
FY 2012 - FY 2013 Biennium Economic Report of the Governor

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**ECONOMIC REPORT
OF THE GOVERNOR
FY 2012 - FY 2013 Biennium**

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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 focuses 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 the United States, the New England Region, and Connecticut; (5) a discussion of the most important revenue sources; (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.

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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 within New England and the rest of the Eastern seaboard, as rail, truck, air transport and ports in the region provide easy access to local and regional markets in this country, Canada, and even Europe and South America. 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.

Connecticut is highly urbanized with a population density of 738 persons for each of its 4,845.4 square miles of land, compared with 87 persons per square mile of land for the United States (3,536,338 square miles), based on 2009 census estimate figures. Hartford, the capital, is a center for the insurance industry and a major service center for business and commerce. Industrial activity in the State is concentrated in two regions: the Naugatuck Valley, extending from Bridgeport north, and a belt extending from Hartford west to New Britain and Bristol, and south to New Haven.

Connecticut is a mature and highly developed state, whose 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

The census is taken on April 1 of each census year. The 2010 Census of Population and Housing was the 23rd in a series that began in 1790, with a count of four million residents in 18 states. Preliminary data from the 2010 Census is available but incomplete.

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
2010	308,746	9.7	14,445	3.8	3,574	4.9

Source: U.S. Bureau of the Census

In 2010, the population in the 50 states and the District of Columbia totaled 308.7 million people. Since 1930, the population has risen in all three data series for all decades. However,

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since 1970, the rate of population growth in Connecticut and New England has been significantly lower than the prior three decades and lower than the nation for recent periods.

In the United States, the resident population, which excludes Armed Forces Overseas, increased from 281,421,906 in 2000 to 308,745,538 in 2010, an increase of 9.7%, and the lowest increase since the 1930s. New England's population increased 3.8% from 2000 to 2010, also experiencing its slowest growth since the 1930s. Within New England, only Connecticut and New Hampshire experienced growth significantly higher than the regional average.

During the last few decades, the heavily populated states experienced a slowdown in the growth of their populations. This phenomenon was common 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 overall apportionment of seats in the U.S. House of Representatives generally changes as a result of each decennial Census. Also, Connecticut's federal aid levels for various grants will continue to fall as the state's estimated population size, relative to the nation's, decreases each year.

Resident population in Connecticut, according to figures from the 2010 census, was 3,574,097, an increase of 168,532 from the 3,405,565 figure of 2000. This represented a growth of 4.9% for the decade, slower growth than was experienced by the nation as a whole, for the fourth consecutive decade, but faster growth than New England for the first time since the 1960s. Between 2000 and 2010, the state's growth rate was the sixteenth lowest in the nation.

Around 2004, Connecticut's population growth weakened as much of the rest of the country was recovering economically, but the state's recovery was lagging with a weak economy, a high relative cost of living, and a softened job market which collectively made the state less attractive. Just as Connecticut began to experience healthy growth in 2006 and 2007, a new recession began in December of 2007. As the economy weakened across the nation and the world in 2008 and 2009, there was no place that was economically prosperous, most people could no longer easily sell their homes, and cash was no longer plentiful. Migration throughout most of the country diminished. Changes in the state's population have generally, however, been 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, because a surplus of births and foreign in-migration have offset domestic out-migration in most years. The migration of population to and from Connecticut over the last few decades generally parallels the performance of the state's economy, rising during expansion, declining during recession. Connecticut counties experiencing faster growth during the 1990s generally were those not dominated by large urban areas. (Population figures by county from the 2010 Census are not yet available.)

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.

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**TABLE 2
COUNTY POPULATION IN CONNECTICUT**

<u>County</u>	1990	1990	2000	2000	Percent <u>Change</u>
	<u>Census</u>	<u>Percent</u>	<u>Census</u>	<u>Percent</u>	
Fairfield	827,645	25.2	882,567	25.9	6.6
Hartford	851,783	25.9	857,183	25.2	0.6
Litchfield	174,092	5.3	182,193	5.3	4.7
Middlesex	143,196	4.4	155,071	4.6	8.3
New Haven	804,219	24.5	824,008	24.2	2.5
New London	254,957	7.7	259,088	7.6	1.6
Tolland	128,699	3.9	136,364	4.0	6.0
Windham	<u>102,525</u>	<u>3.1</u>	<u>109,091</u>	<u>3.2</u>	<u>6.4</u>
TOTAL	3,287,116	100.0	3,405,565	100.0	3.6

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

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. To comply with the Connecticut General Statutes concerning state aid to municipalities, the Department of Public Health also prepares an annual mid-year estimate of population based on the number of births, deaths and school age population.

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

<u>Mid Year</u>	United States		New England		Connecticut	
	<u>Number</u>	<u>% Growth</u>	<u>Number</u>	<u>% Growth</u>	<u>Number</u>	<u>% Growth</u>
2000	282,172	1.1	13,953	0.8	3,412	0.8
2001	285,082	1.0	14,052	0.7	3,428	0.5
2002	287,804	1.0	14,135	0.6	3,448	0.6
2003	290,326	0.9	14,192	0.4	3,468	0.6
2004	293,046	0.9	14,216	0.2	3,475	0.2
2005	295,753	0.9	14,227	0.1	3,477	0.1
2006	298,593	1.0	14,259	0.2	3,485	0.2
2007	301,580	1.0	14,298	0.3	3,489	0.1
2008	304,375	0.9	14,363	0.5	3,503	0.4
2009	307,007	0.9	14,430	0.5	3,518	0.4

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

In addition to naturally occurring births and deaths, the size of the total population is also a product of migration, the number of households and individuals moving into and out of the

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state. The Internal Revenue Service (IRS) publishes data on changes in filing addresses used by federal income tax filers in successive years to determine migration between states. This data shows that Connecticut, between 2002 and 2008, has experienced a net decline in population of 59,432 residents due to migration alone, which, when combined with births and deaths, results in a modest increase in population. This same data also shows that net migration out of the state has been accelerating, as migration into Connecticut has been generally declining and migration out has been generally increasing. Each of these trends, however, has eased somewhat during the period from 2007 to 2008, probably due to the recent poor economy.

TABLE 4
SIGNIFICANT MIGRATION PATTERNS IN STATE POPULATION

<u>Changes in Connecticut's Population Due to Migration By State Between 2002 and 2008</u>					
<u>Major Sources of In</u>		<u>Major Destinations of Out</u>		<u>States with Greatest Impact</u>	
<u>Migration to Connecticut</u>		<u>Migration from Connecticut</u>		<u>On Connecticut Migration</u>	
New York	108,453	Florida	(71,879)	New York	43,109
Massachusetts	43,057	New York	(65,344)	Florida	(41,289)
Florida	30,590	Massachusetts	(42,321)	North Carolina	(12,708)
New Jersey	21,259	California	(22,779)	Georgia	(7,673)
California	19,368	North Carolina	(21,833)	Virginia	(6,866)
Other States	160,881	Other States	(223,038)	Other States	(62,157)
Outside US	<u>20,976</u>	Outside US	<u>(16,822)</u>	Outside US	<u>4,154</u>
Total In	404,584	Total Out	(464,016)	Total Net	(59,432)

Source: Internal Revenue Service

Population estimates and 2000 census counts are also available for each of the 169 cities and towns in Connecticut. Using that information, it is possible to identify those growing at the fastest rates, as well as the slowest growing municipalities in the state as seen in the table below.

TABLE 5
FASTEST AND SLOWEST GROWING MUNICIPALITIES IN CONNECTICUT

<u>Fastest Growing Municipalities</u>				<u>Slowest Growing Municipalities</u>			
<u>City/Town</u>	<u>Population</u>		<u>% Change</u>	<u>City/Town</u>	<u>Population</u>		<u>% Change</u>
	<u>2000</u>	<u>2009</u>			<u>2000</u>	<u>2009</u>	
Oxford	9,821	12,890	31.2%	Plainville	17,328	17,284	-0.3%
Hampton	1,758	2,144	22.0%	West Hartford	61,046	60,852	-0.3%
Mansfield	20,720	25,268	21.9%	Groton	39,907	39,551	-0.9%
Sterling	3,099	3,755	21.2%	Waterford	19,152	18,897	-1.3%
Goshen	2,697	3,244	20.3%	New Britain	71,538	70,548	-1.4%
Ellington	12,921	14,829	14.8%	Bridgeport	139,529	137,298	-1.6%
Middlebury	6,451	7,394	14.6%	East Hartford	49,575	48,634	-1.9%
Canton	8,840	10,125	14.5%	Wethersfield	26,271	25,767	-1.9%
Woodstock	7,221	8,220	13.8%	Stratford	49,976	48,952	-2.0%
Chaplin	2,250	2,558	13.7%	East Hampton	13,352	12,766	-4.4%
State Average Growth			3.3%				

Source: U.S. Census Bureau

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Households

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

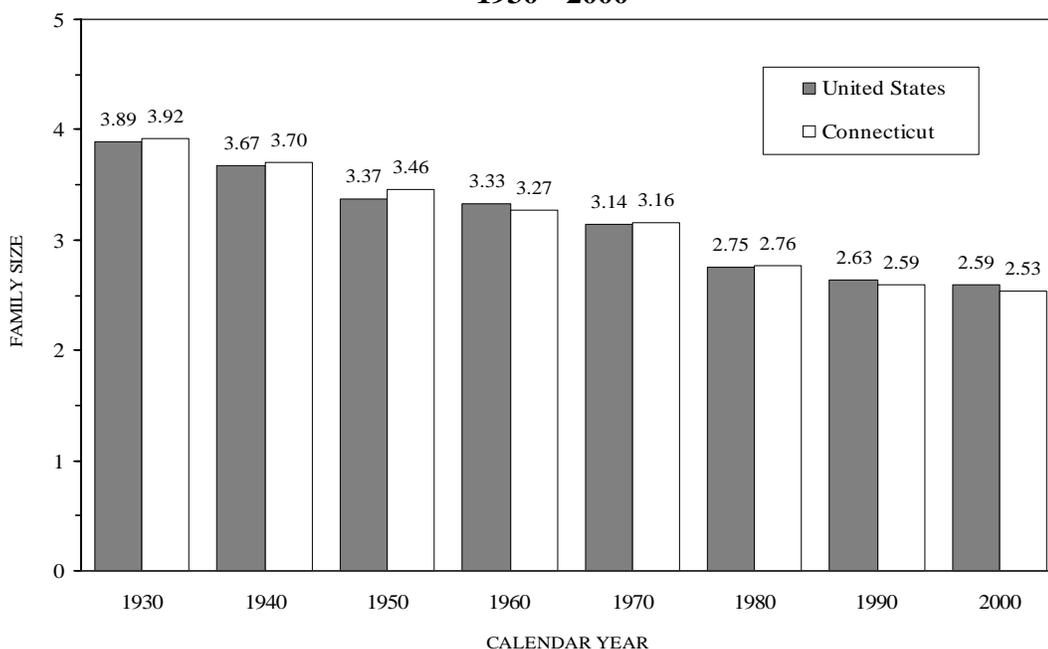
The number of households in Connecticut, in 2005, was 1,323,838, up 8.3% from the 1995 count, but up only 1.7% from the 2000 Census estimate. This is not unexpected in that it reflects the slow growth of Connecticut's population over the last several years. Family households include a householder and 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.

TABLE 6
HOUSEHOLDS
(In Thousands)

<u>Calendar Year</u>	<u>Households</u>		<u>During Period</u>	<u>% Change</u>	
	<u>U.S.</u>	<u>Connecticut</u>		<u>U.S.</u>	<u>Connecticut</u>
1995	98,990	1,222	1995-2000	6.6%	6.5%
2000	105,480	1,302	2000-2005	5.3%	1.7%
2005	111,091	1,324	1995-2005	12.2%	8.3%

Source: U.S. Bureau of the Census

PERSONS PER HOUSEHOLD 1930 - 2000



Source: U.S. Bureau of the Census

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Between 1990 and 2000, the relatively stable population, the increasing number of households, and the changing mix in the types of households in Connecticut resulted in a decrease in average population per household in the state.

The decline in household size can be considered an indicator 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

According to the latest data available, the distribution of Connecticut's population between age cohorts is somewhat different from that of the U.S. average. The state has a lower concentration of persons aged 18 to 44 years than either New England or the nation as a whole, and a higher concentration of persons aged 65 and over (especially 85 and over) than 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 are not growing at the same rate as during the late 1990s. The National Center for Health Statistics estimated average life expectancy at birth to be 77.8 years in 2005, up from 73.7 years in 1980, 75.4 years in 1990, and 77.0 years in 2000. As life spans continue to increase nationally, this trend will impact retirement, social security, pension systems, health care, and other similar requirements.

TABLE 7
POPULATION DISTRIBUTION BY AGE IN 2009
(In Thousands)

	<u>0 to 17</u>	<u>18 to 24</u>	<u>25 to 44</u>	<u>45 to 64</u>	<u>65 +</u>	<u>85 +</u>	<u>Total</u>
United States	74,548	30,412	83,096	79,379	39,571	5,631	307,007
% of Total	24.3	9.9	27.1	25.9	12.9	1.8	100.0
New England	3,154	1,438	3,766	4,063	2,008	310	14,430
% of Total	21.9	10.0	26.1	28.2	13.9	2.1	100.0
Connecticut	808	341	900	982	488	77	3,518
% of Total	23.0	9.7	25.6	27.9	13.9	2.2	100.0

Source: U.S. Bureau of the Census

Population Projections

The U.S. Department of Commerce, Bureau of the Census, has published population projections for the United States and the 50 states.

Based on these projections, the elderly population (defined as those 65 years and over) continues to grow substantially. For every person over the age of 65, the number of workers aged 18 to 64 is expected to decrease 41.5 percent, from 4.5 workers in 2000 to 2.6 workers in

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2030. The size of this cohort is not only growing rapidly, the average age is also increasing. The most senior subset, which are those aged 85 and older, is increasing at a faster rate than the total elderly population in Connecticut. This significant growth will impact both the size and complexity of the demand for services required by this segment of Connecticut's population. There will be increased demand for health care facilities, public transportation, elderly housing, and other services. The cost of caring for the elderly may become much greater as the baby boom generation begins to reach the age of sixty-five in the year 2011.

TABLE 8
PROJECTIONS OF THE POPULATION IN CONNECTICUT
(Mid-Year Resident Population In Thousands)

<u>Age Group</u>	1990	2000	Projections			<u>% Change</u> <u>2000-2030</u>
	<u>Census</u>	<u>Census</u>	<u>2010</u>	<u>2020</u>	<u>2030</u>	
Total	3,287.1	3,405.6	3,577.5	3,675.7	3,688.6	8.3%
0-17	737.6	841.7	814.0	816.3	823.4	(2.2%)
18-44	1,452.3	1,304.3	1,257.5	1,258.5	1,217.9	(6.6%)
45-64	651.3	789.4	990.4	958.2	852.9	8.0%
65 & Over	445.9	470.2	515.6	642.5	794.4	68.9%
85 & Over	47.1	64.3	93.7	105.6	132.4	105.9%
Ratio 18-64/65+	4.7	4.5	4.4	3.5	2.6	(41.5%)
Median Age	34.4	37.4	39.6	39.7	41.1	9.9%

Source: U.S. Department of Commerce, Bureau of the Census, April 2005

More specifically, the following three tables call attention to some significant trends with particular implications to be considered as resource allocation decisions are made for the future. First, as shown in the following table, Connecticut is and will remain 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 services.

TABLE 9
POPULATION DENSITY BY YEAR
(Persons per Square Mile)

	1990	2000	2009	2010	2020	2030
	<u>Census</u>	<u>Census</u>	<u>Estimate</u>	<u>Projection</u>	<u>Projection</u>	<u>Projection</u>
United States	70.3	79.6	86.8	87.4	95.0	102.8
Northeast	313.1	330.3	337.3	343.8	352.1	355.4
Connecticut	678.4	702.8	723.3	738.3	758.6	761.3

Source: U.S. Bureau of the Census

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In addition, a change is occurring in the age distribution of the population. As shown below, 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 portion of the total. This means that increasing pressure will be brought upon those between the ages of 18 and 65 to provide social and support services for the young and, and most particularly the elderly.

TABLE 10
DEPENDENCY RATIOS*
(Number of Dependent Population per 100 Provider Population)

<u>Dependency Ratio</u>	<u>1980</u>	<u>1990</u>	<u>2000</u>	<u>2010</u>	<u>2020</u>	<u>2030</u>
United States	65.1	61.5	61.6	59.0	67.2	76.1
Connecticut	61.9	57.0	62.7	59.2	65.8	78.1
<u>Youth Dependency</u>						
United States	46.5	41.3	41.5	38.3	40.0	41.5
Connecticut	42.9	35.8	40.2	36.2	36.8	39.8
<u>Aged Dependency</u>						
United States	18.6	20.2	20.1	20.7	27.2	34.6
Connecticut	19.0	21.2	22.5	22.9	29.0	38.4
<u>Aged Female Dependency Ratio</u>						
United States	11.1	12.1	11.8	12.0	15.4	19.4
Connecticut	11.5	12.8	13.4	13.6	17.0	22.5

* 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 17 and less than 65 years of age.

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

TABLE 11
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

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Finally, cultural implications might be suggested by the racial and ethnic 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.

Housing

The United States' financial systems have been in turmoil for a few years. The housing sector, which just a few years ago was one of the strongest pillars of the economy, played a pivotal role in precipitating the current financial crisis and economic downturn. Record foreclosures due to the resetting of variable rate and subprime mortgages shocked the housing market and mortgage lenders, leading to the demise of some of the nation's largest financial institutions.

In the past few years, homeowners have watched the equity in their homes decline or disappear. Homes are not selling quickly, and when they do sell they are selling for less than they would have three years ago. Some homeowners have responded to declining home values by cutting back their spending, and residential construction remains subdued. The weakness in the housing market has proved to be a serious drag on overall economic activity within the nation. A slowing economy has in turn reduced the demand for houses, implying a further weakening of conditions in the mortgage and housing markets. With the public apprehensive of entering into the housing market during the economic recession and lackluster recovery, the housing sector has realized record breaking declines.

TABLE 12
HOUSING STARTS
(In Thousands)

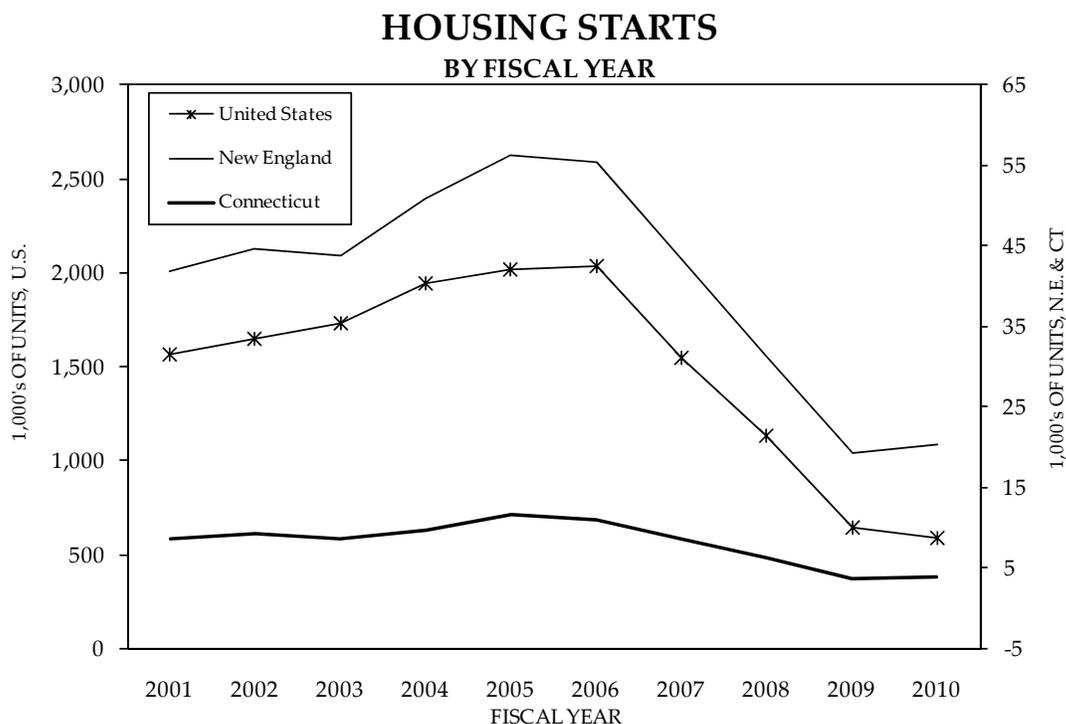
Fiscal Year	United States		New England		Connecticut	
	Number	% Growth	Number	% Growth	Number	% Growth
2000-01	1,570.7	(4.1)	41.8	(6.2)	8.6	(10.0)
2001-02	1,645.9	4.8	44.7	6.8	9.2	7.2
2002-03	1,729.2	5.1	43.8	(2.0)	8.5	(7.2)
2003-04	1,945.3	12.5	50.8	16.1	9.8	14.7
2004-05	2,016.3	3.7	56.2	10.5	11.6	18.3
2005-06	2,036.0	1.0	55.5	(1.2)	11.1	(4.4)
2006-07	1,546.2	(24.1)	43.4	(21.8)	8.5	(23.1)
2007-08	1,132.6	(26.7)	31.2	(28.1)	6.3	(25.6)
2008-09	647.9	(42.8)	19.3	(38.0)	3.7	(41.9)
2009-10	592.4	(8.6)	20.3	3.6	3.7	1.7

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

Housing starts have fallen to record lows. In calendar 2009 fewer homes were started in the United States than in any year since World War II. During fiscal year 2010, housing starts in the U.S. fell 8.6% with approximately 592,000 starts being recorded nationally. In Connecticut, starts

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for new dwelling units increased slightly in fiscal 2010 to an annual rate of 3,800 units, slightly above fiscal 2009 (2.8% growth). The dramatic decline in housing starts over the last four years has negatively impacted homebuilders, among others in the construction sector, and have undoubtedly contributed to the high unemployment rate nationwide.



