	23.0	North Carolina (e)	22.1	-	22.1
Florida	13.9	6.00	22.1	North Dakota	21.0	-	21.0
Georgia (a)	7.5	3.00	11.4	Ohio	22.0	-	22.0
Hawaii (b)	28.08	4.00	34.1	Oklahoma	16.0	-	16.0
Idaho	25.0	-	25.0	Oregon	24.0	-	24.0
Illinois	19.0	6.25	27.9	Pennsylvania	12.0	-	12.0
Indiana	18.0	5.00	25.1	Rhode Island	30.0	-	30.0
Iowa	20.1	-	20.1	South Carolina	16.0	-	16.0
Kansas	24.0	4.90	31.2	South Dakota	22.0	-	22.0
Kentucky (c)	15.0	-	15.0	Tennessee (f)	21.4	-	21.4
Louisiana	20.0	-	20.0	Texas	20.0	-	20.0
Maine	22.0	-	22.0	Utah (g)	24.5	-	24.5
Maryland	23.5	-	23.5	Vermont	20.0	-	20.0
Massachusetts	21.0	-	21.0	Virginia	17.5	-	17.5
Michigan	19.0	6.00	27.5	Washington	23.0	6.50	32.5
Minnesota	20.0	6.50	29.3	West Virginia	20.5	6.00	29.1
Mississippi	18.0	-	18.0	Wisconsin	28.1	-	28.1
Missouri	17.0	-	17.0	Wyoming	14.0	-	14.0

\* The total column in the above table is the sum of the per gallon state tax and sales taxes or additional taxes where applicable. The price used to estimate the effect of the sales tax, which excludes state taxes, was \$1.23 per gallon.

- (a) The sales tax is levied at the rate of 3% of the retail price less the 7.5¢ tax.
- (b) County taxes between 8.8¢ and 16.5¢ per gallon are levied in addition to the state tax of 16¢ per gallon. An average of 12.08¢ was used in calculating the excise tax.
- (c) Tax is 9% of the average wholesale price plus a highway user tax.
- (d) Includes additional tax based on statewide average cost of fuel and a second additional tax at 2¢ per gallon; plus the amount of any "ethanol adjustment."
- (e) Includes an additional tax based on the average wholesale price of motor fuel.
- (f) Plus an optional one-cent-per-gallon special tax imposed by certain counties on petroleum products.
- (g) An environmental surcharge of one-half cent per gallon is imposed on all petroleum sold.

Source: Commerce Clearing House, Inc., State Tax Guide, Second Edition

## Economic Report of the Governor

### Other Sources

The following Tables show the most recent comparative rates or exemptions for some of the other taxes and fees collected by the states.

**TABLE 79  
CIGARETTE TAXES BY STATE**

<u>State</u>	<u>Rate</u>	<u>State</u>	<u>Rate</u>
Alabama	16.5 ¢	Montana	18.0 ¢
Alaska	\$1.00	Nebraska	64.0 ¢
Arizona	58.0 ¢	Nevada	35.0 ¢
Arkansas (1)	34.0 ¢	New Hampshire	52.0 ¢
California	87.0 ¢	New Jersey	\$1.50
Colorado	20.0 ¢	New Mexico	21.0 ¢
Connecticut	\$1.11	New York	\$1.50
Delaware	24.0 ¢	North Carolina	5.0 ¢
Florida	33.9 ¢	North Dakota	44.0 ¢
Georgia	12.0 ¢	Ohio	55.0 ¢
Hawaii	\$1.00	Oklahoma	23.0 ¢
Idaho	28.0 ¢	Oregon	68.0 ¢
Illinois	98.0 ¢	Pennsylvania	\$1.00
Indiana	55.5 ¢	Rhode Island	\$1.32
Iowa	36.0 ¢	South Carolina	7.0 ¢
Kansas	70.0 ¢	South Dakota	33.0 ¢
Kentucky (2)	3.0 ¢	Tennessee	20.0 ¢
Louisiana	36.0 ¢	Texas	41.0 ¢
Maine	\$1.00	Utah (3)	69.5 ¢
Maryland	\$1.00	Vermont	49.0 ¢
Massachusetts	\$1.51	Virginia	2.5 ¢
Michigan	75.0 ¢	Washington	\$1.425
Minnesota	48.0 ¢	West Virginia	17.0 ¢
Mississippi (3)	18.0 ¢	Wisconsin (4)	77.0 ¢
Missouri	17.0 ¢	Wyoming	12.0 ¢

Note: The tax is based on a pack of 20 cigarettes.

- (1) An additional \$17.00 per 1,000 cigarettes is imposed.
- (2) Plus a 0.001¢ enforcement tax on each package of cigarettes.
- (3) The tax rate is increased by the same amount of any reduction in the federal excise tax.
- (4) An additional tax of 0.8¢ per pack of 20 cigarettes is imposed minus the federal cigarette tax.

Source: Commerce Clearing House, Inc., State Tax Guide, Second Edition

## Economic Report of the Governor

**TABLE 80**  
**INSURANCE COMPANIES TAX BY STATE**

<u>State</u>	<u>Domestic Tax Rate %</u>	<u>Foreign Tax Rate %</u>	<u>State</u>	<u>Domestic Tax Rate %</u>	<u>Foreign Tax Rate %</u>
Alabama (1,2)	1.00-2.30	1.00-4.00	Montana (1)	2.75-4.25	2.75-4.25
Alaska (1)	1.00-6.00	1.00-6.00	Nebraska (1,4)	1.00-1.375	1.00-1.375
Arizona (1,3)	1.00-3.00	1.00-3.00	Nevada	3.50	3.50
Arkansas (1,3)	1.00-2.50	1.00-2.50	New Hampshire (9)	2.00	2.00
California (1)	0.50-2.35	0.50-2.35	New Jersey (1)	1.05-2.10	1.05-2.10
Colorado (2)	1.00	2.00	New Mexico (2)	3.00	3.00
Connecticut	1.75	1.75	New York (1,10)	0.80-1.80	0.80-2.00
Delaware (3)	1.75	1.75	North Carolina (1,4)	0.50-1.90	0.50-1.90
Florida (1,4)	0.75-1.75	0.75-1.75	North Dakota (1)	1.75-2.00	1.75-2.00
Georgia (1,2)	2.25-3.25	2.25-3.25	Ohio (4,9)	2.50	2.50
Hawaii (1)	0.8775-4.265	0.8775-4.265	Oklahoma (4)	2.25	2.25
Idaho (1,2)	1.50-2.75	1.50-2.75	Oregon (4,11)	2.25	2.25
Illinois (4,5)	2.00	2.00	Pennsylvania (1)	2.00-5.00	2.00-5.00
Indiana (1)	2.00	2.00	Rhode Island	2.00	2.00
Iowa	2.00	2.00	South Carolina (1,3)	0.75-1.35	0.75-1.35
Kansas (4)	2.00	2.00	South Dakota (1)	2.50	2.50
Kentucky (1,6)	2.00-2.75	2.00-2.75	Tennessee (1,2,9)	1.75	1.75
Louisiana (4)	(7)	(7)	Texas (1,2)	1.60-3.50	1.60-3.50
Maine (1)	1.00-2.55	1.00-2.55	Utah	2.26	2.26
Maryland	2.00	2.00	Vermont	2.00	2.00
Massachusetts (3)	2.00	2.00	Virginia (1)	0.75-2.25	0.75-2.25
Michigan	(8)	(8)	Washington	2.00	2.00
Minnesota (4)	1.00-2.00	1.00-2.00	W. Virginia (1,4,9)	2.00-4.00	2.00-4.00
Mississippi (1,4)	3.00	3.00	Wisconsin (1)	2.00-3.50	2.00-2.375
Missouri (1)	2.00	2.00	Wyoming (1)	0.75	0.75

Note: The tax is based on the net premiums of authorized insurers, excludes surplus line rates.

- (1) Depending upon the type of insurance issued or the type of organization formed.
- (2) Rate is reduced depending upon the percentage of premiums or assets invested in the State or the State's securities.
- (3) Plus a surtax of 0.4312% on vehicles in Arizona, 0.5% in Arkansas, 0.25% in Delaware, 1% on fire insurance in South Carolina and 14% of investment income in Massachusetts.
- (4) Plus a fire marshal's tax not to exceed 1%, 1.25% in Kansas and Louisiana, 2.5% in Minnesota.
- (5) Domestic insurance companies whose principal place of business is in Illinois pay no tax.
- (6) Plus a surcharge or \$1.50 per \$100 of premiums on Kentucky risks other than health & life.
- (7) Life & health related premiums of \$7,000 or less, \$140; over \$7,000, \$140 plus \$225 per \$10,000; other premiums of \$6,000 or less, \$180; over \$6,000, \$180 plus \$300 per \$10,000.
- (8) Subject to the greater of the single business tax or the retaliatory tax.
- (9) With minimum tax of \$200 in New Hampshire & West Virginia, \$150 in Tennessee and \$25 in Ohio.
- (10) Depending upon the type and date insurance was issued.
- (11) Tax applies to insurers organized after January 1, 1971 if owned or controlled by a foreign insurer or foreign corporation.

Source: Commerce Clearing House, Inc., State Tax Guide, Second Edition

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**TABLE 81**  
**ALCOHOLIC BEVERAGE TAXES BY STATE**  
**(Dollars Per Gallon)**  
**As of July 2002**

<u>State</u>	<u>Distilled</u> <u>Spirits</u>	<u>Wines</u> <u>14%</u> <u>or Less</u>	<u>Wines</u> <u>14%</u> <u>to 21%</u>	<u>Beer</u>	<u>State</u>	<u>Distilled</u> <u>Spirits</u>	<u>Wines</u> <u>14%</u> <u>or Less</u>	<u>Wines</u> <u>14%</u> <u>to 21%</u>	<u>Beer</u>
Alabama (1,2)	56%	2.05	56%	.53	Montana (1,2)	16%	1.23	1.23	.14
Alaska	5.60	.85	.85	.35	Nebraska	3.00	.75	1.35	.23
Arizona	3.00	.84	.84	.16	Nevada	2.05	.40	.75	.09
Arkansas	2.50	.25	.75	.20	New Hampshire (1)	.30	.30	.30	.30
California	3.30	.20	.20	.20	New Jersey	4.40	.70	.70	.12
Colorado	2.74	.33	.33	.08	New Mexico	7.28	2.05	2.05	.41
Connecticut	4.50	.60	.60	.20	New York	6.43	.19	.19	.13
Delaware	5.46	.97	.97	.16	N. Carolina (1,2)	28%	.96	1.09	.48
Florida	9.53	2.25	3.00	.48	N. Dakota	2.50	.50	.60	.08
Georgia	5.46	1.82	1.82	.32	Ohio (1)	3.38	.32	1.00	.18
Hawaii	5.98	1.38	2.12	.93	Oklahoma	6.69	.86	1.68	.40
Idaho (1,2)	15%	.45	.45	.15	Oregon (1)		.65	.77	.08
Illinois	2.00	.23	.60	.07	Pennsylvania (1,2)	1.00	.07	.11	.08
Indiana	2.68	.47	.47	.12	Rhode Island	3.75	.60	.75	.06
Iowa (1)	1.75	1.75	1.75	.19	S. Carolina (3)	2.30	.90	.90	.77
Kansas	2.50	.30	.75	.18	S. Dakota		.93	1.45	.27
Kentucky	1.92	.50	.50	.08	Tennessee (4)	4.00	1.10	1.10	.13
Louisiana	3.00	.14	.27	.32	Texas	2.40	.20	.41	.20
Maine (1)	1.25	.60	1.24	.35	Utah (1,2)	13%	13%	13%	.35
Maryland	1.50	.40	.40	.09	Vermont (1,2)	25%	.55	25%	.27
Massachusetts	4.05	.55	.70	.11	Virginia (1,2,5)	20%	1.82	1.82	.26
Michigan (1,2)	9.9%	.61	.91	.20	Washington (1)		2.06	2.06	.31
Minnesota	5.03	.30	.95	.15	W. Virginia (2,6)		1.20	1.20	.18
Mississippi (1)	2.50	.35	1.00	.43	Wisconsin (7)	3.91	.30	.54	.06
Missouri	2.00	.30	.30	.06	Wyoming (1)	1.14	.34	.34	.02

- (1) Monopoly state, receives most or all of revenue through markup. Tax rates shown are in addition to any price markups.
- (2) Of the retail price.
- (3) Additional surtaxes of 9% on alcoholic beverages and 18¢ for wine are applied.
- (4) Tennessee levies a 17% surcharge on the wholesale price of malt beverages.
- (5) Additional tax of 4% of retail imposed on all wine.
- (6) A 5% tax is imposed on sales of liquor outside municipalities.
- (7) An administration fee of 3¢ per gallon is imposed on intoxicating liquors.

Source: Commerce Clearing House, Inc., State Tax Guide, Second Edition

The Tables on the next two pages list individual General Fund Revenue sources and Special Transportation Fund sources as a percentage of total collections for a five year fiscal period.

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### TABLE 82 GENERAL FUND REVENUES

TAXES (\$K)	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>
Personal Income	\$3,596,225	\$3,820,837	\$4,238,228	\$4,744,233	\$4,265,912
Sales and Use	2,772,109	2,932,191	3,096,780	3,125,078	2,997,766
Corporation	663,672	619,539	587,756	550,509	380,985
Hospital Gross Earnings	140,930	128,079	69,180	-	38
Public Service Corporation	170,417	167,705	166,263	180,547	166,597
Insurance Companies	192,756	196,195	201,225	191,107	217,371
Inheritance & Estate	279,236	237,573	228,072	252,802	153,092
Cigarettes	127,174	123,345	122,045	119,476	160,904
Oil Companies	61,858	22,170	54,285	64,497	24,309
Real Estate Conveyance	93,596	106,813	114,565	112,282	120,717
Alcoholic Beverages	39,772	40,281	40,965	41,146	41,619
Admissions, Dues, Cabaret	24,955	26,942	26,716	25,811	26,905
Miscellaneous	28,044	40,635	40,227	35,088	26,229
Total - Taxes	<u>8,190,744</u>	<u>8,462,305</u>	<u>8,986,307</u>	<u>9,442,576</u>	<u>8,582,444</u>
Less Refunds of Taxes	(580,830)	(645,000)	(713,359)	(735,483)	(829,558)
Less Refunds of R&D Credit	-	-	-	-	(21,933)
Total - Taxes Less Refunds	<u>7,609,914</u>	<u>7,817,305</u>	<u>8,272,948</u>	<u>8,707,093</u>	<u>7,730,953</u>
<b>OTHER REVENUE</b>					
Transfer-Special Revenue	267,324	280,529	259,785	258,181	277,589
Indian Gaming Payments	257,576	288,531	318,986	332,418	368,954
Licenses, Permits & Fees	123,156	122,062	127,544	124,331	137,518
Sales of Commodities & Services	29,491	30,110	32,941	31,312	30,479
Investment Income	54,716	60,856	53,371	67,868	23,848
Rents, Fines & Escheats	37,097	55,763	45,659	48,228	47,620
Miscellaneous	118,373	112,962	125,498	125,594	114,273
Less Refunds of Payments	-	-	-	-	(373)
Total - Other Revenue	<u>887,733</u>	<u>950,813</u>	<u>963,784</u>	<u>987,932</u>	<u>999,908</u>
<b>OTHER SOURCES</b>					
Federal Grants	1,824,594	1,938,271	2,078,914	2,237,045	2,142,270
Transfer from Special Funds	-	-	78,000	138,800	120,000
Transfer to Other Funds	(180,000)	(90,000)	(180,000)	(85,400)	(147,686)
Total - Other Sources	<u>1,644,594</u>	<u>1,848,271</u>	<u>1,976,914</u>	<u>2,290,445</u>	<u>2,114,584</u>
<b>GRAND TOTAL</b>	<b>\$10,142,241</b>	<b>\$10,616,3891</b>	<b>\$11,213,646</b>	<b>\$11,985,470</b>	<b>\$10,845,445</b>
<b>TAXES % of Total</b>					
Personal Income	35.46%	35.99%	37.80%	39.58%	39.33%
Sales and Use	27.33	27.62	27.62	26.07	27.64
Corporation	6.54	5.84	5.24	4.59	3.51
Hospital Gross Earnings	1.39	1.21	0.62	0.00	0.00
Public Service Corporation	1.68	1.58	1.48	1.51	1.54
Insurance Companies	1.90	1.85	1.79	1.59	2.00
Inheritance & Estate	2.75	2.24	2.03	2.11	1.42
Cigarettes	1.25	1.16	1.09	1.00	1.48
Oil Companies	0.61	0.21	0.48	0.54	0.22
Real Estate Conveyance	0.92	1.01	1.02	0.94	1.12
Alcoholic Beverages	0.39	0.38	0.37	0.34	0.38
Admissions, Dues, Cabaret	0.25	0.25	0.24	0.22	0.25
Miscellaneous	0.28	0.37	0.36	0.29	0.24
Total - Taxes	<u>80.75</u>	<u>79.71</u>	<u>80.14</u>	<u>78.78</u>	<u>79.13</u>
Less Refunds of Taxes	(5.73)	(6.08)	(6.36)	(6.14)	(7.65)
Less Refunds of R&D Credit	-	-	-	-	(0.20)
Total - Taxes Less Refunds	<u>75.02</u>	<u>73.63</u>	<u>73.78</u>	<u>72.65</u>	<u>71.28</u>
<b>OTHER REVENUE % of Total</b>					
Transfer-Special Revenue	2.64	2.64	2.32	2.15	2.56
Indian Gaming Payments	2.54	2.72	2.84	2.77	3.40
Licenses, Permits & Fees	1.21	1.16	1.14	1.04	1.27
Sales of Commodities & Services	0.29	0.28	0.29	0.26	0.28
Investment Income	0.54	0.57	0.47	0.57	0.22
Rents, Fines & Escheats	0.37	0.53	0.41	0.40	0.44
Miscellaneous	1.17	1.06	1.12	1.05	1.05
Less Refunds of Payments	-	-	-	-	0.00
Total - Other Revenue	<u>8.76</u>	<u>8.96</u>	<u>8.59</u>	<u>8.24</u>	<u>9.22</u>
<b>OTHER SOURCES % of Total</b>					
Federal Grants	17.99	18.26	18.54	18.66	19.75
Transfer from Special Funds	-	-	0.70	1.16	1.11
Transfer to Other Funds	(1.77)	(0.85)	(1.61)	(0.71)	(1.36)
Total - Other Sources	<u>16.22</u>	<u>17.41</u>	<u>17.63</u>	<u>19.11</u>	<u>19.50</u>
<b>GRAND TOTAL</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

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### TABLE 83 SPECIAL TRANSPORTATION FUND REVENUES

	<b><u>FY 1998</u></b>	<b><u>FY 1999</u></b>	<b><u>FY 2000</u></b>	<b><u>FY 2001</u></b>	<b><u>FY 2002</u></b>
<b>TAXES (\$K)</b>					
Motor Fuels	\$530,667	\$499,911	\$506,426	\$417,523	\$430,287
Oil Companies	-	20,000	36,000	46,000	46,000
DMV Sales	-	-	10,000	60,106	65,224
Less Refunds of Taxes	<u>(6,752)</u>	<u>(5,177)</u>	<u>(5,398)</u>	<u>(7,556)</u>	<u>(7,777)</u>
Total - Taxes Less Refunds	523,915	514,734	547,028	516,073	533,734
<b>OTHER REVENUE</b>					
Motor Vehicle Receipts	185,964	187,041	190,324	196,340	200,690
Licenses, Permits & Fees	107,689	112,946	112,618	115,224	130,710
Interest Income	35,430	38,494	37,728	43,888	40,480
Federal Transit Administration	3,115	3,069	2,974	3,305	3,305
Transfer from Other Funds	3,015	-	16,770	-	-
Transfer to Other Funds	(250)	(500)	(2,000)	(3,000)	(9,500)
Less Refunds of Payments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,525)</u>
Total - Other Revenue	334,963	341,050	358,414	355,757	363,160
<b>GRAND TOTAL</b>	<b>\$858,878</b>	<b>\$855,784</b>	<b>\$905,442</b>	<b>\$871,830</b>	<b>\$896,894</b>
	<b><u>% of Total</u></b>				
<b>TAXES</b>					
Motor Fuels	61.79%	58.42%	55.94%	47.89%	47.98%
Oil Companies	-	2.34	3.98	5.28	5.13
DMV Sales	-	-	1.10	6.89	7.27
Less Refunds of Taxes	<u>(0.79)</u>	<u>(0.61)</u>	<u>(0.60)</u>	<u>(0.87)</u>	<u>(0.87)</u>
Total - Taxes Less Refunds	61.00	60.15	60.42	59.19	59.51
<b>OTHER REVENUE</b>					
Motor Vehicle Receipts	21.65	21.86	21.02	22.52	22.38
Licenses, Permits & Fees	12.54	13.20	12.44	13.22	14.57
Interest Income	4.13	4.49	4.16	5.03	4.51
Federal Transit Administration	0.36	0.36	0.33	0.38	0.37
Transfer from Other Funds	0.35	-	1.85	-	-
Transfer to Other Funds	(0.03)	(0.06)	(0.22)	(0.34)	(1.06)
Less Refunds of Payments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(0.28)</u>
Total - Other Revenue	39.00	39.85	39.58	40.81	40.49
<b>GRAND TOTAL</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

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### **ECONOMIC ASSUMPTIONS OF THE GOVERNOR'S BUDGET**

#### **The Foreign Sector**

As the economy continues to globalize, the U.S. economy is impacted by the rest of the world through increased trade, financial flows, technology diffusion, information networking, and cross-cultural exchanges. During the past two decades, the U.S. economy has been increasingly integrated into the world economic system. Total U.S. trade from imports and exports, as measured in 1996 dollars, has increased from \$1,242.2 billion in 1991 to \$2,568.1 billion in 2001, an increase of 107% versus only a 38% increase for real Gross Domestic Product (GDP). This shows that the growing interaction between the U.S. economy and the world economic system has been approximately three times faster than the growth in domestic economic activity. As globalization continues to proceed rapidly, when forecasting the U.S. economy, the interaction with international economic policies, monetary and fiscal policies, financial markets, and currency movements must be taken into consideration.

The U.S. economy ended its tenth-year of expansion in early 2001. This recession has also spread into other countries and affected the overall world economy. Real world GDP grew 1.2% in 2001, down from 3.9% a year before. Worldwide real exports fell 5.4% in 2001, caused by the simultaneous declines in demand for goods and services. After two consecutive declines in U.S. exports in 2001 and 2002, prospects for trade are improving for 2003, with momentum gaining in 2004 as the worldwide economy starts to recover. Worldwide real GDP is anticipated to pick up in 2003 with Asian and emerging European economies growing faster than other areas, led by strong growth of more than 7.0% in China and the Former Soviet Republic countries such as Poland, the Czech Republic, Turkmenistan and Azerbaijan. Real GDP growth in Japan and Europe, the other two world economic giants, is expected to recover from their weak past. In Japan, the restructuring of the crumbled banking system may finally revive the decade-long ailing economy. The European Union (EU), which grew only a tepid 1.0% in 2002, should benefit from a more flexible fiscal and monetary policy mix. The EU member countries are required to control each member's deficit level to less than 3% of GDP and the European Central Bank's monetary policy tends to be tight. Nonetheless, following the federal funds rate cut of 50 basis points in November 2002, the European Central Bank's willingness to reduce its key overnight rate from 3.25% to 2.75% in December should move them toward prosperity. The successful adoption of the Euro in 2002 will reduce national price differences and pave the way toward increased trade. The European Union has an equivalent size of population, 300 million versus 281 million in the U.S., and in aggregate real gross product, \$7.9 trillion versus \$9.8 trillion in the U.S. Exports for the U.S. bode well, enhanced by the depreciation of the dollar that fell about 10% against a basket of foreign countries from a year ago with a further decline expected in the near future. The U.S. recovery will propel worldwide economic growth as well as U.S. trade.

The continuing expansion of major multilateral trade systems also provides for a much freer flow of resources, helping stimulate economic activity and facilitate trade growth. This favorable development will create a more open, efficient, and uniform market, adding opportunities for U.S. trade. The World Trade Organization (WTO) has more than 140 member countries that account for over 97% of world total trade. Around 30 others are negotiating to become members. The admission of big traders such as China will play a vital role in the global trade arena. In the European Union, by May 2004, an additional 10 nations could be joining the current 15-member economic bloc that will bring the total population of the EU to 450 million and \$9 trillion in GDP. The North American Free Trade Agreement (NAFTA), which includes the U.S. Canada and Mexico, is scheduled to include Chile and ultimately the entire South American hemisphere. Elsewhere, continuing trade liberalization in the Asian and Latin American areas and a steady growth in Eastern Europe will augment trade in the world economy.

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Integration between the U.S. and the world economy has been facilitated by the United States' increased participation in the global capital market. Bilateral increases of both direct and indirect investments have become vital for U.S. as well as world economic expansion. A coordinated fiscal and monetary policy between the U.S. and other major industrial countries has been undertaken in an effort to sustain economic growth with low inflation for the world economy as a whole. The coalition has attempted to realign exchange rates and strengthen fiscal conditions, stabilize the international monetary system and facilitate the expansion and balanced growth of international trade. The coalition also promotes international economic growth through world organizations such as the IMF, the World Bank, the Organization for Economic Cooperation and Development (OECD), and the organization for Asia Pacific Economic Cooperation (APEC). These organizations have increasingly helped member countries in strengthening their financial foothold and enhancing economic growth, thereby further facilitating U.S. foreign trade. Our country's continued commitment to a cooperative and coordinated international effort should contribute to a favorable world economic climate.

As trade competition has intensified worldwide, the U.S. industrial sector has been affected as many industries lost shares of domestic and global markets. U.S. firms that were accustomed to controlling the domestic market for basic manufactured goods were not competitive enough to repel the aggressive foreign firms determined to claim a share of the U.S. market. Over the past decade, however, U.S. exports have gradually improved with the dedication of firms to quality improvement, a better control over costs, higher productivity through greater efficiencies and incorporation of advanced technologies, as well as concerted efforts to expand international markets. In spite of the vigorous promotional efforts and aggressive pricing strategies employed by our competitors, the Nation's exports continue to increase while employment in the manufacturing sector has only been moderately impacted. The consensus of international economists is that increased trade with developing countries has not contributed significantly to the declining share of manufacturing employment in advanced economies. Specifically, Connecticut's lost manufacturing employment is more due to the net outflow to other states than to the developing countries. The strong U.S. dollar against the currencies of our major trading partners in the late 1990s has exerted some short-term hardship for the U.S., and, to a lesser extent, Connecticut manufacturers.