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

Given the decline in housing starts it is no surprise that household formation is also on the decline. New households may be formed when couples separate, children move out of their family's home and when individuals live singly after previously sharing a residence. Conversely, households are reduced when young people move back home with their parents, and households combine to lower expenses. Economic conditions have promoted the latter behavior in recent years.

Census data from calendar year 2003 to 2007 indicates Americans built over 9.0 million units during these years. Over the same five-year period, the number of American households grew by only 6.7 million. Assuming a million of those units replaced older homes that were destroyed or abandoned, it could be estimated that the United States entered this recession with an excess of approximately 1.3 million housing units from the prior five years.

Demand for these excess units will increase when households form at a faster rate than houses are built. However, as depicted in the table below, housing formations have been low in the last years of the decade.

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TABLE 13
U.S. HOUSING FORMATIONS
(In Thousands)

<u>Year</u>	<u>Total Number of Households</u>	<u>Change in Households from Previous Year</u>
2000	104,705	831
2001	108,209	3,504
2002	109,297	1,088
2003	111,278	1,981
2004	112,000	722
2005	113,343	1,343
2006	114,384	1,041
2007	116,011	1,627
2008	116,783	772
2009	117,181	398
2010	117,538	357

Source: U.S. Census Bureau, Current Population Survey, March and Annual Social and Economic Supplements, 2010 and earlier

A major indicator of housing activity is the number of building permits authorizing construction issued by local authorities. The following table shows the Connecticut counties in which privately owned housing permits were issued in calendar 2009, indicating the geographic distribution of housing construction activity.

TABLE 14
CONNECTICUT HOUSING PERMIT ACTIVITY
Calendar Year 2009

<u>County</u>	<u>Total Units Authorized</u>	<u>% of Total</u>	<u>% Growth Over CY 2008</u>
Fairfield	1,199	31.7	(33.9)
Hartford	810	21.4	(22.0)
Litchfield	163	4.3	(37.5)
Middlesex	299	7.9	(15.8)
New Haven	509	13.4	(44.7)
New London	427	11.3	17.6
Tolland	229	6.0	(22.9)
Windham	<u>150</u>	<u>4.0</u>	<u>(12.3)</u>
State Total	3,786	100.0	(27.5)

Source: Connecticut State Department of Economic and Community Development

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

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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.

According to the report, calendar 2009 registered a 27.5% decrease in housing permit activity compared to calendar 2008. Permit activity totaling 3,786 units, down from 7,746 in 2007 and 9,236 in 2006, was authorized. Fairfield County led Connecticut counties with 1,199 permits issued, 31.7% of the total permits issued in calendar 2009. The 1,199 housing units that were authorized in Fairfield County, however, were a decrease of 33.9% from calendar 2008 when the county issued 1,814 housing permits. Seven of the eight counties realized negative growth in housing permit activity. Interestingly, New London County, which was the only county to experience positive growth in calendar 2009, had the largest decline in calendar 2008 – a 49.4% decrease from calendar year 2007.

**TABLE 15
CONNECTICUT HOUSING INVENTORY**

<u>Structure Type</u>	<u>Inventory</u> <u>2008</u>	<u>% of</u> <u>Total</u>	<u>Inventory</u> <u>2009</u>	<u>% of</u> <u>Total</u>	<u>Net</u> <u>Change</u>	<u>Growth</u> <u>Rate</u>
One-Unit	938,746	64.8	940,607	64.8	1,861	0.2%
Two-Units	120,328	8.3	120,316	8.3	(12)	(0.0%)
Three & Four Units	126,887	8.8	126,581	8.7	(306)	(0.2%)
Five Or More Units	251,319	17.3	252,352	17.4	1,033	0.4%
Other	<u>12,160</u>	<u>0.8</u>	<u>12,151</u>	<u>0.9</u>	<u>(9)</u>	<u>(0.1%)</u>
Total Inventory	1,449,440	100.0	1,452,007	100.0	2,567	0.2%

Source: Connecticut State Department of Economic and Community Development

Residential demolition permits issued during calendar 2009 totaled 1,219, a reduction from calendar 2008. New Britain issued the most demolition permits with 286, followed by Stamford (106) and New Haven (93). These three cities accounted for 39.8% of all demolition permits in 2009. The calendar 2009 net change to Connecticut's housing inventory totaled a 2,567 increase in units. At the end of 2009, an estimated 1,452,007 housing units existed in Connecticut. The following table shows changes in Connecticut's housing unit inventory on a calendar basis from 2008 to 2009.

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 is for the sale of single-family homes. As shown in the following table, the median sales price in Connecticut in 2009 was \$258,247. Compared to the United States, Connecticut saw a greater decline in 2009 over 2008, -11.3% compared to the national -10.7% change; however, Connecticut has fared better than the United States in the last six years with a -7.6% change versus the United States -12.5% change.

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TABLE 16
SALES PRICE OF HOMES IN CONNECTICUT AND THE UNITED STATES
(By Calendar Year)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	2004-09 (Change)
CT Median Price	\$279,488	\$306,934	\$313,778	\$320,718	\$291,268	\$258,247	(\$21,241)
% Change	9.3%	9.8%	2.2%	2.2%	-9.2%	-11.3%	-7.6%
U.S. Median Price	\$192,253	\$215,040	\$217,111	\$210,499	\$188,250	\$168,195	(\$24,058)
% Change	10.4%	11.9%	1.0%	-3.1%	-10.6%	-10.7%	-12.5%
CT as a % of U.S.	145.4	142.7	144.5	152.4	154.7	153.5	
CT Affordability Index	117.4	109.6	103.3	107.2	126.4	161.8	44.4
% Change	-3.7%	-6.7%	-5.8%	3.8%	17.9%	28.0%	37.8%
U.S. Affordability Index	142.1	131.2	126.1	136.7	160.3	189.5	47.5
% Change	-5.7%	-7.7%	-3.9%	8.4%	17.3%	18.2%	33.4%

Source: Moody's Economy.com

To interpret the housing affordability index, a value of 100 means that a family with the median income has exactly enough income to qualify for a mortgage on a median-priced home. A value above 100 signifies that a family earning the median income has more than enough income to qualify for a mortgage loan on a median-priced home, assuming a 20% down payment. The previous table indicates that overall housing affordability has increased in the U.S. and Connecticut over the past 6 years, indicating that housing prices are no longer outpacing income increases. The outpacing of housing prices over income increases in 2003 through 2006 contributed to the current correction in the housing market. The affordability index for both the United States and Connecticut increased in calendar year 2009, but the housing market is far from recovery.

Age of Buyer or Renter

As Table 8 demonstrates, current population projections anticipate a decline in the 18-44 year old age group of 3.1% between 2010 and 2030, and an overall decline of 6.6% between the years 2000 and 2030. This is significant for the housing market for two reasons. First, this age group is the prime source of household formation. Consequently, a declining population of this age group, 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 at a healthy rate of 5.6%. This age group is projected to grow rapidly during the next twenty years. Projected growth rates of the 65 and older age group are: 24.6% from 2010 to 2020, and 68.9% between the years 2000 and 2030. With the growth in this demographic, the housing market will see a shift in the type of housing units that are desirable. As more baby-boomers turn into empty-nesters, they will

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trade-down their large homes for smaller, easier to maintain condos and second homes. Demand for easier to maintain rental or condo 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.

Government Responses to the Housing Market

The Federal government has taken several steps to mitigate the effects of the decline in the housing market. Several of these nationwide measures are reported in the State of the Nation's Housing 2010, published by the Joint Center for Housing Studies. Per the report, through March 2010, the Home Affordable Refinance Program (HARP) had completed 291,600 mortgage refinancings. As of April 2010, the Home Affordable Modification Program (HAMP) had made 1.5 million offers that resulted in 637,000 currently active trial modifications and about 295,000 permanent mortgage term modifications. However, the Treasury Department estimates that 40 percent of those homeowners with HAMP modifications will re-default.

According to the National Association of Realtors (NAR), first-time purchasers rose from 36 percent of all homebuyers in 2006 to about 45 percent in 2009. Various estimates place the impact of the homebuyer tax credit on either pulling demand forward or releasing pent-up demand at 200,000–400,000 additional buyers. The homebuyer credit program was in place for individuals and couples who purchased a new home after April 8, 2008, and before May 1, 2010. There were several versions of the credit depending upon when the home was purchased.

Changes in the Housing Market

By the 2009 year end, thirty-year fixed mortgage rates averaged 4.93%, 0.4 percentage points lower than the previous December. Calendar 2010 began with an average for thirty-year fixed mortgages of 5.03%. In October 2010, thirty-year fixed rates fell to a record low of 4.23%.

Most recent reports on foreclosure rates indicate positive change. The Mortgage Bankers Association reported that foreclosures and mortgages 90 days or more past due declined to 7.56% of all mortgages in Connecticut in the three months ended September 30, down from 7.83% in the previous quarter and 8.13% in the first quarter of 2010. It has been suggested that these figures indicate banks are stepping up efforts to move home loans through the foreclosure process.

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EMPLOYMENT PROFILE

Employment Estimates

The employment estimates for most of the tables included in this section are from 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 this measure, residential employment in fiscal year 2010 decreased by 23,200 jobs. Likewise, the level of establishment employment based on the survey response decreased by 50,200 jobs in fiscal year 2010.

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

TABLE 17
CONNECTICUT SURVEY EMPLOYMENT COMPARISONS
(In Thousands)

<u>Fiscal Year</u>	<u>Residential Employment</u>	<u>% Growth</u>	<u>Establishment Employment</u>	<u>% Growth</u>
2000-01	1,692.4	(0.26)	1,690.3	0.49
2001-02	1,691.8	(0.03)	1,675.2	(0.90)
2002-03	1,696.3	0.27	1,652.4	(1.36)
2003-04	1,697.5	0.07	1,643.7	(0.53)
2004-05	1,708.2	0.63	1,657.1	0.82
2005-06	1,731.5	1.36	1,670.3	0.80
2006-07	1,757.6	1.51	1,689.3	1.14
2007-08	1,766.6	0.51	1,705.9	0.98
2008-09	1,751.6	(0.85)	1,665.2	(2.39)
2009-10	1,728.4	(1.33)	1,615.0	(3.01)

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 18
NONAGRICULTURAL EMPLOYMENT
(In Thousands)

Fiscal <u>Year</u>	United States		New England		Connecticut	
	<u>Number</u>	<u>% Growth</u>	<u>Number</u>	<u>% Growth</u>	<u>Number</u>	<u>% Growth</u>
2000-01	132,252	1.27	7,067	1.78	1,690	0.49
2001-02	130,876	(1.04)	6,971	(1.36)	1,675	(0.90)
2002-03	130,116	(0.58)	6,881	(1.30)	1,652	(1.36)
2003-04	130,474	0.28	6,853	(0.40)	1,644	(0.53)
2004-05	132,470	1.53	6,898	0.65	1,657	0.82
2005-06	135,011	1.92	6,949	0.75	1,670	0.80
2006-07	136,966	1.45	7,016	0.96	1,689	1.14
2007-08	137,726	0.56	7,063	0.67	1,706	0.98
2008-09	133,911	(2.77)	6,920	(2.03)	1,665	(2.39)
2009-10	129,952	(2.96)	6,733	(2.70)	1,615	(3.01)

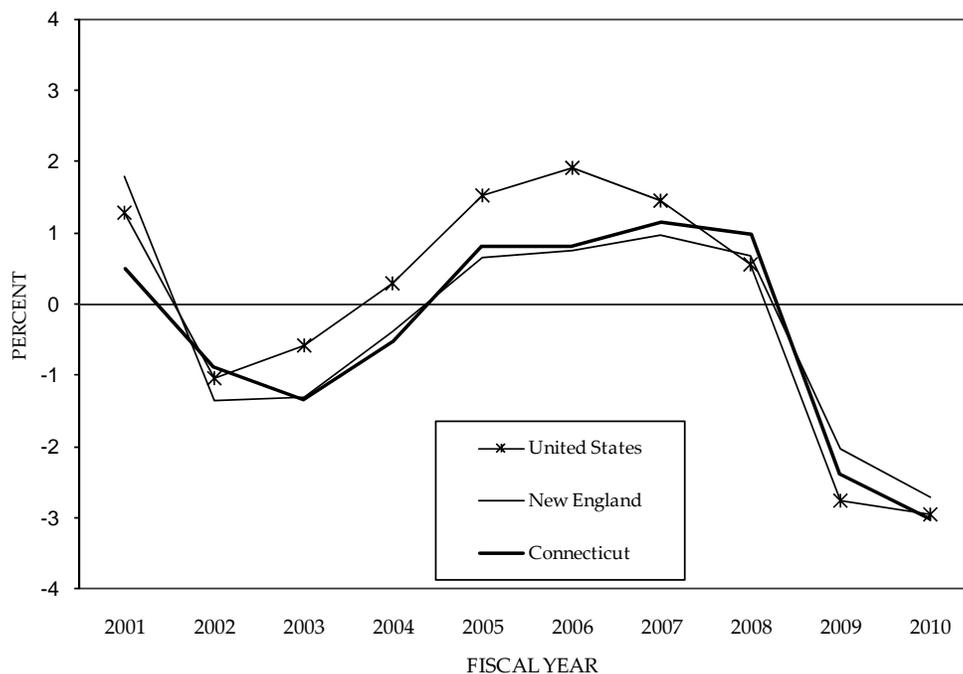
Source: U.S. Bureau of Labor Statistics, Connecticut State Labor Department

In Connecticut, approximately 49% 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.

Connecticut experienced positive growth in nonagricultural employment from fiscal year 2004 through fiscal year 2008. Since reaching a peak in fiscal year 2008, Connecticut has lost approximately 91,000 nonagricultural jobs. The following chart provides a graphic presentation of the growth rates in nonagricultural employment for the three entities over a ten fiscal year period.

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NONAGRICULTURAL EMPLOYMENT FISCAL YEAR GROWTH BY PERCENT



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

The following table shows employment growth rates for the United States and the State of Connecticut over five decades beginning in state fiscal year 1950. This table highlights the robust growth in nonagricultural employment for Connecticut prior to 1990 as emphasized by the modest 2.2% growth between 1990 and 2000 and the negative 4.0% growth during the 2000-2010 time period. While the United States did not show the same change in growth over the last two decades, the U.S. growth was negative in the 2000-2010 period with a 0.5% decline.

**TABLE 19
NONAGRICULTURAL EMPLOYMENT
LONG-TERM GROWTH RATES**

<u>Fiscal Year</u>	<u>Growth Rates</u>		<u>Cumulative Growth Rates</u>	
	<u>United States</u>	<u>Connecticut</u>	<u>United States</u>	<u>Connecticut</u>
1950-1960	23.4%	24.6%	23.4%	24.6%
1960-1970	31.6%	31.9%	62.4%	64.4%
1970-1980	27.3%	17.8%	106.7%	93.6%
1980-1990	20.4%	16.1%	148.8%	124.8%
1990-2000	19.8%	2.2%	198.2%	129.7%
2000-2010	(0.5%)	(4.0%)	196.7%	120.5%

Source: U.S. Bureau of Labor Statistics

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

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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. However, in fiscal year 2010, while approximately 90% of the state's workforce was employed in nonmanufacturing jobs, up from roughly 50% in the early 1950s, 13,300 jobs were lost in nonmanufacturing employment from fiscal 2005 to fiscal 2010.

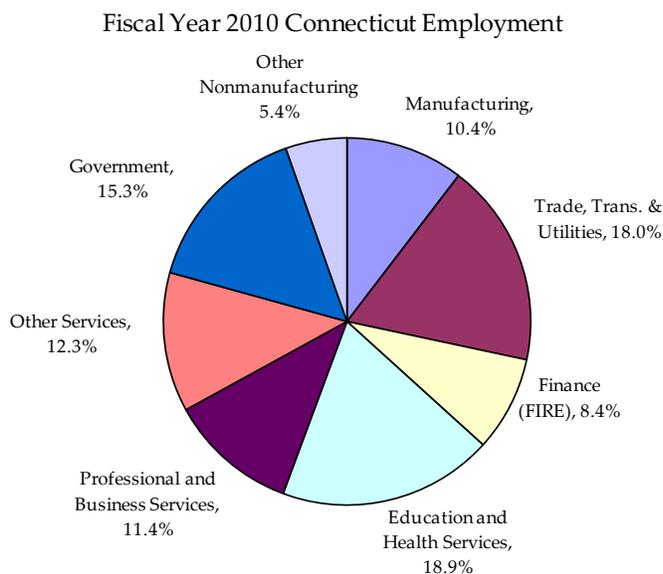
The following table depicts the decrease in the ratio of manufacturing employment to total employment in Connecticut over the last five decades.

TABLE 20
CONNECTICUT RATIO OF MANUFACTURING EMPLOYMENT
TO TOTAL EMPLOYMENT
(In Thousands)

Fiscal Year	Total Employment	Manufacturing Employment	NonMfg. Employment	Ratio of Mfg. Employment to Total Employment
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
1970	1,198.1	441.8	756.3	36.9
1975	1,224.6	389.8	834.8	31.8
1980	1,428.4	440.8	987.6	30.9
1985	1,558.2	408.0	1,150.2	26.2
1990	1,623.5	341.0	1,282.5	21.0
1995	1,561.6	248.5	1,313.1	15.9
2000	1,682.2	236.7	1,445.4	14.1
2005	1,657.1	196.7	1,460.4	11.9
2010	1,615.0	167.9	1,447.1	10.4

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

The chart on the right provides a breakdown of Connecticut employment in fiscal year 2010. As evident in the chart, Connecticut employment is highly concentrated in nonmanufacturing employment sectors with only 10.4% of Connecticut laborers employed in the manufacturing sector. The services sector, which includes the professional and business, education and health, and leisure and hospitality segments (included in Other Services), is clearly the leading sector in fiscal year 2010 with 42.6% of those working employed in that classification.



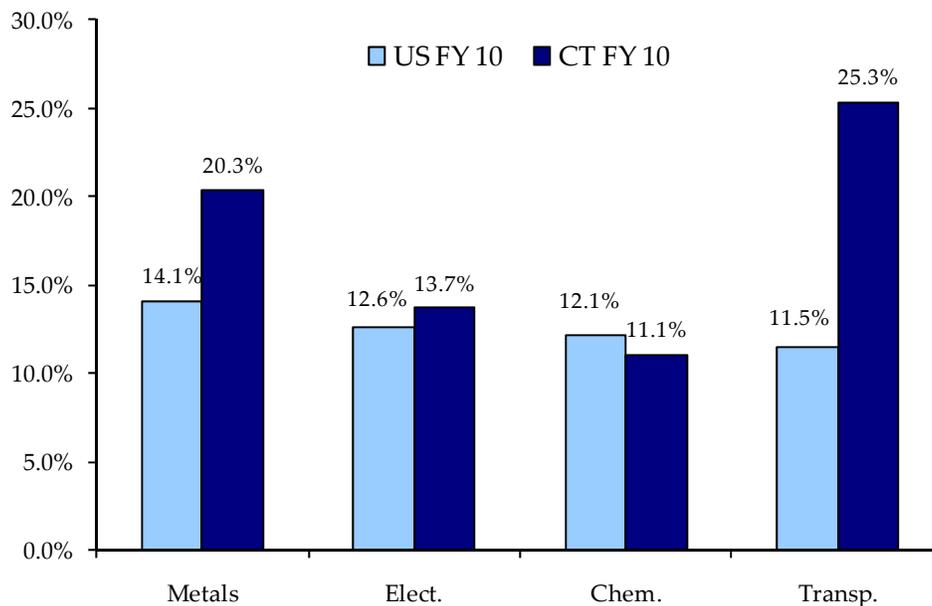
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Manufacturing Employment

Even with declines in overall manufacturing employment, the ratio of manufacturing employment to total employment still 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 eighteenth 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. The largest employer in this industry is Sikorsky Aircraft Corporation based in Stratford. This aircraft manufacturer employs over 10,000 employees. Pratt & Whitney, the second largest manufacturing employer in the state, is also in the aerospace industry.

Over the last decade the state's distribution of manufacturing employment has remained relatively stable. Rising defense expenditures has stabilized the Transportation Equipment sector as evidenced by the percentage of total state manufacturing employment at 20.3% in fiscal year 2000 and 25.3% in fiscal year 2010. The Metals Manufacturing sector employment figures as a percent of total state manufacturing have remained stable over the past decade at approximately 21.1% in fiscal 2000 and 20.3% in fiscal 2010. The other major manufacturing sectors, Electronic and Electrical Manufacturing and Chemical, Plastics, and Rubber each comprise approximately 13.7% and 11.1% of the total manufacturing sector respectively in fiscal 2010. The distribution of employment figures within the manufacturing sector highlights that Connecticut manufacturing is diversified, but has a greater reliance on the Metals and Transportation Equipment sectors.

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

In fiscal year 2010, manufacturing employment in the state fell by a negative 6.93%, less than the negative 7.78% and the negative 8.25% realized by the New England region and the United States respectively.

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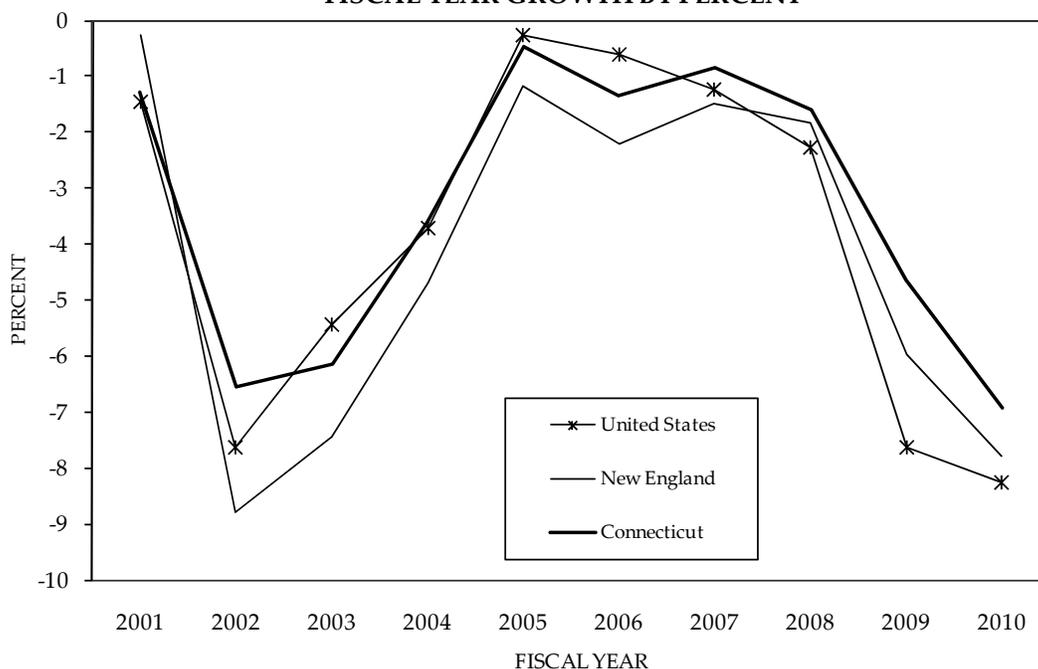
TABLE 21
MANUFACTURING EMPLOYMENT
(In Thousands)

Fiscal Year	United States		New England		Connecticut	
	Number	% Growth	Number	% Growth	Number	% Growth
2000-01	17,037.0	(1.45)	933.8	(0.28)	233.7	(1.30)
2001-02	15,735.8	(7.64)	851.6	(8.80)	218.3	(6.56)
2002-03	14,879.0	(5.45)	788.3	(7.44)	205.0	(6.13)
2003-04	14,327.5	(3.71)	751.2	(4.70)	197.6	(3.59)
2004-05	14,288.5	(0.27)	742.4	(1.18)	196.6	(0.48)
2005-06	14,202.8	(0.60)	726.0	(2.21)	194.0	(1.35)
2006-07	14,024.9	(1.25)	715.2	(1.48)	192.3	(0.86)
2007-08	13,708.1	(2.26)	702.0	(1.84)	189.3	(1.59)
2008-09	12,662.3	(7.63)	660.2	(5.96)	180.5	(4.65)
2009-10	11,618.1	(8.25)	608.8	(7.78)	167.9	(6.93)

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 relationship changed in the latter part of the 1980s, as contractions in manufacturing employment were not initially accompanied by a recession. Other factors, such as heightened foreign competition, smaller defense budgets, and improved productivity, played a significant role in affecting the overall level of manufacturing employment in Connecticut.

MANUFACTURING EMPLOYMENT
FISCAL YEAR GROWTH BY PERCENT



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

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The erosion of the state's manufacturing base reflects the national trend away from traditional industries, both durable and nondurable. More of U.S. demand is being satisfied by foreign producers who can manufacture goods more cheaply. The upward trend of higher productivity has enabled Connecticut manufacturers to make more with fewer workers. Even with the structural change, manufacturing employment in Connecticut still accounts for 10.4% of all nonfarm payroll jobs, compared with 8.9% in the U.S. and 9.0% in New England through fiscal year 2010. The following table provides a breakdown of the state's manufacturing employment by industry and indicates percentage changes for the year and since the start of the decade for each of the manufacturing sectors.

Manufacturing employment in each industry has declined in fiscal year 2010 from fiscal year 2009, with Food, Beverage and Tobacco employment being the exception. The greatest reductions are seen in Printing, Publishing and Textile which dropped over 12.6%, and Metal Manufacturing which dropped nearly over 10.1%. Food, Beverage and Tobacco employment increased 4.9% over fiscal year 2009. The percent change from fiscal year 2000 to 2009 demonstrates the overall decline in manufacturing employment over the last decade.

TABLE 22
CONNECTICUT MANUFACTURING EMPLOYMENT BY INDUSTRY
(In Thousands)

<u>Industry</u>	Percent Change				
	<u>F.Y.</u> <u>1999-00</u>	<u>F.Y.</u> <u>2008-09</u>	<u>F.Y.</u> <u>2009-10</u>	<u>FY 2009 to</u> <u>FY 2010</u>	<u>FY 2000 to</u> <u>FY 2010</u>
Transportation Equipment	47.93	43.94	42.54	(3.19)	(11.25)
Metal Manufacturing	50.06	37.98	34.14	(10.11)	(31.80)
Electronic & Electrical	35.10	24.59	22.96	(6.63)	(34.59)
Chemical, Plastics & Rubber	28.67	20.30	18.59	(8.42)	(35.16)
Printing, Publishing & Textile	24.96	14.90	13.01	(12.68)	(47.88)
Industrial Machinery	23.70	17.05	15.64	(8.27)	(34.01)
Food, Beverage & Tobacco	8.94	7.76	8.14	4.90	(8.95)
Miscellaneous	17.37	13.95	12.88	(7.67)	(25.85)
Total Mfg. Employment	236.73	180.47	167.90	(6.97)	(29.08)

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

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The following table ranks the 50 states in terms of their relative dependence on manufacturing wages as a percentage of total personal income.

TABLE 23
MANUFACTURING WAGES AS A PERCENT OF PERSONAL INCOME BY STATE
Fiscal Year 2010
(In Millions of Dollars)

<u>Rank</u>	<u>State</u>	<u>Personal</u> <u>Income</u>	<u>Mfg.</u> <u>Wages</u>	<u>%</u>	<u>Rank</u>	<u>State</u>	<u>Personal</u> <u>Income</u>	<u>Mfg.</u> <u>Wages</u>	<u>%</u>
1	Indiana	\$ 220,382	\$ 24,785	11.25%	26	Maine	\$ 48,733	\$ 2,648	5.43%
2	Wisconsin	214,288	22,147	10.34%	27	Nebraska	71,036	3,823	5.38%
3	Iowa	114,737	9,867	8.60%	28	Massachusetts	330,961	17,766	5.37%
4	Michigan	345,575	27,914	8.08%	29	Georgia	337,193	17,495	5.19%
5	New Hampshire	57,079	4,561	7.99%	30	Texas	968,392	50,011	5.16%
6	Ohio	414,900	32,877	7.92%	31	Louisiana	169,826	8,336	4.91%
7	Kansas	111,917	8,358	7.47%	32	Rhode Island	43,960	2,157	4.91%
8	Alabama	158,856	11,542	7.27%	33	New Jersey	440,771	21,595	4.90%
9	South Carolina	149,695	10,736	7.17%	34	South Dakota	31,250	1,410	4.51%
10	Minnesota	223,267	15,846	7.10%	35	Oklahoma	133,557	5,889	4.41%
11	Kentucky	141,681	9,983	7.05%	36	Arizona	220,737	9,691	4.39%
12	Tennessee	219,118	15,156	6.92%	37	West Virginia	59,068	2,474	4.19%
13	North Carolina	331,620	22,443	6.77%	38	Delaware	35,583	1,351	3.80%
14	Vermont	24,646	1,659	6.73%	39	Virginia	352,068	12,787	3.63%
15	Mississippi	90,800	6,090	6.71%	40	Colorado	212,010	7,673	3.62%
16	Arkansas	94,916	6,330	6.67%	41	North Dakota	26,470	920	3.48%
17	Oregon	139,622	9,085	6.51%	42	Maryland	278,624	9,196	3.30%
18	Connecticut	195,479	12,401	6.34%	43	New York	926,456	24,727	2.67%
19	Utah	88,851	5,505	6.20%	44	Florida	726,407	16,696	2.30%
20	Illinois	546,160	32,978	6.04%	45	New Mexico	68,022	1,545	2.27%
21	Pennsylvania	512,041	30,002	5.86%	46	Montana	34,462	716	2.08%
22	Washington	288,655	16,899	5.85%	47	Nevada	99,063	1,913	1.93%
23	California	1,588,554	89,271	5.62%	48	Wyoming	26,286	458	1.74%
24	Missouri	216,712	11,893	5.49%	49	Alaska	30,772	442	1.44%
25	Idaho	49,389	2,685	5.44%	50	Hawaii	54,815	519	0.95%
	United States	\$12,306,902	\$ 658,356	5.35%					

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,

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nonmanufacturing employment has risen in importance to the Connecticut economy, reflecting the overall national trend away from manufacturing.

Nonmanufacturing employment lost approximately 37,600 positions and declined by approximately 2.5% in fiscal year 2010 from 2009. Despite this decline, federal employment grew by 2.1% (400 additional employed) and education and health employment grew by 1.9% (5,770 additional employed). The education and health sector also experienced the largest percentage growth from fiscal year 2000 to 2010 with a 25.0% gain during that period.

The following table provides detail on 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 24
CONNECTICUT NONMANUFACTURING EMPLOYMENT BY INDUSTRY
(In Thousands)

<u>Industry</u>	<u>F.Y.</u> 1999-00	<u>F.Y.</u> 2008-09	<u>F.Y.</u> 2009-10	<u>Percent Change</u>	
				<u>FY 2009 to</u> <u>FY 2010</u>	<u>FY 2000 to</u> <u>FY 2010</u>
Construction & Mining	63.60	60.49	53.03	(12.33)	(16.62)
Information	45.36	36.45	34.32	(5.84)	(24.34)
Transp., Trade & Utilities	315.13	301.63	289.93	(3.88)	(8.00)
Transp., & Warehousing	41.75	42.96	39.93	(7.05)	(4.36)
Utilities	9.72	8.71	8.57	(1.61)	(11.83)
Wholesale	67.04	67.36	63.38	(5.91)	(5.46)
Retail	196.61	182.61	178.05	(2.50)	(9.44)
Finance (FIRE)	141.82	140.89	135.34	(3.94)	(4.57)
Finance & Insurance	120.48	121.01	116.61	(3.64)	(3.21)
Real Estate	21.34	19.88	18.73	(5.78)	(12.23)
Services	639.95	693.92	687.46	(0.93)	7.42
Professional & Business	214.33	196.73	183.45	(6.75)	(14.41)
Education & Health	244.47	299.92	305.69	1.92	25.04
Leisure & Hospitality	120.48	135.16	137.17	1.49	13.85
All Other Services	60.67	62.11	61.15	(1.55)	0.79
Government	239.50	251.31	247.01	(1.71)	3.14
Federal	23.37	19.48	19.88	2.05	(14.93)
State	68.13	70.06	67.15	(4.15)	(1.44)
Local	147.99	161.78	159.98	(1.11)	8.10
Total Nonmanufacturing Employment	1,445.36	1,484.69	1,447.09	(2.53)	0.12

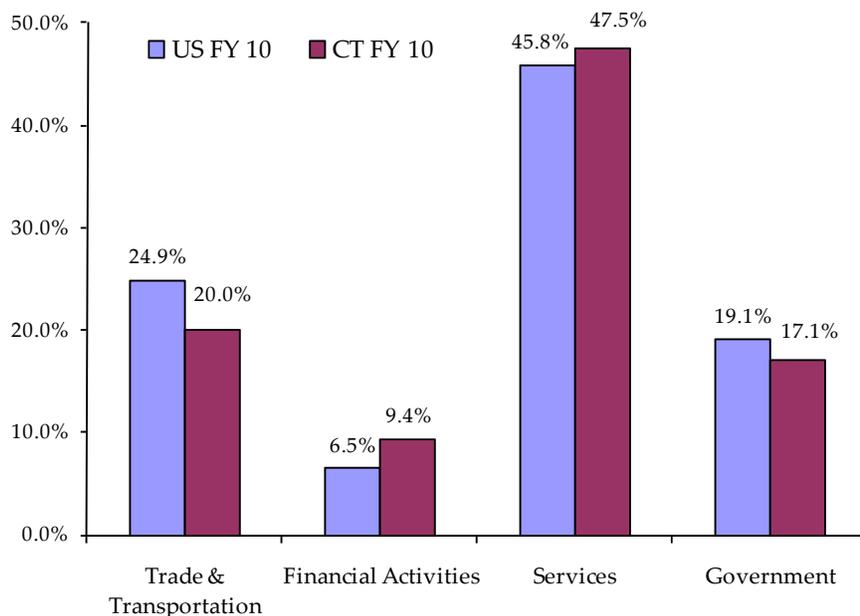
Note: Totals may not agree with detail due to rounding.

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

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The following chart provides a comparison of select nonmanufacturing sectors in Connecticut to national results.

**COMPARISON OF NONMANUFACTURING EMPLOYMENT IN CERTAIN SECTORS
(As A Percentage Of Total Non-Manufacturing Employment)**



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

The following table and chart provide a ten year profile of nonmanufacturing employment in the United States, the New England region, and Connecticut.

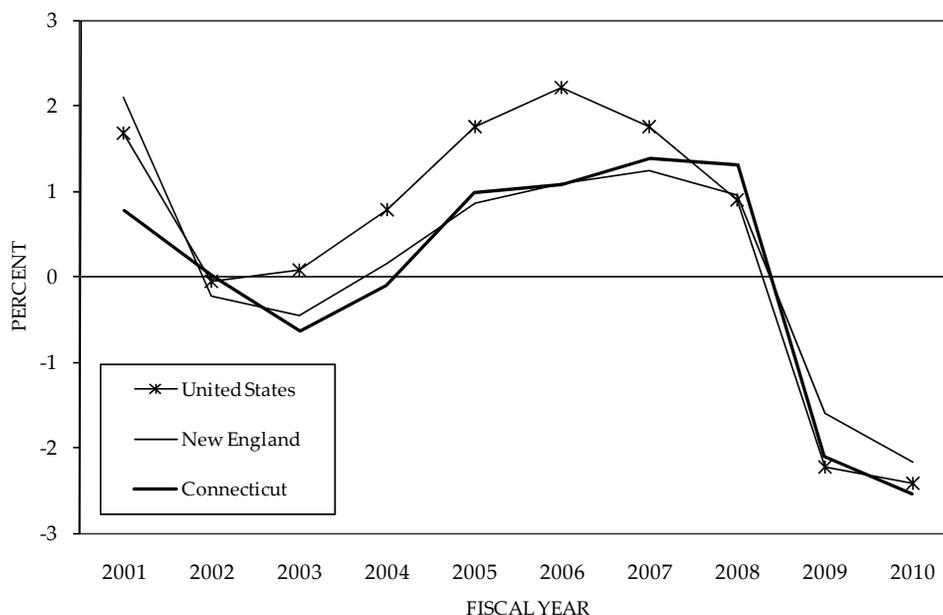
**TABLE 25
NONMANUFACTURING EMPLOYMENT
(In Thousands)**

Fiscal Year	United States		New England		Connecticut	
	Number	% Growth	Number	% Growth	Number	% Growth
1999-00	113,309	3.0	6,007	2.8	1,445	2.3
2000-01	115,211	1.7	6,133	2.1	1,457	0.8
2001-02	115,141	(0.1)	6,120	(0.2)	1,457	0.0
2002-03	115,240	0.1	6,093	(0.4)	1,447	(0.6)
2003-04	116,148	0.8	6,102	0.2	1,446	(0.1)
2004-05	118,181	1.8	6,155	0.9	1,460	(1.0)
2005-06	120,806	2.2	6,223	1.1	1,476	(1.1)
2006-07	122,936	1.8	6,301	1.2	1,497	1.4
2007-08	124,016	0.9	6,361	1.0	1,517	1.3
2008-09	121,251	(2.2)	6,260	(1.6)	1,485	(2.1)
2009-10	118,334	(2.4)	6,124	(2.2)	1,447	(2.5)

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

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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 in 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 26
CONNECTICUT NONMANUFACTURING ANNUAL SALARIES

Industry	F.Y.	F.Y.	F.Y.	Percent Change	
	<u>1999-00</u>	<u>2008-09</u>	<u>2009-10</u>	<u>FY 2009 to</u> <u>FY 2010</u>	<u>FY 2000 to</u> <u>FY 2010</u>
Construction	\$46,537	\$59,744	\$60,146	0.7	29.2
Information	57,310	70,206	73,394	4.5	28.1
Transp., Trade & Utilities	36,320	45,608	45,680	0.2	25.8
Wholesale Trade	61,007	80,335	80,707	0.5	32.3
Retail Trade	26,464	30,804	31,681	2.8	19.7
Finance, Ins. & Real Estate	79,549	123,008	126,606	2.9	59.2
Professional & Business Services	56,435	75,196	77,712	3.3	37.7
Education & Health Services	35,368	47,409	48,194	1.7	36.3
Leisure & Hospitality Services	17,927	21,900	21,556	(1.6)	20.2
Government	40,643	56,443	56,994	1.0	40.2
Federal	58,717	91,810	95,193	3.7	62.1
State and Local	38,686	53,473	53,651	0.3	38.7

Source: U.S. Bureau of Economic Analysis

Salaries for each of these industries grew year over year and since fiscal year 2000, with one exception. Leisure and Hospitality Services salaries declined by 1.6% in fiscal 2010 from fiscal

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2009. This is an improvement from the percentage changes between 2008 and 2009 when salaries in four of these industries declined.

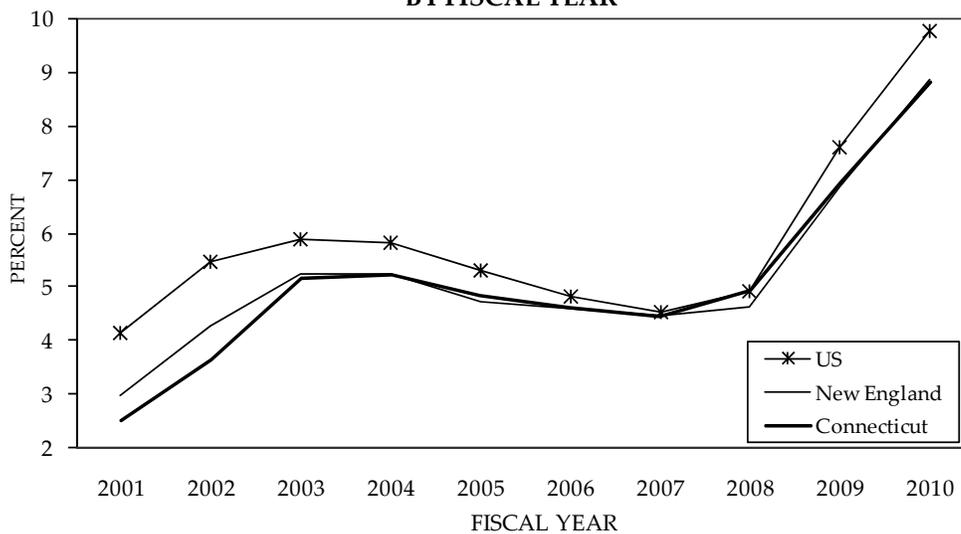
Unemployment Rate

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 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. The following table shows the unemployment rate for the U.S., the New England region, and Connecticut over a ten year period. Given the recession, it is no surprise unemployment rates grew in the U.S., New England region and Connecticut from fiscal year 2007 through fiscal year 2010.