As stated in Section 3, the Sector Analysis, the U.S. balance of trade is significantly affected by the world economy, improving during recessionary years when exports grew faster than imports and deteriorating during recovery and expansionary periods when exports fell behind the growth in imports. The following Table lists actual real growth in GDP/GNP for the past decade, as well as the estimated and projected growths for the G-7 countries (United States, Canada, the European Big Four, and Japan), Mexico, the Pacific Basin, and the overall world economy. The slowdown in the U.S. economy in 2001 has spread globally. With anemic growth in Europe and a recession in Mexico and Japan, combined with the overall slowdown in the world economy, world GDP growth in 2001 and 2002 slowed to 1.2% and 1.8%, respectively. It is estimated to improve to 2.8% in 2003 and anticipated to grow at a faster rate of 3.7% in 2004 as the world economy gradually recovers.

**TABLE 84**  
**ECONOMIC GROWTH OF MAJOR TRADING PARTNERS**  
**(GNP/GDP Growth)**

Calendar Year	U.S.	Canada	Japan	Germany				Italy	Mexico	Pacific Basin(b)	World (c)	CT Export
				(a)	U.K.	France	Weighted Growth(d)					
1994	4.0	4.7	1.0	2.4	4.4	1.8	2.2	4.4	8.4	3.1	4.0	

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1995	2.7	2.8	1.5	1.8	2.8	1.9	2.9	(6.2)	7.9	2.7	2.9
1996	3.6	1.6	3.6	0.8	2.6	1.1	1.1	5.2	7.3	3.4	3.2
1997	4.4	4.2	1.8	1.5	3.4	1.9	2.0	6.8	5.8	3.6	3.9
1998	4.3	4.1	(1.0)	1.7	2.9	3.5	1.8	5.0	(2.5)	2.4	2.2
1999	4.1	5.4	0.7	1.9	2.4	3.2	1.6	3.8	5.3	3.1	3.7
2000	3.7	4.5	2.4	3.1	3.1	4.2	2.9	6.5	7.2	3.9	4.4
2001	0.3	1.5	0.3	0.7	2.0	1.8	1.8	(0.3)	2.3	1.2	1.4
2002 (E)	2.4	3.3	(0.2)	0.3	1.5	0.9	0.4	0.9	4.3	1.8	2.0
2003 (P)	2.9	3.4	2.0	1.0	2.6	1.5	1.4	3.1	5.0	2.8	2.8
2004 (P)	4.5	3.7	1.8	2.3	2.8	2.9	2.6	5.0	5.6	3.7	3.6

### % of CT's Exports

1998	23.4	6.0	6.1	5.8	11.6	1.2	4.1	13.4
1999	24.1	6.9	5.5	5.9	12.8	1.9	4.7	12.8
2000	22.6	6.1	6.8	5.8	13.4	1.8	5.1	13.5
2001	20.1	7.2	7.8	5.4	16.4	1.9	3.8	13.7
2002*	23.3	7.5	3.8	4.9	2.7	1.4	14.0	17.0

\* For first three quarters of 2002

- (a) The data reflects a united Germany.
- (b) Includes China, Hong Kong, Indonesia, Malaysia, Philippines, Singapore, South Korea, Thailand, Taiwan and Vietnam.
- (c) World growth rate weighted by the size of economies and measured in Purchasing Power Parity terms.
- (d) Economic growth rate weighted by Connecticut's share of exports to trade partners.
- (E) Estimated
- (P) Projected

Source: Global Insight, "U.S. Economic Outlook"

U.S. Department of Commerce, and University of Massachusetts (MISER)

Connecticut's exports also hinge upon our trade partners' economic conditions. The weighted economic growth can be used as a reference to measure worldwide economic conditions and to predict Connecticut's export potential. Connecticut's export weighted growth rates as shown on the above table are constructed by weighing Connecticut's share of exports to our trade partner countries. Weak economic growth in our major trade partner countries forced the weighted growth down to 1.4% in 2001 and 2.0% in 2002, the lowest two years in the past decade. The trade outlook for the overall world economy is projected to improve to 2.8% in 2003 and 3.6% in 2004. Collectively, the big 7 nations, Mexico and the countries in the Pacific Basin area account for approximately 75% of Connecticut's total exports.

Despite the promising outlook for trade in 2003 and 2004, continued globalization only makes actual economic growth and trade performance hinge more upon smooth and orderly market conditions. Any unexpected disturbances, either domestically or elsewhere, may send the world economy into tailspin. Any regional financial or non-financial shocks have the potential not only to interrupt an individual country's own economic stability but also disturb the international landscape. In the past five years, there was at least one major economic tremor each year that profoundly affected the world economy in a disorderly way and detrimentally hampered trade. They were: the Asian financial crisis in 1997, the U.S.'s collapse of Long Term Capital Management and the Russian debt default in 1998, the Brazilian default on international debt and sharp devaluation of its currency in 1999, the equity market's plunge and

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widespread bankruptcy filings in the telecommunication and some high-tech sectors in 2000, the September 11th attacks in 2001 and the U.S. corporation accounting scandal in 2002.

On the international front, regional tensions between India and Pakistan, Israel and Palestine, as well as North Korea's nuclear development program may create local instability. The European Union represents a significant trade opportunity for the U.S. However, this giant economic body is very weak. The slowdown in consumer spending and a weakening in business investment mimic the U.S.'s economic Achilles heel. The depreciation of the dollar may further slow economic growth there. The U.S. dollar has depreciated 16% against the Euro from a year ago. Research shows that a 10% depreciation of the dollar will lower GDP growth by approximately 0.7% and cut corporate earnings from 6% to 3% in the euro-area for 2003. The overall world stock market has dropped by 20% from the previous year. A slow recovery in worldwide equity markets may also negatively affect the U.S.'s exports.

Unstable oil prices are also a damaging factor. Oil is the largest internationally traded commodity. The world crude oil market will continue to influence the U.S. economy, despite the fact that oil plays a less significant role in the economy than it did decades ago. The increasing use of substitutes and alternatives, as well as the improvement in efficiency, has reduced its importance in the economy. However, with U.S. domestic production less than 50% of total demand and the expansion of just-in-time inventory strategies, the stability of world oil prices will remain vital to the U.S. economy. The increase in oil prices in 2000 had a dampening effect on the U.S. as well as the global economy. Crude oil prices, after plummeting to the low teens in late 1998, reached the high-twenty dollar level in early 2000 and further spiked to \$37 per barrel in mid and late 2000. Significant increases in oil prices created inflationary pressure and eroded consumers' purchasing power, contributing to the setback in the U.S. in the spring of 2001. The fear of a war in the Persian Gulf, coupled with the shutdown of oil production in Venezuela, has sent the price of oil to over \$35 a barrel in late January 2003. The U.S.'s crude oil stockpiles are down to 272 million barrels, a 27-year low. A "short and clean" war against Iraq should have a small and short-term economic impact, followed by a better economy later in 2003 as oil prices drop and consumption and investment revive. However, a "long and messy" war would only continue to send oil prices higher, erode domestic confidence, damage equity markets and increase the federal budget deficit, suppressing consumer spending and dampening business investment and hiring. Under the worst scenario, the U.S. economy may fall into recession and the ripple effect would be felt in the world economy.

A host of factors could move oil prices in an unfavorable direction. These factors include changes in the production capacity and policies of OPEC, the status of non-OPEC output, political, and economic uncertainties in certain geographic regions of the world, violence, and severe weather. Any unexpected catastrophe only further impedes the oil market no matter where it occurs, be it in the U.S. or other countries.

### **The U.S. Economy (History)**

The Table on the following page compares the original forecast figures to actual for fiscal years 1993-94 to 2002-03 and the current estimates for fiscal years 2003-04 and 2004-05. Beginning in 1996-97, the forecast for new car sales also includes minivans and light trucks. As the demand for minivans and light trucks has increased and now comprises a significant portion of total vehicle sales, this new indicator better reflects actual vehicle sales in the automobile industry.

The December 2000 forecast for fiscal 2001-02 anticipated a continued healthy growth in economic activity: a real growth rate higher than the long-term economic growth rate of 2.5%, with a moderate increase in the unemployment rate and a slight decline in the rate of inflation. Housing starts and new car sales would increase moderately. However, the economy actually slowed drastically, with real Gross Domestic Product growing only 0.8%, a full 2.4 percentage points below the forecast. Actual new car sales and housing starts,

## **Economic Report of the Governor**

on the contrary, outperformed expectations by 14% and 6%, respectively. U.S. employment started declining in March 2001 and the economy began showing weakness with a deep drop in business activity. As real GDP fell for three consecutive quarters beginning in the first quarter of 2001, the U.S. economy officially entered into a recession. To revive the sluggish economy, the Federal Reserve Bank cut the federal funds rate 11 times from 6.50% to 1.75% in 2001 and in November 2002 to a 4-decade low of 1.25%. The stimulative monetary policy created a substantially favorable financial condition for interest-sensitive markets, pushing annual housing starts and new vehicle sales to their all-time high. Mortgage rates in 2002 have been the lowest since Freddie Mac began tracking the rates 30 years ago. Conventional mortgage rates on 30-year instruments fell to 6.05% in December 2002, compared to the same month in 2001 of 7.07%, in 2000 of 7.38%, and in 1999 of 7.91%. Rapid increases in home prices propped up consumer spending and generated increased residential investment despite the declining equity market. Consumer spending, which accounts for two thirds of GDP, became the sole supporting pillar of the economy. Business equipment and software investment, which had been a driver for the economy in the 1990s, declined in 2001 and 2002. As actual economic growth was weaker than expected, the unemployment rate rose above expectations by 0.9 percentage points and the CPI index was below expectations by 0.6 percentage points

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**TABLE 85  
HISTORICAL COMPARISON OF U.S. ECONOMIC INDICATORS**

<u>Fiscal</u>		<u>GNP/ GDP</u>	<u>Real GNP/ GDP</u>	<u>GNP/ GDP Deflator</u>	<u>Housing Starts</u>	<u>Unempl. Rate</u>	<u>New* Car Sales</u>	<u>CPI</u>
1993-94	12/92 Forecast	6.3%	3.4%	2.8%	1.44M	6.6%	9.9M	3.4%
	Actual	5.5%	3.2%	2.2%	1.40M	6.6%	8.8M	2.8%
	Difference	(0.8%)	(0.2%)	(0.6%)	(0.04)M	0.0%	(1.1)M	(0.6%)
1994-95	12/93 Forecast	5.9%	3.0%	2.8%	1.48M	6.3%	10.1M	2.8%
	Actual	5.8%	3.6%	2.2%	1.38M	5.7%	8.8M	2.7%
	Difference	(0.1%)	0.6%	(0.6%)	(0.10)M	(0.6%)	(1.3)M	(0.1%)
1995-96	12/94 Forecast	5.4%	2.6%	2.8%	1.32M	5.8%	9.7M	3.0%
	Actual	4.9%	2.8%	2.0%	1.45M	5.6%	8.7M	2.7%
	Difference	(0.5%)	0.2%	(0.8%)	0.13M	(0.2%)	(1.0)M	(0.3%)
1996-97	12/95 Forecast	4.6%	2.3%	2.2%	1.41M	5.9%	14.9M	2.5%
	Actual	6.2%	4.1%	2.0%	1.46M	5.2%	15.0M	2.9%
	Difference	1.6%	1.8%	(0.2%)	0.05M	(0.7%)	0.1M	0.4%
1997-98	12/96 Forecast	4.6%	2.1%	2.5%	1.42M	5.6%	14.8M	2.6%
	Actual	6.0%	4.4%	1.6%	1.53M	4.7%	15.4M	1.9%
	Difference	1.4%	2.3%	(0.9%)	0.11M	(0.9%)	0.6M	(0.7%)
1998-99	12/97 Forecast	4.6%	2.1%	2.4%	1.42M	4.7%	14.3M	2.6%
	Actual	5.5%	4.1%	1.3%	1.66M	4.4%	16.1M	1.5%
	Difference	0.9%	2.0%	(1.1%)	0.24M	(0.3%)	1.8M	(1.1%)
1999-00	12/98 Forecast	3.9%	2.0%	1.9%	1.44M	4.6%	14.9M	2.0%
	Actual	6.2%	4.4%	1.8%	1.64M	4.1%	17.5M	2.7%
	Difference	2.3%	2.4%	(0.1%)	0.20M	(0.5%)	2.6M	0.7%
2000-01	12/99 Forecast	4.2%	2.5%	1.7%	1.41M	4.5%	15.3M	2.5%
	Actual	4.2%	1.8%	2.3%	1.57M	4.2%	16.9M	3.6%
	Difference	0.0%	(0.7%)	0.6%	0.16M	(0.3%)	1.6M	1.1%
2001-02	12/00 Forecast	5.0%	3.2%	1.7%	1.44M	4.6%	16.0M	2.4%
	Actual	2.6%	0.8%	1.7%	1.64M	5.5%	16.9M	1.8%
	Difference	(2.4%)	(2.4%)	0.0%	0.20M	0.9%	0.9M	(0.6%)
2002-03	12/01 Forecast	4.1%	2.5%	1.5%	1.54M	6.2%	16.1M	2.4%
	12/02 Estimate	4.3%	2.7%	1.6%	1.63M	5.9%	16.4M	2.1%
	Difference	0.2%	0.2%	0.1%	0.09M	(0.3%)	0.3M	(0.3%)

\* New Car Sales in Fiscal Years 1996-97 through 2002-03 represent U.S. vehicle sales for automobiles and light vehicles (trucks).

M denotes Millions of Units.

After 3 consecutive quarterly declines in real GDP, the economy began to recover by the end of 2001. Real GDP grew by 2.7% in the 4th quarter of 2001, followed by an average 3.4% growth rate for the subsequent 3

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quarters ending in September 2002. The economy in the last quarter of 2002, however, hit a “soft spot”, with real GDP growing a paltry 0.7% and no improvement in employment. Growth in consumer spending decelerated and inventory investment and exports declined. Total non-farm employment fell to 130,806,000 from 130,844,000 in the 3rd quarter of 2002 and the unemployment rate ratcheted up to 5.9% from 5.7% during the same period. Judging by the average of the past five recessions, U.S. total employment generally rebounds after 16 months of contracting. By December of 2002, it has been 22 months since this recession began. There is no clear sign yet that employment will have a meaningful upturn for the next few quarters. However, fixed investment, which includes nonresidential investment, equipment and software, etc., increased, ending its 8 consecutive quarterly declines. Business investment is expected to accelerate as time progresses. The December 2002 consensus forecast for fiscal 2003 bodes slightly better than a year ago: housing starts and new vehicle sales are expected to be higher while unemployment and inflation rates are lower.

### **The U.S. Economy (Forecast)**

The GDP growth rate for fiscal years 2003-04 and 2004-05 is anticipated to perform better than the long-term growth trend of 2.5% as the economy continues to improve. The repercussion of aggressive accommodating monetary and fiscal policies should work to stimulate consumer spending and encourage investment. Depreciation of the dollar should help exports. Total employment will continue to grow during the forecast period with a downward trend in manufacturing as global competition intensifies and productivity gains continue. However, a temporary upturn in employment in the goods-producing sector may occur as productivity gains slow. Job creation should start picking up in the second half of 2003 as war anxiety is left behind, relieving those factors that are suppressing consumption and the willingness of businesses to invest and hire. The labor market is expected to approach “full employment” levels with the unemployment rate staying at 5.6% in fiscal 2004 and falling to 5.1% for fiscal 2005 as the economy continues to improve. Consumer spending should expand in 2004 and further into 2005, although at a slower pace. Households will likely continue to build up savings after aggressive spending in 2002 and 2003 that resulted in hefty borrowings. Economic recovery and a continued buildup in the federal deficit should push interest rates higher, creating short-term pressure on housing starts and suppressing refinancings in fiscal 2004. Most real property equity has already been drawn down, leaving little room for the type of refinancing that has fueled spending in the recent past. President Bush’s new Economic Stimulus Plan, if enacted, would increase disposable income. New vehicle sales are expected to increase modestly with continued strength in the demand for light trucks. Incentive programs to promote new cars sales will continue as manufacturers try to gain market. Faster employment growth, combined with a healthy increase in real disposable income, will help housing activities in fiscal 2005. The improvement in economic conditions, moderate energy prices and the depreciation the U.S. dollar should not translate into a price spike. Inflation pressures in the service sector, which accounts for 70% of the core CPI-U index, should increase moderately; however, a small increase in commodity prices brought about by fierce global and domestic competition along with continued productivity gains would help keep inflation in check. Business investment spending that has declined for 2 years should be on the recovery track; companies need to upgrade their antiquated equipment and software to boost productivity for competition and profitability. Both indices of activity in the manufacturing and non-manufacturing sectors conducted by the Institute of Supply Management, formerly known as the National Association of Purchasing Managers, registered at 54.7, signaling stronger economic growth for both the goods and services sectors ahead. Thanks to technological advancements, aided by innovations in computer and information technology, efficiency and productivity have risen profoundly. The new era technology has elevated real GDP growth with only modest inflation over the past decade. Labor costs that include wages and salaries and benefits compensation will edge higher as the economy expands. Inflation for consumer goods and services in

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fiscal 2003-04 and fiscal 2004-05 is anticipated to increase to 2.4% and 2.5%, respectively, up from 2.1% in fiscal 2003.

The forecast for the most widely used economic indicators for the U.S. economy is shown below. Growth in real GDP is based on 1996 chained dollars to measure real output growth. The Consumer Price Index (CPI) is also based on a traditional fixed weight method with 1982-84 =100. New car sales include traditional passenger cars as well as minivans and light trucks.

<b><u>12/02 Forecast</u></b>	<b><u>Fiscal Year 2003-04</u></b>	<b><u>Fiscal Year 2004-05</u></b>
Gross Domestic Product	6.3%	6.7%
Real Gross Domestic Product	3.9%	4.2%
G.D.P. Deflator	2.2%	2.6%
Consumer Price Index	2.4%	2.5%
Unemployment Rate	5.6%	5.1%
Housing Starts	1.62 Million	1.70 Million
New Vehicle Sales	17.40 Million	17.48 Million

### **Forecast Caveats**

The projection of better than 2.5% real output growth, with modest inflation, assumes there is improved employment, recovery in the deflated equity markets, stability in the housing market and an improvement in business investment. This would boost personal income growth and build up wealth that in turn would trigger consumer spending, invite investment, boost corporate profits and stimulate the economy. However, there are a slew of uncertainties that may affect growth projections, including a weaker than expected job market, continued instability in the stock market, a slow recovery in business investment, unexpected federal government activity such as a tight monetary policy or unsuccessful economic stimulus plan, the unfavorable outcome of any war in Iraq and unstable foreign geopolitical conditions. Any major disturbance could steer the forecast in either direction.

President Bush's latest economic stimulus policy would pump \$674 billion over 10 years into the economy by cutting personal income taxes and increasing funding for the unemployed. The consensus is that the economic recovery will continue and no double recession will occur. However, the consumer and business sectors continue to face significant uncertainty. Consumers, who took advantage of low mortgage rates to refinance in past years, may find themselves saddled with unaffordable monthly payments in a slow growth economy. If mortgage delinquencies become common, it may damage the elevated housing market. Consumer credit quality may deteriorate as unemployment rates continue to increase to the middle of 2003. Mortgage delinquency and personal bankruptcy rates have already risen to their highest level in ten years. Moreover, growth in consumption could be curbed as consumers become more conscientious about their inadequate level of savings. The consumer savings rate in 2002 actually rose, running counter to its long-term downward trend. Personal savings as a percentage of disposable personal income rose to 3.9% in 2002, after trending down to 2.3% in 2001 from 4.7% in 1998, 5.6% in 1995, 8.7% in 1992, and over 10% in the early 1980s. Growth in spending has been outpacing the growth in income over the past two decades. The consumer confidence index, which measures consumers' psychological attitude toward personal financial circumstances, purchasing plans, and the outlook for future employment and income, fell to 80.3 in December 2002 from its recent high of 110.0 in March, the sixth decline in the previous seven months. The cloud of a possible military confrontation against Iraq and tension with North

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Korea may last longer than expected and stall future consumption. An increase in business investment may not be warranted as the industry continues to work off excessive capacity. Industries in the 3rd quarter of 2002 operated at 83.3% of their capacity. Gasoline prices are also a wild card for the economy. After rounds of mergers and joint ventures, several giant companies control the refinery industry. This concentrates market power in a few firms and dwindles competition, creating a monopolistic market condition for pricing. Strategies to cut costs such as just-in-time or streamlining operations could increase the susceptibility of supply to disruptions.

The big financial gap in state and local governments' budgets could be a drag for the economy. It is estimated that states will register a \$68.5 billion deficit for fiscal 2004, up significantly from the current year's \$26.0 billion. As 49 states mandate a balanced budget, large spending cuts accompanied by sharp tax increases would only reduce aggregate demand and offset the federal economic stimulus plan.

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### The Connecticut Economy (History)

A comparison of the original forecasts for Connecticut's personal income, nonagricultural employment and unemployment with actual figures for fiscal 1993-94 through 2001-02 and the current forecast for fiscal 2002-03 are presented in the Table on the following page.

**TABLE 86**  
**HISTORICAL COMPARISON OF CONNECTICUT ECONOMIC INDICATORS**

<u>Fiscal Year</u>		<u>Personal Income</u>	<u>Nonagricultural Employment</u>	<u>Unemployment Rate</u>
1993-94	12/92 Forecast	\$93.9 Billion		6.7%
	Actual	\$98.5 Billion	1,533.1 Thousand	5.9%
	Difference	\$4.6 Billion		(0.8%)
1994-95	12/93 Forecast	\$102.5 Billion		5.6%
	Actual	\$102.3 Billion	1,556.6 Thousand	5.4%
	Difference	(\$0.2) Billion		(0.2%)
1995-96	12/94 Forecast	\$103.1 Billion		5.2%
	Actual	\$106.7 Billion	1,568.5 Thousand	5.7%
	Difference	\$3.6 Billion		0.5%
1996-97	12/95 Forecast	\$106.6 Billion		5.4%
	Actual	\$112.8 Billion	1,599.4 Thousand	5.6%
	Difference	\$6.2 Billion		0.2%
1997-98	12/96 Forecast	\$116.6 Billion		5.2%
	Actual	\$120.5 Billion	1,627.6 Thousand	4.1%
	Difference	\$3.9 Billion		(1.1%)
1998-99	12/97 Forecast	\$127.0 Billion	1,652.4 Thousand	4.5%
	Actual	\$127.7 Billion	1,657.0 Thousand	3.3%
	Difference	\$0.7 Billion	4.6 Thousand	(1.2%)
1999-00	12/98 Forecast	\$130.1 Billion	1,664.5 Thousand	4.1%
	Actual	\$135.8 Billion	1,682.5 Thousand	2.6%
	Difference	\$5.7 Billion	18.0 Thousand	(1.5%)
2000-01	12/99 Forecast	\$140.0 Billion	1,695.0 Thousand	3.3%
	Actual	\$144.7 Billion	1,692.5 Thousand	2.5%
	Difference	\$4.7 Billion	(2.5) Thousand	(0.8%)
2001-02	12/00 Forecast	\$146.9 Billion	1,722.3 Thousand	3.3%
	Actual	\$145.8 Billion	1,676.0 Thousand	3.7%
	Difference	(\$1.1) Billion	(46.3) Thousand	0.4%
2002-03	12/01 Forecast	\$155.5 Billion	1,686.5 Thousand	4.4%
	Latest Forecast	\$150.0 Billion	1,662.6 Thousand	4.4%
	Difference	(\$5.5) Billion	(23.9) Thousand	0.0%

Despite pieces of evidence that the worst of the economic downturn may be behind us, Connecticut's economy showed no immediate signs of expansion. Economic growth was uneven in fiscal 2002; a few sectors of the state's economy did well while others struggled. Moreover, if past experience provides some parallels, Connecticut's economy remains at risk because the state tends to lead the nation going into recession and lags behind the subsequent recovery by almost two quarters. This current business cycle is no different. Nonagricultural employment in Connecticut started to decline nearly three quarters before the start of the national recession in March 2001. As a result, nonagricultural employment that had been growing by an average of 1.5% in the five years through fiscal 2001 declined 2.2% since reaching a peak in

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the third quarter of 2000, as many businesses shed workers because of the deteriorating economic environment. More recently, Connecticut lost 3,100 jobs in December; pushing employment levels to a new low since the unofficial start of the state's recession in July of 2000, some 29 months ago. Furthermore, the health of employment in Connecticut is somewhat weaker compared with that of the nation. U.S. nonmanufacturing employment declined nearly in step with the state's, retreating 0.3% since March of 2001. However, the state's manufacturing sector fell 10.6%, much worse than the 7.9% loss at the U.S. level; although the state's manufacturing sector has been in recession since early 2000, it took almost six months for the decline in manufacturing to be felt in the state's overall employment number. The following Table compares nonagricultural employment and its two major components for the U.S. and Connecticut since each entered the recession through December of 2002.