TABLE 27
UNEMPLOYMENT RATES

<u>Fiscal Year</u>	<u>United States</u>	<u>New England</u>	<u>Connecticut</u>
2000-01	4.1	3.0	2.5
2001-02	5.5	4.3	3.6
2002-03	5.9	5.3	5.2
2003-04	5.8	5.2	5.2
2004-05	5.3	4.7	4.9
2005-06	4.8	4.6	4.6
2006-07	4.5	4.5	4.4
2007-08	4.9	4.6	4.9
2008-09	7.6	6.9	7.0
2009-10	9.8	8.9	8.8

UNEMPLOYMENT RATES
BY FISCAL YEAR



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

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SECTOR ANALYSIS

Energy

Over the past two hundred years, the history of energy supplies and the mode of energy use in the United States have 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 37 years, all of the nation's five 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 March 2001 recession followed an energy supply disturbance that occurred in late 2000 when petroleum inventories remained relatively low and the price reached a then-record high of \$37.80 per barrel, the highest since the Gulf War of 1991. The latest recession, which began in December 2007, was also presaged by a hike in oil prices and was accompanied by the joint crises in the housing and financial markets. West Texas Intermediate crept up to a monthly average high of \$94.62 a barrel in November 2007, up nearly 60% from a year earlier. The price continued to rise to an all time monthly record high of \$133.93 a barrel in June 2008, but, within less than a year, dropped 71% to a low of \$39.16 a barrel in February of 2009 as the global economy slowed down. Crude oil prices hovered around the low \$90s a barrel in late 2010 as the economy recovered.

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

Worldwide

World oil supply and demand both declined in 2009 from 2008 levels due to the global economic downturn and financial crisis. Weak world demand brought down prices, which prompted OPEC to curtail output. Consumption contracted in 2009, the first time since 1983 when the U.S. confronted a severe back-to-back recession, due to a reduction in demand from developed countries, while demand from emerging economies in Asia such as India, China, and South Korea continued to increase. World oil supply and demand among countries or regions is significantly 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), for example, supplied 33.88 million barrels per day (MBPD) in 2009 and consumed 11.97 MBPD, leaving a 21.91 MBPD surplus. The Organization for Economic Cooperation and Development (OECD), on the other hand, consumed more than it supplied. In 2009, the OECD consumed 45.72 MBPD, while supplying only 21.10 MBPD, registering a 24.62 MBPD deficit.

The United States consumed 18.77 MBPD in 2009, down from 19.50 MBPD in 2008, representing almost a quarter of total world demand, compared to a production of 9.16 MBPD, or 10.9% of world supply, reflecting a 51.2% dependency on foreign oil supplies. The deficit between supply and demand also exists in larger economies such as China, Japan, France, and Germany.

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TABLE 28
WORLD OIL SUPPLY AND DEMAND
Calendar 2009

	Supply			Demand	
	Millions of Barrels Per Day	% of Total		Millions of Barrels Per Day	% of Total
Total OECD (a)	21.10	25.0%	Total OECD	45.72	54.2%
United States	9.16	10.9	United States	18.77	22.3
Canada	3.29	3.9	Canada	2.15	2.5
Mexico	3.00	3.6	Mexico	2.08	2.5
North Sea (b)	4.07	4.8	Japan	4.37	5.2
Other OECD	1.58	1.9	Germany	2.44	2.9
			France	1.83	2.2
Total OPEC (c)	33.88	40.1	Italy	1.53	1.8
Saudi Arabia	8.25	9.8	United Kingdom	1.67	2.0
Iran	4.04	4.8	Other OECD	10.88	12.9
Iraq	2.39	2.8			
Other OPEC	19.20	22.8	Total Non-OECD	38.61	45.8
			Former USSR	4.21	5.0
Total Non-OECD	29.41	34.9	China	8.32	9.9
Former USSR	12.91	15.3	India	2.98	3.5
China	4.00	4.7	OPEC	11.97 *	14.2
Other	<u>12.50</u>	<u>14.8</u>	Other	<u>11.13</u>	<u>13.2</u>
Total 2009 Supply	84.39	100.0%	Total 2009 Demand	84.33	100.0%
Total 2008 Supply	85.44		Total 2008 Demand	85.78	
Change	(1.05)		Change	(1.45)	

* estimated with 2008 demand.

Note:

- (a) The OECD includes the United States, Western European countries, Australia, Canada, Japan, and New Zealand.
- (b) North Sea includes the United Kingdom Offshore, Norway, Denmark, Netherlands Offshore, and Germany Offshore.
- (c) The OPEC includes Algeria, Gabon, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates, and Venezuela.

Source: U.S. Department of Energy, Energy Information Administration, *International Petroleum Monthly* and *International Energy Annual*
U.S. Central Intelligence Agency, *The World Factbook*

Demand in China and India, Asia's two most populous and fastest growing economies, continues its upward trend, accounting for 13.4% of the worldwide demand total in 2009, up from 5.5% in 1991. China, the world's second largest consumer, which switched from a net exporter of oil in 1995, began running an increasing oil deficit as its economy continued to grow at a brisk pace. In 2009, China consumed 8.32 MBPD while supplying 4.00 MBPD, leaving a 4.32 MBPD deficit. Like the U.S., China has an over 50% dependence rate on foreign oil. In light of energy security concerns as well as soaring world demand and fierce competition for

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resources, China has augmented crude and oil product stockpiles, encouraged businesses to invest in oil and gas fields, and secured long term supply contracts abroad.

TABLE 29
WORLD OIL & NATURAL GAS RESERVES
January 1, 2009

	Oil		Gas	
	Billions of Barrels	% of Total	Trillions of Cubic Feet	% of Total
North America	207.7	15.5%	315.7	5.0%
United States	19.1	1.4	244.7	3.9
Mexico	10.5	0.8	13.2	0.2
Canada	178.1	13.3	57.9	0.9
Central & South America	122.7	9.2	266.5	4.3
Venezuela	99.4	7.4	170.9	2.7
Western Europe	13.7	1.0	169.1	2.7
Eurasia *	98.9	7.4	1,993.8	31.8
Russia	60.0	4.5	1,680.0	26.8
Middle East	746.0	55.7	2,591.7	41.4
Saudi Arabia	266.7	19.9	258.5	4.1
Iran	136.2	10.2	991.6	15.8
Iraq	115.0	8.6	111.9	1.8
Kuwait	104.0	7.8	63.4	1.0
Other Mid. East	124.1	9.3	1,166.3	18.6
Africa	117.1	8.7	494.1	7.9
Nigeria	36.2	2.7	184.2	2.9
Far East & Others	34.0	2.5	430.4	6.9
Total 2009 estimate	1,340.0	100.0	6,261.3	100.0
Total 2008 estimate	1,184.2		6,436.0	
Change	155.8		(174.7)	

Note: * Comprises the continents of Europe and Asia
Totals may not add due to rounding.

Source: U.S. Dept. of Energy, Energy Information Administration (EIA), *Annual Energy Review*

The above table shows world oil and natural gas reserves by country. Total world oil reserves estimated in 2009 increased by 155.8 billion barrels (BBs) to 1,340.0 BBs from the 2008 level, thanks mostly to the tar sands in Alberta, Canada. Oil reserves held by Canada increased to 178.1 BBs in 2009 from 25.2 BBs in 2008, leap-frogging Iran and making Canada's total oil reserves the second largest in the world, after Saudi Arabia. The increase in Canada's resources could potentially help the U.S. shift its dependency on Middle Eastern oil. Oil reserves held by the U.S. decreased to 19.1 BBs in 2009 from 21.3 BBs in 2008, due mostly to production. Natural gas reserves held by the U.S. increased to 244.7 Trillions of Cubic Feet (TCFs) in 2009 from 237.7 TCFs in 2008, due mostly to shale gas development in Louisiana, Arkansas, Texas, Pennsylvania, and North Dakota. Oil or natural gas reserves are the estimated quantities that are recoverable in the future from known reservoirs under the existing technological, operating

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and economic conditions. World energy reserves also mirror the same pattern of disparity as the oil supply market. The share of world oil reserves held by all OPEC countries is approximately 65%. Of the total, the Middle East controls approximately 56% of world oil reserves with Saudi Arabia alone controlling approximately 20% of the total, followed by Iran's 10.2% and Iraq's 8.6%. The Middle East countries controlled approximately 40.0% of natural gas reserves. Resources that currently are not technologically recoverable but could become recoverable in the future as technologies advance may also be added to the reserve. Energy companies whose equities are traded on the U.S. stock market are required to report their holdings of proved reserves.

As the economy grows, the United States continues to deplete its energy reserves. U.S. crude oil and natural gas reserves in 2009 were estimated at 19.1 billion barrels and 244.7 trillion cubic feet, or 1.4% and 3.9%, 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 started assembling the reserve data.

United States

The U.S. has the largest demand for world oil. While it represents about 5% of world population and supplies 11% of world oil, it consumes 22% of world oil production and produces about 28% of the world's GDP. The nation has long been a net energy importer. According to the *Annual Energy Review*, the U.S. consumed 94.58 quadrillion British Thermal Units (QBTU's) of energy in 2009, which was 2.1 times the 1960 level.

Whereas the U.S. produced only 72.97 QBTU's and exported 6.93 QBTU's in 2009, it required net imports of 22.85 QBTU's, which represented 24.2% of total national energy consumption, compared to 25.2% in 2000, 16.6% in 1990, and 6.0% in 1960. Energy produced in the U.S. was mostly from fossil fuels (coal, 29.6%; natural gas, 29.5%; and crude oil, 15.4%) that accounted for 77.9% of total production in 2009. Coal and crude had been the leading energy sources, but natural gas rose in importance since the 1980s.

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 2009 by fuel type and by economic sector. As can be seen, petroleum products are the most important energy source for the U.S. economy. The 35.27 quadrillion petroleum-generated BTU's accounted for 37.0% of U.S. fuel consumption, followed by natural gas at 23.37 QBTU's and coal at 19.74 QBTU's. These three fuel sources together accounted for approximately 85% of U.S. fuel consumption. Nuclear power and hydroelectric power were distant followers.

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TABLE 30
U.S. ENERGY CONSUMPTION IN 2009
(Quadrillion BTU's)

<u>Fuels</u>	<u>Resi - dential</u>	<u>Com- mercial</u>	<u>In- dustrial</u>	<u>Trans- portation</u>	<u>Electric Generation</u>	<u>Total</u>	<u>% of Total</u>
Natural Gas	4.87	3.19	7.58	0.69	7.04	23.37	24.7%
Petroleum	1.16	0.60	7.78	25.34	0.39	35.27	37.3%
Coal	0.01	0.06	1.37	0.00	18.30	19.74	20.9%
Nuclear	0.00	0.00	0.00	0.00	8.35	8.35	8.8%
Renewables							
Hydroelectric	0.00	0.00	0.02	0.00	2.66	2.68	2.8%
Other*	0.56	0.12	2.00	0.92	1.45	5.06	5.4%
Electricity	4.65	4.51	3.01	0.03	0.12	12.32	13.0%
Electric Losses	<u>9.95</u>	<u>9.66</u>	<u>6.44</u>	<u>0.06</u>	<u>(38.30)</u>	<u>(12.20)</u>	<u>(12.9)%</u>
Total Demand	21.21	18.15	28.20	27.03	0.00	94.58	100.0%
% of Total	22.4%	19.2%	29.8%	28.6%	0.0%	100.0%	

Note: * Includes power generated from wood, biofuels, wind, waste, geothermal, tide, and solar/photovoltaic.

Totals may not add due to rounding.

Source: U.S. Dept. of Energy, Energy Information Administration, *Annual Energy Review 2009*

The U.S. lags other developed countries in utilizing renewable energy. Hydroelectricity, for example, provided approximately 7% of electric generation in the U.S., versus more than 50% in Canada. Capital investments on alternative renewable energy from solar, hydroelectric, wind, biofuels, and geothermal have increased drastically in the U.S.; nonetheless, their share of power production is still small. Green energy in total in the U.S. is expected to play an increasingly important role and therefore grow faster than non-green energy sources as awareness of the environmental consequence of greenhouse gas emissions and energy efficiency rises. Operable nuclear plants continue to decline to 104 units in 2009, down from a peak of 112 units in 1990. Nonetheless, nuclear generation of electricity accounted for 22% of domestic total electricity output in 2009. The U.S. is the world's largest nuclear power producer, accounting for more than 30% of worldwide nuclear electricity production. Issues of plant and public safety, radioactive waste disposal, and high capital investment and maintenance risks have slowed the expansion of nuclear power plants. However, with concerns over rising fossil fuel prices and the greenhouse gas effect, plans for new nuclear generation capacity have increased. It is expected that 4 to 6 new units may come on line by 2018.

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 in the electricity industry. Of the four end-users, the industrial sector was the largest energy consumer, consuming 28.20 QBTU's in 2009, followed by transportation at 27.03 QBTU's, residential at 21.21 QBTU's, and commercial at 18.15 QBTU's.

In contrast to the relatively smooth trends in the other sectors, industrial consumption has showed the greatest fluctuation, dropping sharply in 1975, 1980-83, 2001-03, and 2008-09 in response to high oil prices and economic slowdown. The electric power generation sector

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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.

Crude Oil Prices

Oil is a global commodity. Crude oil prices in the U.S. depend not only upon domestic market conditions, but also upon worldwide supply and demand. While long-term upward trending oil prices are fundamentally caused by the world's tighter supply and increasing demand, short-term price fluctuations are basically caused by interruptions in supply due to geopolitical unrest, seasonal or unexpected damages to facilities in, for instance, the Gulf of Mexico or elsewhere, or other events. Mounting world consumption has resulted in price increases as spare production capacity is more limited now than it has been over the past three decades. As oil fields age with inadequate investment, productivity declines. Crude oil production in the U.S., for example, fell from the peak average of 18.6 barrels per day per well in 1972 to 9.16 barrels in 2009 or a 50% reduction in productivity. Forecasts of future supply and inventory levels also affect short-run oil prices. As demand and supply are delicately in balance, crude oil inventory relative to its historical average and anticipated levels also plays a critical role. The "risk premium" reflects the possibility of a supply shortage, creating the incentive to hoard bigger inventories and rising speculative investments, which leads to higher prices. The value of the U.S. dollar relative to other major currencies has become an important factor, as the dollar serves as the world standard unit of trade. To defend against losses due to the depreciation of the dollar, oil producing countries and oil companies raised oil prices. The continued decline in the dollar drove daily oil prices to an all time high of \$147 per barrel in July of 2008. Subsequently, the slowdown in the global economy combined with an appreciation in the dollar sent daily oil prices down more than 80% to about \$30 per barrel in November 2008. Crude oil went above \$90 a barrel in late 2010 as the outlook for the global economy turned positive and the dollar eroded.

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. After two consecutive supply disturbances brought on by the Iranian Revolution in 1979 and the Iran-Iraq war in 1980, oil prices reached \$35.28 per barrel in 1981. Since then, long-term prices had trended down to a low of \$12.54 per barrel in 1998 and then stayed in the \$20 range until mid-2003. Crude oil prices started to creep up above \$30 per barrel in late 2003, soar to the mid \$90s in 2008 and near \$134 per barrel in mid 2008. It then plummeted 70% to close in the low \$40s per barrel range in late 2008 and returned to hover around the mid \$70s in late 2009 and in the low \$90s in late 2010. The world oil market becomes more vulnerable as inventory levels tighten, consumption from rapidly growing emerging markets expands, and the U.S. dollar depreciates. In real terms as adjusted for inflation, 2008's \$93.98 per barrel price as measured in 2009 dollars became the new high, surpassing the last annual peak of \$83.24 per barrel registered in 1981.

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TABLE 31
CRUDE OIL PRICES AND U.S. CONSUMPTION
 Refiners' Crude Oil Acquisition Costs* Per Barrel

<u>Year</u>	<u>Current \$</u>	<u>In</u> <u>2009 \$*</u>	<u>Year</u>	<u>Current \$</u>	<u>In</u> <u>2009 \$*</u>
1973	4.15	20.04	2001	22.95	27.81
1975	10.37	41.34	2002	24.02	28.65
1980	28.22	73.50	2003	28.60	33.35
1981	35.28	83.24	2004	36.91	41.92
1985	26.75	53.34	2005	50.32	55.29
1990	22.34	36.68	2006	60.10	63.98
1995	17.23	24.26	2007	67.98	70.34
2000	28.24	35.19	2008	94.29	93.98
			2009	59.20	59.20
			2010 **	75.60	74.41

Note: * Adjusted by 2009 CPI-U, where 1982-84 = 100.00 and 2009 = 214.55.

** The average for the first eight months.

Source: U.S. Department of Energy, Energy Information Administration

Longer term oil prices are expected to trend up as world demand grows faster than the rate of discovery of new supplies. The following factors are driving prices higher: new oil fields are harder to find, crude oil is more costly to extract, underinvestment had been occurring for years in this industry, and mounting demand for oil from the emerging economies, the Middle East, some industrialized countries, and elsewhere. It is estimated that 70% of the existing oil fields are more than 30 years old. Oil reserves in the Middle East and Persian Gulf region may be nearing maturity or depletion. However, the world is expected to rely even more on OPEC's current 40% share as potential production from non-OPEC countries decline. As the world economy continues to grow, the increasing demand will more than offset any savings gained from efficiency and conservation. Although new discoveries such as Tiber Prospect and Jack Field in the Gulf of Mexico, and Tupi Field in Brazil, etc. may add hundreds of billions of barrels of crude oil reserves, meaningful production due to technical limitations and environmental concerns may not happen for years to come.

Efficiency

Increasing efficiency has been a focal point of the nation's energy conservation policy. Energy regulatory agencies have been aggressively protecting the environment by promoting energy-efficient products over the past two decades. 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 1992, the EPA embarked upon "*Energy Star*" as a voluntary labeling program to identify and promote energy-efficient products to reduce greenhouse gas emissions. *Energy Star* products use less energy and help protect the environment. The *Energy Star* label now covers product categories from small battery chargers to central air conditioners. It includes appliances, electronics, heating and cooling equipment, office equipment, lighting, commercial food services, and new buildings and plants with additional energy-saving features that are 20-30% more efficient than standard homes.

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To promote energy efficient buildings in the U.S., Leadership in Energy and Environmental Design (LEED), a non-profit organization under the U.S. Green Building Council (USGBC), provides green building rating standards for environmentally sustainable construction and design.

Other than energy conservation, increases in productivity also play a vital role in efficiency. Productivity, a crucial ingredient in the economy's long-term vitality, is a measure of economic efficiency which relates to 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 efficiency is the amount of energy used to produce a dollar of Gross Domestic Product (GDP). The following table compares U.S. consumption of fuel sources and illustrates the nation's improvement in energy efficiency.

Energy consumption per dollar of real GDP has trended down at an average annual rate of 1.4% during the past 3 decades. In 1975, 14,755 BTU's of energy were required to produce \$1 of GDP measured in 2005 dollars; by 2009, that had fallen to 7,343 BTU's, a 50.2% reduction. The decline in energy consumption per dollar of GDP resulted from efficiency improvements and a structural shift from energy intensive industries to those that consume less energy but create more value added products such as finance, banking, and professional services. However, improvements in energy efficiency vary from period to period, depending upon energy prices, consumers' consumption habits, and technology improvements, etc. Efficiency tends to stagnate when fuel prices decline; as oil prices fell, the incentive to conserve energy diminished.

TABLE 32
U.S. PRIMARY ENERGY CONSUMPTION & ENERGY EFFICIENCY

Calendar Year	U.S. Energy Consumption		GDP	BTU	
	Total Quadrillion BTU's	Percent Change	Billion (In 2005\$)	Per \$1 GDP (In 2005\$)	Percent Change
1975	72.00		4,879.5	14,755	
1980	78.12	8.5%	5,839.0	13,379	(9.3%)
1985	76.49	(2.1%)	6,849.3	11,168	(16.5%)
1990	84.65	10.7%	8,033.9	10,537	(5.7%)
1995	91.17	7.7%	9,093.7	10,026	(4.9%)
2000	98.98	2.2%	11,226.0	8,817	(12.1%)
2005	100.51	1.5%	12,638.4	7,952	(9.8%)
2006	99.86	(0.7%)	12,976.2	7,695	(3.2%)
2007	101.55	1.7%	13,228.9	7,677	(0.2%)
2008	99.30	(2.2%)	13,228.8	7,507	(2.2%)
2009	94.58	(4.8%)	12,880.6	7,343	(2.2%)

Source: U.S. Dept. of Energy, Energy Information Administration, *Annual Energy Review 2009*
U.S. Dept. of Commerce, Bureau of Economic Analysis

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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 of achieving a maximum draw-down rate within 15 days of the notice to proceed. To maximize long-term protection against oil supply disruptions, President George W. Bush in late 2001 directed the Secretary of Energy to fill the SPR up to its 700 million barrel capacity. As of the end of 2009, the reserve held 726.6 million barrels of crude oil, accounting for 69.1% of crude oil stocks.

In early 2000, a shortage of home heating oil sent prices to a high of \$2.45 per gallon from \$1.00 per gallon a year earlier. To reduce such risk in the future, the U.S. Department of Energy established 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 for approximately 10 days. This reserve program was permanently established in March of 2001 as a part of America's energy readiness effort, separating it from the Strategic Petroleum Reserve. Heating oil is the dominant fuel used for home heating in Connecticut with 52% of all homes in Connecticut using heating oil as the primary heating fuel.

Connecticut

Connecticut is ranked as one of the most efficient states in the nation in energy usage. Connecticut consumed 4.6 thousand BTU's per 2000 chained dollar of Gross State Product in 2008, the latest available data, ranking the second most efficient state among the 50 states and 46.5% less than the national average of 8.6 thousand BTU's. When compared to the national per person consumption, Connecticut residents are moderate energy users. Connecticut consumed 231.2 million BTU's of energy per person in 2008, ranking it 46th among the 50 states and 29.2% less than the national average of 326.5 million BTU's. These figures were far less than Wyoming's consumption of 1,016.1 million BTU's, the largest consumer in the nation. Because the State lacks indigenous energy sources, it must import nearly all the energy that it consumes. This situation affects Connecticut consumers' energy choices and results in prices that are approximately 35% higher than the national average. Connecticut residents in 2008 spent \$28.83 per million BTU, compared to \$21.44 for the Nation.

The following table compares various prices to the national average for natural gas, motor gasoline, residential heating oil, residential electricity, and total average energy paid by consumers. Overall energy costs in Connecticut in 2008 were 35% higher than the national average, with electricity above the nation by 82%. Although the electric industry has been deregulated since the late 1990s, Connecticut's retail electric rates were among the highest in the 49 continental states. To maintain utility rate stability, utility providers have entered into long-term fixed contracts and paid a hefty premium. Most power plants in Connecticut are old and less efficient. More than 36% of the power plants in Connecticut are 40 years old (the normal service life) and due for retirement. In addition, Connecticut's capacity need in the Southwestern region of the state combined with an older transmission system requires long distance delivery and incurs large transmission losses, increasing operational costs.

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TABLE 33
CONSUMER ENERGY PRICES IN THE UNITED STATES AND CONNECTICUT
Nominal Dollars Per Million BTU in 2008

	Natural <u>Gas</u>	Motor <u>Gasoline</u>	Residential <u>Heating Fuel</u>	All * <u>Petroleum</u>	Retail <u>Electricity</u>	Total <u>Energy</u>
Connecticut	\$13.27	\$26.10	\$10.53	\$26.00	\$52.15	\$28.83
United States	\$10.82	\$25.53	\$12.64	\$24.29	\$28.64	\$21.44
CT as a % of the U.S.	123%	102%	83%	107%	182%	135%

Note: * Includes motor gasoline, residential and distillate fuel oil, liquefied petroleum gases, and jet fuel, etc.

Source: U.S. Department of Energy, Energy Information Administration, *State Data*

The following table shows a breakdown of the amount and percentage share of total energy consumed in Connecticut by fuel in 2008, the latest available data. When compared to the national average, petroleum has supplied more of Connecticut's energy needs relative to coal and natural gas. This is because petroleum is more easily transported than other types of fuel and fuel oil has been the major source to heat homes. According to the 2000 Census, 52% of Connecticut households used fuel oil for home heating, followed by natural gas at 29%, electricity at 15%, and liquefied petroleum gases and others each at 2%. The State's petroleum products are received at the ports in New Haven, New London, and Bridgeport, and shipped by barge on the Connecticut River to central Connecticut.

TABLE 34
CONNECTICUT ENERGY CONSUMPTION IN 2008
(Trillion BTU's)

<u>Fuels</u>	Resi- <u>dential</u>	Com- <u>mercial</u>	In- <u>dustrial</u>	Trans- <u>portation</u>	Electric <u>Generation</u>	CT <u>Total</u>	% of CT <u>Total</u>	% of US <u>Total</u>
Natural Gas	43.8	38.4	23.0	4.4	60.2	169.8	21.0%	24.7%
Petroleum	79.4	18.7	15.8	232.4	5.9	352.3	43.5%	37.3%
Coal	0.0	0.0	0.0	0.0	45.2	45.2	5.6%	20.9%
Nuclear	0.0	0.0	0.0	0.0	161.3	161.3	19.9%	8.8%
Hydroelectric	0.0	0.0	0.0	0.0	5.5	5.5	0.7%	2.8%
Other	6.2	0.8	3.8	10.2	20.2	41.2	5.1%	5.4%
Deliv. Elec.	43.4	46.6	14.9	0.6	0.0	105.5	13.0%	13.0%
Deliv. Losses	<u>93.5</u>	<u>100.4</u>	<u>32.1</u>	<u>1.4</u>	<u>(298.3)</u>	<u>(70.9)</u>	<u>(8.8)%</u>	<u>(12.9)%</u>
Total Demand	266.3	204.9	89.7	249.1	0.0	809.9	100.0%	100.0%
% of Total-CT	32.9%	25.3%	11.1%	30.8%	0.0%	100.0%		
% of Total-U.S.*	22.4%	19.2%	29.8%	28.6%	0.0%	100.0%		

Note: * % of Total -U.S. from 2009 data
Totals may not add due to rounding.

Source: U.S. Department of Energy, Energy Information Administration, *State Data, 2008*

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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. In 2008, the latest available data, the state generated net 30,409,473 megawatt hours of electricity mostly using nuclear power and sold 30,956,544 megawatt hours of electricity. This implies that, in 2008, the state was 98.2% electricity self-sufficient. Unlike 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, when certain nuclear reactors were shut down for servicing.

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. In 2008, the latest available data, there were 1,612,646 electric consumers in Connecticut, with residential units accounting for approximately 90%; commercial units, 9%; and 0.5% each for industrial units and others. Approximately 90% of the electricity was sold by two investor-owned companies: Connecticut Light & Power and United Illuminating.

Natural gas is delivered to Connecticut through pipelines that traverse the State. Natural gas pipeline supplies are generally shipped to Connecticut from Canada and the Gulf of Mexico area. Connecticut also receives liquefied natural gas (LNG) through the interstate pipelines from a terminal located in Boston, Massachusetts which is supplied by LNG tanker ships. Natural gas service is provided to parts of the State through one municipal and three private gas distribution companies. Since 1996, the DPUC 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. Natural gas is delivered to consumers using the local distribution company's mains and pipelines. Located at or near the end of pipelines, Connecticut's distribution companies have to pay higher transportation cost and outbid other buyers in order to gain access rights to the gas wellhead.

Gasoline Consumption and Automotive Fuel Economy

In the U.S., highway vehicles consume approximately 98% of all gasoline. Only about 2% is used for other purposes such as agriculture, aviation, construction and boating. During 2008, gasoline consumption in the U.S. totaled 136.5 billion gallons, the equivalent of 8.90 million barrels per day. Gasoline consumption in Connecticut totaled 1.49 billion gallons or 35.6 million barrels, accounting for 1.1% of the nation's consumption. In 2008, Connecticut had approximately 1,500 gasoline stations, accounting for some 1.0% of the U.S. total. The table below shows gasoline consumption during the past ten years for the U.S. and Connecticut.

In 2008, each Connecticut resident consumed 426.5 gallons of gasoline versus 448.5 gallons for the nation. Per capita consumption is attributable to several factors such as income levels, traffic conditions, average weight of vehicles, distance that residents drive to work or shop, and

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the percentage of workers telecommuting or ride sharing. As one of the smallest states in the nation, Connecticut residents generally commute shorter distances to work and shop. However, gasoline consumption has grown faster in Connecticut versus the nation, narrowing the per capita consumption gap. During the decade between 2001 and 2008, per capita gasoline consumption in Connecticut averaged 96.2% of nation's level, increasing from 91.5% for the decade between 1991 and 2000. As the highest per capita personal income state in the nation, Connecticut residents tend to own more automobiles. The average Connecticut resident owned 0.56 private and commercial automobiles in 2007, versus 0.45 units for the nation. Also, Connecticut had 813 driver licenses per 1,000 residents in 2007, compared to 682 licenses for the nation. A recent survey conducted by Sterling's shows that Connecticut residents trail the nation in the use of car pooling. In June of 2010, the average one-way commute in Connecticut took 26.4 minutes with 80.1% of commuters driving their own car alone and 9.35% carpooling with others, compared to 27.8 minutes, 76.3%, and 12.15%, respectively, for the nation.

TABLE 35
GASOLINE CONSUMPTION IN THE UNITED STATES & CONNECTICUT

Calendar Year	U.S. Total		CT Total		Gallons Per Capita		
	Gallons (000's)	% Change	Gallons (000's)	% Change	U.S.	CT	CT/U.S. (%)
1990	110,184,150		1,301,715		441.4	395.4	89.6%
1995	120,875,789		1,302,750		453.9	388.7	85.6%
1998	127,977,505	2.1%	1,425,178	1.8%	463.9	423.5	91.3%
1999	132,260,590	3.3%	1,551,446	8.9%	474.0	458.1	96.7%
2000	132,279,950	0.0%	1,476,340	-4.8%	468.8	432.7	92.3%
2001	134,110,264	1.4%	1,496,469	1.4%	470.4	436.5	92.8%
2002	137,664,309	2.7%	1,589,580	6.2%	478.3	461.0	96.4%
2003	139,065,057	1.0%	1,645,268	3.5%	479.0	474.5	99.1%
2004	141,700,177	1.9%	1,860,908 *	13.1%	483.5	535.6	-
2005	140,338,710	-1.0%	1,614,697	13.2%	474.5	464.3	97.9%
2006	140,320,089	0.0%	1,566,875	-3.0%	469.9	449.6	95.7%
2007	140,436,133	0.1%	1,567,360	0.0%	465.7	449.3	96.5%
2008	136,499,418	-2.8%	1,494,164	-4.7%	448.5	426.5	95.1%
Average 1999 to 2008					469.9	450.3	95.8%

Note: * Given the unusually sharp rise in consumption in 2004, followed by a subsequent sharp decline in 2005, it is likely that this federally reported data point is erroneous.

Source: U. S. Dept. of Transp., Office of Highway Information Management, *Highway Statistics*

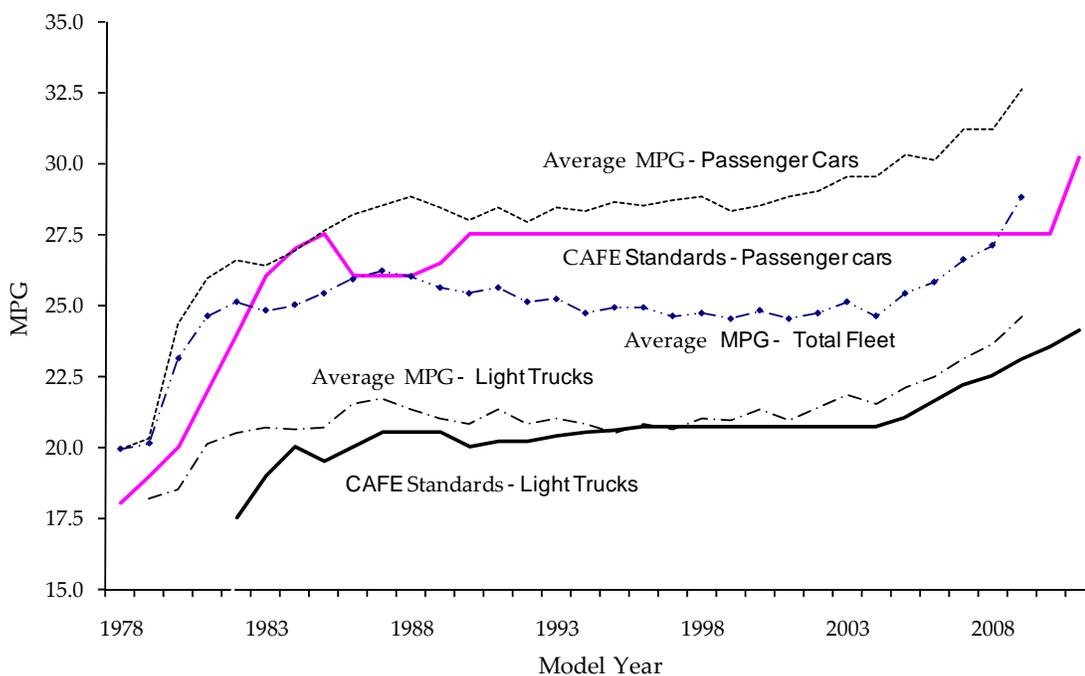
Corporate Average Fuel Economy (CAFE)

Emissions of carbon dioxide from motor vehicles represent 97% of the total greenhouse gas emissions in the U.S. In 1973, requirements for Corporate Average Fuel Economy (CAFE) in motor vehicles were first proposed in the wake of Arab oil embargo. In 1975, the Energy Policy and Conservation Act established the CAFE system and authorized the Department of

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Transportation to set automobile fuel efficiency standards, starting in model year (MY) 1978 for passenger cars and MY 1979 for light trucks. The measurement of CAFE is performed by the U.S. Environmental Protection Agency. The chart below illustrates the automotive fuel economy history for the CAFE standards for passenger cars and light trucks and their average miles per gallon (MPG) that had been produced. While CAFE standards for light trucks have continued to increase from 17.5 MPG in 1982 to 23.5 MPG in MY 2010, passenger cars have remained the same at 27.5 MPG since 1990. However, after the enactment of the law, the average MPG for passenger cars produced increased from 19.9 MPG in MY 1978 to 33.8 MPG in MY 2010, and, for light trucks produced, from 18.2 MPG in MY 1979 to 24.9 MPG in MY 2010, with a 69.8% and 36.8% improvement, respectively, in fuel efficiency.

Miles Per Gallon (MPG) for CAFE Standards and Produced Vehicles



Source: U.S. Dept. of Transportation, National Highway Traffic Safety Administration

The increase in fuel efficiency varied over the past three decades, accelerating during the 1970s and 1980s, but remaining relatively constant since the mid 1990s. MY 2010 was a banner year that raised MPG to an historic high of 33.8 MPG for passenger cars and 24.9 MPG for light trucks. During the 1970s and 1980s, more efficient engines and smaller cars were produced. However, light trucks gained market share in the 1990s and continued into the early 2000s while sales for high-powered, four-wheel drive cars, and larger, heavier, less fuel-efficient models increased, reducing the average MPG rating for new vehicles. In 1987, the total fleet fuel economy peaked at 26.2 MPG when light trucks made up 28.1% of the market. By 2009, light trucks made up 40.5% of market sales, although this was down from 49.0% in 2008 and the peak of 53.1% in 2004.

The federal law sets forth a civil penalty of \$5.50 for each tenth of an MPG by which a manufacturer's CAFE level falls short of the standard, multiplied by the total number of passenger automobiles or light trucks produced by the manufacturer in that model year. To

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further improve the air quality and fuel efficiency, the U.S. Congress in 2007 passed the Energy Independence and Security Act that required the fuel efficiency standard to increase to 35 MPG by MY 2020. In spring of 2009, the federal government accelerated those requirements and moved up the deadline to MY 2016. Therefore, the CAFE standard for passenger cars will rise incrementally from 27.5 MPG for MY 2010 beginning with 30.2 MPG in MY 2011.

Fluctuations in Gasoline Prices

The price of gasoline is one of the most closely watched items by consumers. The U.S. Bureau of Labor Statistics assigns a relative weight of 5.215% to this single component to calculate the CPI-U index, the consumer price index for all urban consumers.

Short-term gasoline prices have long been known for their drastic volatility, often rising and dropping markedly during short periods of time. The average retail gasoline price for all grades in the U.S. in October of 2010, for example, was \$2.84 per gallon, compared to \$2.61 and \$3.22, respectively, the same month in preceding two years and down from its all time high of \$4.14 in July of 2008. Average monthly prices fluctuated 5% from \$2.84 to \$2.92 per gallon in 2010. It was a very stable year compared to the 32% gyrations in 2009 when prices ranged between \$1.84 and \$2.71 per gallon, and a 58% fluctuation in 2008 when prices ranged between \$1.74 and \$4.14 per gallon. Gasoline price fluctuations are determined basically by the cost of crude oil, the fundamental law of supply and demand of fuel, any disruption of refinery operations, inventory levels, seasonality and weather conditions, the regulation of environmental standards and geopolitical conditions. California's November 2010 retail price of all grades branded gasoline of \$3.15 per gallon, for example, can be broken down into four categories as follows: crude oil (\$2.00, 63.2%), federal & state taxes (\$0.64, 20.3%), refining costs and profits (\$0.36, 11.3%), and distribution and marketing (\$0.17, 5.3%) when domestic West Texas Intermediate crude oil averaged \$84.14 per barrel. Since the tax portion is relatively stable, the three other categories were the major driving forces in gasoline prices. In July 2008, when average crude prices reached an all time high at \$133.40 per barrel, crude oil cost accounted for 72% of gasoline prices.

The long run nominal price, however, shows a relatively stable upward trend except for sharp upticks in the early 1980s and the most recent three years. The table below shows the history of retail motor gasoline prices in the U.S. Gasoline prices averaged approximately 30 cents per gallon during the 1950s through the early 1970s. After the Arab oil embargo in 1973, gasoline prices gradually increased to \$3.27 per gallon in 2008, but declined to \$2.35 per gallon in 2009. To remove the effects of inflation, the use of inflation-adjusted prices for comparison can better reflect the real price changes. The table below shows that the average real price in 2008 reached a three-decade high at \$3.01 per gallon; however, it was only 37 cents higher than the previous all-time high of \$2.64 set in 1981.

Gasoline Prices In Developed Countries

Gasoline prices in the U.S. may rank among the lowest in the world for oil-importing countries, and even lower than some oil-exporting countries. Average gasoline prices in the European countries are approximately 2.5 times that of the U.S.

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TABLE 36
RETAIL MOTOR GASOLINE PRICES
(Dollars per Gallon, Regular Gasoline)

Calendar Year	<u>Nominal Price</u>	<u>Real Price*</u>	<u>Average Real Price</u> (for the Decade of)
1950	\$0.27	\$1.62	\$1.54
1960	0.31	1.48	1.40
1970	0.36	1.30	1.40
1980	1.25	2.61	1.70
1990	1.16	1.61	1.27
2000	1.51	1.70	1.69
2001	1.46	1.61	-
2002	1.36	1.47	-
2003	1.59	1.69	-
2004	1.88	1.94	-
2005	2.30	2.30	-
2006	2.59	2.51	-
2007	2.80	2.64	-
2008	3.27	3.01	-
2009	2.35	2.14	-

Note: Prices for 1950 to 1970 are leaded regular; 1980 and after are unleaded regular.

* Real prices are in chained 2005 dollars, calculated by using GDP implicit price deflators.

Source: U.S. Dept. of Energy, Energy Information Administration

In 2008, according to the “*GTZ International Fuel Prices 2009*” report, the latest available data, for some 170 countries, the average retail fuel price in mid-November 2008, for example, in the U.S. was \$2.12 per gallon, compared to a wide range of \$0.076 in Venezuela and \$0.53 in Iran to \$7.08 in Turkey and \$9.58 in Eritrea.

Due to heavy subsidies, fuel prices in most Middle Eastern countries are below the price for crude oil on the world market. Taxes on transportation fuels, in addition to steep taxes on car purchases and ownership, have been used as a way to reduce traffic and prevent environmental damage, as well as conserve energy. Many European countries such as the United Kingdom, France, and Germany have used a high tax policy on fuel to discourage car use and hence gasoline consumption. The following table shows the retail price of gasoline among selected countries in October of 2010. The tax portion of the price of gasoline in the U.S. accounted for only 14.7% of the retail price, compared to 64.7% in the U.K. and 63.7% in Germany. Of the \$0.41 per gallon excise tax in the U.S., 18.4 cents per gallon was the federal fuel tax with the remainder attributable to state taxes. While fuel taxes in most European OECD countries continued to increase, the U.S. federal fuels tax has remained at 18.4 cents per gallon since August of 1993.