### United States & Connecticut Change In Employment

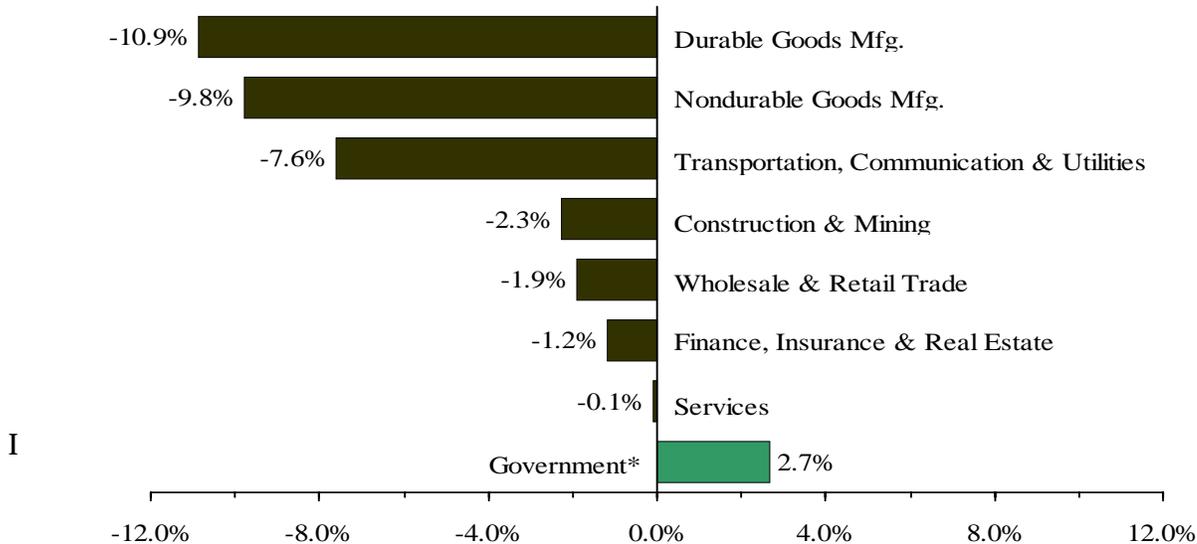
(In Thousands)

	United States				Connecticut			
	<b><u>3/01</u></b>	<b><u>12/02</u></b>	<b><u>Change</u></b>	<b><u>% Chg.</u></b>	<b><u>7/00</u></b>	<b><u>12/02</u></b>	<b><u>Change</u></b>	<b><u>% Chg.</u></b>
Mfg. Empl.	17,887	16,470	(1,417)	(7.9%)	264	236	(28)	(10.6%)
NonMfg. Empl.	<u>114,574</u>	<u>114,239</u>	<u>(335)</u>	<u>(0.3%)</u>	<u>1,436</u>	<u>1,427</u>	<u>(9)</u>	<u>(0.6%)</u>
NonAgr. Empl.	132,461	130,709	(1,752)	(1.3%)	1,701	1,663	(38)	(2.2%)

Specifically, the state's manufacturing sector bore the brunt of the slowdown, as industrial activity, both regionally and nationally deteriorated through the final quarter of calendar 2002. As a result, manufacturing employment in Connecticut declined by roughly 28,000 workers. The majority of the job cuts occurred in durable goods industries, predominantly in electronic equipment and industrial machinery. At one time, many of the workers laid off in the manufacturing sector were absorbed by the state's tight labor markets. Unfortunately, employment growth abated; the nonmanufacturing sector, after posting nine uninterrupted years of growth finally fell victim to the slowing economy and declined by 0.6% since July of 2000. Growth in the once booming services, construction and trade sectors slipped as consumers reined in spending despite lower mortgage interest rates. Overall services growth turned negative, largely due to a contraction in business services in the wake of the technology downturn and stock market tumble. In spite of that, health services and other services saw robust employment growth, which helped the service sector post a mere 0.1% decline. The following Chart shows the state sectors that have been hardest hit by the spreading impact of the recession from July of 2000 through December of 2002.

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### CONNECTICUT EMPLOYMENT Percent Change In Employment By Sector (From July 2000 To December 2002)



In addition, employment in the services sector declined by 2.3%. In response to the weak economy, a few of the state's largest companies laid off employees or closed up shop altogether. Troubled retailer Ames, after floundering under bankruptcy protection, announced it was going out of business, resulting in as many as 2,100 job losses statewide. Finally, a relatively large number of job losses came from United Technologies, which eliminated nearly a thousand jobs due to worsening business conditions because of the turmoil surrounding the nation's major airlines. The following Tables provide a breakdown of the employment totals lost by each sector and the corresponding impact on the unemployment rate in each of state's ten labor market areas (LMAS).

#### Connecticut Employment (Seasonally Adjusted)

Sectors	Jul. '00	Dec. '02	Chg.
Durable Goods Mfg.	184.3	164.3	(20.0)
Nondurable Goods Mfg.	79.9	72.1	(7.8)
Wholesale & Retail Trade	365.3	358.3	(7.0)
Trans., Comm. & Util.	80.1	74.0	(6.1)
Fin., Ins. & Real Estate	142.2	140.5	(1.7)
Construction & Mining	65.8	64.3	(1.5)
Services	540.2	539.6	(0.6)
Government	<u>243.2</u>	<u>249.7</u>	<u>6.5</u>
<b>Total</b>	<b>1,701.0</b>	<b>1,662.8</b>	<b>(38.2)</b>

#### LMAS Unemployment Rates (Not Seasonally Adjusted)

LMAS	Jul. '00	Dec. '02	Chg.
Waterbury	3.1%	5.5%	2.4%
Bridgeport	3.0%	5.2%	2.2%
Hartford	2.5%	4.5%	2.0%
Danielson	2.9%	4.6%	1.7%
Torrington	1.9%	3.6%	1.7%
Lower River	1.5%	3.0%	1.5%
New London	2.3%	3.7%	1.4%
Stamford	1.4%	2.8%	1.4%
New Haven	2.5%	3.8%	1.3%
Danbury	1.7%	2.9%	1.2%

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Consequently, shrinking payrolls pushed Connecticut's unemployment rate to a high of 4.6% in December of 2002, up as much as 2.1% from a year earlier. On average, there were nearly 66,900 persons out of work in calendar 2002, an increase of approximately 10,600 compared to the previous year. Therefore, initial (first-time) claims for unemployment insurance increased 9.7% over last year while continued claims rose 34.7%. Nonetheless, these economic conditions pale in comparison to the 8.2% unemployment rate that beset the state back in 1992. During that recession of a decade ago, the state lost 158,200 jobs.

In fiscal 2002, the soft economy and faltering stock market began to have a negative effect on personal income growth. With layoffs mounting, bonuses shrinking, and a sharp decline in capital gain realizations, Connecticut personal income growth plunged to 0.8%. In fiscal 2001, in stark contrast, personal income gained 6.5%. As evidence of the abrupt slowdown in personal income gains, after adjusting for the effects of inflation, Connecticut's real per capita personal income decreased nearly 1.8% in fiscal 2002. This means, for the first time since fiscal 1991, Connecticut residents have not seen their incomes rise as fast as prices have risen. Nonetheless, despite slower income growth, the state's per capita personal income remained well above the U.S. average by more than 38%.

Throughout the past few years, a combination of factors including low interest rates, easy lending standards and a tight housing supply combined to stimulate the state's housing sector, even as much of the economy sputtered. Cheap borrowing costs, coupled with the perception that homes were a stable investment compared to stocks, helped sustain the state's housing market during calendar 2002. Furthermore, the lack of any substantial overbuilding anywhere in the state has placed a solid floor under the market. As a result, the severe real estate downturn of the early 1990s is unlikely to repeat itself. Underpinning this view, year-to-date new housing permits through November 2002 are up 4.5% compared to last year, which demonstrates there is still plenty of demand out there. In addition, the redevelopment of Hartford's downtown as part of the Governor's Six Pillars of Progress was seemingly more evident in 2002 as the city center's transformation began to take shape. Signs of progress are apparent at the riverfront, on the construction site of the convention center and in and around the fringes of downtown Hartford. Just how well the state's housing sector holds up will be an important determinant of whether the state's economy will be able to dig itself out of this economic trough. Finally, Connecticut's personal income tax revenues that had been growing by an average of 13.2% in the six years through fiscal 2001 declined 8.5% in fiscal 2002, as estimated payments, which include capital gains, were down by 39.3% compared to the previous year. On the other side of the ledger, the state's budget problems were compounded by rising expenditures. In a bid to close the fiscal 2002 budget gap, the state was forced to deplete its Budget Reserve Fund. Despite all of 2002's weakness, the state's economy has shown remarkable resiliency given all it's been through over the last year.

### **The Connecticut Economy (Forecast)**

The past fiscal year has been both a difficult and a noteworthy one for the state's economy. A year ago, it was unclear how Connecticut households and businesses would react to the forces restraining economic growth. Today, the uncertainties heading into the next biennium seem almost as unsettling. Many risks loom large, and unfortunately, most of them may hamper economic growth rather than provide a much-needed boost. However, this risk may be tempered to some extent as Connecticut's economy is diversified stands to benefit somewhat from increases in defense spending, and unemployment is relatively low at 4.6%. Moreover, some economic indicators are still signaling uncertainty as to whether the state's economy has finally scraped bottom or embarked on a climb toward recovery, albeit a weak one. Nevertheless, the recovery is believed to be still on track. The fits and starts of this past year are setting the stage for more sustained growth during the next biennium.

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The state's economy is expected to emerge from its current recession toward the end of fiscal 2003. Moreover, even though nonagricultural employment growth in fiscal 2003 is expected to remain marginally negative, most of the weakness was concentrated in the first half of the fiscal year. The state's nonmanufacturing sector is expected to post a modest decline of 0.3% during fiscal 2003, as economic conditions begin to improve. However, manufacturing employment will be weighed down by the continued contraction in the state's manufacturing sector; employment in the sector is expected to fall by 3.5%. By the time the recession has run its course, the state will have lost nearly 48,000 jobs relative to its peak. Nonetheless, the transition from recession to recovery is expected to begin by late spring.

Overall job growth in Connecticut is expected to rebound in fiscal 2004. However, the strength of the state's recovery will be limited by slow growth in consumer and business spending and ongoing weakness in the state's manufacturing sector, both of which will limit overall employment growth in the near term. Nonetheless, the state's economic engine will get a boost from the Federal Reserve's surprisingly aggressive half-point cut in interest rates. The November 2002 cut comes on the heels of eleven prior cuts, taking the key rate down to 1.25%, its lowest level in four decades. It helps to lay the groundwork for stronger growth in fiscal 2004 together with President Bush's proposed tax stimulus package. The recipe of lower tax rates and more disposable income will provide Connecticut consumers and businesses with more money to spend on other goods and services, helping to revitalize the economy. Therefore, for the duration of fiscal 2003, expect the softness in the state's economy that resurfaced last fall to begin to show genuine signs of a recovery. The next two fiscal years will bring a resurgence of growth, thought not at the level of a few years ago; nonagricultural employment will deliver annualized growth of 1.1% over the biennium, compared with 1.8% in fiscal 1997-2000. The state will add these new jobs in high skill, high-income fields such as biotechnology, information technology and health services along with lower paying jobs in retail trade. Even so, the unemployment rate in Connecticut is certain to rise throughout the remainder of fiscal 2003, and finally peak at 4.7% by the last quarter of fiscal 2003. This will take place because most businesses are reluctant to expand or add new inventories or increase their payrolls until they are certain that the recovery will be sustainable.

Connecticut's population growth during the forecast period is estimated to be modest. The demand for skilled workers will have to be met by a rise in the labor force participation rate. The lack of skilled workers represents one of the biggest challenges the state faces in the decade ahead. If the situation persists, this could impact economic growth in the long term. Even so, nonmanufacturing employment is forecasted to increase by 39,200 jobs and deliver annualized growth of nearly 1.4%. The strongest sector in terms of employment growth is expected to be services, particularly in health care and other services. The FIRE, retail, wholesale, and construction sectors will also see job growth return in fiscal 2004, as economic activity strengthens. In stark contrast, manufacturing employment in Connecticut will remain in contraction throughout the forecast period, although after fiscal 2004, the decline will decelerate to something like 0.1%. Statewide, approximately 2,200 manufacturing jobs are projected to be eliminated over the biennium. The forecast for the most widely used economic indicators for the Connecticut economy is shown below.

<b><u>12/02 Forecast</u></b>	<b><u>Fiscal Year 2003-04</u></b>	<b><u>Fiscal Year 2004-05</u></b>
Personal Income	\$157.1 Billion	\$165.2 Billion
Nonagricultural Employment	1,669.7 Thousand	1,699.6 Thousand
Unemployment Rate	4.4%	4.1%

Finally, the state's highly skilled workforce, strong presence of high-tech industries, and high per capita income provide a solid economic base. In addition, these fundamental drivers buffer the state in times of economic uncertainty. Therefore, it is forecast that after a modest 2003, Connecticut personal income will rebound during the next biennium, with expected annualized growth of 5.0%. This growth in personal

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income will provide consumers with the means to support increases in spending. Steady gains in spending will supply ongoing support for the recovery. Mix in low inflation and you have the wherewithal to generate economic activity that allows a recovery to take hold and rekindle economic growth in Connecticut. Furthermore, extended unemployment insurance will provide a timely boost to disposable income. Lastly, the housing market, another prop for consumer spending shows no sign of unraveling in the state as attractive mortgage rates evidently continue to counterbalance the adverse wealth effects associated with the decline in stock prices, higher levels of consumer indebtedness and rising unemployment. Moreover, the underlying demand for housing has received support from an expanding state population. Given the continued availability of low mortgage rates and modest price gains, housing activity in the state is expected to remain unchanged from its current level.

The biggest risks that may impede the state's economic recovery are: (1) The uncertainty about the future course of the national economy. The persistent weakness in job growth, tapped-out consumers, budget deficits, the lack of corporate investment, coupled with the protracted slump in the stock market and the abrupt slowdown in personal income gains, increases the uncertainty about the future course of the economy. Should consumer confidence erode and the pace of consumer spending deteriorate the probability of a recovery will diminish. (2) The onset of war. What it means for the economy depends on whether or not the war is of a very short duration. While a campaign against Iraq will cause a spike in oil prices and erode business and consumer confidence, hopefully it will not last more than four to six weeks, because Iraq's military strength has supposedly been diminished. However, a long-drawn-out war will have a much larger impact on oil prices, the stock market and the economy. It could postpone a real recovery indefinitely. (3) The continuing reverberation of the correction in the equity market has severely limited the incentive to invest. The long and steep drop in investment has dampened both consumer and business sentiment. Moreover, after a flurry of activity at the start of January 2003, market sentiment soured by months on end fear of war and a cloudy forecast for corporate profits. If businesses turn pessimistic about their expectations for profits, the stock market could turn down again. The risk of this scenario to the state is twofold. First is equity ownership by Connecticut residents, which by nature of our very wealth have a greater proportion of their asset's allocated to stocks. Second, Connecticut has a higher proportion of workers employed in the financial services industry which, combined with our geographical proximity to the world's financial capital, exposes our employment mix to the vagaries of the markets centered on Wall Street. (4) Finally, by the time each of the last five recessions had run its course, the number of Connecticut jobs fell 1.4% to as much as 9.4%, relative to its peak. Through December of 2002, the drop was 2.2%, suggesting that Connecticut's current downturn will not be its mildest. In view of that, based on all the cited risks, there are reasons to worry that the state's job market could remain weak for months, much as it did in the early 1990's. The following Table shows that the current downturn still has a long way to go to rival the recession of 1989-92 as the most severe since the Great Depression.

### RECESSIONS IMPACT ON CONNECTICUT'S LABOR MARKET

Recession <u>Peak To Trough</u>	Jobs Lost As A <u>Percent Of Total Jobs</u>	Months From <u>Peak To Trough</u>	Months From <u>Peak To Regaining Peak</u>
Feb. '70 - Jun. '71	4.0%	16	34
Aug. '74 - Sept. '75	4.4%	13	32
Mar. '80- Aug. '80	1.4%	5	11
Oct. '81 - Feb. '83	1.5%	16	21
Feb. '89 - Dec. '92	9.4%	46	131
<b>Average</b>	<b>4.1%</b>	<b>19</b>	<b>46</b>
Jul. '00 - ??	2.2%	29*	Na

\* The current recession has not officially reached a trough.

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Tables 87 through 90 provide historical and forecasted values for the major economic variables used in revenue forecasting for the United States and Connecticut.

**TABLE 87**  
**UNEMPLOYMENT RATES**  
Seasonally Adjusted

<u>Fiscal Year</u>	<u>Quarters</u>	<u>United States</u>	<u>Connecticut</u>	
2001-02	1	4.8%	3.6%	
	2	5.6%	3.9%	
	3	5.6%	3.5%	
	4	5.9%	3.7%	
2002-03	1	5.8%	4.0%	
	2	5.8%	4.4%	<b>Start of Forecast</b>
	3	5.9%	4.6%	
	4	6.1%	4.7%	
2003-04	1	5.9%	4.6%	
	2	5.7%	4.4%	
	3	5.5%	4.3%	
	4	5.4%	4.2%	
2004-05	1	5.2%	4.2%	
	2	5.1%	4.1%	
	3	5.0%	4.1%	
	4	5.0%	4.1%	

Source of Historical Data: U.S. Bureau of Labor Statistics, Connecticut State Labor Department

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**TABLE 88**  
**STATE OF CONNECTICUT**  
**Annualized Personal Income & Nonagricultural Employment**  
(In Millions)

<u>Fiscal Year</u>		<u>Personal</u> <u>Income</u>	<u>% Change</u> <u>Year Ago</u>	<u>Nonagricultural</u> <u>Employment</u>	<u>% Change</u> <u>Year Ago</u>	
2001-02	1	145,223	2.0	1,679.9	(1.1)	
	2	144,409	(0.1)	1,672.6	(1.2)	
	3	145,966	(0.1)	1,675.3	(1.0)	
	4	147,751	1.5	1,676.1	(0.6)	
	<b>Average</b>	<b>145,837</b>	<b>0.8</b>	<b>1,676.0</b>	<b>(1.0)</b>	
2002-03	1	148,641	2.4	1,674.0	(0.4)	
	2	148,800	3.0	1,666.3	(0.4)	<b>Start of Forecast</b>
	3	150,386	3.0	1,657.1	(1.1)	
	4	152,101	2.9	1,653.0	(1.4)	
	<b>Average</b>	<b>149,982</b>	<b>2.8</b>	<b>1,662.6</b>	<b>(0.8)</b>	
2003-04	1	153,989	3.6	1,656.6	(1.0)	
	2	156,126	4.9	1,664.2	(0.1)	
	3	158,212	5.2	1,673.6	1.0	
	4	160,148	5.3	1,684.3	1.9	
	<b>Average</b>	<b>157,119</b>	<b>4.8</b>	<b>1,669.7</b>	<b>0.4</b>	
2004-05	1	162,147	5.2	1,694.1	2.3	
	2	164,095	5.1	1,698.1	2.0	
	3	166,273	5.1	1,701.3	1.7	
	4	168,246	5.1	1,705.1	1.2	
	<b>Average</b>	<b>165,190</b>	<b>5.1</b>	<b>1,699.6</b>	<b>1.8</b>	

Source of Historical Data: U.S. Bureau of Economic Analysis

**TABLE 89**  
**Comparison of Connecticut's Personal Income Versus U.S. GDP and Personal Income**  
(Seasonally Adjusted in Billions of Dollars)

<u>Fiscal Year</u>	Connecticut		United States		United States	
	<u>Personal</u> <u>Income</u>	<u>% Change</u> <u>Year Ago</u>	<u>Personal</u> <u>Income</u>	<u>% Change</u> <u>Year Ago</u>	<u>GDP</u>	<u>% Change</u> <u>Year Ago</u>
1994-95	102.264	3.8	6,062.7	5.7	7,238.5	5.8
1995-96	106.653	4.3	6,361.3	4.9	7,593.6	4.9
1996-97	112.830	5.8	6,736.6	5.9	8,061.1	6.2
1997-98	120.463	6.8	7,178.5	6.6	8,548.7	6.0
1998-99	127.721	6.0	7,611.1	6.0	9,016.4	5.5
1999-00	135.836	6.4	8,082.4	6.2	9,575.8	6.2
2000-01	144.659	6.5	8,599.7	6.4	9,976.6	4.2
2001-02	145.837	0.8	8,781.1	2.1	10,235.2	2.6
2002-03 (E)	149.982	2.8	9,134.6	4.0	10,672.9	4.3
2003-04 (P)	157.119	4.8	9,643.5	5.6	11,347.8	6.3
2004-05 (P)	165.190	5.1	10,260.5	6.4	12,108.1	6.7

(E) = Estimated / (P) = Projected

Source of Historical Data: U.S. Bureau of Economic Analysis

**TABLE 90**  
**U.S. CONSUMER PRICE INDEX**

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(1982-84 = 100)

<u>Fiscal Year</u>		<u>Consumer Price Index</u>	<u>% Change Year Ago</u>	
2001-02	1	177.6	2.8	
	2	177.5	1.9	
	3	178.1	1.2	
	4	<u>179.6</u>	<u>1.3</u>	
	<b>Average</b>	<b>178.2</b>	<b>1.8</b>	
2002-03	1	180.4	1.6	
	2	181.6	2.3	<b><u>Start of Forecast</u></b>
	3	182.5	2.4	
	4	<u>183.5</u>	<u>2.2</u>	
	<b>Average</b>	<b>182.0</b>	<b>2.1</b>	
2003-04	1	184.7	2.4	
	2	185.8	2.3	
	3	187.0	2.4	
	4	<u>188.1</u>	<u>2.5</u>	
	<b>Average</b>	<b>186.4</b>	<b>2.4</b>	
2004-05	1	189.3	2.5	
	2	190.5	2.5	
	3	191.6	2.5	
	4	<u>192.7</u>	<u>2.5</u>	
	<b>Average</b>	<b>191.0</b>	<b>2.5</b>	

Source of Historical Data: U.S. Bureau of Labor Statistics

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## Economic Report of the Governor

### REVENUE FORECAST

The following Table shows the actual General Fund Revenue collections for fiscal 2001-02, and estimated revenue collections for fiscal 2002-03 and projected revenue collections for fiscal 2003-04 and fiscal 2004-05 by major sources.

**TABLE 91**  
**STATE OF CONNECTICUT - GENERAL FUND REVENUES**  
**(In Millions of Dollars)**

	Actual Revenue <u>2001-02</u>	Estimated Revenue at Current Rates <u>2002-03</u>	Proposed Revenue Changes <u>2002-03</u>	Net Projected Revenue <u>2002-03</u>
<b><u>Taxes</u></b>				
Personal Income Tax	\$ 4,265.9	\$ 4,132.0	\$ 267.1	\$ 4,399.1
Sales & Use Tax	2,997.7	3,059.4	14.7	3,074.1
Corporation Tax	381.0	508.8	22.8	531.6
Public Service Tax	166.6	170.8	16.6	187.4
Inheritance & Estate Tax	153.1	165.0	-	165.0
Insurance Companies Tax	217.4	224.8	1.5	226.3
Cigarettes Tax	160.9	241.5	25.5	267.0
Real Estate Conveyance Tax	120.7	123.5	10.0	133.5
Oil Companies Tax	24.3	88.9	20.0	108.9
Alcoholic Beverages Tax	41.6	42.0	-	42.0
Admissions & Dues Tax	26.9	29.0	-	29.0
Miscellaneous Tax	<u>26.3</u>	<u>25.0</u>	<u>-</u>	<u>25.0</u>
Total Taxes	\$ 8,582.4	\$ 8,810.7	\$ 378.2	\$ 9,188.9
Less Refunds of Tax	(829.6)	(787.0)	-	(787.0)
Less R&D Credit Exchange	<u>(21.9)</u>	<u>(14.0)</u>	<u>-</u>	<u>(14.0)</u>
Total - Taxes Less Refunds	\$ 7,730.9	\$ 8,009.7	\$ 378.2	\$ 8,387.9
<b><u>Other Revenue</u></b>				
Transfers-Special Revenue	\$ 277.6	\$ 268.9	\$ -	\$ 268.9
Indian Gaming Payments	369.0	390.0	-	390.0
Licenses, Permits, Fees	137.5	128.8	-	128.8
Sales of Commodities	30.5	30.9	-	30.9
Rents, Fines, Escheats	47.6	83.2	-	83.2
Investment Income	23.8	13.6	-	13.6
Miscellaneous	114.3	114.7	-	114.7
Less Refunds of Payments	<u>(0.4)</u>	<u>(0.5)</u>	<u>-</u>	<u>(0.5)</u>
Total - Other Revenue	\$ 999.9	\$ 1,029.6	\$ -	\$ 1,029.6
<b><u>Other Sources</u></b>				
Federal Grants	\$ 2,142.3	\$ 2,362.4	\$ (4.6)	\$ 2,357.8
Transfer to the Resources of the G.F.	-	287.1	12.5	299.6
Transfer From Tobacco Settlement	120.0	130.0	-	130.0
Transfers From (To) Other Funds	(147.7)	(114.5)	50.0	(64.5)
GAAP Implementation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total - Other Sources	\$ 2,114.6	\$ 2,665.0	\$ 57.9	\$ 2,722.9
<b>Total - General Fund Revenues</b>	<b>\$ 10,845.4</b>	<b>\$ 11,704.3</b>	<b>\$ 436.1</b>	<b>\$ 12,140.4</b>

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Projected Revenue At Current Rates <u>2003-04</u>	Proposed Revenue Changes <u>2003-04</u>	Net Projected Revenue <u>2003-04</u>	Projected Revenue At Current Rates <u>2004-05</u>	Proposed Revenue Changes <u>2004-05</u>	Net Projected Revenue <u>2004-05</u>
\$ 4,245.0	\$ 576.3	\$ 4,821.3	\$ 4,461.0	\$ 634.7	\$ 5,095.7
3,247.3	(35.3)	3,212.0	3,391.8	(6.6)	3,385.2
502.0	40.1	542.1	521.0	21.3	542.3
173.3	6.3	179.6	176.3	6.7	183.0
130.0	11.0	141.0	75.0	26.0	101.0
230.5	2.5	233.0	236.3	2.5	238.8
235.5	73.5	309.0	229.6	71.7	301.3
117.3	50.0	167.3	110.0	50.0	160.0
75.7	(10.5)	65.2	78.9	(10.5)	68.4
42.2	-	42.2	42.4	-	42.4
28.5	-	28.5	29.3	-	29.3
<u>23.7</u>	<u>4.6</u>	<u>28.3</u>	<u>21.1</u>	<u>4.8</u>	<u>25.9</u>
\$ 9,051.0	\$ 718.5	\$ 9,769.5	\$ 9,372.7	\$ 800.6	\$ 10,173.3
(805.0)	-	(805.0)	(823.0)	-	(823.0)
<u>(23.4)</u>	<u>-</u>	<u>(23.4)</u>	<u>(21.0)</u>	<u>-</u>	<u>(21.0)</u>
\$ 8,222.6	\$ 718.5	\$ 8,941.1	\$ 8,528.7	\$ 800.6	\$ 9,329.3
\$ 274.3	\$ -	\$ 274.3	\$ 279.8	\$ -	\$ 279.8
409.5	-	409.5	430.0	-	430.0
142.8	4.7	147.5	132.0	4.7	136.7
31.5	-	31.5	32.1	-	32.1
49.1	18.0	67.1	49.5	20.0	69.5
16.0	-	16.0	23.2	-	23.2
117.7	-	117.7	118.8	-	118.8
<u>(0.5)</u>	<u>-</u>	<u>(0.5)</u>	<u>(0.5)</u>	<u>-</u>	<u>(0.5)</u>
\$ 1,040.4	\$ 22.7	\$ 1,063.1	\$ 1,064.9	\$ 24.7	\$ 1,089.6
\$ 2,384.4	\$ (67.6)	\$ 2,316.8	\$ 2,505.4	\$ (113.6)	\$ 2,391.8
-	159.0	159.0	-	159.0	159.0
96.0	16.0	112.0	96.0	16.0	112.0
(135.0)	20.0	(115.0)	(135.0)	80.0	(55.0)
<u>17.0</u>	<u>(17.0)</u>	<u>-</u>	<u>17.0</u>	<u>(17.0)</u>	<u>-</u>
\$ 2,362.4	\$ 110.4	\$ 2,472.8	\$ 2,483.4	\$ 124.4	\$ 2,607.8
\$ 11,625.4	\$ 851.6	\$ 12,477.0	\$ 12,077.0	\$ 949.7	\$ 13,026.7

# **Economic Report of the Governor**

## **Explanation of Changes**

### **Personal Income Tax**

Increase the 3.0% rate to 3.5% and the 4.5% rate to 5.0%. Reduce the property tax credit from \$500 to \$400 and phase-out the remaining \$100 at higher income levels. Defer the increase in the singles exemption permanently. Changes effective for the 2003 income year.