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TABLE 37
END-USER GASOLINE PRICES AMONG DEVELOPED COUNTRIES
 Unleaded Premium Gasoline, October 2010

<u>Country</u>	Before <u>Tax (\$)</u>	<u>Tax *(\$)</u>	End-User <u>Price (\$)</u>	Tax As a % of <u>Price</u>	U.S. End-User Price as a % of <u>Other Country</u>
France	2.69	4.34	7.03	61.7%	39.5%
Germany	2.62	4.60	7.21	63.7%	38.5%
Italy	2.96	4.15	7.10	58.4%	39.1%
Spain	2.88	3.25	6.13	53.1%	45.3%
United Kingdom	2.48	4.53	7.01	64.7%	39.6%
Average of Above	2.72	4.17	6.90	60.5%	40.3%
Japan	3.23	2.93	6.17	47.6%	45.1%
Canada	2.68	1.22	3.90	31.2%	71.3%
USA	2.37	0.41	2.78	14.7%	

Note: * Excise tax only

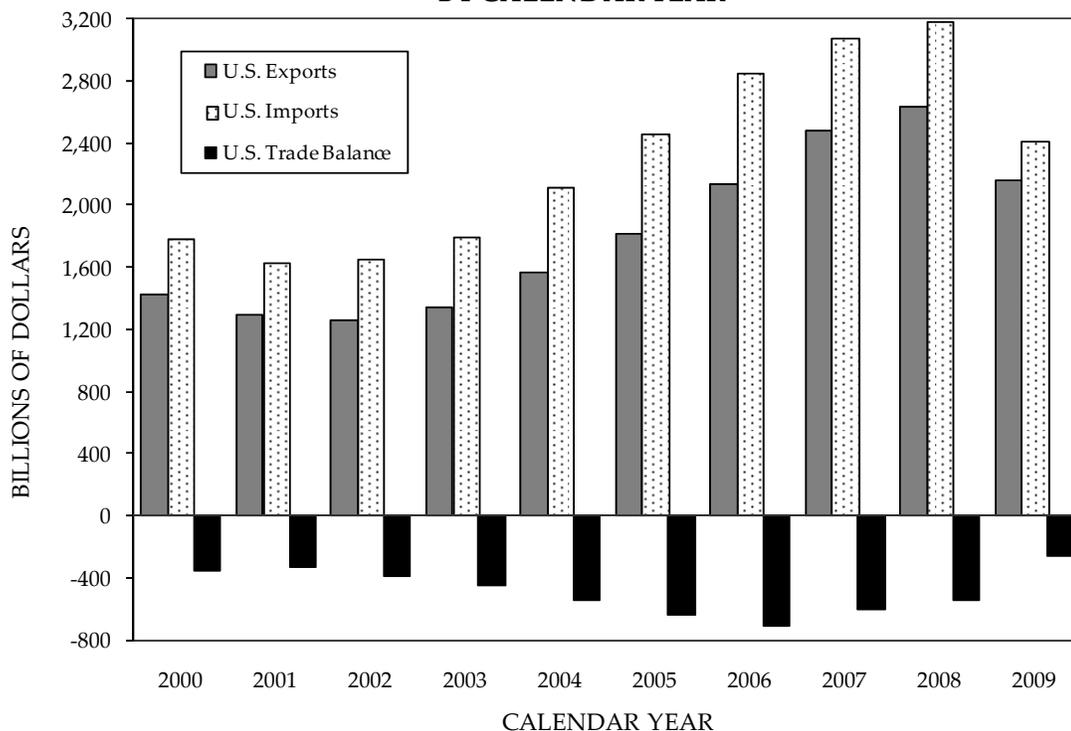
Source: U.S. Dept. of Energy, Energy Information Administration, International Energy Agency

Export Sector

Trade is playing an increasingly important role in the U.S. economy. U.S. real exports and imports accounted for 27.3% of Gross Domestic Product (GDP) in 2009, down from 33.1% in 2008, but up from 25.9% in 2005, 22.5% in 2000, 16.3% in 1990, 12.3% in 1980, 9.9% in 1970, and 7.8% in 1960. The increase over the past decade is attributed to the growth in the U.S. and worldwide economies which accelerated export and import activities. Exports and a favorable balance of payments have traditionally been important to the growth of the U.S. affecting employment, production, and income. Real exports of goods and services have been significantly boosting economic growth over the past decades. Total trade exports have grown 52.4% from 2000 through 2009, while total trade imports have grown 36.1% over the same time period.

The following graph illustrates the United States' trade balance for the past ten years. In 2009, the deficit improved to \$253.5 billion, down from \$711.2 billion in 2006. It is also the smallest deficit since 1999, when the deficit was \$250.4 billion. The recent improvement in the trade deficit is primarily attributable to the depth of the domestic recession in the U.S. which has caused a sharp decline in demand for imported goods as well as increased surpluses in the investment income and service transaction categories.

U.S. TRADE BALANCE BY CALENDAR YEAR



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

Consistent with what has recently occurred, 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 and 2000s until 2007 when the latest recession began. The U.S. price 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.

Merchandise Trade

According to the U.S. Department of Commerce, international trade is classified into three categories: merchandise trade, service transactions, and investment income. There are six subcategories within merchandise trade including: foods and beverages; industrial supplies and materials; capital goods excluding autos; autos; consumer goods and others. The deficit in merchandise trade decreased substantially by 39.3% and registered \$506.9 billion in 2009, down from \$834.7 billion in 2008.

United States merchandise imports have been concentrated among four categories: industrial supplies and materials, capital goods excluding autos, autos, and consumer goods. They accounted for more than 91% of total merchandise imports in 2009. In contrast, U.S. exports have been concentrated in two categories: capital goods and industrial supplies and materials.

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These two categories accounted for approximately 65.3% of the country's merchandise exports in 2009. Capital goods were the largest export for the United States at \$390.5 billion in 2009. Within this category, machinery and equipment, except consumer-type equipment, was the largest contributor, \$311.6 billion, followed by civilian aircraft, engines and parts, \$74.8 billion.

Of the total trade deficit of \$253.5 billion, consumer goods and industrial supplies and materials accounted for the largest portions of the deficit, reaching \$280.7 billion and \$168.8 billion, respectively in 2009. Consumer goods consist of durables and nondurables. Durable goods include household and kitchen appliances such as radio and stereo equipment, televisions and video receivers, bicycles, watches, toys and sporting goods. Nondurables include footwear, apparel, medical, dental and pharmaceutical preparations. The trade deficit in the consumer goods category decreased in 2009 by 13.2%.

The second largest portion of the deficit occurred in industrial supplies and materials. This category includes energy products, iron and steel, metal products, lumber and paper and chemicals excluding medicinals. In 2009, the U.S. imported \$476.5 billion worth of these goods compared to the \$307.7 billion that the U.S. exported. The industrial supplies and materials trade deficit at \$168.8 billion represents a 58.3% decrease from 2008's deficit of \$405.1 billion.

The third largest portion of the merchandise trade deficit occurred in the auto category at \$75.9 billion, an improvement of 30.9% from 2008's deficit of \$109.8 billion.

Service Transactions

The United States is highly competitive in the delivery of services. The surplus in service transactions decreased slightly to \$132.0 billion in 2009, from a surplus of \$135.9 billion in 2008. Imports decreased 7.0% to \$370.3 billion while exports of services decreased 6.0% to \$502.3 billion. Of the \$132.0 billion total surplus in 2009, \$134.0 billion was attributable to royalty and license fees, which more than offset the deficit in other services.

Investment Income

The balance in investment income registered a surplus of \$121.4 billion, a 20.1% decrease from 2008. Investment income contains two components: 1) receipts generated from U.S.-owned assets abroad including direct investments, other private securities such as 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 paid on foreign-owned assets invested in the U.S. There are six 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 38
U.S. TRADE DEFICIT BY CATEGORY
(In Billions of Dollars)

	2008			2009		
	Exports	Imports	Balance	Exports	Imports	Balance
Total Trade	2,635.5	3,182.4	(546.8)	2,159.0	2,412.5	(253.5)
Merchandise	1,304.9	2,139.5	(834.7)	1,068.5	1,575.4	(506.9)
Foods/Beverages	108.3	89.0	19.4	93.9	81.6	12.3
Industrial Supplies & Materials	405.6	810.7	(405.1)	307.7	476.5	(168.8)
Capital Goods, Excluding Autos	457.7	455.2	2.4	390.5	369.7	20.7
Autos	121.5	231.2	(109.8)	81.7	157.6	(75.9)
Consumer Goods	161.3	484.7	(323.4)	150.0	430.7	(280.7)
Others	50.5	68.7	(18.1)	44.7	59.3	(14.6)
Services	534.1	398.3	135.9	502.3	370.3	132.0
Travel & Transportation	185.1	166.0	19.1	155.7	140.8	15.0
Royalties, License fees, etc.	332.9	199.5	133.4	328.1	194.1	134.0
Other Services	16.2	32.8	(16.6)	18.4	35.3	(16.9)
Investment Income	796.5	644.6	152.0	588.2	456.0	132.2
Direct Investment	403.2	115.5	287.7	346.1	94.0	252.1
Other Private Investment	385.4	352.1	33.3	234.5	218.0	16.4
U.S. Gov't Receipts/Payments	4.9	166.6	(161.7)	4.7	144.0	(139.3)
Compensation of Employees	3.0	10.4	(7.3)	2.9	10.8	(7.8)
	<u>Percent Change From Previous Year</u>					
Total Trade	6.3	3.3	(9.2)	(18.1)	(24.2)	(53.6)
Merchandise	12.5	7.9	1.4	(18.1)	(26.4)	(39.3)
Foods/Beverages	28.6	9.0	649.8	(13.3)	(8.3)	(36.4)
Industrial Supplies & Materials	23.1	23.6	24.1	(24.2)	(41.2)	(58.3)
Capital Goods, Excluding Autos	5.7	2.1	(118.7)	(14.7)	(18.8)	753.3
Autos	0.2	(9.9)	(18.9)	(32.7)	(31.8)	(30.9)
Consumer Goods	10.5	1.4	(2.6)	(7.0)	(11.1)	(13.2)
Others	9.1	5.6	(3.2)	(11.5)	(13.6)	(19.3)
Services	9.4	8.5	12.2	(6.0)	(7.0)	(2.8)
Travel & Transportation	13.7	4.9	317.5	(15.9)	(15.2)	(21.7)
Royalties, License fees, etc.	8.4	12.8	2.5	(1.4)	(2.7)	0.5
Other Services	(12.3)	2.2	21.7	14.0	7.7	1.7
Investment Income	(4.0)	(11.7)	52.7	(26.2)	(29.2)	(13.0)
Direct Investment	8.8	(10.5)	19.1	(14.2)	(18.6)	(12.4)
Other Private Investment	(15.1)	(17.5)	22.5	(39.2)	(38.1)	(50.6)
U.S. Gov't Receipts/Payments	119.7	1.4	(0.3)	(3.7)	(13.6)	(13.9)
Compensation of Employees	2.5	3.0	3.2	(3.2)	3.8	6.7

Note: Percent changes were derived before rounding to billions.

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

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According to the U.S. Department of Commerce, in calendar 2009 foreign assets in the U.S., measured at current cost decreased by \$1,621.8 billion, or negative 7.1%, to \$21,116.9 billion, compared to a decrease of \$865.8 billion, or negative 4.5%, to \$18,379 billion for U.S. assets abroad. This placed U.S. international investment at a net negative of \$2,737.8 billion. U.S. direct investment in assets abroad continues to exceed foreign direct investment in the U.S. In 2009, the U.S.'s direct investment abroad was \$4,051.2 billion and foreign direct investment in the U.S. was \$2,672.8 billion, registering \$1,378.4 billion in net investment. Foreign assets in the United States are mostly in securities such as bonds and stocks issued by the U.S. Treasury and corporations.



Source: U.S. Department of Commerce, "Survey of Current Business", July 2010

The following table shows U.S. trade transactions by area for 2009. The goods, services and income payments trade deficit in 2009 was \$253.5 billion, a decrease of \$293.3 billion. In 2009 the United States imported more from the Asia and Pacific area, Africa, and the Middle East than it exported to those regions but exported more than imported in the same year to Europe, Canada and Latin America. In fact, exports to Europe had not outpaced imports from Europe since 1991. Exports to Canada outpaced imports at a record level in 2009.

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TABLE 39
U.S. INTERNATIONAL TRANSACTIONS
(By Area, In Billions of Dollars)

	2008			2009		
	Exports	Imports	Balance	Exports	Imports	Balance
Total Trade	2,635.5	3,182.4	(546.8)	2,159.0	2,412.5	(253.5)
Europe	942.4	939.3	3.1	744.7	717.8	26.9
Canada	363.8	390.7	(26.8)	285.4	268.3	17.0
Latin America (1)	555.7	586.1	(30.4)	449.2	431.3	18.0
Asia and Pacific (2)	580.6	982.1	(401.5)	514.0	820.7	(306.7)
Africa	48.2	122.6	(74.3)	42.4	71.5	(29.1)
Middle East	88.9	147.3	(58.4)	73.6	89.5	(15.9)
Others (3)	55.9	14.3	41.6	49.7	13.4	36.3
European Union	802.7	789.7	13.1	637.5	609.9	27.5
Australia	52.5	24.8	27.7	46.3	19.9	26.4
Japan	135.8	226.8	(90.9)	117.5	167.4	(49.9)
China	95.0	399.9	(304.9)	94.6	355.5	(260.9)
	<u>Percent Change From Previous Year</u>					
Total Trade	6.3	3.3	(9.2)	(18.1)	(24.2)	(53.6)
Europe	5.1	0.6	(108.3)	(21.0)	(23.6)	777.0
Canada	7.8	5.3	(19.4)	(21.6)	(31.3)	(163.4)
Latin America (1)	5.4	2.2	(34.0)	(19.2)	(26.4)	(159.1)
Asia and Pacific (2)	6.0	0.4	(6.8)	(11.5)	(16.4)	(23.6)
Africa	16.4	22.5	26.8	(12.1)	(41.7)	(60.9)
Middle East	17.2	32.3	64.6	(17.2)	(39.2)	(72.7)
Others (3)	8.0	5.7	8.8	(11.1)	(6.3)	(12.8)
European Union	3.1	(3.1)	(135.4)	(20.6)	(22.8)	110.5
Australia	10.9	(7.6)	35.1	(11.7)	(19.8)	(4.5)
Japan	3.7	(6.6)	(18.7)	(13.5)	(26.2)	(45.1)
China	11.1	5.9	4.4	(0.5)	(11.1)	(14.4)

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

(2) Includes Australia, China, Hong Kong, India, Japan, Republic of Korea, Singapore, Taiwan, and other Asia and Pacific countries

(3) Includes figures for International Organizations and unallocated areas

(4) Includes 27 member states: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, Netherlands, & United Kingdom

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

In 2009, the United States imported \$355.5 billion worth of goods, services and income payments from China while exporting only \$94.6 billion to that country. The resulting trade deficit with China was \$260.9 billion in 2009, 14.4% lower than the 2008 deficit of \$304.9 billion.

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The 2008 negative trade balance of \$304.9 billion was a record high. The top five U.S. imports from China in 2009 were electrical machinery and equipment at \$72.9 billion, power generation equipment at \$62.4 billion, apparel at \$24.3 billion, toys and games at \$23.2 billion, and furniture at \$16.0 billion. To further illustrate the disparity in trade between the two countries; while the amount of electrical machinery and equipment imported into the U.S. from China was \$72.9 billion in 2009, that same commodity was number one on the top U.S. exports to China at only \$9.5 billion.

Connecticut Exports

In Connecticut, the export sector has assumed an important role in overall economic growth. State exports of goods for the past five years averaged 6.3% of the Gross State Product (GSP).

According to figures published by the United States Department of Commerce, which were adjusted and enhanced by the Massachusetts Institute for Social and Economic Research to capture a greater percent of indirect exports, Connecticut exports of commodities totaled \$14,022.0 million in 2009. 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 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.

Connecticut industries that rely most heavily on exports are Transportation Equipment (North American Industry Classification System (NAICS) 336), Chemicals (NAICS 325), Fabricated Metal (NAICS 332), Nonelectrical Machinery (NAICS 333), Computer & Electronic Equipment (NAICS 334), Electrical Equipment (NAICS 335), and Miscellaneous Manufacturing (NAICS 339). 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 accounted for 84.2% of Connecticut's foreign sales in 2009. The following table shows the breakdown of major products by NAICS code for the past five years. In 2009, transportation equipment, which includes aircraft engines and spare parts, gas turbines, and helicopters, spacecraft, etc. accounted for 46.1% of total exports slightly up from 42.0% of exports in 2008. In terms of average annual growth from 2005 to 2009, Transportation Equipment posted the strongest growth at 15.9%, followed by Chemicals at 15.7%.

Overall growth in exports of commodities for the past five years averaged 10.9%. Exports of \$14.0 billion are estimated to account for 6.6% of Connecticut Gross State Product (GSP) in 2009, which is slightly lower than the 7.1% in 2008.

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TABLE 40
COMMODITY EXPORTS ORIGINATING IN CONNECTICUT BY PRODUCT
(In Millions of Dollars)

<u>NAICS</u>	<u>Industry</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>% of</u> <u>2009</u>	<u>Average</u> <u>Growth</u> <u>05-09</u>
322	Paper	219.2	230.3	147.7	146.9	169.3	1.2%	3.1%
325	Chemicals	590.9	748.6	1,447.9	1,575.0	833.3	5.9%	15.7%
326	Plastics and Rubber	182.6	204.6	212.4	251.0	229.3	1.6%	5.3%
331	Primary Metal	329.0	639.0	480.4	508.5	316.6	2.3%	11.5%
332	Fabricated Metal	408.7	541.2	585.9	621.7	546.4	3.9%	7.2%
333	Machinery, exc. Elec. Computer and	1,132.9	1,387.1	1,618.5	1,555.6	1,439.2	10.3%	5.9%
334	Electronic	886.8	1,077.1	1,312.5	1,301.6	1,049.8	7.5%	6.6%
335	Electrical Equipment	433.3	551.4	607.0	602.9	490.7	3.5%	2.1%
336	Transportation Equip.	3,985.7	5,382.1	5,795.4	6,434.4	6,464.6	46.1%	15.9%
339	Misc. MFG	562.4	286.2	229.5	272.0	290.4	2.1%	-10.2%
	Other	1,018.3	1,200.5	1,361.7	2,043.5	2,192.5	15.6%	24.5%
Total Commodity Exports		9,749.9	12,248.0	13,799.1	15,313.1	14,022.0	100.0%	10.9%
	% Growth	13.7%	25.6%	12.7%	11.0%	-8.4%		
Gross State Product (\$M)		197,055	210,278	222,801	230,101	227,405		
	% Growth	4.5%	6.7%	6.0%	3.3%	(-1.2%)		3.8%
Exports as a % of GSP		4.9%	5.8%	6.2%	6.7%	6.2%		

Source: Connecticut Department of Economic and Community Development

The bulk of Connecticut's exports are shipped by air from Bradley International Airport and by sea from the port of New Haven. In 2008, exports originating from Connecticut totaled \$14.0 billion, with 58.0% of the total being shipped by air, 26.0% being delivered by sea, and the remaining 16.0% being transported inland by railroad or truck to Canada, Mexico or other states for further shipment to other countries. This compares with 55.4% by air, 17.6% by sea, and 27.5% by land for exports totaling \$4.5 billion 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 2009 France superseded Canada as the largest destination country at 16.0%, followed by Canada, Germany, Mexico, and China. These five countries accounted for 46.4% of total state exports in 2009. Exports to Saudi Arabia, a country that previously was not a top ten export country for Connecticut has grown in the past five years at an average growth rate of 90.0%. Exports to Singapore have grown from 2005-2009 at a rate of 33.5%, followed by China with 31.7% growth over the same period.

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TABLE 41
COMMODITY EXPORTS ORIGINATING IN CONNECTICUT BY COUNTRY
(In Millions of Dollars)

Destination	2009 Rank	2005	2006	2007	2008	2009	Percent	2005-2009
							of 2009 Total	Average Growth Rate
France	1	1,602.3	1,216.5	1,410.9	1,733.5	2,249.7	16.0	16.0
Canada	2	1,738.7	1,943.0	1,879.1	1,834.3	1,451.1	10.3	0.6
Germany	3	832.9	1,212.4	1,450.5	1,454.4	1,306.7	9.3	12.8
Mexico	4	560.2	705.9	784.9	1,046.0	759.4	5.4	7.7
China	5	337.9	369.3	565.1	676.0	754.8	5.4	31.7
United Kingdom	6	696.8	857.2	855.4	875.5	648.4	4.6	5.3
Korea	7	170.4	379.5	555.5	489.1	518.6	3.7	30.1
Singapore	8	246.8	840.2	748.5	657.1	510.1	3.6	33.5
Japan	9	437.5	702.8	622.5	671.5	484.2	3.5	3.3
Saudi Arabia	10	42.5	84.0	62.8	268.6	437.6	3.1	90.0
Other Areas		<u>3,084.1</u>	<u>3,937.3</u>	<u>4,864.1</u>	<u>5,607.1</u>	<u>4,901.1</u>	<u>35.0</u>	<u>13.4</u>
Total		9,749.9	12,248.0	13,799.1	15,313.1	14,022.0	100.0%	10.9%

Source: Connecticut Department of Economic and Community Development

In an effort to create jobs and investment, the Department of Economic and Community Development has been working with a number of foreign companies to establish branches in Connecticut. As a result of this work, foreign countries continually invest and own firms in Connecticut. This foreign investment is an important stimulus for Connecticut's economic growth and future productivity as 5.2% of the state's total private industry employment in 2008 was a result of foreign investment in Connecticut. In 2007, 99,000 Connecticut workers were employed by foreign-controlled companies. Major sources of foreign investment in Connecticut in 2007 included the Netherlands, the United Kingdom, Germany, France, and Switzerland. One quarter of these jobs were employed in the manufacturing sector, the tenth largest share among the fifty states.

The Connecticut Department of Economic and Community Development continues to promote international trade to increase Connecticut's global competitiveness. The methods employed to promote international trade includes providing export assistance to Connecticut companies as well as providing assistance to foreign companies interested in expanding or relocating in Connecticut.

For further information regarding any assistance, services, or publications, please contact the following:

State of Connecticut
Department of Economic and Community Development
505 Hudson Street
Hartford, Connecticut 06106
(860) 270-8166, 270-8067, or 270-8068
<http://www.state.ct.us/ecd>

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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 2009, contractors in the state were awarded \$12.0 billion worth of defense-related prime contracts, with the heaviest concentration in the state's transportation equipment sector. This was up 23.7% from the \$9.7 billion received in awards in FFY 2008. Of the total awarded, the following five companies listed below, primarily for the described areas of work, were the top contractors in the state:

- | | |
|------------------------------|---|
| 1. United Technologies Corp. | Aircraft, Engines & Turbines |
| 2. General Dynamics Corp. | Submarines |
| 3. Colt Defense LLC | Military Arms |
| 4. Finmeccanica S.p.A | Electrical Generators, Power Transmission Equipment |
| 5. Mid Valley Products | Food Products |

The following table shows the distribution of prime defense contracts in the state by program or type of work, with a heavy reliance on submarines and rotary wing aircraft, to be different from the national distribution of all contracts awarded. It is this concentration which plays a role in the volatility of state awards.

TABLE 42
VALUE OF PRIME CONTRACT AWARDS BY PROGRAM IN FFY 2009
(In Millions of Dollars)

<u>Connecticut Program</u>	<u>Value</u>	<u>Percent</u>	<u>United States Program</u>	<u>Value</u>	<u>Percent</u>
Submarines	\$3,133	26.1%	Aircraft, Fixed Wing	\$11,958	3.3%
Aircraft, Rotary Wing	1,925	16.0%	Liquid Propellants, Petroleum Based	11,209	3.1%
Gas Turbines and Jet Engines, Aircraft	1,539	12.8%	Engineering & Technical Services	10,672	2.9%
Defense Aircraft, Operational	984	8.2%	Other ADP and Telecommunications Srvcs	9,114	2.5%
Locomotive and Rail Car Accessories	558	4.7%	Other Professional Services	9,104	2.5%
Other	3,865	32.2%	Other	310,641	85.6%
Total	\$12,005	100.0%	Total	\$362,700	100.0%

Source: Federal Procurement Data System (FPDS.gov).

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The following table displays the geographic distribution of prime defense contracts within the state, with the majority of the work in Fairfield, New London and Hartford Counties.

TABLE 43
GEOGRAPHIC DISTRIBUTION OF CONNECTICUT PRIME CONTRACT AWARDS
(And Total Awards in Thousands of Dollars)

<u>County of Contractor</u>	<u>FFY 2005</u>	<u>FFY 2006</u>	<u>FFY 2007</u>	<u>FFY 2008</u>	<u>FFY 2009</u>
Fairfield	28.1%	33.6%	21.7%	48.0%	36.2%
Hartford	40.6%	33.0%	48.4%	28.0%	28.8%
Litchfield	0.5%	0.4%	0.5%	0.2%	0.3%
Middlesex	0.9%	1.2%	0.9%	0.7%	0.7%
New Haven	1.7%	1.9%	1.5%	1.3%	1.4%
New London	27.6%	29.7%	26.6%	21.5%	32.5%
Tolland	0.5%	0.1%	0.1%	0.1%	0.1%
Windham	<u>0.1%</u>	<u>0.1%</u>	<u>0.2%</u>	<u>0.2%</u>	<u>0.0%</u>
State Total	100.0%	100.0%	100.0%	100.0%	100.0%
State Total	\$8,753,063	\$7,780,793	\$8,601,359	\$9,696,154	\$12,004,528

Source: GovernmentContractsWon.com.

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; d) there often exists a time lag between contract award and funding availability; and e) as productivity improvements are achieved over time by manufacturers, the same (or greater) amount of work can be done by fewer employees. Although employment is affected by the defense budget, the state's economic activity is not immediately impacted by fluctuations in defense contracts.

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 coefficient of variation for the state's defense contract awards, over the past decade, was 0.374 compared with 0.033 for transportation equipment employment. This implies that the fluctuations in employment are milder than the fluctuations in defense contract awards. Because 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.

From \$2.5 billion in FFY 2000, real defense contract awards, that is the value of contracts after accounting for inflation, increased to \$10.9 billion in FFY 2009. This represents an average growth of 18.0% per year from FFY 2000 to FFY 2009, with virtually all of the growth spurred by the wars on terrorism and in Iraq and Afghanistan.

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TABLE 44
CONNECTICUT DEFENSE CONTRACT AWARDS AND RELATED EMPLOYMENT

Federal Fiscal Year	Defense Contract Awards		Connecticut Transportation Equipment Employment		Defense Contract Awards in 2005 Dollars	
	(000's)	% Growth	(000's)	% Growth	(000's)	% Growth
1999-00	2,177,465	(31.3)	46.92	(5.9)	2,469,564	(33.5)
2000-01	4,269,544	96.1	46.86	(0.1)	4,708,311	90.7
2001-02	5,638,585	32.1	45.32	(3.3)	6,121,265	30.0
2002-03	8,064,809	43.0	43.34	(4.4)	8,560,093	39.8
2003-04	8,959,424	11.1	43.17	(0.4)	9,262,973	8.2
2004-05	8,753,063	(2.3)	43.50	0.8	8,753,063	(5.5)
2005-06	7,780,793	(11.1)	43.59	0.2	7,537,643	(13.9)
2006-07	8,601,359	10.5	43.57	(0.1)	8,101,809	7.5
2007-08	9,696,554	12.7	44.28	1.6	8,795,683	8.6
2008-09	12,004,528	23.8	43.11	(2.7)	10,928,112	24.2
Coefficient of Variation	0.374		0.033		0.327	

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

TABLE 45
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
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
2001-02	5,639	32.1	4,029	25.7	158,737	17.4	139,086	11.7
2002-03	8,065	43.0	5,991	48.7	191,221	20.5	161,728	16.3
2003-04	8,959	11.1	7,554	26.1	203,389	6.4	184,449	14.0
2004-05	8,753	(2.3)	8,592	13.7	236,986	16.5	210,532	14.1
2005-06	7,781	(11.1)	8,498	(1.1)	257,456	8.6	232,610	10.5
2006-07	8,601	10.5	8,378	(1.4)	315,532	22.6	269,991	16.1
2007-08	9,697	12.7	8,693	3.8	365,972	16.0	312,987	15.9
2008-09	12,005	23.8	10,101	16.2	362,700	(0.9)	348,068	11.2
Coefficient of Variation	0.374				0.380			

Source: U.S. Department of Defense, GovernmentContractsWon.com

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The coefficient of variation for Connecticut's defense contract awards, over the past decade, was 0.374, compared to 0.380 for the U.S., reflecting a pattern of fluctuations in the state's annual levels of defense contract awards which is not inconsistent with that of awards nationally. This is a break from most analyses in the past which have demonstrated more volatility at the state level.

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. Overall defense changes in Connecticut have historically been more severe and more volatile than the national average. Both of these factors had 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.

Connecticut's total defense awards, based on a three year moving average, have increased at an average annual rate of 14.8% during the nine-year period from 2000 to 2009, compared to an average growth of 12.7% for the nation. Most of this growth has come between 2000 and 2005 and in the last year because Connecticut has been much more dependent on contracts which include procurement of aircraft, engines and ships, than is the nation as a whole, and they declined through most of the 1990s. 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 resulted in another shift in procurement strategy.

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 Gross State Product (GSP), hovered around 2.0% and below in the late 1990s, rose to 4.0% in FFY 2004 and has generally hovered around 4.0% since then. (This was 9.8% in 1982.) The following table provides a ten year history of U.S. and Connecticut defense awards and the proportion of state GSP such awards represent.

In FFY 2009, while Connecticut ranked eighth in total defense contracts awarded, it ranked third in per capita defense dollars awarded with a figure of \$3,412. This figure was 2.9 times the national average of \$1,181. In 2008, Connecticut ranked eleventh in total defense contracts awarded and fourth in per capita defense dollars awarded with a figure of \$2,769. This was 2.3 times the national average of \$1,204 for that year.

The wars in Afghanistan and Iraq and the war on terrorism have created 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 into the future.

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TABLE 46
CONNECTICUT DEFENSE CONTRACT AWARDS AND GSP

Federal Fiscal Year	Connecticut Defense Contract Awards (Millions)	U.S. Defense Contract Awards (Millions)	CT as % of U.S.	Cal. Year CT GSP Current Dollars (Millions)	3-year Average CT Awards (Millions)	CT Awards as % of CT GSP
1999-00	2,177	123,295	1.8	160,436	2,918	1.8
2000-01	4,270	135,225	3.2	165,025	3,205	1.9
2001-02	5,639	158,737	3.6	169,170	4,029	2.4
2002-03	8,065	191,222	4.2	174,295	5,991	3.4
2003-04	8,959	203,389	4.4	188,576	7,554	4.0
2004-05	8,753	236,986	3.7	197,055	8,592	4.4
2005-06	7,781	257,456	3.0	210,278	8,498	4.0
2006-07	8,601	315,532	2.7	222,801	8,378	3.8
2007-08	9,697	365,972	2.6	230,101	8,693	3.8
2008-09	12,005	362,700	3.3	227,405	10,101	4.4
Coefficient of Variation	0.374	0.380				

Source: U.S. Department of Defense, GovernmentContractsWon.com, Department of Commerce

Some of the primary defense systems of interest to Connecticut include:

1. The CH-53K Heavy Lift Helicopter
2. The UH-60 Utility Helicopter (Blackhawk)
3. The S-70i Black Hawk Helicopter
4. The MH-60R Helicopter (Seahawk)
5. The MH-60S Helicopter (Seahawk)
6. The C-17 Globemaster Aircraft
7. The F-15 Aircraft
8. The F-16 Aircraft
9. The F-22 Raptor Aircraft
10. The F-35 Joint Strike Fighter (JSF) Aircraft
11. The H-92 Superhawk
12. The S-70B Seahawk
13. The SA-38B Surveillance Aircraft
14. The SA2-37B Reconnaissance Aircraft
15. The Virginia Class Submarine

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TABLE 47
COMPARISON OF STATE PRIME CONTRACT AWARDS
Federal Fiscal Year 2009

State	Prime Contract Awards	Rank	\$ Per Capita Prime Contract Awards		State	Prime Contract Awards	Rank	\$ Per Capita Prime Contract Awards	
	\$ (000)		Awards	Rank		\$ (000)		Awards	Rank
Virginia	51,120,442	1	6,485	1	South Carolina	3,076,593	25	675	26
Alaska	3,459,013	24	4,952	2	New Mexico	1,279,068	38	636	27
Connecticut	12,004,528	8	3,412	3	Washington	4,233,061	22	635	28
Maryland	17,607,686	4	3,089	4	Oklahoma	2,332,803	30	633	29
Massachusetts	15,076,584	5	2,287	5	Georgia	5,802,586	20	590	30
Missouri	11,748,178	9	1,962	6	Michigan	5,853,639	19	587	31
Alabama	8,722,206	11	1,852	7	Ohio	6,549,128	16	567	32
Arizona	12,171,225	7	1,845	8	Minnesota	2,955,785	27	561	33
Wisconsin	8,048,400	14	1,423	9	Iowa	1,557,052	36	518	34
Hawaii	1,674,499	33	1,293	10	Nevada	1,338,269	37	506	35
Vermont	800,816	40	1,288	11	Rhode Island	527,766	42	501	36
Colorado	6,464,969	17	1,287	12	Illinois	6,267,982	18	485	37
California	45,833,609	2	1,240	13	South Dakota	385,273	45	474	38
New Hampsh.	1,641,417	34	1,239	14	Nebraska	774,438	41	431	39
Mississippi	3,641,410	23	1,234	15	Delaware	373,659	46	422	40
Texas	28,462,908	3	1,149	16	Oregon	1,612,420	35	421	41
Kentucky	4,654,172	21	1,079	17	New York	8,070,572	13	413	42
Indiana	6,650,801	15	1,035	18	Tennessee	2,117,459	31	336	43
New Jersey	8,508,196	12	977	19	Idaho	434,712	44	281	44
Maine	1,223,057	39	928	20	North Carolina	2,398,094	29	256	45
Kansas	2,461,318	28	873	21	North Dakota	163,761	49	253	46
Pennsylvania	10,805,893	10	857	22	Montana	226,081	48	232	47
Florida	14,208,836	6	766	23	Arkansas	499,670	43	173	48
Utah	2,091,631	32	751	24	West Virginia	301,682	47	166	49
Louisiana	3,060,417	26	681	25	Wyoming	36,883	50	68	50
U.S. Total	362,699,710		1,181						

Source: GovernmentContractsWon.com, Department of Commerce, Bureau of the Census

Retail Trade in Connecticut

Consumer spending on goods and services, ranging from pencils to refrigerators to haircuts to electricity, accounted for approximately sixty-five percent of the gross domestic product (GDP) in fiscal 2010. During the last decade, variations in retail trade closely matched variations in GSP growth, making retail trade an important barometer of economic health.

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The North American Industry Classification, 1997 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 North American Industry Classification System (NAICS) codes for retail trade are from NAICS 44 to NAICS 45. 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 NAICS code as well as the state's retail trade history for the past two fiscal years. Retail sales reflect the pulse of economic conditions: they perform strongly as the economy expands whereas they perform poorly during a recession. Connecticut retail trade in fiscal 2010 totaled \$43.8 billion, a 3.7% decrease over fiscal year 2009.

TABLE 48
RETAIL TRADE IN CONNECTICUT
(In Millions of Dollars)

<u>NAICS Industry</u>	<u>FY</u> <u>2009</u>	<u>% of</u> <u>Total</u>	<u>FY</u> <u>2010</u>	<u>% of</u> <u>Total</u>	<u>%</u> <u>Change</u>
441 Motor Vehicle and Parts Dealers	\$6,475	14.3%	\$6,933	15.8%	7.1%
442 Furniture and Home Furnishings Stores	1,456	3.2%	1,275	2.9%	(12.4)%
443 Electronics and Appliance Stores	1,595	3.5%	1,450	3.3%	(9.1)%
444 Building Material and Garden Supply Stores	2,767	6.1%	2,727	6.2%	(1.4)%
445 Food and Beverage Stores*	8,927	19.6%	7,199	16.5%	(19.4)%
446 Health and Personal Care Stores	4,961	10.9%	4,920	11.2%	(0.8)%
447 Gasoline Stations	2,868	6.3%	2,974	6.8%	3.7%
448 Clothing and Clothing Accessories Stores	2,667	5.9%	2,700	6.2%	1.2%
451 Sporting Goods, Hobby, Book and Music Stores	1,052	2.3%	995	2.3%	(5.4)%
452 General Merchandise Stores	5,215	11.5%	5,210	11.9%	(0.1)%
453 Miscellaneous Store Retailers	3,964	8.7%	4,036	9.2%	1.8%
454 Nonstore Retailers	<u>3,508</u>	<u>7.7%</u>	<u>3,338</u>	<u>7.6%</u>	<u>(4.8)%</u>
Total	\$45,455	100.0%	\$43,757	100.0%	(3.7)%
Durables (NAICS 441,442, 443, 444)	\$12,293	27.0%	\$12,385	28.3%	0.7%
Nondurables (All Other NAICS)	\$33,162	73.0%	\$31,372	71.7%	(5.4)%

* In FY 2010, several large supermarkets appear to have filed improperly and thus the above figures may be not be reflective of actual sales. According to the Department of Revenue Services, the decline illustrated above should not be considered to be a significant decline in consumption.

Source: Connecticut Department of Revenue Services

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.

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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 as was the case in fiscal 2010 when durable goods sales grew by only 0.7%.

Sales of durable goods experience 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 nondurable goods decreased by 5.4% in fiscal 2010, however the significant decline is most likely a reflection of the improperly filed tax returns under the NAICS 445-Food and Beverage sector rather than an actual reduction in consumption.

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.

U.S. Supreme Court rulings forbid states from forcing retailers to collect sales tax unless the seller has a physical presence in the state where the purchase is made (nexus). 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 2010, national retail e-commerce sales are estimated at \$153.3 billion, accounting for 4.0% of total retail sales of \$3,795.8 billion. Retail transactions through the Internet in general have increased much faster and/or have not decreased as much as traditional brick and mortar sales. Estimated e-commerce retail sales rose by 18.7% in fiscal 2010 compared to a 1.6% increase for traditional retail sales. The estimate of e-commerce sales does not include travel agencies, financial services, manufacturers, and wholesalers.

Connecticut has seen erosion of its tax base due to the Internet sales trend. In a study conducted by the University of Tennessee's Center for Business and Economic Research in April 2009, it was estimated that in 2010, Connecticut would lose approximately \$50.0 million in state revenue due to e-commerce. Although the Office of Policy and Management believes that the revenue loss is significant, the exact amount is difficult to determine as more traditional "bricks and mortar" retailers with nexus in Connecticut establish internet sales channels and collect the state sales tax. The issue is compounded by the fact that in those instances where an internet retailer does not collect the tax, voluntary compliance by most residents to pay the use tax on such transactions has been low.

Currently, state and local governments as well as the private sector have undertaken a joint effort referred to as the Streamlined Sales Tax Project (SSTP). The project's aim is to fundamentally restructure the national sales tax system by creating a uniform taxable base, thereby simplifying tax administration among the states. The Streamlined Sales and Use Tax Agreement went into effect in October of 2005. As of April 2010, 20 of the 44 states who have authorized the participation in SSTP have enacted legislation to fully comply with the agreement to become full-member states, including New Jersey, Rhode Island, and Vermont. Connecticut is currently one of the 44 states referred to as a participant state, as it has not enacted legislation to modify its sales tax.

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Federal legislation (known as the Sales Tax Fairness and Simplification Act) was introduced in the 110th Congress. This legislation was also introduced in the 111th Congress and referred to the House Judiciary Committee on July 1, 2010 as the Main Street Fairness Act (H.R. 5660). Under this legislation, an out-of-state retailer would be required to collect sales tax for states into which the retailer makes a sale as long as the State has adopted the Streamlined Sales and Use Tax Agreement.

Public Act 07-4 of the June Special Legislative Session established a Streamlined Sales Tax Commission which was charged with evaluating: (1) the changes necessary in the state sales tax in order for Connecticut to become a full member of the Streamlined Sales Tax Governing Board, and (2) the benefits to the state and to retailers if the state were to become a full member.