### **Sales and Use Tax**

Permanently repeal the tax on hospital services. Eliminate phase-out on computer & data processing services and increase the rate to 3%. Reduce the clothing exemption from \$75 to \$50. Rescind the sales tax free week. Eliminate certain intercepts of hotel occupancy tax revenue and assume additional collections due to the increase in the cigarettes tax.

### **Corporation Tax**

Impose a 10% surcharge on corporate entities for income years 2003 and 2004. Eliminate various minor tax credits.

### **Public Service Tax**

Increase the tax on Cable TV service from 5.0% to 6.0% effective April 1, 2003 and require quarterly estimated payments.

### **Inheritance Tax**

Defer scheduled phase-down of tax by two years.

### **Insurance Companies Tax**

Limit tax credits to no more than 70% of pre-tax liability.

### **Cigarette Tax**

Increase the tax from \$1.11 per pack to \$1.51 per pack effective April 1, 2003

### **Real Estate Conveyance**

Increase the tax from 0.5% to 1.0% for transfers between \$300,000 and \$800,000 and increase the tax from 1.0% to 2.0% for transfers greater than \$800,000. Increase the tax from 1.0% to 2.0% for commercial property transfers. All changes effective April 1, 2003.

### **Oil Companies**

Reduce transfer to the Transportation Fund in fiscal 2002-03 and transfer funds to the Emergency Spill Response Fund in fiscal years 2003-04 and 2004-05.

### **Miscellaneous Taxes**

Deposit Tourism Account surcharge into the General Fund.

### **Licenses, Permits, Fees**

Increase various Judicial Fees.

### **Rents, Fines & Escheats**

Escheat the unclaimed bottle deposits to the General Fund.

### **Federal Grants**

Reflects impact of recommended expenditure changes.

### **Transfers to the Resources of the General Fund**

Transfers from the Energy Conservation & Load Mgt. Fund, the Clean Energy Fund, the Conn. Housing Finance Auth., Conn. Innovations, Inc., and the Special Transportation Fund.

### **Transfer from the Tobacco Settlement Fund**

Eliminate the transfers to the Tobacco and Health Trust Fund and the Biomedical Research Trust Fund.

### **Transfers From (To) Other Funds**

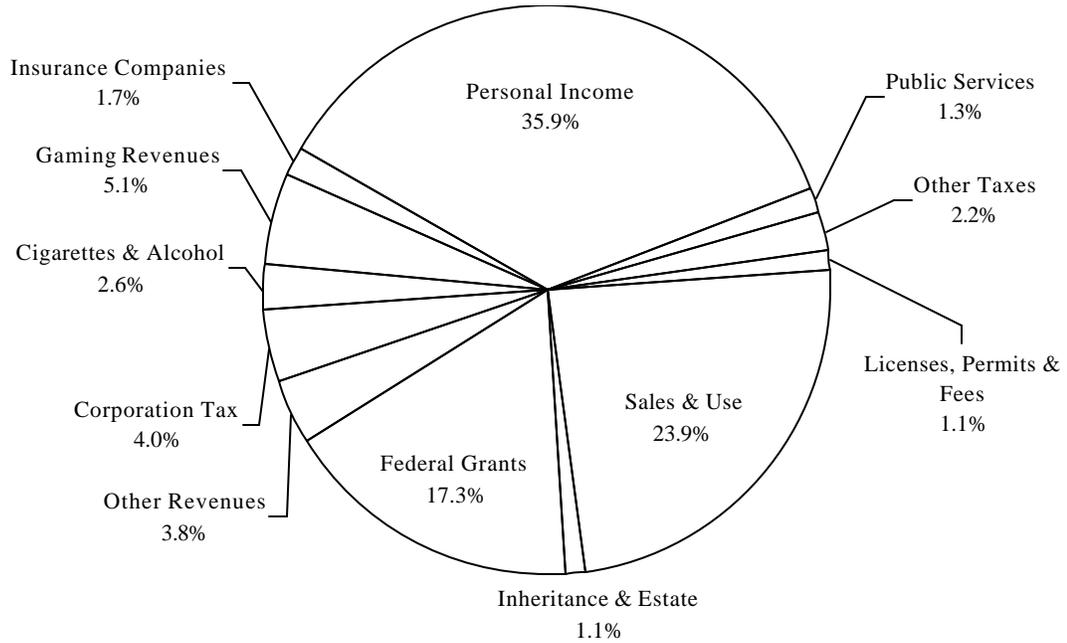
Reduce the Mashantucket Pequot & Mohegan Fund revenue intercept and set aside a portion of the revenue deposited in fiscal 2003-04 for use in fiscal 2004-05.

### **GAAP Implementation**

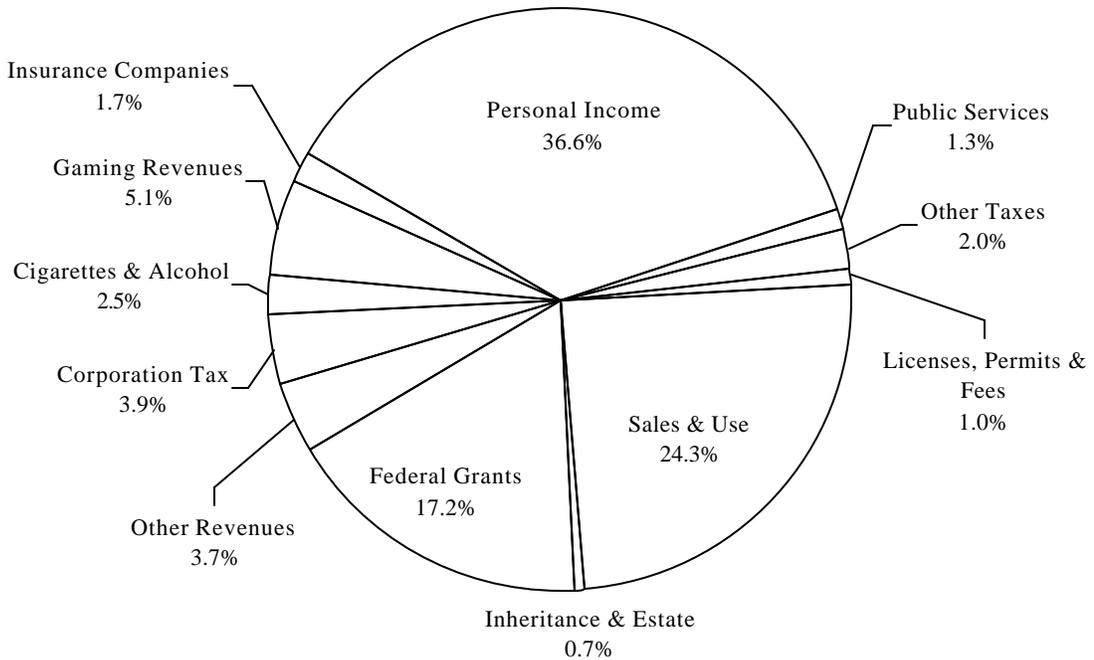
Repeal the implementation of GAAP accounting.

## Economic Report of the Governor

### FISCAL YEAR 2003-04 - TOTAL \$12,477.0 Million \*



### FISCAL YEAR 2004-05 - TOTAL \$13,026.7 Million \*



\* The following deductions to revenue are added back prior to calculating the percentages.

	<u>2003-04</u>	<u>2004-05</u>
Estimated Refunds of Taxes, Credits & Payments	\$828.9	\$844.5
Estimated Transfers To Other Funds	\$115.0	\$55.0

## Economic Report of the Governor

The following Table shows the actual Special Transportation Fund Revenue collections for fiscal 2001-02, and estimated revenue collections for fiscal 2002-03 and projected revenue collections for fiscal 2003-04 and fiscal 2004-05 by major sources.

**TABLE 92**  
**STATE OF CONNECTICUT**  
**SPECIAL TRANSPORTATION FUND REVENUES**  
**(In Millions of Dollars)**

	Actual Revenue <u>2001-02</u>	Estimated Revenue At Current Rates <u>2002-03</u>	Proposed Revenue Changes <u>2002-03</u>	Net Projected Revenue <u>2002-03</u>
<b><u>Taxes</u></b>				
Motor Fuels Tax	\$ 430.3	\$ 462.5	\$ -	\$ 462.5
Oil Companies Tax	46.0	20.0	(20.0)	-
Sales Tax - DMV	<u>65.2</u>	<u>64.1</u>	<u>-</u>	<u>64.1</u>
Total Taxes	\$ 541.5	\$ 546.6	\$ (20.0)	\$ 526.6
Less Refunds of Taxes	<u>(7.8)</u>	<u>(8.4)</u>	<u>-</u>	<u>(8.4)</u>
Total - Taxes Less Refunds	\$ 533.7	\$ 538.2	\$ (20.0)	\$ 518.2
<b><u>Other Sources</u></b>				
Motor Vehicle Receipts	\$ 200.7	\$ 203.6	\$ -	\$ 203.6
Licenses, Permits, Fees	130.7	139.9	-	139.9
Interest Income	40.5	29.2	-	29.2
Federal Transit Administration	3.3	3.3	-	3.3
Transfers From (To) Other Funds	(9.5)	(8.5)	(12.5)	(21.0)
Release from Debt Service Reserve	-	2.6	-	2.6
Less Refunds of Payments	<u>(2.5)</u>	<u>(2.8)</u>	<u>-</u>	<u>(2.8)</u>
Total - Other Sources	\$ 363.2	\$ 367.3	\$ (12.5)	\$ 354.8
<b>Total - STF Revenues</b>	<b>\$ 896.9</b>	<b>\$ 905.5</b>	<b>\$ (32.5)</b>	<b>\$ 873.0</b>

### **Explanation of Changes**

#### **Oil Companies**

Eliminate General Fund Transfer for fiscal year 2002-03.

#### **Licenses, Permits, Fees**

Increase various record request fees at the Department of Motor Vehicles.

#### **Transfers From (To) Other Funds**

In fiscal year 2002-03, transfer the savings from the reduction in the Town Aid Road grant to the General Fund. In fiscal years 2003-04 and thereafter, reduce the conservation fund intercept.

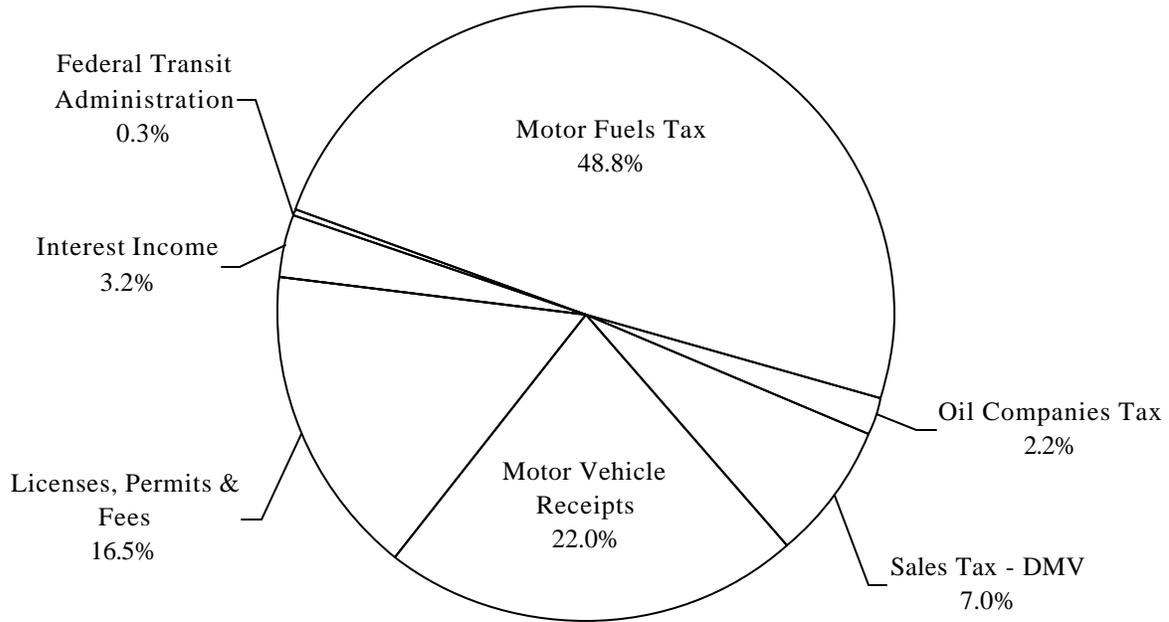
## Economic Report of the Governor

**TABLE 92**  
**STATE OF CONNECTICUT**  
**SPECIAL TRANSPORTATION FUND REVENUES**  
**(In Millions of Dollars)**

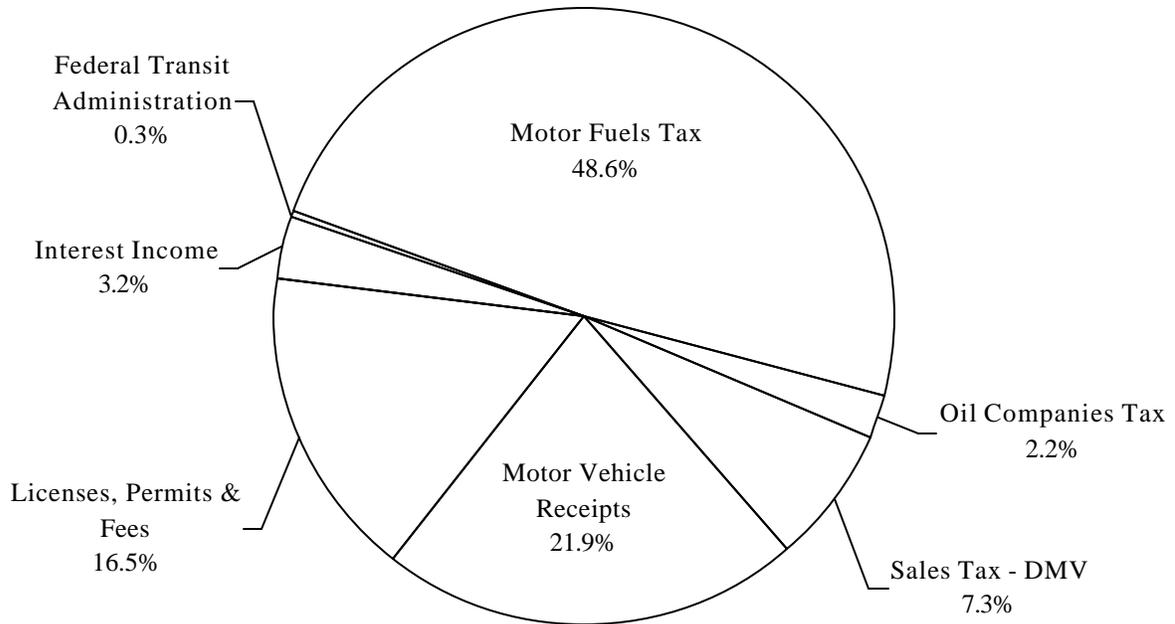
Projected Revenue At Current Rates <u>2003-04</u>	Proposed Revenue Changes <u>2003-04</u>	Net Projected Revenue <u>2003-04</u>	Projected Revenue At Current Rates <u>2004-05</u>	Proposed Revenue Changes <u>2004-05</u>	Net Projected Revenue <u>2004-05</u>
\$ 466.3	\$ -	\$ 466.3	\$ 471.0	\$ -	\$ 471.0
21.0	-	21.0	21.0	-	21.0
<u>67.1</u>	<u>-</u>	<u>67.1</u>	<u>70.8</u>	<u>-</u>	<u>70.8</u>
\$ 554.4	\$ -	\$ 554.4	\$ 562.8	\$ -	\$ 562.8
<u>(8.6)</u>	<u>-</u>	<u>(8.6)</u>	<u>(8.8)</u>	<u>-</u>	<u>(8.8)</u>
\$ 545.8	\$ -	\$ 545.8	\$ 554.0	\$ -	\$ 554.0
\$ 210.0	\$ -	\$ 210.0	\$ 213.0	\$ -	\$ 213.0
147.7	10.1	157.8	149.6	10.1	159.7
30.9	-	30.9	30.9	-	30.9
3.3	-	3.3	3.3	-	3.3
(9.5)	2.3	(7.2)	(9.5)	2.3	(7.2)
-	-	-	-	-	-
<u>(2.9)</u>	<u>-</u>	<u>(2.9)</u>	<u>(3.0)</u>	<u>-</u>	<u>(3.0)</u>
\$ 379.5	\$ 12.4	\$ 391.9	\$ 384.3	\$ 12.4	\$ 396.7
\$ 925.3	\$ 12.4	\$ 937.7	\$ 938.3	\$ 12.4	\$ 950.7

**Economic Report of the Governor**

**FISCAL YEAR 2003-04 - TOTAL \$937.7 Million \***



**FISCAL YEAR 2004-05 - TOTAL \$950.7 Million \***



\* The following deductions to revenue are added back prior to calculating the percentages.

	<u>2003-04</u>	<u>2004-05</u>
Estimated Refunds of Taxes & Payments	\$11.5	\$11.8
Estimated Transfers To Other Funds	\$7.2	\$7.2

## **Economic Report of the Governor**

The State's transportation system includes approximately 19,970 miles of improved roads (of which approximately 3,740 are maintained by the Department of Transportation), 5,400 state and local bridges, Bradley International Airport, and five other State owned airports together with numerous municipally and privately owned airports, rail commuter service between New Haven and New York City and related points, provided by Metro-North Commuter Railroad Company which operates 258 trains daily; Shoreline East Rail Commuter Service between New London and New Haven which operates 19 trains daily; and publicly and privately owned bus systems which operate 1,096 vehicles. In 1984, recognizing the need for a comprehensive infrastructure renewal program, an infrastructure improvement plan was approved, with bipartisan support, aimed at assuring a safe and dependable transportation system. Currently active components of the plan and a short description of each follow.

Interstate - includes the maintenance and enhancement of the state's portion of the nationwide system of interstate highways.

Intrastate - includes improvements to the State's primary and secondary roads.

State Bridges - this restoration program includes rehabilitating, reconstructing, repairing or replacing the bridges on the State highway system.

Local Bridges - includes assisting municipalities throughout the state in undertaking the rehabilitation, restoration, replacement and reconstruction of local bridges.

Transit - includes the replacement, renovation, and modernization of bus and commuter rail operations.

Aviation - includes capital improvements to major airport facilities exclusive of Bradley International.

Resurfacing - includes the resurfacing and restoring of the state's highway system.

Department Facilities - includes renovating, repairing, construction and expanding maintenance garages and other administrative facilities of the department.

Other - includes safety programs, STP/urban system, hazardous waste, waterways and other special projects.

To pay for improvements, the Infrastructure Program expanded the Special Transportation Fund, dedicated certain motor vehicle related revenues to that fund, and adjusted certain taxes, fees and charges as summarized in the Table on the following page.

**Economic Report of the Governor**

**TABLE 93  
SUMMARY OF ENACTED TAX AND FEE ADJUSTMENTS**

Fiscal Year (a)	Motor Fuels Tax (b) (Adjustment/Gallon)	Motor Vehicle	Licenses, Permits,
		Receipts (c) (% Increase)	Fees (c) (d) (% Increase)
1984-85	1¢	25%	-
1985-86	1¢	-	50%
1986-87	1¢	24%	-
1987-88	2¢	-	-
1988-89	1¢	-	-
1989-90	-	-	50%
1990-91	2¢	-	-
1991-92	4¢	-	25%
1992-93	2¢	12.9%	-
1993-94	2¢	-	25%
1994-95	2¢	-	-
1995-96	4¢	-	-
1996-97	3¢	-	-
1997-98	(3¢)	-	-
1998-99	(4¢)	-	-
1999-00	-	-	-
2000-01	(7¢)	-	-
2001-02	-	-	-
2002-03	-	-	-

- (a) Except as noted in footnote (b), each tax, fee or charge adjustment is effective on July 1, of each State fiscal year.
- (b) Prior to the implementation of the plan, the Motor Fuels Tax was 14¢ per gallon. In addition, the Motor Fuels Tax changes for fiscal years 1994-2001 are effective as follows: 7/1/93-1¢; 1/1/94-1¢; 7/1/94-1¢; 1/1/95-1¢; 7/1/95-1¢; 10/1/95-1¢; 1/1/96-1¢; 4/1/96-1¢; 7/1/96-1¢; 10/1/96-1¢; 1/1/97-1¢; 7/1/97-(3¢); 7/1/98-(4¢); 7/1/00-(7¢). Effective 8/1/02, the Motor Fuels Tax on diesel fuel was increased from 18¢ to 26¢ per gallon.
- (c) The percentage increase is a percentage of the amount of fees collected during the State fiscal year preceding the effective date of the increase.
- (d) The percentage increases do not apply to fees, such as the motor carrier registration fee, for which federal law establishes maximum fees. In addition, Public Act 85-413 repealed the scheduled 1986 increase of 50%, imposed by Section 59 of the Special Transportation Act, on any person who pays a motor vehicle related fine, penalty or other charge while Public Act 91-13, of the June Special Session, eliminated the additional surcharges imposed by Section 59 of the Act scheduled for July 1, 1991 and July 1, 1993.

## **Economic Report of the Governor**

### **IMPACT OF THE GOVERNOR'S BUDGET ON THE STATE'S ECONOMY**

The traditional purpose of a governmental budget is threefold: it outlines necessary and desirable public services; it defines the resources that are required to provide these services; and it estimates how much these services will cost. The budget is the fundamental policy document of every level of government. As proposed, enacted and implemented, it represents a consensus on what government realistically can and ought to do.

The economic implications of governmental budgets are significant. The government sector including federal and local governments is an important dimension of the national economy, accounting for 18.9% of the Gross Domestic Product. The spending and tax policies of government profoundly influence the performance of the economy. Because the Governor's budget accounts for almost 7.7% of the Gross State Product, it is inevitable that state government's expenditure and revenue actions influence the State's economy.

As we prepare for fiscal years 2004 and 2005, the proposed budget represents a critical examination of the functions of government. The economy has undergone significant change over the past couple years. The result is a need to look closer than ever at what we are doing and how we are doing it, more than at any time in the last ten years. This means making difficult decisions about not only what we do, but how we pay for state services as well. In what could be called a hostile economic environment, we must face the reality of sluggish revenue growth and a clouded future in the short to intermediate term. Given this reality, Governor Rowland believes this budget will partially maintain the positive impact previous budgets have had on the economy, while preserving the most important aspects of our quality of life.

#### **Expenditure Actions**

This budget reflects a deliberate and difficult re-examination of current programs and recommends policy changes essential to the future health and stability of the State of Connecticut. The primary focus of the budget as the economic picture has weakened has been to preserve to the greatest extent possible the gains made by Governor Rowland in the last eight years. While public assistance rolls have declined dramatically with the Governor's emphasis on "work first," he has sought to assure that those most in need are not disproportionately affected by his efforts to achieve a balanced budget.

#### State Workforce

The FY 2002-03 budget included \$94 million in General Fund savings to come from state employee concessions. Early on in the development of the 2003-05 biennial budget it was determined that structural labor concessions would be needed to help close the budget gap. To date, there has been no overall concession agreement with the coalition of state unions. In the absence of these labor concessions, a total of 3,006 employees will have been separated from state service. Total appropriated fund savings due to the layoffs and separations including fringe benefits are estimated to be \$142.3 million in FY2004 and \$163.0 million in FY2005.

## **Economic Report of the Governor**

In addition, the governor is recommending in the FY2003-05 biennial budget an early retirement incentive program. It is estimated that 10,500 employees (all funds) are eligible. Total General Fund and Special Transportation Fund savings are projected to be \$164.4 million in FY2004 and \$150.5 million in FY2005 with a reduction in the General Fund and Special Transportation Fund workforce of 1,800.

### **Education**

Since Governor Rowland took office, he has been resolute in his commitment to the education of Connecticut's citizens. In his first two terms, Governor Rowland presided over unprecedented growth in the Education Cost Sharing (ECS) grant, in the physical transformation of the University of Connecticut, Connecticut State University, and Community-Technical College campuses and the academic and physical modernization of the Vocational-Technical High School system. Now, however, with the state facing budget difficulties, Governor Rowland is strategically focusing additional funding to programs that reduce racial isolation and improve urban education. Additionally, he is recommending a series of major cost savings initiatives that will streamline and improve the delivery of education services.

Governor Rowland's budget offers several initiatives to reduce racial isolation and improve the education of the state's neediest youngsters. Significant funding increases are recommended for Magnet Schools and Project OPEN Choice. Governor Rowland's legislative initiatives will also include a voluntary school choice program targeted to youngsters in the state's most academically underachieving schools.

In Governor Rowland's proposed budget, the Magnet School program is increased by \$14.5 million in fiscal year 2004 and an additional \$13.8 million in fiscal year 2005. Magnet schools provide a wonderful educational opportunity for students from urban and academically underachieving districts to learn with students from suburban, more economically advantaged communities. The number of schools is expected to increase from 31 in fiscal year 2003 to 41 in fiscal year 2004 and 48 in fiscal year 2005. The number of students will increase from about 11,000 in fiscal year 2003 to over 17,000 in fiscal year 2005.

The Magnet School program is a major piece of the proposed stipulated agreement with the "Sheff v. O'Neill" plaintiffs. According to the four-year agreement, two new magnet schools will open each year in Hartford. These new magnet schools, along with other new magnet schools planned during the biennium, give students, especially those from lower income groups, premier educational opportunities. Governor Rowland is confident that magnet school students will have a more positive education outcome, which could lead to greater higher education participation, higher earnings and a positive contribution to the state's economy.

In addition to the Magnet School increases, the "Sheff" agreement calls for 200 more seats each year for the OPEN Choice program in Hartford. The state's increased investment is \$1.1 million in fiscal year 2004 and \$1.6 million in fiscal year 2005. OPEN Choice transfers (primarily) urban students from their academically struggling schools to (generally) higher achieving suburban schools. Long term studies of other voluntary school transfer programs (like Project Concern) demonstrated that program participants had positive social and economic outcomes.

## Economic Report of the Governor

Governor Rowland's legislative package includes a proposal that would allow parents whose children attend "failing" schools to take their Education Cost Sharing (ECS) funding up to a maximum of \$3,000 to attend a school of their choice. The program would be limited initially to the cities with "failing" schools as of June 30, 2002: Hartford, Bridgeport, New Haven, New London, Windham and Waterbury. This proposal would build upon Senator Lieberman's groundbreaking "Demonstration Scholarship Program" that is currently in Connecticut statute. Changes have been made in the program to make it consistent with the recent Supreme Court decision on school vouchers. This program offers urban parents another school choice. Governor Rowland believes that parents in "failing" school districts should have options to attend "non-failing" schools. With the use of ECS funding, parents who are economically disadvantaged will have access to private schools where their children can flourish academically. Good students are the key to Connecticut's future economic success.

### Health and Human Services

The health and human services areas have seen substantial growth, exceeding that permitted by the expenditure cap and available revenues. These trends are most clearly seen in the Medicaid, HUSKY, and ConnPACE programs where medical inflation and caseload growth have combined to produce FY03 expenditures that are nearly 8 percent higher than those in FY02. This growth mirrors trends seen in the general economy—high rates of medical inflation and increasing numbers of people losing their health insurance coverage, if not their jobs.

Decreases in the monthly caseload of the Temporary Family Assistance program have leveled off. However, the federal work requirements will likely continue to grow more stringent, if pending federal legislation is enacted.

Demand for a variety of health and human services and supports continue to grow, especially as community alternatives become more readily available.

The demands of a balanced budget mean that even the programs that serve those in greatest need must bear a share of the burden as expenditures in all areas are reduced. The failure of the Governor to achieve concessions from the unions has compounded the impact on the large health and human service agencies—layoffs have resulted in significant reductions in programs and in the ability of agencies to meet the needs of clients.

The layoffs in this area will have a significant impact because of the number of staff and their impact on client services. For example, in the Department of Social Services, the first round of lay-offs will result in sub-offices closing in Meriden, Willimantic, Norwalk, and Bristol. In addition, the Department will close two offices where staff had been relocated in Killingly and Ansonia. A variety of planning and support functions will also be eliminated or reduced through lay-offs in other parts of the agency.

The Department of Mental Health and Addiction Services will also see significant reductions that will impact client care. Although the closure of River Valley Services in Middletown was originally proposed, reconsideration of the client impact of that action resulted in a revised plan that would spread the impact statewide. Closure of a substance abuse unit at Connecticut

## **Economic Report of the Governor**

Valley Hospital must first obtain Certificate of Need approval from the Office of Health Care Access.

In the Department of Mental Retardation, staff reductions will result in an increase in the staff to client ratio for public day programs. Support staff in a variety of areas will also be eliminated.

The Department of Labor will eliminate state positions for apprenticeship program development and customized job training. The second round of lay-offs is expected to result in the closing of offices in Ansonia, Manchester, Stamford, Bristol, and Danielson.

The Governor's Budget proposes continuation of the allotment rescissions carried out in FY03, both those made under the authority of Section 4-85 of the Statutes and the extraordinary power granted by Section 52 of Public Act 02-01, May Special Session.

In order to close the gap in FY03, Governor Rowland was forced to propose a series of reductions beyond those permitted by allotment rescissions. These program changes were intended to be in effect in FY03 and are in addition to wide-ranging rescissions taken in many programs.

Among the most significant of these changes are:

- Elimination of the State Administered General Assistance Program and replacement with an enhanced uncompensated care program;
- Elimination of the General Assistance Behavioral Health Program and replacements with enhanced grant funding for mental health and substance abuse providers.
- Elimination of the State Food Stamp Supplement;
- Limitation of the number of extensions under Temporary Family Assistance to two;
- Freeze on enrollment in the HUSKY B program;
- Institution of co-payment for certain services under Medicaid;
- Elimination of Medicaid presumptive eligibility, continuous eligibility and guaranteed eligibility;
- Termination of coverage of optional adults in the HUSKY program;
- Reduction in the eligibility limit for Transitional Child Care from 75% to 50% of state median income (SMI);
- Closure of one of two male substance abuse treatment units at Connecticut Valley Hospital;
- Elimination of the 50% FY03 pass-through of the Social Security COLA for aged, blind and disabled clients;
- Elimination of increases in the rates of most service providers;
- Elimination of funding for Regional Action Councils, Regional Mental Health Boards, and the Governor's Partnership; and
- Reduction or elimination of funding for several public health initiatives.

Pharmacy services continue to run among the largest rates of growth in the Budget. This Governor's Budget continues efforts to dampen this growth. Among the initiatives proposed are: Institution of co-payments, \$1 for Medicaid fee-for-service and an increase from \$12 to \$15

## **Economic Report of the Governor**

for ConnPACE; a reduction in the dispensing fee from \$3.85 to \$3.50; revision in the calculation of the cost of drugs from the average wholesale price (AWP) minus 12% to AWP minus 13.5%. ConnPACE prescriptions would be limited to a 30-day supply. And finally, an asset test would be instituted for ConnPACE.

The Governor's Budget proposes elimination of the funding for occupational health clinics. This will eliminate support from the Workers' Compensation Fund for grants to clinics and staff in the Departments of Public Health and Labor and the Workers' Compensation Commission.

The Governor has proposed capping the enrollment in the Early Intervention program. The Department of Mental Retardation will, as a result, have to manage enrollment in the program to operate within available appropriations.

The Governor's Budget anticipates implementation of the Behavioral Health Partnership in FY05. This deferral will permit the development of a coherent strategy for the procurement of managed care services and the Medicaid Management Information System. It will also permit the state to fully explore the possibilities presented in the Medicaid flexibility proposals contained in the President's FFY04 Budget.

The Governor's Budget does add funding for the completion of the Workforce Investment Act Business System. This project will facilitate the work of the Department of Labor and the Workforce Boards and permit more streamlined operations and reporting.

The Department of Public Health's vaccine purchase program will be maintained and expanded by assessing all insurers and managed care companies for the cost of the program. This will permit Connecticut to maintain its status as a universal vaccine state.

The Governor has also proposed \$5 million in funding in the Department of Mental Retardation in FY04 to meet the needs of high school graduates, people aging out of the Department of Children and Families, and those on the Department's waiting list. An additional \$6 million will be provided in FY05.

### **Homeland Security and the Aftermath of September 11**

The Capital Equipment Purchase Fund will provide the Department of Public Safety and the Military Department \$1.1 million in each year of the biennium to fund Homeland Security equipment purchases.

In the Military Department, to maximize the use of state funds, several outdated or unnecessary state armories will close and our state military personnel will share physical plants with federal military personnel.

## **Economic Report of the Governor**

### **Law Enforcement, Safety, Justice and Corrections**

In the Department of Correction this budget will fully fund the expansion of the MacDougall Correctional Institution in Suffield that will house 600 inmates and require 142 staff. Additionally, this budget will request legislative authorization to send an additional 1,000 inmates to correctional facilities in Virginia. By housing these prisoners out of state we can save the nearly \$2.5 million in operating costs, 174 staff positions and construction and debt service costs of nearly \$61 million - \$40 million in construction and \$21 million in debt service over the normal 20 year life of construction bonds.

In the Judicial Department we shall provide an additional \$6 million across the biennium for the Hartford and Bridgeport Detention Centers to support 112 staff to care for 176 juvenile offenders.

### **General Efficiencies**

The impact of the national and state economies have forced us yet again to reevaluate how the State of Connecticut will continue to fund critical needs. In that effort, we must view every program through the hard lens of how it may contribute to basic service delivery or key structure of government. Because the business of all state government has been subjected to this stringent review, we are also taking strides to remove ourselves from prohibitively costly rental situations and to that end we shall move the elected officials from 55 Elm Street to what will be a new state facility at 20 Church Street.

Because the casinos are now an integrated part of life in Connecticut, we will change the Gaming Study Requirement from every 7 to every 10 years in order to effect economy.

Additionally, the state can no longer subsidize the greyhound racing parks. From now on licensees authorized to conduct dog-racing events will be responsible for urine testing costs. Currently the state pays nearly \$500,000 per year for the tests. We must address these funds to more critical needs that serve a greater segment of Connecticut's citizenry.

### **Agency Consolidation and Realignment**

The Governor is recommending that bureaucracies, even small ones, created in better times for special groups must be modified or eliminated so that we can better direct limited funds to protect our neediest citizens and protect the taxpayers from more burdensome tax increases. There are three major restructuring initiatives planned for the budget within education. First, the Board of Education and Services for the Blind and the Commission on the Deaf and Hearing Impaired are going to be merged into the Departments of Social Services (DSS) and the State Department of Education (SDE). Second, the Commissions on the Arts, on Film and the Tourism Bureau are going to merge with the Historical Commission. Also, the Chancellors Offices for the Connecticut State University (CSU) and the Community-Technical Colleges (CTCs) will become part of the Department of Higher Education to form an innovative new governance entity, the Board of Regents for Higher Education. In addition to the cost savings

## **Economic Report of the Governor**

opportunities afforded through streamlined and more effective services, these changes will positively affect the state's economy.

For years, the management of the Board of Education and Services for the Blind (BESB) has been hampered by a broad set of missions and lack of internal financial controls. BESB has controlled the disparate functions of Adult Rehabilitation for visually impaired persons, the education of blind children, a vending/cafeteria/entrepreneurial operation and a workshop. Governor Rowland's budget proposes the merger of most of BESB into the Department of Social Services (DSS). With BESB adult functions transferred to DSS, persons with visual handicaps will profit from the existing rehabilitation competencies that BESB and DSS currently offer separately. The education of blind children will be a new program within the State Department of Education (SDE). Currently, blind children do not receive the same educational support throughout the state. Governor Rowland expects that the SDE will equalize and improve the education of blind children statewide. Similar to the BESB move into DSS, the Governor is also proposing the relocation of the Commission on the Deaf and Hearing Impaired (CDHI) into DSS. As with BESB, the rehabilitation competencies of both CDHI and DSS will be integrated to provide a streamlined and effective set of services to Connecticut's citizens who are deaf and hearing impaired. With access to improved programs at DSS, it is hoped that the state's citizens who are visually impaired and hearing-impaired will have increased economic productivity.

In his budget, Governor Rowland is proposing the combination of four small entities, the Historical Commission, the Commission on the Arts, the Film Commission and the Tourism bureau. This new commission, the Commission on the Arts, Culture, and History, will combine the historical preservation, cultural promotion, and tourism functions of state government into a one-stop operation. Economically, it makes sense to position arts, film, and tourism together to showcase the state's availability for all kinds of economic development activities, including historical preservation, tourism, the arts and filmmaking.

The budget also proposes a significant restructuring of the governance of higher education. The Chancellor's Offices for the Community-Technical Colleges (CTCs), Connecticut State University (CSU) will be merged into the Department of Higher Education (DHE) under the umbrella authority of the Board of Regents for Higher Education. This Board will combine the coordination, financial aid administration, and general policy direction duties of the DHE with the system offices of the CTCs and CSU, providing a seamless system that will connect the state's two and four year systems with the workforce needs of the state's economy.

Also, in other areas, the Office of Workforce Competitiveness (OWC) will be consolidated in the Department of Economic and Community Development. The OWC was created in April 1999 to focus on the changes needed to prepare Connecticut's workforce to be competitive in the 21<sup>st</sup> century. It has drawn upon government and private industry to advise the Governor on workforce investment strategies. Now in order to institutionalize its function and streamline its routine operating needs, it will be incorporated into the Department of Economic Development, our lead agency for jobs creation. This will permit greater integration and coordination of workforce development issues with those of economic growth.

The Governor recommends the following should be eliminated: The Commission on Children, the Commission on Women, the Commission on Latino and Puerto Rican Affairs and the

## **Economic Report of the Governor**

African American Affairs Commission. Other private national, state and community groups serve these special populations with information and services.

The Governor recommends the consolidation of the Elections, Ethics and Freedom of Information Commissions into a new Commission on Fair and Open Government (C-FOG). Legislative changes will be requested to adjust time limits for commission duties so that this new entity may efficiently function.

The Office of the Managed Care Ombudsman will be eliminated and some of the resources will be transferred to the Department of Insurance's Consumer Affairs Division to create the Managed Care Advocacy Unit. The function will live on in a more efficient setting.

The Department of Agriculture will be subsumed into the new Department of Consumer Protection and Agriculture so that operating expenses can be merged for effectiveness and economy and its protective functions will continue unabated.

The Council on Environmental Quality and the Office of Victim Advocate will be eliminated in an effort to effect economy.

The Boards of Pardons and Parole will be assumed into the Department of Correction so that business functions may be streamlined and operating expenses may be saved.

### **Grants and Municipal Aid**

The area of grants and municipal aid will also bear some of the burden from the need to economize in government. Many discretionary grant programs will come to an end or be significantly reduced or capped at FY 03 expenditure levels. Some of these programs were never intended to have permanent state support; but, in more comfortable fiscal times, we could extend precious dollars to worthwhile programs. Though no less worthwhile, we must now redirect our resources to statutorily mandated or even more critical discretionary venues.

The P.I.L.O.T. New Manufacturing Machinery and Equipment Grant will be reduced to \$47.7 million in FY '04 and \$44.3 million in FY '05. These reductions will bring this grant back to its basic premises by removing statutory language granting special exemptions we can no longer afford. Additionally, the Distressed Municipalities Grant formula will be capped at \$5.0 million in each year of the biennium.

Some grants have been the privilege of only a select number of communities. Since we have no ability to equalize this status in other communities, the Department of Economic Development's Tax Abatement and Payment in Lieu of Taxes grants will be eliminated in this biennium.

The state will give the park area surrounding the Beardsley Zoo to the city of Bridgeport; and the state will no longer make an annual contribution to the City for the operating costs of the zoo.

## **Economic Report of the Governor**

### **Revenue Actions**

The proportion of the State's revenue that must be raised through taxes directly affects the State's economy, impacting both citizens and businesses who must assume the tax burden necessary to provide essential state services. Recognizing this, during the first two terms of Governor Rowland's administration, significant tax reform measures that were passed were targeted at making Connecticut more competitive from the perspectives of both the private individual and business. These actions, which altered the way state government operates, have contributed to the "Connecticut Comeback" of the second half of the 1990s, and positioned the state to be less affected by the current downturn than it otherwise might have been. However, the Governor also recognizes the harsh reality of our times and is not proposing any sweeping tax reductions as in prior years. Neither does the Governor wish to undo those changes that have led to the revitalization of the state's economy, namely the \$2.1 billion in tax cuts enacted under his Administration. However, only through the prudent use of expenditure reductions and the judicious use of necessary but limited revenue enhancements can fiscal stability be maintained for state government finances and not impede any positive economic activity.

The changes proposed by Governor Rowland, as outlined below, will increase General Fund revenues in fiscal years 2003, 2004, and 2005, respectively, by \$436.1 million, \$851.6 million, and \$949.7 million. Some of the changes are not new tax increases, but simply scale back some of the many tax cuts that were enacted during the latter half of the 1990s, which are no longer affordable in the current fiscal situation.

Governor Rowland is proposing changes to the personal income tax. The largest single tax change contained in this year's budget is an increase in the current 3.0% and 4.5% tax rates to 3.5% and 5.0%. This change alone represents 57% of the all the revenue enhancements scheduled for fiscal 2003-04. All citizens will be called upon to contribute to restoring Connecticut's fiscal health. However, although the above change is the largest component of revenue enhancements, and although it affects all taxpayers, approximately two-thirds of the revenue will come from taxpayers earning in excess of \$100,000. Mitigating this tax increase will be the fact that state tax payments are deductible at the federal level. It is estimated that upwards of 29% of the personal income tax collected by the state is effectively returned to state taxpayers through lower federal tax payments. This budget also reexamines the affordability of previously enacted tax cuts. Specifically, the Governor proposes to eliminate the increase in the singles exemption, which had only been enacted in 1999, and also to reduce the maximum \$500 property tax credit to \$400, which had just risen to \$500 in the 2000 income year. The Governor is also proposing to phaseout the remaining minimum \$100 under the property tax credit. These measures will increase revenue by \$267.1 million, \$576.3 million, and \$634.7 million, respectively, in fiscal years 2003, 2004, and 2005.

Changes to the sales and use tax are also being proposed to increase revenue by \$14.7 million in 2003 and reduce revenue in 2004 and 2005, respectively, by \$35.3 million and \$6.6 million. Foremost among these proposals is the elimination of the hospital sales tax. During the 2001 session, the legislature suspended this tax for a period of two years. The Governor wishes to solidify the stability of this important sector by making the repeal of the tax permanent. In regards to reexamining the affordability of those tax cuts that were enacted in the late 1990s, the Governor's budget proposes to rescind the sales tax-free week, and to reduce the clothing and footwear exemption to \$50, both of which were enacted in 2000. The rate for computer and

## **Economic Report of the Governor**

data processing would also go up to three percent. This tax was scheduled to be completely phased-out, but once again, that would be a luxury the state can no longer afford. The Governor's budget also proposes to eliminate certain revenue intercepts and deposit those funds into the General Fund. Specifically, the Governor's budget would eliminate the revenue intercept from the hotel occupancy tax for tourism districts and certain other tourism related activities. This measure represents a change in philosophy and approach to the treatment of tourism funds. Rather than using revenue intercepts, this reform calls for these funds to simply reside in the General Fund and the expenditures be subject to the appropriations review process like most other expenditures of the state.

The rate for the gross receipts tax for cable TV companies will be increased to six percent for additional revenue of \$6.3 million in 2004 and \$6.7 million in 2005. Also for cable TV companies, quarterly estimated payments will be implemented similar to other public service companies which will result in a one-time revenue gain of \$16.6 million in fiscal 2003. The Governor also will defer the phase down in the succession tax for two years and the gift tax for one year, deferring previously enacted changes, to increase revenue by \$11.0 million in 2004 and \$26.0 million in 2005. Also, credits against the insurance companies premium tax will be limited to no more than seventy percent of the tax, similar to those reform measures enacted last year for corporate entities, for a revenue increase of \$1.5 million in 2003 and \$2.5 million in 2004 and 2005.

The cigarette tax will be increased to \$1.51 per pack and a "floor tax" will be collected on inventories of cigarettes when the new rate takes effect on April 1, 2003, for additional revenue of \$25.5 million in 2003, \$73.5 million in 2004, and \$71.1 million in 2005. Real estate conveyance tax rates will also rise, increasing revenue \$10.0 million in 2003 and \$50.0 million each in 2004 and 2005. However, most transfers will remain unaffected, as the Governor's proposal only increases the tax on residential transfers greater than \$300,000. Moreover, in the late 1990s the federal government significantly increased the capital gains exemption amount on the sale of a primary residence from \$125,000 to \$500,000. At the time, Connecticut chose not to decouple from the federal tax code in this regard. Therefore, this change should not be as burdensome for those selling their homes as the large capital gains exemption exists under both the federal and state tax codes.

Other proposals include increasing various judicial fees, escheating of unclaimed bottle deposits to the state and the elimination of yet to be implemented GAAP accounting rules.

This budget also includes several one-time transfers to the resources of the General Fund which will increase revenue by \$159.0 million in 2004 and 2005. These transfers account for, respectively, 1.6%, and 1.3% of total proposed General Fund revenues for those years. It is hoped that once the economic recovery gains full strength, that the revenue growth of the state will be sufficient to eliminate the need for these one-time transfers. In conjunction with the reduction in the Mashantucket Pequot and Mohegan Fund grant to towns, the General Fund revenue intercept used to fund that grant has been reduced accordingly.

Finally, the additional phases of a new Integrated Tax Administration System (ITAS) at the Department of Revenue Services is being funded under the Governor's proposed budget. This system will link existing tax administration systems and provide a means of better managing

## **Economic Report of the Governor**

both current and outstanding tax collections. It is estimated that this new system will generate additional revenue of \$49 million in 2005.

These proposals, taken all together, demonstrate Governor Rowland's recognition of the reality of a changed fiscal climate for the state. This budget also demonstrates a pragmatic response to this change. The Governor has attempted to maintain the fiscal stability he has already established without undermining the stirrings of a weak economic recovery.

**A P P E N D I X**

## Economic Report of the Governor

### Connecticut Resident Population Census Counts

	<u>Population</u>		<u>Population</u>		<u>1990-2000</u>	<u>%</u>	<u>2001</u>
	<u>1990</u>	<u>Rank</u>	<u>2000</u>	<u>Rank</u>	<u>Change</u>	<u>Chg.</u>	<u>DPH* Est.</u>
Total	3,287,116		3,405,565		118,449	3.6	3,425,074
Andover	2,540	149	3,036	147	496	19.5	3,179
Ansonia	18,403	52	18,554	57	151	0.8	18,950
Ashford	3,765	138	4,098	135	333	8.8	4,332
Avon	13,937	72	15,832	68	1,895	13.6	16,323
Barkhamsted	3,369	140	3,494	143	125	3.7	3,585
Beacon Falls	5,083	124	5,246	125	163	3.2	5,578
Berlin	16,787	60	18,215	59	1,428	8.5	18,281
Bethany	4,608	128	5,040	126	432	9.4	5,066
Bethel	17,541	56	18,067	61	526	3.0	18,052
Bethlehem	3,071	144	3,422	144	351	11.4	3,476
Bloomfield	19,483	51	19,587	52	104	0.5	19,134
Bolton	4,575	129	5,017	127	442	9.7	5,140
Bozrah	2,297	152	2,357	153	60	2.6	2,401
Branford	27,603	35	28,683	32	1,080	3.9	28,444
Bridgeport	141,686	1	139,529	1	-2,157	-1.5	138,216
Bridgewater	1,654	161	1,824	160	170	10.3	1,849
Bristol	60,640	9	60,062	11	-578	-1.0	60,026
Brookfield	14,113	71	15,664	69	1,551	11.0	15,916
Brooklyn	6,681	110	7,173	113	492	7.4	7,333
Burlington	7,026	107	8,190	108	1,164	16.6	8,352
Canaan	1,057	168	1,081	168	24	2.3	1,090
Canterbury	4,467	131	4,692	130	225	5.0	4,762
Canton	8,268	101	8,840	101	572	6.9	9,162
Chaplin	2,048	155	2,250	156	202	9.9	2,368
Cheshire	25,684	37	28,543	33	2,859	11.1	28,848
Chester	3,417	139	3,743	141	326	9.5	3,968
Clinton	12,767	77	13,094	81	327	2.6	13,300
Colchester	10,980	87	14,551	74	3,571	32.5	14,733
Colebrook	1,365	164	1,471	165	106	7.8	1,476
Columbia	4,510	130	4,971	129	461	10.2	5,080
Cornwall	1,414	163	1,434	166	20	1.4	1,412
Coventry	10,063	91	11,504	87	1,441	14.3	11,676
Cromwell	12,286	79	12,871	83	585	4.8	13,080
Danbury	65,585	8	74,848	7	9,263	14.1	74,550
Darien	18,196	53	19,607	51	1,411	7.8	20,049
Deep River	4,332	132	4,610	133	278	6.4	4,466
Derby	12,199	80	12,391	84	192	1.6	12,599
Durham	5,732	120	6,627	116	895	15.6	6,703
East Granby	4,302	133	4,745	132	443	10.3	4,880
East Haddam	6,676	111	8,333	105	1,657	24.8	8,417
East Hampton	10,428	88	13,352	78	2,924	28.0	11,381
East Hartford	50,452	17	49,575	19	-877	-1.7	49,734
East Haven	26,144	36	28,189	35	2,045	7.8	27,969
East Lyme	15,340	67	18,118	60	2,778	18.1	17,694

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### Connecticut Resident Population Census Counts

	<u>Population</u>		<u>Population</u>		<u>1990-2000</u>	<u>%</u>	<u>2001</u>
	<u>1990</u>	<u>Rank</u>	<u>2000</u>	<u>Rank</u>	<u>Change</u>	<u>Chg.</u>	<u>DPH*Est.</u>
East Windsor	10,081	90	9,818	94	-263	-2.6	9,958
Eastford	1,314	165	1,618	163	304	23.1	1,532
Easton	6,303	113	7,272	111	969	15.4	7,480
Ellington	11,197	84	12,921	82	1,724	15.4	13,145
Enfield	45,532	20	45,212	20	-320	-0.7	44,987
Essex	5,904	118	6,505	117	601	10.2	6,539
Fairfield	53,418	14	57,340	13	3,922	7.3	58,049
Farmington	20,608	48	23,641	45	3,033	14.7	23,969
Franklin	1,810	160	1,835	159	25	1.4	1,878
Glastonbury	27,901	33	31,876	29	3,975	14.2	32,985
Goshen	2,329	151	2,697	151	368	15.8	2,730
Granby	9,369	93	10,347	93	978	10.4	10,721
Greenwich	58,441	12	61,101	9	2,660	4.6	61,606
Griswold	10,384	89	10,807	89	423	4.1	10,758
Groton	45,144	21	39,907	23	-5,237	-11.6	39,224
Guilford	19,848	50	21,398	49	1,550	7.8	21,782
Haddam	6,769	109	7,157	114	388	5.7	7,313
Hamden	52,434	15	56,913	14	4,479	8.5	56,388
Hampton	1,578	162	1,758	161	180	11.4	1,681
Hartford	139,739	2	124,121	2	-15,618	-11.2	123,850
Hartland	1,866	158	2,012	158	146	7.8	1,993
Harwinton	5,228	123	5,283	124	55	1.1	5,392
Hebron	7,079	106	8,610	104	1,531	21.6	9,025
Kent	2,918	147	2,858	150	-60	-2.1	2,907
Killingly	15,889	64	16,472	67	583	3.7	16,357
Killingworth	4,814	127	6,018	121	1,204	25.0	6,278
Lebanon	6,041	115	6,907	115	866	14.3	6,874
Ledyard	14,913	68	14,687	72	-226	-1.5	14,993
Lisbon	3,790	137	4,069	136	279	7.4	4,174
Litchfield	8,365	100	8,316	106	-49	-0.6	8,374
Lyme	1,949	157	2,016	157	67	3.4	2,046
Madison	15,485	66	17,858	64	2,373	15.3	18,280
Manchester	51,618	16	54,740	15	3,122	6.0	54,680
Mansfield	21,103	45	20,720	50	-383	-1.8	21,315
Marlborough	5,535	121	5,709	123	174	3.1	5,865
Meriden	59,479	11	58,244	12	-1,235	-2.1	56,451
Middlebury	6,145	114	6,451	118	306	5.0	6,613
Middlefield	3,925	135	4,203	134	278	7.1	4,322
Middletown	42,762	22	43,167	21	405	0.9	45,612
Milford	49,938	18	52,305	17	2,367	4.7	52,204
Monroe	16,896	59	19,247	54	2,351	13.9	19,450
Montville	16,673	61	18,546	58	1,873	11.2	19,076
Morris	2,039	156	2,301	155	262	12.8	2,350
Naugatuck	30,625	29	30,989	30	364	1.2	31,048
New Britain	75,491	7	71,538	8	-3,953	-5.2	71,665
New Canaan	17,864	55	19,395	53	1,531	8.6	19,882

## Economic Report of the Governor

### Connecticut Resident Population Census Counts

	Population		Population		1990-2000 Change	%	2001 DPH* Est.
	<u>1990</u>	<u>Rank</u>	<u>2000</u>	<u>Rank</u>			
New Fairfield	12,911	75	13,953	75	1,042	8.1	14,338
New Hartford	5,769	119	6,088	120	319	5.5	6,202
New Haven	130,474	3	123,626	3	-6,848	-5.2	124,988
New London	28,540	32	25,671	41	-2,869	-10.1	25,653
New Milford	23,629	40	27,121	37	3,492	14.8	27,704
Newington	29,208	31	29,306	31	98	0.3	29,349
Newtown	20,779	47	25,031	42	4,252	20.5	25,355
Norfolk	2,060	154	1,660	162	-400	-19.4	1,781
North Branford	12,996	74	13,906	76	910	7.0	13,849
North Canaan	3,284	142	3,350	145	66	2.0	3,221
North Haven	22,247	41	23,035	39	788	3.5	23,573
North Stonington	4,884	126	4,991	128	107	2.2	5,048
Norwalk	78,331	6	82,951	6	4,620	5.9	82,617
Norwich	37,391	25	36,117	26	-1,274	-3.4	36,268
Old Lyme	6,535	112	7,406	110	871	13.3	7,480
Old Saybrook	9,552	92	10,367	92	815	8.5	10,517
Orange	12,830	76	13,233	79	403	3.1	13,472
Oxford	8,685	96	9,821	96	1,136	13.1	10,173
Plainfield	14,363	69	14,619	73	256	1.8	14,705
Plainville	17,392	57	17,328	66	-64	-0.4	17,335
Plymouth	11,822	81	11,634	86	-188	-1.6	11,717
Pomfret	3,102	143	3,798	140	696	22.4	3,836
Portland	8,418	99	8,732	102	314	3.7	9,293
Preston	5,006	125	4,688	131	-318	-6.4	4,744
Prospect	7,775	105	8,707	103	932	12.0	9,036
Putnam	9,031	95	9,002	98	-29	-0.3	9,159
Redding	7,927	103	8,270	107	343	4.3	8,436
Ridgefield	20,919	46	23,643	44	2,724	13.0	24,232
Rocky Hill	16,554	62	17,966	62	1,412	8.5	17,683
Roxbury	1,825	159	2,136	154	311	17.0	2,200
Salem	3,310	141	3,858	138	548	16.6	3,880
Salisbury	4,090	134	3,977	137	-113	-2.8	3,769
Scotland	1,215	167	1,556	164	341	28.1	1,601
Seymour	14,288	70	15,454	70	1,166	8.2	15,498
Sharon	2,928	146	2,968	149	40	1.4	2,914
Shelton	35,418	26	38,101	25	2,683	7.6	37,456
Sherman	2,809	148	3,827	139	1,018	36.2	3,832
Simsbury	22,023	44	23,234	47	1,211	5.5	23,740
Somers	9,108	94	10,417	91	1,309	14.4	10,502
South Windsor	22,090	42	24,412	43	2,322	10.5	24,773
Southbury	15,818	65	18,567	56	2,749	17.4	18,471
Southington	38,518	24	39,728	24	1,210	3.1	40,227
Sprague	3,008	145	2,971	148	-37	-1.2	2,799
Stafford	11,091	85	11,307	88	216	1.9	11,419
Stamford	108,056	5	117,083	4	9,027	8.4	117,267
Sterling	2,357	150	3,099	146	742	31.5	3,224

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### Connecticut Resident Population Census Counts

	<u>Population</u>		<u>Population</u>		<u>1990-2000</u>	<u>%</u>	<u>2001</u>
	<u>1990</u>	<u>Rank</u>	<u>2000</u>	<u>Rank</u>	<u>Change</u>	<u>Chg.</u>	<u>DPH* Est.</u>
Stonington	16,919	58	17,906	63	987	5.8	17,767
Stratford	49,389	19	49,976	18	587	1.2	49,326
Suffield	11,427	83	13,552	77	2,125	18.6	13,990
Thomaston	6,947	108	7,503	109	556	8.0	7,538
Thompson	8,668	97	8,878	100	210	2.4	8,958
Tolland	11,001	86	13,146	80	2,145	19.5	13,788
Torrington	33,687	27	35,202	27	1,515	4.5	35,434
Trumbull	32,016	28	34,243	28	2,227	7.0	34,547
Union	612	169	693	169	81	13.2	713
Vernon	29,841	30	28,063	36	-1,778	-6.0	27,861
Voluntown	2,113	153	2,528	152	415	19.6	2,436
Wallingford	40,822	23	43,026	22	2,204	5.4	43,100
Warren	1,226	166	1,254	167	28	2.3	1,291
Washington	3,905	136	3,596	142	-309	-7.9	3,645
Waterbury	108,961	4	107,271	5	-1,690	-1.6	109,019
Waterford	17,930	54	19,152	55	1,222	6.8	19,139
Watertown	20,456	49	21,661	48	1,205	5.9	21,915
West Hartford	60,110	10	61,046	10	936	1.6	61,578
West Haven	54,021	13	52,360	16	-1,661	-3.1	52,212
Westbrook	5,414	122	6,292	119	878	16.2	6,390
Weston	8,648	98	10,037	95	1,389	16.1	10,199
Westport	24,410	39	25,749	40	1,339	5.5	26,514
Wethersfield	25,651	38	26,271	38	620	2.4	26,262
Willington	5,979	117	5,959	122	-20	-0.3	6,071
Wilton	15,989	63	17,633	65	1,644	10.3	17,999
Winchester	11,524	82	10,664	90	-860	-7.5	11,140
Windham	22,039	43	22,857	46	818	3.7	23,010
Windsor	27,817	34	28,237	34	420	1.5	27,731
Windsor Locks	12,358	78	12,043	85	-315	-2.5	11,919
Wolcott	13,700	73	15,215	71	1,515	11.1	15,703
Woodbridge	7,924	104	8,983	99	1,059	13.4	9,060
Woodbury	8,131	102	9,198	97	1,067	13.1	9,348
Woodstock	6,008	116	7,221	112	1,213	20.2	7,304

Note: DPH stands for the Connecticut Department of Public Health

Source: U.S. Bureau of the Census, April 1, 1990 & 2000  
 Department of Public Health, "Est. Population in Connecticut as of July 1, 2001"

## Economic Report of the Governor

### Connecticut Major Town Indicators

This section lists major indicators for all 169 towns, including per capita money income, median sales price of housing, general fund revenues and expenditures, equalized net grand list (ENGL), equalized mill rate, and unemployment rates. General explanations for these indicators are provided below while detailed information for each town immediately follows the explanations.

#### **Per Capita Money Income**

Money income, as defined by the Bureau of the Census (BOC) is the sum of wage or salary income; net farm self-employment income; net nonfarm self-employment income; interest, net rental and dividends income; Social Security and railroad retirement income and all other received income such as Veteran's payments, pensions, unemployment compensation and alimony. This differs from the Bureau of Economic Analysis (BEA) personal income figures, which appear annually in the *Survey of Current Business*, as the BEA's figures include non-cash items received in lieu of cash; e.g., transfer payments (such as food stamps, lodging, Medicare and Medicaid) and employer contributions to private welfare and compensation funds.

The exclusion of non-cash income, such as transfer payments and employer contributions, makes BOC's estimated per capita money income (PCMI) lower than that of BEA's per capita personal income (PCPI). In 1989, the latest available year, PCMI accounted for 82.2% of PCPI, increasing from 79.4% in 1979. The decrease in the margin between PCPI and PCMI was due to faster growth in money income accompanied by a slowdown in non-cash compensation experienced during the mid 1980s when the economy was booming. PCPI was estimated at \$24,548 in 1989, an increase of 129% from \$10,721 in 1979. PCMI was estimated at \$20,189 in 1989, an increase of 137% from \$8,511 in 1979 while non-cash compensation increased 97% during the period. The Table below shows Connecticut's PCMI and PCPI for 1979 and 1989.

#### **Connecticut Per Capita Money Income**

	<u>1979</u>	<u>1989</u>	<u>Growth (%)</u>
Per Capita Money Income (PCMI)	\$8,511	\$20,189	137
Per Capita Non-Money Income	\$2,210	\$4,359	97
Per Capita Personal Income (PCPI)	\$10,721	\$24,548	129
PCMI/PCPI (%)	79.4%	82.2%	

Source: U.S. Bureau of Census and Bureau of Economic Analysis

#### **Median Sales Price of Housing**

Median sales price is the sales price at which half of the sales are above and half below the price. The median sales price data includes the sales of single-family homes, multi-family homes up to four units and condominiums. The housing market reached its all time high in 1989, the year before the recession. During the recession period of the early 1990s housing prices dropped markedly until 1996. Since then they have crept closer to the all time high. Unfortunately, the median sales price declined in 2000. As shown in the Table on the following page, the median sales price in 2000 was \$145,000, down about 6.5% from the 1989

## Economic Report of the Governor

median of \$155,000. The decline in housing prices can be partially attributed to the state's demographics. While Connecticut's population of first time home buyers declined, housing inventory continued to rise, creating an oversupply in the state's housing market and a reduction in housing prices. The 25-34 age cohort, those who typically purchase their first home declined 22.6% in Connecticut from 584,000 individuals in 1990 to 452,000 individuals by 2000 as estimated by the U.S. Census Bureau. The state's housing inventory on the other hand increased 5.0% from 1,319,741 units in 1990 to 1,385,975 units by 2000 as estimated by the U.S. Census Bureau.

As national residential sales prices continued to increase throughout the 1990s, Connecticut has bucked the trend, moving in the opposite direction until 1996. Since then, median sales prices had been rising until most recently. Connecticut's residential median sales price as a percentage of the U.S. stood at 173 in 1989. In 2000, Connecticut's median sales price as a percentage of the U.S. came in at 104. The convergence of housing prices toward the national norm demonstrates an increasing trend of affordability for the housing market in Connecticut. It also creates a more competitive economic environment for the state, attracting more businesses to locate or expand here.

### Sales Price of Homes in Connecticut

<b>Calendar Year</b>	<u>1989</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000*</u>	<u>1989-00 (Change)</u>
CT Median Price	\$155,000	\$138,000	\$140,000	\$145,000	\$149,900	\$145,000	(\$10,000)
% Change	2.0%	(11.0%)	1.4%	3.6%	3.0%	(3.3%)	(6.5%)
U.S. Median Price	\$89,500	\$115,800	\$121,800	\$128,400	\$133,300	\$139,000	\$49,500
% Change	0.2%	29.4%	5.2%	5.4%	3.8%	4.3%	55.3%
CT as a % of U.S.	173	119	115	113	112	104	
Mean Sales Price	\$200,623	\$194,593	\$204,229	\$215,173	\$220,858	\$229,772	\$29,149
% Change	3.4%	(3.0%)	5.0%	5.4%	2.6%	4.0%	14.5%
Number of Sales	39,879	39,332	42,688	50,271	54,106	39,881	2
% Change	(21.5%)	(1.4%)	8.5%	17.8%	7.6%	(26.3%)	0.0%

\* Data is based on assessment year provided by Office of Policy & Management and calculated by the Connecticut Policy & Economic Council (CPEC). Median Sale Price, Mean Sales Price, and Number of Sales for 2000 is based on data from 121 towns. Data is unavailable for 48 municipalities. They are the following:

Avon, Barkhamsted, Bethany, Bethlehem, Bolton, Burlington, Canton, Chaplin, Cheshire, Chester, Danbury, Darien, East Granby, Essex, Franklin, Hampton, Hartford, Kent, Lebanon, Litchfield, Lyme, Monroe, New Hartford, New London, Norfolk, Norwalk, Norwich, Old Saybrook, Putnam, Rocky Hill, Scotland, Sharon, Sherman, Stamford, Suffield, Thomaston, Torrington, Union, Washington, Watertown, West Hartford, Weston, Westport, Wethersfield, Willington, Windsor, Windsor Locks, and Woodbury.

Source: Office of Policy & Management, "Connecticut Residential Sales Price Data"

## **Economic Report of the Governor**

Department of Economic & Community Development, "Connecticut Town Profile"  
National Association of Realtors  
Connecticut Policy & Economic Council

## Economic Report of the Governor

### General Fund Revenues and Expenditures

The General Fund is a fund which accounts for the ordinary operations of a governmental unit and which are financed from taxes, fees, and grants, etc. For a municipality, the property tax has been the major source for general fund revenues, with a relatively minor portion coming from user fees, fines and permits, followed by intergovernmental revenues, interest income, and other miscellaneous sources. General fund expenditures include all operating outlays on local schools, police & fire departments, public works, health and human services, and other expenditures included in the municipal budget. The Table below shows municipal general fund revenues and expenditures for all 169 towns in the state for the past five years. As the table shows, the overall fiscal condition of the towns as measured by their operating results turned negative in FY 2001, after recording ten consecutive surplus years. The overall deficit reached \$46.5 million in FY 2001 after a minor surplus of \$1.0 million in FY 2000. There were 135 towns that experienced a surplus in FY 2001, down from 136 in FY 2000 after excluding other financing sources and other financing uses.

#### Municipal General Fund Revenues and Expenditures for All Towns in Connecticut (In Millions of Dollars)

	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 1997-01 Change</u>
Property Tax Revenues	\$4,810.0	\$4,906.4	\$5,076.1	\$5,254.5	\$5,533.3	\$723.3
<i>% Change</i>	<i>3.1%</i>	<i>2.0%</i>	<i>3.5%</i>	<i>3.5%</i>	<i>2.7%</i>	<i>15.0%</i>
Intergovernmental Revenues	\$1,958.0	\$2,083.2	\$2,216.3	\$2,289.6	\$2,389.0	\$431.0
<i>% Change</i>	<i>-0.2%</i>	<i>6.4%</i>	<i>6.4%</i>	<i>3.3%</i>	<i>4.3%</i>	<i>22.0%</i>
<b>Total GF Revenues*</b>	<b>\$7,305.1</b>	<b>\$7,647.8</b>	<b>\$7,877.0</b>	<b>\$8,148.6</b>	<b>\$8,941.1</b>	<b>\$1,636.0</b>
<b><i>% Change</i></b>	<b><i>2.5%</i></b>	<b><i>4.7%</i></b>	<b><i>3.0%</i></b>	<b><i>3.5%</i></b>	<b><i>9.7%</i></b>	<b><i>22.4%</i></b>
Education Expenditures	\$3,912.9	\$4,079.6	\$4,287.8	\$4,514.4	\$4,759.8	\$846.9
<i>% Change</i>	<i>3.8%</i>	<i>4.3%</i>	<i>5.1%</i>	<i>5.3%</i>	<i>5.4%</i>	<i>21.6%</i>
Operating Expenditures	\$3,058.4	\$3,113.0	\$3,196.5	\$3,315.1	\$3,799.1	\$740.7
<i>% Change</i>	<i>1.7%</i>	<i>1.8%</i>	<i>2.7%</i>	<i>3.7%</i>	<i>14.6%</i>	<i>24.2%</i>
<b>Total GF Expenditures*</b>	<b>\$7,247.3</b>	<b>\$7,577.7</b>	<b>\$7,820.6</b>	<b>\$8,147.6</b>	<b>\$8,987.6</b>	<b>\$1,740.3</b>
<b><i>% Change</i></b>	<b><i>2.3%</i></b>	<b><i>4.6%</i></b>	<b><i>3.2%</i></b>	<b><i>4.2%</i></b>	<b><i>10.3%</i></b>	<b><i>24.0%</i></b>
<b>Surplus/(Deficit)</b>	<b>\$57.8</b>	<b>\$70.1</b>	<b>\$56.4</b>	<b>\$1.0</b>	<b>(\$46.5)</b>	

\* Total Revenues and Total Expenditures do not add due to miscellaneous revenues and expenditures, which have not been identified in the table above.

Source: Office of Policy and Management, "2001 Fiscal Indicators"

## Economic Report of the Governor

### Equalized Net Grand List (ENGL)

The equalized net grand list is the estimate of the full fair market value of all taxable property in a municipality. Taxable property includes: (a) residential, commercial and industrial real property; (b) real property belonging to a public utility, vacant land, and land assessed according to use value classification; (c) land bearing timber; (d) land to be included in property tax lists in certain towns; (e) motor vehicles, mobile homes, aircraft, machinery, fixtures, and equipment; and (f) others. Nontaxable properties, not included in the ENGL, include churches, hospitals, schools, libraries, and household furniture, and others as listed in Chapter 203 of the Connecticut General Statutes. The ENGL is derived from the sales-to-assessment ratio information provided by local assessors. Because municipalities revalue their grand list once every four years ahead of performing a physical inspection of a property every twelve years, there exist variations between the fair market value and the assessment value estimated for tax purposes. The ENGL in FY 2001 totaled \$319.8 billion, up 7.9% from FY 2000, the sixth consecutive increase after five consecutive yearly declines. The ENGL can be used as a measure of a municipality's total taxable wealth. The rebound in the assessment value of the ENGL reflects that overall municipalities in Connecticut saw an improvement in their taxable base. The ENGL also serves as one of the factors used to determine some of the state's grants to municipalities, including education cost sharing, school transportation, and adult education.

Another meaningful indicator is the Equalized Mill Rate (EMR). The EMR is derived from the adjusted tax levy divided by the ENGL. The EMR can be used as a yardstick to compare the local tax burden or tax effort among municipalities. An increase in the EMR may represent an increase in the tax burden on property or increases in the tax effort as more services are needed.

### Connecticut Equalized Net Grand List (ENGL)

	<u>FY 1995</u>	<u>FY 1996</u>	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>
Total ENGL (M\$)	251,188	255,515	257,970	263,459	275,874	296,460	319,807
% Change	(1.8%)	1.7%	1.0%	2.1%	4.7%	7.5%	7.9%
Per Capita ENGL (\$)	76,706	78,038	78,893	80,468	84,056	87,052	93,372
% Change	(1.7%)	1.7%	1.1%	2.0%	4.5%	3.6%	7.3%
Equalized Mill Rate (Per \$1,000 Assessed Value)	18.0	18.1	18.5	18.5	18.2	17.6	17.2

Source: Office of Policy & Management, Intergovernmental Policy Division, "Municipal Fiscal Indicators"

The Office of Policy and Management provides other fiscal indicators in their publication, "Fiscal Indicators", for the 169 towns in the state. For more information, please contact:

State of Connecticut  
Office of Policy and Management  
Intergovernmental Policy Division  
450 Capitol Avenue, MS-54MFS

**Economic Report of the Governor**

Hartford, Connecticut 06106-1308  
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## Economic Report of the Governor

### Town Major Indicators

<u>Town</u>	1989 Per Capita Money Income	Rank	2000* Median Sales Price	FY 2001 GF Revenue (1000's)	FY 2001 GF Outlay (1000's)	2001 ENGL (1000's)	2001 Equal. Mill Rate	2001 Unemp. Rate (%)
TOTAL-CONN.	<b>\$20,189</b>		<b>\$145,000</b>	<b>\$8,941 M</b>	<b>\$8,988 M</b>	<b>\$319.8 B</b>	<b>17.2</b>	<b>3.3%</b>
Andover	18,786	96	163,430	6,289	6,163	231,093	17.57	2.0
Ansonia	14,833	152	127,750	39,653	41,537	933,398	20.14	5.4
Ashford	17,376	122	125,000	9,284	9,303	249,336	20.60	2.2
Avon	34,204	9	N/A	43,391	42,771	2,176,025	17.20	1.7
Barkhamsted	20,244	72	N/A	7,920	7,443	295,263	19.60	2.4
Beacon Falls	18,020	109	145,750	9,863	10,772	401,174	14.02	3.5
Berlin	19,974	75	169,000	48,545	46,274	1,943,666	18.60	2.7
Bethany	22,722	47	N/A	12,840	12,518	478,677	20.33	2.3
Bethel	20,528	68	212,250	42,757	42,076	1,824,294	16.98	2.4
Bethlehem	20,709	67	N/A	7,015	6,978	313,958	16.76	2.5
Bloomfield	22,478	51	130,000	48,692	46,678	1,801,438	21.71	3.5
Bolton	21,017	62	N/A	12,314	12,116	370,271	21.80	1.9
Bozrah	15,814	141	130,000	5,607	5,263	234,426	11.97	3.1
Branford	22,642	49	136,750	63,721	60,493	2,981,184	17.78	2.8
Bridgeport	13,156	165	112,000	367,829	713,497	5,645,060	28.19	6.1
Bridgewater	29,991	16	275,125	5,101	4,634	334,761	13.17	2.0
Bristol	16,909	127	111,113	120,537	105,229	3,718,571	18.52	3.9
Brookfield	24,277	37	220,000	36,691	35,855	2,088,372	14.64	2.1
Brooklyn	15,697	145	124,000	14,844	14,686	405,452	15.92	2.5
Burlington	21,797	57	N/A	18,001	17,363	692,471	19.70	2.4
Canaan	20,998	63	190,000	3,595	3,368	157,834	17.24	2.0
Canterbury	14,531	156	124,000	11,151	10,468	297,838	16.66	3.1
Canton	23,489	40	N/A	21,020	20,650	770,732	21.48	2.2
Chaplin	17,014	126	N/A	5,519	5,426	122,052	20.60	2.8
Cheshire	23,204	41	N/A	72,536	71,869	2,542,754	20.80	2.2
Chester	19,908	78	N/A	8,587	7,784	391,267	17.04	1.7
Clinton	17,698	117	170,000	33,335	30,826	1,243,327	18.54	2.4
Colchester	17,143	125	145,000	34,155	32,560	974,148	19.02	2.8
Colebrook	18,568	102	130,000	3,920	3,524	151,867	20.86	1.4
Columbia	20,762	65	165,000	11,293	10,165	426,731	17.94	2.0
Cornwall	30,270	15	181,750	4,162	3,958	280,734	12.33	1.4
Coventry	17,725	116	145,000	24,010	23,807	772,592	18.18	2.8
Cromwell	20,518	69	119,900	25,567	25,260	1,093,925	18.17	2.8
Danbury	19,300	89	N/A	153,076	156,012	6,358,393	16.10	3.0
Darien	51,795	2	N/A	63,609	62,473	6,003,097	9.10	1.9
Deep River	18,995	93	154,250	9,868	10,080	446,980	15.24	2.2
Derby	16,819	128	123,000	27,151	25,725	724,468	21.12	4.5
Durham	19,647	83	215,000	16,241	17,808	609,373	19.53	2.7

## Economic Report of the Governor

<u>Town</u>	1989 Per Capita Money <u>Income</u>	<u>Rank</u>	2000* Median Sales <u>Price</u>	FY 2001 GF Revenue <u>(1000's)</u>	FY 2001 GF Outlay <u>(1000's)</u>	2001 ENGL <u>(1000's)</u>	2001 Equal. Mill <u>Rate</u>	2001 Unemp. Rate <u>(%)</u>
East Granby	23,171	42	N/A	12,612	10,902	508,442	17.84	2.3
East Haddam	18,709	97	167,700	18,956	19,114	765,326	17.01	3.1
East Hampton	19,123	91	138,550	26,343	25,499	825,059	19.41	2.8
East Hartford	16,575	137	103,000	116,061	109,670	2,881,528	27.15	4.3
East Haven	16,389	140	115,900	62,252	60,995	1,576,113	23.95	3.3
East Lyme	20,004	74	149,900	40,027	41,384	1,538,794	16.99	2.1
East Windsor	17,388	121	100,000	21,478	20,750	867,578	17.13	3.2
Eastford	16,433	138	119,500	3,758	3,744	113,388	19.20	2.4
Easton	33,725	11	505,000	22,530	21,337	1,457,418	13.63	2.5
Ellington	19,710	81	145,950	28,977	28,541	837,795	20.80	2.7
Enfield	16,723	133	115,000	92,986	86,852	2,781,171	20.08	3.1
Essex	26,590	28	N/A	12,405	11,905	910,253	11.69	2.1
Fairfield	26,895	26	320,000	149,202	149,513	9,468,986	13.05	2.7
Farmington	28,286	21	162,250	59,946	58,062	3,236,748	14.35	2.1
Franklin	16,756	129	N/A	4,555	4,696	169,084	17.80	1.8
Glastonbury	26,073	29	215,000	80,133	80,140	3,501,596	19.28	2.1
Goshen	22,241	53	293,750	6,193	6,219	420,201	12.52	2.3
Granby	23,869	38	179,450	25,435	24,077	883,755	21.41	2.0
Greenwich	46,070	4	719,000	241,328	229,316	24,294,027	7.69	1.7
Griswold	13,703	160	112,353	26,088	25,021	589,423	15.42	3.4
Groton	15,454	148	136,500	91,421	95,839	3,578,702	12.09	2.8
Guilford	24,583	34	235,000	54,545	51,622	2,616,722	16.45	2.1
Haddam	22,649	48	190,000	17,209	19,405	751,827	20.89	2.2
Hamden	19,383	88	130,000	119,981	121,944	3,632,393	23.61	2.9
Hampton	17,369	123	N/A	4,750	4,760	110,062	25.35	2.7
Hartford	11,081	169	N/A	438,736	422,439	5,099,500	32.37	6.6
Hartland	17,787	114	165,500	4,873	4,695	169,331	16.61	1.9
Harwinton	23,636	39	156,000	12,063	11,174	474,667	18.86	2.5
Hebron	20,087	73	184,000	20,232	19,757	687,695	18.99	2.0
Kent	22,112	55	N/A	6,867	6,165	428,306	12.81	1.7
Killingly	13,438	162	102,000	32,799	29,551	921,030	12.68	5.6
Killingworth	19,967	76	282,000	13,557	12,624	635,602	16.28	2.5
Lebanon	16,756	130	N/A	16,152	15,249	452,381	16.94	2.8
Ledyard	18,557	103	138,000	35,699	33,792	1,011,756	19.04	1.9
Lisbon	14,917	150	120,000	9,126	13,425	279,565	10.46	2.6
Litchfield	21,698	59	N/A	18,119	17,502	879,571	16.96	2.4
Lyme	28,786	19	N/A	4,972	4,683	388,033	11.19	1.6
Madison	29,334	17	288,900	44,376	41,168	2,484,479	14.82	2.0
Manchester	18,654	98	115,750	109,081	107,232	3,516,190	22.16	3.3
Mansfield	13,502	161	131,500	28,878	28,443	750,690	18.05	1.6

## Economic Report of the Governor

<u>Town</u>	1989		2000*	FY 2001	FY 2001	2001	2001	2001
	<u>Per Capita</u> <u>Money</u> <u>Income</u>	<u>Rank</u>	<u>Median</u> <u>Sales</u> <u>Price</u>	<u>GF</u> <u>Revenue</u> <u>(1000's)</u>	<u>GF</u> <u>Outlay</u> <u>(1000's)</u>	<u>ENGL</u> <u>(1000's)</u>	<u>Equal.</u> <u>Mill</u> <u>Rate</u>	<u>Unemp.</u> <u>Rate</u> <u>(%)</u>
Marlborough	21,792	58	182,000	12,998	12,574	496,439	18.84	1.9
Meriden	15,618	146	99,500	141,246	137,261	2,978,827	26.29	4.1
Middlebury	25,715	30	220,000	17,180	16,708	877,212	18.11	2.7
Middlefield	18,193	106	163,000	9,453	9,011	386,827	18.44	3.2
Middletown	17,814	113	115,000	91,376	77,454	3,175,667	19.74	3.2
Milford	19,099	92	164,375	123,445	121,516	5,479,658	17.74	3.2
Monroe	21,441	60	N/A	48,490	48,374	1,964,628	18.58	2.9
Montville	15,743	144	124,000	41,470	41,326	1,209,448	17.58	2.6
Morris	18,550	104	216,500	5,796	5,523	285,023	16.81	3.1
Naugatuck	16,691	134	117,950	71,507	70,282	1,747,827	19.75	4.2
New Britain	14,715	154	89,900	168,933	142,600	2,352,216	31.84	5.5
New Canaan	52,692	1	800,000	69,069	69,318	6,522,294	9.51	1.5
New Fairfield	23,031	44	244,450	34,353	33,307	1,677,802	15.82	2.5
New Hartford	19,267	90	N/A	15,180	14,635	541,318	20.60	2.3
New Haven	12,968	167	95,000	349,342	345,502	4,297,003	29.74	4.3
New London	12,971	166	N/A	68,487	66,706	1,163,419	23.30	4.0
New Milford	20,482	70	180,000	67,201	67,973	2,611,298	16.81	2.5
Newington	19,668	82	128,000	63,573	60,892	2,395,230	19.57	2.6
Newtown	22,747	46	315,000	66,408	65,267	3,114,739	16.45	2.4
Norfolk	22,215	54	N/A	4,989	5,076	229,289	16.48	2.4
North Branford	19,408	87	154,500	31,321	32,048	1,095,203	18.10	2.5
North Canaan	15,049	149	115,625	7,543	7,455	312,021	14.23	1.9
North Haven	21,335	61	167,950	61,323	60,704	2,901,128	16.50	2.4
North Stonington	18,019	110	152,500	13,738	13,503	450,248	18.85	2.6
Norwalk	23,075	43	N/A	207,592	202,231	9,035,556	18.48	2.8
Norwich	14,844	151	N/A	84,715	81,081	1,647,369	23.32	3.6
Old Lyme	25,258	31	175,000	20,057	19,651	1,253,570	14.41	1.8
Old Saybrook	24,409	35	N/A	24,716	23,698	1,557,766	13.36	1.8
Orange	26,860	27	247,500	36,120	36,787	1,871,270	16.97	2.0
Oxford	18,961	94	230,000	23,153	21,999	964,756	17.18	3.2
Plainfield	12,935	168	99,500	33,671	33,452	753,222	16.61	3.5
Plainville	17,207	124	110,000	40,134	37,588	1,235,430	21.56	3.6
Plymouth	16,610	136	113,500	28,926	27,303	726,439	22.45	4.1
Pomfret	19,777	80	156,000	7,864	7,219	274,314	14.99	2.4
Portland	19,641	84	170,000	20,263	19,151	717,842	20.38	2.7
Preston	17,643	118	152,000	10,364	10,117	313,848	13.95	2.2
Prospect	17,482	120	170,000	16,890	17,258	714,504	16.48	2.9
Putnam	14,550	155	N/A	17,154	16,957	481,527	11.11	3.8
Redding	37,193	8	445,000	26,627	24,842	1,618,275	14.61	2.1
Ridgefield	34,103	10	450,000	70,942	68,786	4,841,280	12.39	1.8

## Economic Report of the Governor

<u>Town</u>	1989 Per Capita Money Income	Rank	2000* Median Sales Price	FY 2001 GF Revenue (1000's)	FY 2001 GF Outlay (1000's)	2001 ENGL (1000's)	2001 Equal. Mill Rate	2001 Unemp. Rate (%)
Rocky Hill	21,918	56	N/A	39,050	38,389	1,646,900	18.75	2.3
Roxbury	28,024	23	383,250	6,660	5,641	511,144	10.95	1.4
Salem	17,990	111	163,750	9,908	10,055	309,776	19.04	2.4
Salisbury	32,706	12	212,500	9,406	8,765	732,007	10.70	1.3
Scotland	15,765	143	N/A	3,914	3,893	95,794	21.86	1.8
Seymour	18,031	107	141,000	34,606	33,418	1,108,467	17.41	3.9
Sharon	31,115	14	N/A	6,660	6,554	489,266	11.46	1.0
Shelton	20,256	71	205,000	76,939	74,501	4,385,847	13.67	3.4
Sherman	31,721	13	N/A	8,044	7,804	524,055	12.94	1.7
Simsbury	28,347	20	221,900	58,867	57,199	2,543,166	20.08	1.5
Somers	18,592	100	188,000	20,882	20,345	726,298	14.93	2.3
South Windsor	22,823	45	149,900	62,502	60,280	2,175,199	21.73	2.2
Southbury	22,569	50	185,000	38,229	35,830	2,481,593	13.58	3.0
Southington	19,954	77	155,843	85,167	82,475	3,300,924	16.93	2.9
Sprague	14,531	157	117,500	6,090	5,720	200,947	14.95	4.7
Stafford	15,550	147	111,500	26,144	26,730	705,909	17.95	3.3
Stamford	27,092	24	N/A	313,344	284,892	15,420,005	16.58	2.7
Sterling	13,174	164	118,000	6,158	6,016	182,574	14.83	4.1
Stonington	20,808	64	154,000	40,684	40,618	2,199,232	14.20	1.9
Stratford	18,574	101	155,000	122,956	122,894	4,415,836	21.23	3.9
Suffield	24,281	36	N/A	30,713	27,494	1,017,878	18.66	2.7
Thomaston	17,833	112	N/A	18,032	16,633	531,012	20.53	4.0
Thompson	14,367	158	111,750	16,363	14,765	531,638	13.67	3.4
Tolland	19,794	79	168,250	31,166	30,314	1,077,786	18.78	1.9
Torrington	16,407	139	N/A	82,408	80,309	2,067,407	23.44	4.0
Trumbull	25,048	33	280,000	87,509	85,575	4,801,965	15.64	2.9
Union	16,667	135	N/A	1,639	1,606	66,202	15.63	2.5
Vernon	18,888	95	123,500	60,115	58,906	1,605,827	21.99	2.6
Voluntown	14,766	153	124,950	5,881	5,831	156,995	16.14	4.2
Wallingford	18,231	105	152,000	99,779	95,561	3,723,201	17.08	3.0
Warren	28,226	22	292,000	2,909	2,798	291,140	8.86	1.9
Washington	29,274	18	N/A	9,995	9,096	827,184	10.72	2.0
Waterbury	14,209	159	85,000	255,849	279,497	4,567,623	29.64	6.0
Waterford	19,537	86	129,000	60,339	52,762	4,753,054	11.06	2.5
Watertown	17,778	115	N/A	44,748	45,648	1,700,124	15.85	3.4
West Hartford	26,943	25	N/A	142,892	144,736	5,124,373	23.91	2.2
West Haven	15,810	142	116,000	113,746	113,899	2,657,736	23.48	3.6
Westbrook	20,758	66	165,000	15,564	15,115	938,213	12.81	2.5
Weston	48,498	3	N/A	38,885	38,997	2,389,625	14.85	1.9
Westport	45,640	5	N/A	104,346	107,694	7,758,037	11.13	2.0

## Economic Report of the Governor

<u>Town</u>	1989 Per Capita Money <u>Income</u>	<u>Rank</u>	2000* Median Sales <u>Price</u>	FY 2001 GF Revenue <u>(1000's)</u>	FY 2001 GF Outlay <u>(1000's)</u>	2001 ENGL <u>(1000's)</u>	2001 Equal. Mill <u>Rate</u>	2001 Unemp. Rate <u>(%)</u>
Wethersfield	22,246	52	N/A	51,704	49,992	2,043,398	21.48	2.5
Willington	16,738	132	N/A	11,613	11,406	394,263	18.05	2.1
Wilton	41,249	6	530,000	63,524	63,659	4,372,392	12.36	1.9
Winchester	16,741	131	99,000	24,353	23,931	626,096	22.84	4.2
Windham	13,200	163	89,250	52,870	50,646	804,201	22.50	4.3
Windsor	19,592	85	N/A	66,627	59,598	2,419,305	20.38	3.0
Windsor Locks	17,593	119	N/A	31,487	27,089	1,323,942	14.95	3.0
Wolcott	18,029	108	139,075	37,284	36,847	1,065,655	19.45	3.1
Woodbridge	38,008	7	319,500	27,891	27,476	1,267,243	19.63	1.6
Woodbury	25,096	32	N/A	18,242	18,515	947,177	16.86	2.5
Woodstock	18,649	99	136,950	14,982	14,687	547,726	15.61	2.8

\* 2000 Median Residential Sales Prices are calculated by the Connecticut Economic Policy Council based on data from October 1, 1999 through September 30, 2000 provided by Office of Policy & Management.

Source: Connecticut Economic Policy Council (CEPC)  
Office of Policy and Management, Intergovernmental Policy Division, "Municipal Fiscal Indicators, Fiscal Year Ended, 1997-2001", October 2002

**Economic Report of the Governor**

**MAJOR U.S. ECONOMIC INDICATORS - FISCAL YEAR BASIS**

**TABLE 1  
U.S. ECONOMIC VARIABLES**

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Gross Domestic Product (\$B)	6,483.5	6,838.6	7,238.5	7,593.6	8,061.1	8,548.7	9,016.4	9,575.8	9,976.6	10,235.2
Percent Change	5.6%	5.5%	5.8%	4.9%	6.2%	6.0%	5.5%	6.2%	4.2%	2.6%
Real GDP	6,977.5	7,197.6	7,455.8	7,665.7	7,980.4	8,332.2	8,676.3	9,057.5	9,221.4	9,297.7
Percent Change	3.2%	3.2%	3.6%	2.8%	4.1%	4.4%	4.1%	4.4%	1.8%	0.8%
GDP Deflator ('96=100)	93.0	95.0	97.0	99.0	101.0	102.5	104.0	105.8	108.3	110.0
Percent Change	2.5%	2.2%	2.1%	2.1%	2.0%	1.5%	1.5%	1.7%	2.4%	1.6%
Housing Starts (K)	1,212.5	1,397.5	1,382.5	1,450.0	1,457.5	1,530.0	1,657.5	1,637.5	1,567.5	1,642.5
Percent Change	7.3%	15.3%	-1.1%	4.9%	0.5%	5.0%	8.3%	-1.2%	-4.3%	4.8%
Unemployment Rate	7.3%	6.6%	5.7%	5.6%	5.2%	4.7%	4.4%	4.1%	4.2%	5.5%
New Vehicle Sales (M)	13.31	14.60	14.90	15.08	15.01	15.36	16.05	17.52	16.89	16.91
Percent Change	5.7%	9.7%	2.1%	1.2%	-0.4%	2.3%	4.5%	9.2%	-3.6%	0.1%
Consumer Price Index ('82-'84=100)	142.5	146.5	150.5	154.5	159.0	162.0	164.5	169.0	175.0	178.3
Percent Change	2.9%	2.8%	2.7%	2.7%	2.9%	1.9%	1.5%	2.7%	3.6%	1.9%
Industrial Production Index ('92=100)	102.3	105.5	112.3	116.8	123.8	132.0	136.5	143.0	144.3	138.8
Percent Change	3.8%	3.2%	6.4%	4.0%	6.0%	6.7%	3.4%	4.8%	0.9%	-3.8%
Personal Income (\$B)	5,498.4	5,738.3	6,062.7	6,361.3	6,736.6	7,178.5	7,611.1	8,082.4	8,599.7	8,781.1
Percent Change	5.2%	4.4%	5.7%	4.9%	5.9%	6.6%	6.0%	6.2%	6.4%	2.1%
Real Personal Income (\$B)	3,858.5	3,916.9	4,028.4	4,117.3	4,236.9	4,431.2	4,626.8	4,782.5	4,914.1	4,926.3
Percent Change	2.2%	1.5%	2.8%	2.2%	2.9%	4.6%	4.4%	3.4%	2.8%	0.2%
Disposable Personal Income (\$B)	4,844.3	5,035.6	5,314.0	5,540.2	5,820.3	6,159.9	6,496.2	6,857.9	7,276.4	7,592.2
Percent Change	5.1%	3.9%	5.5%	4.3%	5.1%	5.8%	5.5%	5.6%	6.1%	4.3%
Disposable Personal Income (\$B in 1996\$)	5,221.4	5,319.9	5,484.7	5,600.8	5,758.2	6,010.7	6,261.5	6,465.6	6,695.5	6,894.1
Percent Change	2.3%	1.9%	3.1%	2.1%	2.8%	4.4%	4.2%	3.3%	3.6%	3.0%

**Economic Report of the Governor**

**MAJOR U.S. ECONOMIC INDICATORS - FISCAL YEAR BASIS**

**TABLE 2  
U.S. PERSONAL INCOME  
(BILLIONS OF DOLLARS)**

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Personal Income	5,498.4	5,738.3	6,062.7	6,361.3	6,736.6	7,178.5	7,611.1	8,082.4	8,599.7	8,781.1
Percent Change	5.2%	4.4%	5.7%	4.9%	5.9%	6.6%	6.0%	6.2%	6.4%	2.1%
Wages & Salaries	3,028.1	3,163.8	3,337.1	3,517.4	3,752.1	4,040.1	4,336.4	4,653.3	4,928.6	4,960.0
Percent Change	4.7%	4.5%	5.5%	5.4%	6.7%	7.7%	7.3%	7.3%	5.9%	0.6%
Manufacturing Income	585.3	607.3	637.2	657.9	695.1	741.3	767.5	810.4	815.1	768.6
Percent Change	2.4%	3.8%	4.9%	3.2%	5.7%	6.6%	3.5%	5.6%	0.6%	-5.7%
Nonmanufacturing Inc.	2,442.8	2,556.6	2,699.9	2,859.5	3,057.0	3,298.9	3,568.9	3,842.9	4,113.5	4,191.4
Percent Change	5.3%	4.7%	5.6%	5.9%	6.9%	7.9%	8.2%	7.7%	7.0%	1.9%
Other Labor Income	466.5	498.4	504.7	491.5	484.7	478.8	500.2	525.4	559.8	585.9
Percent Change	8.0%	6.8%	1.3%	-2.6%	-1.4%	-1.2%	4.5%	5.0%	6.5%	4.7%
Proprietor's Income	451.1	468.8	484.6	520.8	563.1	600.8	651.1	700.4	721.4	739.9
Percent Change	10.4%	3.9%	3.4%	7.5%	8.1%	6.7%	8.4%	7.6%	3.0%	2.6%
Farm Income	32.4	32.8	23.6	28.8	32.5	26.9	28.3	24.6	20.1	16.9
Percent Change	11.4%	1.2%	-28.1%	22.3%	12.8%	-17.1%	5.1%	-13.0%	-18.2%	-15.9%
Nonfarm Income	418.7	436.0	461.0	492.0	530.7	573.9	622.8	675.7	701.3	723.0
Percent Change	10.4%	4.1%	5.7%	6.7%	7.9%	8.1%	8.5%	8.5%	3.8%	3.1%
Rental Income	76.2	99.6	115.8	124.3	130.2	129.4	147.4	149.0	139.9	143.7
Percent Change	27.8%	30.6%	16.3%	7.3%	4.7%	-0.6%	13.9%	1.1%	-6.1%	2.7%
Personal Dividend Inc.	193.4	217.7	247.2	273.2	316.5	346.5	337.3	344.3	397.9	420.6
Percent Change	7.4%	12.6%	13.5%	10.5%	15.8%	9.5%	-2.7%	2.1%	15.6%	5.7%
Personal Interest Income	737.6	719.1	776.2	799.1	832.0	917.0	966.6	1,017.6	1,102.6	1,077.9
Percent Change	-3.5%	-2.5%	7.9%	3.0%	4.1%	10.2%	5.4%	5.3%	8.4%	-2.2%
Transfer Payments	777.1	719.1	858.8	909.1	946.8	973.0	999.2	1,040.5	1,116.3	1,230.5
Percent Change	9.1%	5.1%	5.2%	5.9%	4.1%	2.8%	2.7%	4.1%	7.3%	10.2%

Economic Report of the Governor

MAJOR U.S. ECONOMIC INDICATORS - FISCAL YEAR BASIS

TABLE 3  
U.S. PERSONAL INCOME AND ITS DISPOSITION  
(BILLIONS OF DOLLARS)

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Less:										
Contributions to										
Social Insurance	231.7	245.7	261.6	274.1	288.9	307.2	327.0	348.0	366.7	377.4
Percent Change	4.9%	6.1%	6.5%	4.8%	5.4%	6.3%	6.5%	6.4%	5.4%	2.9%
Equals:										
Personal Income	5,498.4	5,738.3	6,062.7	6,361.3	6,736.6	7,178.5	7,611.1	8,082.4	8,599.7	8,781.1
Percent Change	5.2%	4.4%	5.7%	4.9%	5.9%	6.6%	6.0%	6.2%	6.4%	2.1%
Less:										
Personal Taxes	654.0	702.8	748.8	821.1	916.4	1,018.7	1,114.9	1,224.6	1,323.3	1,188.9
Percent Change	5.6%	7.5%	6.5%	9.7%	11.6%	11.2%	9.5%	9.8%	8.1%	-10.2%
Equals:										
Disposable Personal Inc.	4,844.3	5,035.6	5,314.0	5,540.2	5,820.3	6,159.9	6,496.2	6,857.9	7,276.4	7,592.2
Percent Change	5.1%	3.9%	5.5%	4.3%	5.1%	5.8%	5.5%	5.6%	6.1%	4.3%
Less:										
Personal Outlays	4,329.0	4,584.6	4,846.7	5,103.0	5,375.6	5,689.1	6,039.1	6,476.2	6,852.1	7,128.1
Percent Change	6.1%	5.9%	5.7%	5.3%	5.3%	5.8%	6.2%	7.2%	5.8%	4.0%
Equals:										
Personal Savings	385.0	320.9	326.4	276.9	267.9	277.6	255.7	162.3	183.6	235.7
Percent Change	-2.9%	-16.6%	1.7%	-15.2%	-3.3%	3.6%	-7.9%	-36.5%	13.1%	28.4%
Personal Savings Rate	8.0%	6.4%	6.2%	5.0%	4.6%	4.5%	4.0%	2.4%	2.5%	3.1%

**Economic Report of the Governor**

**MAJOR U.S. ECONOMIC INDICATORS - FISCAL YEAR BASIS**

**TABLE 4  
U.S. EMPLOYMENT AND THE LABOR FORCE  
(TENS OF THOUSANDS OF JOBS)**

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Establishment Employ.	10,946.0	11,226.0	11,591.3	11,826.3	12,109.0	12,431.0	12,736.3	13,053.5	13,217.0	13,113.5
Percent Change	1.1%	2.6%	3.3%	2.0%	2.4%	2.7%	2.5%	2.5%	1.3%	-0.8%
Nonmanufacturing	9,138.0	9,411.3	9,742.5	9,977.5	10,253.5	10,550.3	10,869.5	11,202.5	11,393.0	11,404.3
Percent Change	1.5%	3.0%	3.5%	2.4%	2.8%	2.9%	3.0%	3.1%	1.7%	0.1%
Private Est. Employment	9,072.5	9,329.8	9,668.3	9,891.8	10,163.8	10,464.8	10,736.0	11,001.5	11,144.8	11,001.8
Percent Change	1.1%	2.8%	3.6%	2.3%	2.7%	3.0%	2.6%	2.5%	1.3%	-1.3%
Goods Producing	2,324.0	2,357.8	2,417.3	2,433.0	2,471.0	2,524.3	2,546.3	2,561.5	2,548.8	2,427.3
Percent Change	-0.8%	1.5%	2.5%	0.7%	1.6%	2.2%	0.9%	0.6%	-0.5%	-4.8%
Manufacturing	1,808.0	1,814.8	1,848.8	1,848.8	1,855.5	1,880.8	1,866.8	1,851.0	1,824.0	1,709.3
Percent Change	-0.8%	0.4%	1.9%	0.0%	0.4%	1.4%	-0.7%	-0.8%	-1.5%	-6.3%
Construction	454.0	482.5	509.3	526.5	556.8	583.5	623.3	657.3	669.0	661.5
Percent Change	0.1%	6.3%	5.5%	3.4%	5.7%	4.8%	6.8%	5.5%	1.8%	-1.1%
Mining	62.0	60.5	59.3	57.8	58.8	60.0	56.3	53.3	55.8	56.5
Percent Change	-5.7%	-2.4%	-2.1%	-2.5%	1.7%	2.1%	-6.3%	-5.3%	4.7%	1.3%
Private Service										
Producing Employment	6,748.5	6,972.5	7,250.8	7,458.3	7,692.8	7,940.8	8,190.0	8,440.3	8,596.3	8,574.5
Percent Change	1.8%	3.3%	4.0%	2.9%	3.1%	3.2%	3.1%	3.1%	1.8%	-0.3%
Trans. & Public Utility	575.5	588.8	607.0	619.0	633.3	649.5	672.3	694.0	710.8	690.3
Percent Change	0.5%	2.3%	3.1%	2.0%	2.3%	2.6%	3.5%	3.2%	2.4%	-2.9%
Wholesale & Retail	2,547.8	2,615.8	2,719.3	2,778.5	2,837.8	2,885.8	2,941.3	3,007.8	3,035.3	3,012.0
Percent Change	0.6%	2.7%	4.0%	2.2%	2.1%	1.7%	1.9%	2.3%	0.9%	-0.8%
Finance, Insurance										
& Real Estate	665.5	686.8	684.0	684.0	700.0	724.8	749.5	756.8	764.0	774.0
Percent Change	0.9%	3.2%	-0.4%	0.0%	2.3%	3.5%	3.4%	1.0%	1.0%	1.3%
Other Services	2,959.8	3,081.3	3,240.5	3,376.8	3,521.8	3,680.8	3,827.0	3,981.8	4,086.3	4,098.3
Percent Change	3.4%	4.1%	5.2%	4.2%	4.3%	4.5%	4.0%	4.0%	2.6%	0.3%
Government	1,873.5	1,895.8	1,923.3	1,934.5	1,945.8	1,966.0	1,999.5	2,052.3	2,073.0	2,111.8
Percent Change	1.2%	1.2%	1.5%	0.6%	0.6%	1.0%	1.7%	2.6%	1.0%	1.9%
Civilian Labor Force	13,058.0	13,249.3	13,423.0	13,571.5	13,754.8	13,960.3	14,174.5	14,372.3	14,529.8	14,689.0
Percent Change	1.5%	1.5%	1.3%	1.1%	1.4%	1.5%	1.5%	1.4%	1.1%	1.1%
Unemployment Rate	7.3%	6.6%	5.7%	5.6%	5.2%	4.7%	4.4%	4.1%	4.2%	5.5%

## Economic Report of the Governor

### MAJOR U.S. ECONOMIC INDICATORS - FISCAL YEAR BASIS

**TABLE 5**  
**CONSUMER PRICE INDEXES**  
**(1982-1984 = 100)**

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
All Items – Urban Consumers	142.5	146.2	150.4	154.5	158.9	161.8	164.6	169.3	175.1	178.2
Percent Change	3.1%	2.6%	2.8%	2.7%	2.8%	1.8%	1.7%	2.9%	3.4%	1.8%
Food & Beverages	140.1	143.1	147.0	150.8	156.1	159.4	162.9	166.2	170.9	175.6
Percent Change	1.8%	2.2%	2.7%	2.6%	3.5%	2.1%	2.2%	2.0%	2.8%	2.7%
Housing	139.4	143.1	146.5	150.6	154.9	158.5	162.1	166.3	173.4	178.2
Percent Change	2.8%	2.7%	2.4%	2.8%	2.9%	2.4%	2.2%	2.6%	4.2%	2.8%
Energy	104.4	103.7	105.8	107.0	111.6	107.6	101.9	115.9	131.7	121.0
Percent Change	2.6%	-0.7%	2.1%	1.1%	4.3%	-3.6%	-5.3%	13.7%	13.6%	-8.1%
Commodities	134.1	136.0	138.3	140.5	141.9	142.6	143.7	144.5	145.2	144.6
Percent Change	2.6%	1.5%	1.6%	1.6%	1.0%	0.5%	0.8%	0.6%	0.5%	-0.4%
Apparel	133.0	133.8	132.5	132.1	132.1	132.9	132.2	130.6	128.9	125.3
Percent Change	1.8%	0.6%	-1.0%	-0.3%	0.0%	0.6%	-0.5%	-1.2%	-1.3%	-2.7%
Transportation	128.7	131.9	137.5	140.7	144.2	143.0	141.6	149.4	155.3	151.8
Percent Change	3.2%	2.5%	4.3%	2.4%	2.5%	-0.9%	-0.9%	5.5%	3.9%	-2.2%
Services	154.9	160.6	165.8	171.3	176.9	181.9	186.5	191.7	199.6	206.5
Percent Change	3.8%	3.7%	3.2%	3.3%	3.3%	2.8%	2.5%	2.8%	4.1%	3.5%
Medical Care	195.9	206.2	216.0	224.6	231.6	238.0	246.3	255.4	266.7	278.9
Percent Change	6.6%	5.3%	4.7%	4.0%	3.1%	2.8%	3.5%	3.7%	4.4%	4.6%
Other Goods & Services	189.3	194.9	202.6	211.3	219.7	230.8	248.3	264.9	276.3	288.6
Percent Change	6.6%	2.9%	4.0%	4.3%	4.0%	5.0%	7.6%	6.7%	4.3%	4.5%

Economic Report of the Governor

MAJOR CONNECTICUT ECONOMIC INDICATORS - FISCAL YEAR BASIS

TABLE 6  
PERSONAL INCOME  
(BILLIONS \$-SAAR)

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Personal Income	95.18	98.49	102.26	106.65	112.83	120.46	127.72	135.84	144.66	145.84
Percent Change	5.2%	3.5%	3.8%	4.3%	5.8%	6.8%	6.0%	6.4%	6.5%	0.8%
Disposable										
Personal Income	81.55	84.27	87.14	89.93	93.56	98.55	103.77	109.04	115.55	120.19
Percent Change	4.3%	3.3%	3.4%	3.2%	4.0%	5.3%	5.3%	5.1%	6.0%	4.0%
Total Wages	54.68	56.66	58.75	62.29	66.85	72.15	77.12	82.46	87.62	87.28
Percent Change	3.7%	3.6%	3.7%	6.0%	7.3%	7.9%	6.9%	6.9%	6.3%	-0.4%
Manufacturing Wages	12.90	12.91	13.11	13.63	14.60	15.56	16.35	16.62	17.20	15.95
Percent Change	-0.6%	0.0%	1.6%	4.0%	7.1%	6.6%	5.1%	1.6%	3.5%	-7.3%
Nonmanufacturing										
Wages	41.78	43.76	45.64	48.66	52.25	56.59	60.77	65.84	70.42	71.32
Percent Change	5.1%	4.7%	4.3%	6.6%	7.4%	8.3%	7.4%	8.3%	7.0%	1.3%
Other Labor Income	7.86	8.22	8.13	8.12	8.03	7.76	8.06	8.47	9.16	9.52
Percent Change	5.6%	4.6%	-1.1%	-0.1%	-1.2%	-3.3%	3.8%	5.1%	8.2%	3.9%
Proprietor's Income	7.02	7.56	7.97	7.97	8.47	9.40	10.40	11.43	11.78	12.10
Percent Change	16.7%	7.7%	5.3%	0.0%	6.2%	11.1%	10.6%	9.9%	3.1%	2.7%
Property Income	18.03	18.37	19.27	19.73	20.82	22.46	23.66	24.90	27.05	26.88
Percent Change	1.7%	1.9%	4.9%	2.4%	5.6%	7.9%	5.4%	5.2%	8.6%	-0.6%
Transfer Payments										
Less Social Insurance	7.59	7.68	8.15	8.55	8.67	8.69	8.48	8.58	9.05	10.06
Percent Change	15.1%	1.1%	6.1%	4.9%	1.4%	0.3%	-2.5%	1.2%	5.4%	11.2%
Transfer Payments	11.58	11.87	12.56	13.22	13.64	14.01	14.13	14.59	15.38	16.49
Percent Change	10.9%	2.5%	5.8%	5.3%	3.2%	2.7%	0.9%	3.2%	5.4%	7.2%
Social Insurance	3.99	4.19	4.41	4.68	4.98	5.32	5.65	6.00	6.33	6.43
Percent Change	3.6%	5.2%	5.2%	6.0%	6.4%	6.9%	6.3%	6.2%	5.5%	1.5%

## Economic Report of the Governor

### MAJOR CONNECTICUT ECONOMIC INDICATORS - FISCAL YEAR BASIS

**TABLE 7**  
**DEFLATED PERSONAL INCOME**  
**(BILLIONS '96\$-SAAR)**

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Personal Income	102.35	103.67	105.43	107.73	111.71	117.52	122.81	128.45	133.64	132.58
Percent Change	2.6%	1.3%	1.7%	2.2%	3.7%	5.2%	4.5%	4.6%	4.0%	-0.8%
Disposable										
Personal Income	87.69	88.70	89.84	90.84	92.64	96.15	99.78	103.11	106.74	109.26
Percent Change	1.8%	1.2%	1.3%	1.1%	2.0%	3.8%	3.8%	3.3%	3.5%	2.4%
Total Wages	58.80	59.65	60.57	62.92	66.19	70.39	74.16	77.97	80.95	79.34
Percent Change	1.2%	1.4%	1.5%	3.9%	5.2%	6.3%	5.4%	5.1%	3.8%	-2.0%
Manufacturing Wages	13.87	13.59	13.51	13.77	14.45	15.18	15.72	15.72	15.89	14.50
Percent Change	-3.0%	-2.1%	-0.5%	1.9%	5.0%	5.0%	3.6%	0.0%	1.1%	-8.7%
Nonmanufacturing Wages	44.93	46.06	47.05	49.15	51.74	55.21	58.44	62.26	65.06	64.84
Percent Change	2.5%	2.5%	2.2%	4.5%	5.3%	6.7%	5.8%	6.5%	4.5%	-0.3%
Other Labor Income	8.45	8.65	8.38	8.20	7.95	7.57	7.75	8.01	8.46	8.65
Percent Change	3.0%	2.4%	-3.1%	-2.1%	-3.2%	-4.7%	2.3%	3.4%	5.7%	2.2%
Proprietor's Income	7.55	7.96	8.21	8.05	8.38	9.17	10.00	10.80	10.88	11.00
Percent Change	13.9%	5.4%	3.2%	-2.0%	4.1%	9.5%	9.0%	8.1%	0.7%	1.1%
Property Income	19.38	19.33	19.86	19.93	20.61	21.91	22.75	23.55	24.99	24.44
Percent Change	-0.8%	-0.3%	2.8%	0.3%	3.5%	6.3%	3.8%	3.5%	6.1%	-2.2%
Transfer Payments										
Less Social Insurance	8.16	8.08	8.40	8.63	8.58	8.48	8.15	8.12	8.36	9.15
Percent Change	12.4%	-1.0%	3.9%	2.8%	-0.6%	-1.2%	-3.9%	-0.4%	3.0%	9.5%
Transfer Payments	12.45	12.49	12.95	13.36	13.51	13.67	13.59	13.79	14.21	14.99
Percent Change	8.2%	0.4%	3.6%	3.2%	1.1%	1.2%	-0.6%	1.5%	3.0%	5.5%
Social Insurance	4.29	4.41	4.55	4.72	4.93	5.19	5.44	5.68	5.85	5.84
Percent Change	1.1%	3.0%	3.1%	3.9%	4.3%	5.3%	4.8%	4.4%	3.0%	-0.1%

Note: All categories are deflated by GDP Price Index (1996 = 100).

**Economic Report of the Governor**

**MAJOR CONNECTICUT ECONOMIC INDICATORS - FISCAL YEAR BASIS**

**TABLE 8  
MANUFACTURING EMPLOYMENT  
(THOUSANDS -SA)**

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Manufacturing	299.56	288.82	282.76	276.02	274.98	277.62	272.96	264.66	261.13	246.48
Percent Change	-4.5%	-3.6%	-2.1%	-2.4%	-0.4%	1.0%	-1.7%	-3.0%	-1.3%	-5.6%
Food & Products	9.85	9.82	9.65	8.99	8.61	8.14	7.99	8.13	7.89	7.89
Percent Change	-3.4%	-0.3%	-1.8%	-6.8%	-4.3%	-5.4%	-1.8%	1.8%	-3.0%	0.0%
Textile Mill Products	2.34	2.41	2.43	2.08	2.05	2.05	2.16	2.16	2.05	1.72
Percent Change	-6.8%	3.1%	0.7%	-14.5%	-1.1%	-0.1%	5.1%	0.2%	-5.0%	-16.4%
Apparel & Other	4.79	4.85	4.89	4.54	4.58	4.57	3.95	3.09	2.92	2.77
Percent Change	-0.9%	1.3%	0.9%	-7.1%	0.8%	-0.1%	-13.6%	-21.8%	-5.5%	-5.1%
Paper & Products	8.33	8.29	8.18	7.97	7.90	7.92	7.81	7.94	7.59	7.03
Percent Change	-2.7%	-0.5%	-1.3%	-2.6%	-0.9%	0.3%	-1.5%	1.7%	-4.4%	-7.4%
Printing & Publishing	24.88	25.37	25.34	25.21	25.34	25.99	25.63	24.50	23.52	21.59
Percent Change	-0.2%	2.0%	-0.1%	-0.5%	0.5%	2.6%	-1.4%	-4.4%	-4.0%	-8.2%
Chemicals	20.90	20.01	19.79	19.95	20.17	20.64	21.64	22.61	22.60	22.23
Percent Change	-4.5%	-4.2%	-1.1%	0.8%	1.1%	2.3%	4.9%	4.5%	0.0%	-1.7%
Rubber & Plastics	11.36	11.42	11.05	10.67	10.61	10.75	10.44	10.13	10.42	10.11
Percent Change	3.5%	0.5%	-3.2%	-3.5%	-0.6%	1.3%	-2.8%	-3.0%	2.9%	-3.0%
Primary Metals	9.14	9.03	9.26	9.14	9.05	9.30	9.43	9.27	9.24	8.23
Percent Change	-6.0%	-1.2%	2.6%	-1.3%	-1.0%	2.8%	1.3%	-1.6%	-0.3%	-11.0%
Fabricated Metals	33.38	33.63	34.45	33.90	34.37	35.08	34.66	33.76	32.90	30.49
Percent Change	-0.6%	0.7%	2.4%	-1.6%	1.4%	2.1%	-1.2%	-2.6%	-2.6%	-7.3%
Nonelectrical Mach.	36.63	35.61	35.25	35.10	34.44	35.01	33.97	32.90	32.45	29.92
Percent Change	-3.7%	-2.8%	-1.0%	-0.4%	-1.9%	1.7%	-3.0%	-3.2%	-1.4%	-7.8%
Electrical Machinery	28.54	27.70	27.77	27.87	28.63	28.91	27.75	26.86	27.27	24.94
Percent Change	-4.6%	-2.9%	0.2%	0.4%	2.7%	1.0%	-4.0%	-3.2%	1.5%	-8.5%
Transportation Equipment	66.68	59.40	54.74	51.32	50.26	50.24	49.72	46.14	46.09	45.89
Percent Change	-10.6%	-10.9%	-7.8%	-6.2%	-2.1%	0.0%	-1.0%	-7.2%	-0.1%	-0.4%
Instruments	26.83	25.39	23.45	22.92	22.46	22.27	21.11	19.95	19.31	18.29
Percent Change	-3.7%	-5.4%	-7.7%	-2.3%	-2.0%	-0.8%	-5.2%	-5.5%	-3.2%	-5.3%

**Economic Report of the Governor**

**MAJOR CONNECTICUT ECONOMIC INDICATORS - FISCAL YEAR BASIS**

**TABLE 9  
NONMANUFACTURING EMPLOYMENT  
(THOUSANDS -SA)**

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Nonmanufacturing	1,228.1	1,244.3	1,273.9	1,292.5	1,324.5	1,350.0	1,384.1	1,417.8	1,431.4	1,429.5
Percent Change	0.6%	1.3%	2.4%	1.5%	2.5%	1.9%	2.5%	2.4%	1.0%	-0.1%
Construction										
& Mining	48.62	48.69	51.50	51.09	55.59	58.47	60.82	64.37	65.93	65.76
Percent Change	-1.2%	0.1%	5.8%	-0.8%	8.8%	5.2%	4.0%	5.8%	2.4%	-0.3%
Transportation,										
Public Utilities &										
Communications	68.50	70.07	71.03	72.23	74.37	75.52	76.63	78.34	79.92	77.02
Percent Change	-0.2%	2.3%	1.4%	1.7%	3.0%	1.5%	1.5%	2.2%	2.0%	-3.6%
Transportation	38.41	39.72	41.03	42.13	43.26	44.01	45.12	45.77	46.32	44.55
Percent Change	-0.9%	3.4%	3.3%	2.7%	2.7%	1.7%	2.5%	1.4%	1.2%	-3.8%
Communications	16.72	16.94	17.16	17.36	18.71	19.05	18.83	19.63	20.94	20.33
Percent Change	0.0%	1.3%	1.3%	1.2%	7.8%	1.8%	-1.2%	4.2%	6.7%	-2.9%
Public Utilities	13.37	13.41	12.84	12.73	12.40	12.46	12.68	12.94	12.66	12.15
Percent Change	1.7%	0.3%	-4.2%	-0.9%	-2.6%	0.5%	1.8%	2.1%	-2.2%	-4.1%
Wholesale & Retail										
Trade	330.16	331.65	338.79	343.45	349.98	353.47	357.70	362.49	360.83	358.74
Percent Change	-1.3%	0.5%	2.2%	1.4%	1.9%	1.0%	1.2%	1.3%	-0.5%	-0.6%
Finance, Insurance										
& Real Estate	140.73	138.30	133.79	132.46	131.79	133.31	139.25	140.59	142.24	142.28
Percent Change	-2.8%	-1.7%	-3.3%	-1.0%	-0.5%	1.2%	4.5%	1.0%	1.2%	0.0%
Finance &										
Real Estate	62.86	63.44	61.18	61.35	62.53	64.07	67.72	69.25	70.40	70.33
Percent Change	0.0%	0.9%	-3.6%	0.3%	1.9%	2.5%	5.7%	2.3%	1.7%	-0.1%
Insurance	77.88	74.86	72.62	71.11	69.26	69.24	71.53	71.34	71.84	71.95
Percent Change	-4.9%	-3.9%	-3.0%	-2.1%	-2.6%	0.0%	3.3%	-0.3%	0.7%	0.2%
Services	431.87	442.29	458.61	471.65	488.16	503.39	518.16	532.46	540.25	539.29
Percent Change	3.5%	2.4%	3.7%	2.8%	3.5%	3.1%	2.9%	2.8%	1.5%	-0.2%
Government	208.22	213.26	220.12	221.59	224.59	225.84	231.53	239.58	242.19	246.39
Percent Change	0.6%	2.4%	3.2%	0.7%	1.4%	0.6%	2.5%	3.5%	1.1%	1.7%

**Economic Report of the Governor**

**MAJOR CONNECTICUT ECONOMIC INDICATORS - FISCAL YEAR BASIS**

**TABLE 10  
LABOR FORCE & OTHER ECONOMIC INDICATORS  
(THOUSANDS -SA)**

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Labor Force	1,799.3	1,756.4	1,716.8	1,712.2	1,727.2	1,714.5	1,703.3	1,729.7	1,735.9	1,711.5
Percent Change	-1.8%	-2.4%	-2.3%	-0.3%	0.9%	-0.7%	-0.6%	1.5%	0.4%	-1.4%
Nonagricultural Employment	1,527.7	1,533.1	1,556.6	1,568.5	1,599.4	1,627.6	1,657.0	1,682.5	1,692.5	1,676.0
Percent Change	-0.5%	0.4%	1.5%	0.8%	2.0%	1.8%	1.8%	1.5%	0.6%	-1.0%
Residential Employment	1,675.4	1,653.7	1,623.4	1,614.8	1,629.9	1,644.9	1,647.2	1,684.2	1,692.3	1,648.7
Percent Change	-1.1%	-1.3%	-1.8%	-0.5%	0.9%	0.9%	0.1%	2.2%	0.5%	-2.6%
Unemployed	123.9	102.7	93.4	97.4	97.3	69.5	56.1	45.5	43.6	62.9
Percent Change	-10.1%	-17.1%	-9.0%	4.3%	-0.1%	-28.5%	-19.3%	-18.9%	-4.1%	44.1%
Unemployment Rate	6.9%	5.9%	5.4%	5.7%	5.6%	4.1%	3.3%	2.6%	2.5%	3.7%
Households	1,242.4	1,241.0	1,245.7	1,257.1	1,268.4	1,278.0	1,289.2	1,300.4	1,307.5	1,312.3
Percent Change	0.1%	-0.1%	0.4%	0.9%	0.9%	0.8%	0.9%	0.9%	0.6%	0.4%
Housing Starts	8.44	8.97	10.06	8.62	9.37	10.92	11.45	10.22	10.02	9.66
Percent Change	-6.6%	6.3%	12.2%	-14.3%	8.7%	16.5%	4.9%	-10.8%	-1.9%	-3.5%
Single Family	7.85	8.19	8.43	8.09	8.22	9.00	10.02	8.94	8.39	8.68
Percent Change	7.5%	4.3%	2.9%	-3.9%	1.6%	9.4%	11.4%	-10.7%	-6.2%	3.5%
Multi Family	0.59	0.78	1.63	0.53	1.15	1.92	1.44	1.27	1.63	0.98
Percent Change	-66.1%	33.2%	108.6%	-67.7%	118.0%	66.7%	-25.2%	-11.3%	28.3%	-40.3%
New Car Registrations	170.61	182.42	210.47	180.28	193.32	187.23	224.61	233.76	245.03	231.84
Percent Change	50.8%	6.9%	15.4%	-14.3%	7.2%	-3.1%	20.0%	4.1%	4.8%	-5.4%
Industrial Performance Indicator (1992=100)	102.55	107.73	116.06	121.49	131.60	144.08	154.11	169.44	179.52	164.74
Percent Change	4.6%	5.0%	7.7%	4.7%	8.3%	9.5%	7.0%	9.9%	6.0%	-8.2%
Shipments of Mfg. Goods (Billions of \$82)	33.87	34.14	34.92	34.79	35.74	37.86	40.06	42.27	42.60	40.18
Percent Change	-2.0%	0.8%	2.3%	-0.4%	2.7%	5.9%	5.8%	5.5%	0.8%	-5.7%

**Economic Report of the Governor**

**MAJOR CONNECTICUT ECONOMIC INDICATORS - FISCAL YEAR BASIS**

**TABLE 11  
ANALYTICS**

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Wages/Total Income	57.45%	57.53%	57.45%	58.40%	59.25%	59.89%	60.38%	60.70%	60.57%	59.84%
Other Labor Income /Total Income	8.25%	8.34%	7.95%	7.62%	7.11%	6.44%	6.31%	6.23%	6.33%	6.52%
Social Insurance /Total Income	4.19%	4.26%	4.31%	4.38%	4.41%	4.42%	4.43%	4.42%	4.38%	4.41%
Transfer Payments /Total Income	12.16%	12.05%	12.28%	12.40%	12.09%	11.63%	11.06%	10.74%	10.63%	11.31%
Proprietor's Income /Total Income	7.38%	7.68%	7.79%	7.47%	7.50%	7.81%	8.14%	8.41%	8.14%	8.30%
Property Income /Total Income	18.94%	18.65%	18.84%	18.50%	18.45%	18.64%	18.53%	18.33%	18.70%	18.43%
Average Wages (Thousands in 1996 \$)	38.49	38.91	38.91	40.11	41.38	43.25	44.75	46.34	47.83	47.34
Average Mfg. Wages (Thousands in 1996 \$)	46.30	47.04	47.79	49.88	52.56	54.67	57.60	59.38	60.85	58.83
Average Nonmfg. Wages (Thousands in 1996 \$)	36.58	37.02	36.94	38.03	39.06	40.90	42.22	43.91	45.45	45.36
Manufacturing Share of Employment	19.61%	18.84%	18.16%	17.60%	17.19%	17.06%	16.47%	15.73%	15.43%	14.71%
Residential Employment /Total Nonagricultural	1.097	1.079	1.043	1.030	1.019	1.011	0.994	1.001	1.000	0.984

**Economic Report of the Governor**

**MAJOR CONNECTICUT REGIONAL ECONOMIC INDICATORS - CALENDAR YEAR BASIS**

**TABLE 12  
PERSONAL & DISPOSABLE INCOME (MILLIONS-SAAR)**

**NEW HAVEN-BRIDGEPORT-STAMFORD-WATERBURY-DANBURY**

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Personal Income	47,778.1	51,449.2	53,387.5	54,970.4	58,239.1	61,489.3	65,652.7	71,035.7	74,358.3	79,509.7
Percent Change	0.4%	7.7%	3.8%	3.0%	5.9%	5.6%	6.8%	8.2%	4.7%	6.9%
Disposable Income	41,335.0	44,207.5	45,660.0	47,065.0	49,372.5	51,470.0	53,980.0	57,847.5	60,115.0	63,792.5
Percent Change	0.7%	6.9%	3.3%	3.1%	4.9%	4.2%	4.9%	7.2%	3.9%	6.1%

**HARTFORD-NEW BRITAIN-MIDDLETOWN-BRISTOL**

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Personal Income	28,659.5	29,830.7	30,565.7	31,315.5	32,078.0	33,333.3	35,372.8	37,636.5	39,103.1	41,761.4
Percent Change	0.5%	4.1%	2.5%	2.5%	2.4%	3.9%	6.1%	6.4%	3.9%	6.8%
Disposable Income	24,507.5	25,630.0	26,142.5	26,810.0	27,195.0	27,902.5	29,085.0	30,650.0	31,615.0	33,505.0
Percent Change	0.9%	4.6%	2.0%	2.6%	1.4%	2.6%	4.2%	5.4%	3.1%	6.0%

**NEW LONDON-NORWICH, CT-RI**

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Personal Income	5,615.6	5,859.0	6,065.6	6,397.2	6,651.8	6,890.6	7,291.5	7,690.4	7,918.0	8,234.9
Percent Change	1.6%	4.3%	3.5%	5.5%	4.0%	3.6%	5.8%	5.5%	3.0%	4.0%
Disposable Income	4,807.5	5,032.5	5,187.5	5,480.0	5,640.0	5,767.5	5,997.5	6,262.5	6,402.5	6,607.5
Percent Change	3.6%	4.7%	3.1%	5.6%	2.9%	2.3%	4.0%	4.4%	2.2%	3.2%

**Economic Report of the Governor**

**MAJOR REGIONAL ECONOMIC INDICATORS - FISCAL YEAR BASIS**

**TABLE 16  
REGIONAL CONSUMER PRICE INDEXES  
(1982-1984 = 100)**

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Chicago	143.4	146.9	151.2	155.0	159.8	163.4	166.5	171.0	176.8	179.1
Percent Change	3.2%	2.5%	3.0%	2.5%	3.1%	2.2%	1.9%	2.7%	3.4%	1.3%
New York	152.6	156.3	160.1	164.6	169.0	172.2	175.1	179.6	185.2	189.3
Percent Change	3.6%	2.4%	2.4%	2.8%	2.6%	1.9%	1.7%	2.6%	3.1%	2.2%
Los Angeles	148.7	151.3	153.7	155.7	158.8	161.0	164.1	168.5	174.7	179.6
Percent Change	3.3%	1.8%	1.6%	1.3%	2.0%	1.4%	1.9%	2.6%	3.7%	2.8%
N.E. Region	141.7	145.4	149.6	153.6	158.3	163.0	165.4	169.3	174.0	177.5
Percent Change	2.9%	2.6%	2.9%	2.6%	3.1%	3.0%	1.5%	2.4%	2.7%	2.0%
N.C. Region	141.6	145.2	149.5	153.6	158.1	162.7	164.9	168.7	173.2	176.6
Percent Change	3.2%	2.6%	3.0%	2.7%	3.0%	2.9%	1.4%	2.3%	2.7%	1.9%
South Region	142.4	146.2	150.5	154.6	159.3	163.9	166.3	170.2	174.9	178.3
Percent Change	3.2%	2.6%	3.0%	2.7%	3.0%	2.9%	1.5%	2.4%	2.8%	1.9%
West Region	143.1	146.6	150.9	155.1	160.0	164.7	167.1	171.1	175.9	179.2
Percent Change	3.2%	2.5%	3.0%	2.8%	3.1%	3.0%	1.5%	2.4%	2.8%	1.9%