The Commission published its report in January 2008 and made the following recommendations:

- 1. In order to move forward, Connecticut would have to deal with the prohibition of multiple rates and the prohibition of exemptions based on the value of an item. If it is decided that it is in Connecticut's best interest to participate, the executive and legislative branches of government need to reach consensus on these issues.*
- 2. If it is decided that it is in Connecticut's best interest to participate, the state would need to develop a methodology to estimate what the revenue impact would be. Because the revenue impact will be based on the tax rate and base, it would be imperative that recommendation 1 be completed first.*
- 3. The primary goal of the SSTP was to convince Congress to confer collection authority over remote sales on the states that enact the streamlined system on the theory that the system eliminates the burdens on interstate commerce that had been the justification for denying states that authority. That has not yet happened making the current system voluntary. Connecticut should postpone its decision on becoming a participating member until such time as federal legislation is enacted.*

Retail trade as a percentage of disposable income in Connecticut decreased to 26.0% in fiscal 2010, from 27.8% in FY 2009. The decrease reflects a slower growth in the demand for goods, and to a lesser extent for services than disposable income. The state's per capita disposable income of \$47,765 in FY 2010 was 31.9% above the national average of \$36,222. In FY 2010, Connecticut per capita retail trade was estimated at \$12,502. With the highest per capita disposable income in the nation, continued long-term growth in retail sales is expected. 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, that affect the level of expenditures, include tax burden, consumer confidence, economic climate as well as the condition of a household's balance sheet.

According to the 2007 economic census on retail sales, a survey that is done once every five years by the U.S. Department of Commerce, Connecticut had \$52.2 billion of retail sales, up from \$42.0 billion in 2002. Retail sales varied among the state's eight counties with most sales concentrated in Fairfield, Hartford, and New Haven. These three counties accounted for 79.2% of total sales, with the remaining 20.8% spread among the other five counties. The following two tables provide detail on retail sales activity by county. Growth in sales also varied among

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counties. Between 2002 and 2007, Hartford increased the fastest at 35.2%, followed by Tolland at 34.9%, compared to a less than 20% growth for Fairfield and Litchfield.

Although the retail trade sector is one of the major sources of jobs in the Connecticut economy, the number of establishments has declined. In 2007, the sector had 13,807 establishments down from 13,861 in 2002.

TABLE 49
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
A. 2002 Economic Census								
Fairfield	13,931.1	33.2%	54,834	254.1	14.1	3,876	1,524.3	33.6%
Hartford	10,220.4	24.4%	50,872	200.9	15.2	3,347	1,101.7	24.3%
Litchfield	2,090.3	5.0%	8,830	236.7	11.3	784	212.8	4.7%
Middlesex	1,607.9	3.8%	8,346	192.7	11.2	743	187.2	4.1%
New Haven	9,268.4	22.1%	44,627	207.7	13.9	3,218	985.8	21.8%
New London	3,011.9	7.2%	14,752	204.2	13.2	1,119	319.4	7.0%
Tolland	894.3	2.1%	4,522	197.8	11.7	387	98.1	2.2%
Windham	<u>928.4</u>	<u>2.2%</u>	<u>5,024</u>	<u>184.8</u>	<u>13.0</u>	<u>387</u>	<u>101.8</u>	<u>2.2%</u>
Total	41,952.7	100.0%	191,807	218.7	13.8	13,861	4,531.1	100.0%
B. 2007 Economic Census								
Fairfield	15,702.2	30.1%	53,738	292.2	14.3	3,770	1,648.8	32.0%
Hartford	13,820.7	26.5%	53,241	259.6	15.6	3,423	1,310.7	25.4%
Litchfield	2,458.2	4.7%	9,059	271.4	11.5	788	239.8	4.6%
Middlesex	2,129.2	4.1%	8,300	256.5	11.1	749	209.9	4.1%
New Haven	11,785.3	22.6%	46,058	255.9	14.5	3,172	1,112.5	21.6%
New London	3,883.0	7.4%	15,660	248.0	13.9	1,123	390.4	7.6%
Tolland	1,206.3	2.3%	5,207	231.7	12.8	406	126.3	2.4%
Windham	<u>1,180.6</u>	<u>2.3%</u>	<u>4,870</u>	<u>242.4</u>	<u>13.0</u>	<u>376</u>	<u>122.0</u>	<u>2.3%</u>
Total	52,165.5	100.0%	196,133	266.0	14.2	13,807	5,160.4	100.0%
C. Growth (%) from 2002 to 2007								
Fairfield	12.7		(2.0)	15.0	1.4	(2.7)	8.2	
Hartford	35.2		4.7	29.2	2.6	2.3	19.0	
Litchfield	17.6		2.6	14.7	1.8	0.5	12.7	
Middlesex	32.4		(0.6)	33.1	(0.9)	0.8	12.1	
New Haven	27.2		3.2	23.2	4.3	(1.4)	12.9	
New London	28.9		6.2	21.4	5.3	0.4	22.2	
Tolland	34.9		15.1	17.1	9.4	4.9	28.7	
Windham	27.2		(3.1)	31.2	0.0	(2.8)	19.8	
Total	24.3		2.3	21.6	2.9	(0.4)	13.9	

Source: U.S. Department of Commerce, 2007 Economic Census

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The following table compares retail sales with personal income growth and changes in population. Slower sales growth in Fairfield reflected negative growth in population and number of establishments while the healthy sales growth in Tolland reflected the 4.9% increase in the number of establishments as well as an above average increase in personal income or population.

TABLE 50
RETAIL SALES, INCOME AND POPULATION BY COUNTY

	Retail Sales	Personal Income (\$B)			Population (000's)		
	% Change '02 to '07	2002	2007	% Change '02 to '07	2002	2007	% Change '02 to '07
Fairfield	12.7%	53.43	70.75	32.4%	890.6	889.1	(0.2%)
Hartford	35.2%	34.15	44.25	29.6%	864.5	874.1	1.1%
Litchfield	17.6%	7.29	9.41	29.1%	185.7	188.5	1.5%
Middlesex	32.4%	6.32	8.43	33.3%	159.2	164.0	3.0%
New Haven	27.2%	30.56	38.55	26.2%	832.4	843.6	1.4%
New London	28.9%	9.52	12.06	26.7%	263.1	264.5	0.5%
Tolland	34.9%	4.93	6.52	32.3%	142.0	148.2	4.4%
Windham	27.2%	3.27	4.10	25.2%	111.0	116.7	5.1%
Connecticut	24.3%	149.47	194.07	29.8%	3,448.4	3,488.6	1.2%

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 most 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 businesses tend mostly to be sole proprietorships and partnerships, and, to a lesser extent, corporations. These organizations range from "mom and pop" stores to high-tech instrument laboratories. The definition of a small business, however, varies, and may even change over time.

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 criteria include the amount of annual receipts and number of

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employees, which may even vary by industry. The definition of small business varies from state to state based on comparative size in the regional economy, industrial structure, and policy emphasis.

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 2005, the latest year for which complete, consistent and comparable data is available, among the total 93,561 establishments employing 1,662,000 persons in Connecticut, small businesses with fewer than 100 employees accounted for 97.5% of total establishments and 52.7% 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 contributed to job growth during this period, especially between 2000 and 2005, when larger firms were experiencing a period of reductions in employment.

The table also shows that, in 2005, small business firms played an equally important role in the nonmanufacturing sector as in manufacturing. Businesses with more than 500 employees accounted for 20.7% of total employment in nonmanufacturing, compared to 28.5% 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. This certainly fits the traditional economic production model.

A breakdown of total employment into manufacturing and nonmanufacturing sectors reflects different growth patterns for various firm sizes. Between 1995 and 2005, 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. During this time, the percentage of manufacturing employment in manufacturing firms which had 500 or more employees fell from 50.4% in 1995 to 28.5% in 2005 (a fall of 43.5%), while the percentage of nonmanufacturing employment in nonmanufacturing firms which had 500 or more employees fell from 27.7% in 1995 to 20.7% in 2005 (a drop of only 25.3%). This more pronounced decrease in the employment in larger manufacturing firms could be explained by a move to permanent downsizing and outsourcing, thus becoming more productive.

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TABLE 51
SMALL BUSINESS EMPLOYMENT IN CONNECTICUT
(Size of Employment in Thousands)

Calendar Year	<u>1-4</u>	<u>5-9</u>	<u>10-19</u>	<u>20-99</u>	<u>100-499</u>	<u>500&up</u>	<u>Total</u>
A. Employment							
Manufacturing Employment							
1995	4.6	8.7	16.9	43.4	49.5	125.3	248.5
2000	3.5	6.2	12.2	44.8	41.3	127.4	235.6
2005	3.7	6.7	12.7	57.5	63.2	57.4	201.3
(# Change, 95-05)	(0.9)	(2.0)	(4.2)	14.1	13.7	(67.9)	(47.2)
(% Growth, 95-05)	(19.4%)	(23.1%)	(24.6%)	32.6%	27.6%	(54.2%)	(19.0%)
(% Growth, 95-00)	(23.9%)	(28.7%)	(27.8%)	3.2%	(16.6%)	1.7%	(5.2%)
(% Growth, 00-05)	6.0%	7.9%	4.5%	28.4%	52.9%	(54.9%)	(14.6%)
Nonmanufacturing Employment							
1995	143.1	189.3	230.3	230.1	156.8	363.2	1,313.0
2000	80.9	94.9	113.1	252.1	201.1	715.5	1,457.5
2005	91.1	112.9	163.4	418.9	362.9	301.9	1,460.7
(# Change, 95-05)	(52.0)	(66.7)	(66.9)	188.8	206.1	(61.3)	147.7
(% Growth, 95-05)	(36.3%)	(35.2%)	(29.1%)	82.0%	131.4%	(16.9%)	11.3%
(% Growth, 95-00)	(43.5%)	(49.9%)	(50.9%)	9.6%	28.3%	97.0%	11.0%
(% Growth, 00-05)	12.6%	29.2%	44.5%	66.2%	80.5%	(57.8%)	0.2%
Total Employment							
1995	147.7	198.0	247.2	273.6	206.3	488.5	1,561.5
2000	84.4	101.0	125.3	296.9	242.4	842.9	1,693.1
2005	94.8	129.3	176.1	476.4	426.0	359.3	1,662.0
(# Change, 95-05)	(52.9)	(68.7)	(71.1)	202.8	219.7	(129.2)	100.5
(% Growth, 95-05)	(35.8%)	(34.7%)	(28.8%)	74.1%	106.5%	(26.4%)	6.4%
(% Growth, 95-00)	(42.9%)	(49.0%)	(49.3%)	8.5%	17.5%	72.5%	8.4%
(% Growth, 00-05)	12.3%	28.0%	40.6%	60.5%	75.8%	(57.4%)	(1.8%)
B. Total Establishments							
2005	50.4	17.9	12.1	10.8	2.1	0.2	93.6
C. Distribution of Establishments & Employment, 2005							
Establishments	53.9%	19.2%	12.9%	11.6%	2.2%	0.2%	100.0%
Cumulative	53.9%	73.1%	86.0%	97.5%	99.8%	100.0%	
Total Employment	5.7%	7.8%	10.6%	28.7%	25.6%	21.6%	100.0%
Cumulative	5.7%	13.5%	24.1%	52.7%	78.4%	100.0%	
Nonmfg Employ.	6.2%	8.4%	11.2%	28.7%	24.8%	20.7%	100.0%
Cumulative	6.2%	14.6%	25.8%	54.5%	79.3%	100.0%	

Note: Totals may not add due to rounding.

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

Small businesses are constantly facing operational difficulties and at the same time confronting competition from 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

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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:

Connecticut Economic Resource Center, Inc.
805 Brook Street, Building 4
Rocky Hill, CT 06067
<http://cerc.com/>
1-860-571-7136
1-800-392-2122
Fax: 1-860-571-7150

Connecticut Department of Economic & Community Development
Research Division
505 Hudson Street
Hartford, CT 06106
<http://www.ct.gov/ecd/>
1-860-270-8000

Nonfinancial Debt

For many years, national attention has been 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, DNFD is compiled quarterly by the Federal Reserve System.

The following table shows the 10-year history from 2000 to 2009 for total DNFD and each of its components. In 2009, the year-end total domestic nonfinancial debt outstanding was \$34,640.2 billion, approximately 2.5 times of GDP.

Hovering at a 9% growth rate from 2003 through 2007, total non-financial debt slowed to a growth of 6.0% in 2008 and 3.1% in 2009 due to the financial crisis that started hitting the U.S. economy in mid 2008. Total non-financial debt between 2000 and 2009 has grown 90.7%, outpacing the growth in GDP of 40.9%. Among the four components listed on the table below, Federal indebtedness grew the fastest at 130.6% while business debts grew the slowest at 64.8%, with both household and local government in the neighborhood of 95%. Prior to 1990, household borrowings trailed those of businesses; however, faster growth since 1991 in home mortgages and consumer credit coupled with a steady increase in income helped catapult household borrowings to the top. Nonetheless, a number of large federal fiscal stimulus programs starting in 2008 including tax rebate checks, the American Recovery &

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Reinvestment Act (ARRA), cash for clunkers, etc. resulted in two consecutive years of more than \$1.2 trillion a year of federal borrowing. This represented more than 20% of the annual growth, yielding a public sector increase of 121.9% over the past decade versus only 80.2% for the private sector. Of the total \$34.64 trillion nonfinancial debt outstanding, households accounted for 39.3%, followed by nonfinancial business at 31.4%, the federal government at 22.5%, and state and local governments at 6.8%. Debt outstanding in the private sector accounted for 70.6% of the total in 2009, down from 74.8% in 2000.

TABLE 52
DOMESTIC NON-FINANCIAL DEBT (DNFD) OUTSTANDING BY SECTOR IN THE U.S.
In Billions of Dollars at Yearend

	<u>1990</u>	<u>2000</u>	<u>2009</u>	<u>2009</u> <u>% of</u> <u>Total</u>	<u>Growth</u>	
					<u>(1990</u> <u>to 2000)</u>	<u>(2000</u> <u>to 2009)</u>
1. Private Sector						
a. Households						
Home Mortgages	\$2,488.8	\$4,798.4	\$10,335.2	29.8%	92.8%	115.4%
Consumer Credit	824.4	1,741.3	2,478.9	7.2%	111.2%	42.4%
Other	<u>267.7</u>	<u>447.6</u>	<u>788.0</u>	2.3%	67.2%	76.1%
Sub-Total	\$3,580.9	\$6,987.3	\$13,602.1	39.3%	95.1%	94.7%
b. Business						
Mortgages	\$1,205.5	\$1,586.8	\$3,573.8	10.3%	31.6%	125.2%
Bank Loans	1,250.0	2,107.1	4,145.1	12.0%	109.0%	96.7%
Other	<u>1,554.8</u>	<u>2,901.9</u>	<u>3,151.6</u>	9.1%	86.6%	8.6%
Sub-Total	\$3,768.5	\$6,595.8	\$10,870.5	31.4%	75.0%	64.8%
Sub-Total - Private Sector	\$7,349.4	\$13,583.1	\$24,472.6	70.6%	84.8%	80.2%
2. Public Sector						
c. Federal Government	\$2,498.1	\$3,385.1	\$7,805.4	22.5%	35.5%	130.6%
d. State & Local Gov't	<u>9,487.4</u>	<u>1,197.9</u>	<u>2,362.1</u>	6.8%	21.3%	97.2%
Sub-Total - Public Sector	\$3,485.6	\$4,583.0	\$10,167.5	29.4%	31.5%	121.9%
Total DNFD	\$10,834.9	\$18,166.1	\$34,640.2	100.0%	67.7%	90.7%
GDP, 4th Quarter	\$ 5,846.0	\$10,129.8	\$14,277.3		73.3%	40.9%
DNFD as a % of GDP	185.3	179.3	242.6			

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

The DNFD-to-GDP ratio stood at 242.6% in 2009, up from 179.3% in 2000, implying a faster growth in nonfinancial debt than GDP in the past decade. The DNFD-to-GDP ratio gained speed 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 consumers, creating a more competitive and efficient market. The ratio declined in the 1990s

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as federal debt fell and the growth in borrowings by state and local governments slowed, which was also accompanied by more robust GDP growth. However, more recently the ratio rebounded rapidly, resulting from an accommodative fiscal and monetary policy, less stringent financing standards on mortgages, and an economic recovery that stimulated borrowing and higher spending levels in both the household and business sectors.

Household Borrowing

Household borrowings, which include home mortgages, consumer credit, and other miscellaneous items, totaled \$13.60 trillion by the end of 2009. Long run growth in household borrowings had been experiencing a faster upward trend than the other three categories, accelerating at a double digit pace for five consecutive years during the housing-boom between 2002 and 2006. Total household borrowings slowed only slightly to 6.7% in 2007, but dropped to a 0.3% growth rate in 2008 and then declined 1.7% in 2009 when housing, as well as the consumer credit market, experienced one of the worst financial conditions since the end of WWII. The ratio of consumer borrowing to GDP rose to 95.3% in late 2009, up from 65.9% in 2000. Household borrowings continued to decline in early 2010 as consumers continued to refrain from spending, paid off debt and increased savings to strengthen their balance sheets.

Faster growth in household borrowing was due fundamentally to the low personal savings rate, leaving borrowing as the only available avenue for households. In the first half of the 1990s, growth in household borrowings averaged only 6.3% per year as sluggish income growth, the depressed value of real estate, and increased health insurance and educational costs made consumers more cautious. In the second half of the 1990s, average household borrowings climbed to 7.5% per year as a result of the continued healthy growth in income from wages, capital gains, and an appreciation in home values. During the recent economic recovery between 2002 and 2006, growth in borrowings averaged 11.0% per year as a buildup of wealth generated by increases in income and an appreciation in real estate, favorably low interest rates, and loosened credit standards that fueled a borrowing and spending surge. The U.S. savings rate, defined as personal saving as a percentage of disposable income, averaged only 2.7% between 2000 and 2007, dropping from an average of 5.4% in the 1990s, 8.5% in the 1980s, and 9.6% in the 1970s. The U.S. savings rate deteriorated to a low of 1.8% in mid 2007 and came back to 7.2% in mid-2009, and has stayed in the neighborhood of 5.5% since then. Concerned about job losses and beaten-down home equity, households are saving more while paying down debt, boosting the savings rate. These measures have led to slow growth in personal consumption and economic growth. A 1% increase in the savings rate is equivalent to a spending decrease of approximately \$115 billion for the nation's economy, which equates to 0.8% of GDP. In Connecticut, a 1% increase in the savings rate would decrease in spending by \$1.75 billion.

Net household asset levels also affected household borrowings. Household assets include home and financial equities. Net home equity (value of homes less mortgage liabilities) has been of growing importance to the economy. The net value of home equity grew 79% from 1999, when net home equity to net total wealth reached a low point, to early 2006 when the net equity reached its all-time high and then declined 51% by the end of 2009. The share of net home equity of total family net assets has played an important role on borrowings. 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 as more permanent

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and consistent with a higher propensity to consume by the public 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 frees up more money for spending, paying off old debts or investments in a second home. The Tax Payer Relief Act of 1997 also allows a tax exemption of up to \$500,000 of gain for joint filers or \$250,000 for single filers.

Among total household borrowings of \$13.60 trillion in 2009, home mortgage loans accounted for \$10.35 trillion, or 76.0% of household borrowings, followed by consumer credit at \$2.48 trillion, or 18.2%, with the remainder in other miscellaneous items. After six consecutive years of double-digit expansion, growth in home mortgages slowed in 2007 and started to decline in late 2008 as a correction related to sub-prime and Alt-A mortgages engulfed consumers. As plunging housing prices were coupled with reset provisions on certain mortgages and a slowdown in the economy, delinquency rates on all residential real estate loans increased, from 1.94% in 2006 to 3.05% in 2007, 6.54% in 2008, and to 10.22% by 2009. Although the volume of resets on exotic mortgages peaked between mid-2007 and mid-2008, a backlog of unsold units and rising foreclosures continued to build up the inventory pipeline. Responding to rising risks, lenders tightened their already restrictive lending policies. A series of financial crises such as the collapse of Lehman Brothers Financial Co., the nationalization of Fannie Mae and Freddie Mac along with trouble at other financial companies nearly froze the credit market. At the same time, the economy began bearing the brunt of significant job losses. Even the federal government's Troubled Asset Relief Program (TARP) and other stabilizing plans were not quick enough to stem the financial disaster. Failed banks increased and the FDIC's Deposit Insurance Fund was battered.

Consumer credit, not secured by real estate, is comprised of non-revolving credit (such as automobile and personal loans) and revolving credit (which includes credit card debt and store charges). It totaled \$2.5 trillion in late 2009, with non-revolving credit accounting for approximately 65% of the total consumer credit. Over the years, consumer credit has helped finance a large expansion in spending for consumer non-durables as more consumers rely on credit cards for making purchases online or by telephone. Total consumer credit outstanding in late 2009, however, declined by 4.4% with revolving credit dropping at a faster rate of 9.6% as credit card debts were paid down at a quick pace while the financial industry continued to tighten credit availability. Consumer deleveraging has been a recent trend for households to reduce their debts. Delinquency rates on credit card loans have deteriorated to 6.32% in late 2009 from 5.63% in late 2008. Research showed that the age group being hit harder during this past recession when available home equity was slim and unemployment was high was older debtors who are age 55 or older. More than two-thirds of the individuals in this group who filed bankruptcy blamed excessive credit card debts.

Business Borrowing

Business borrowings include debts owed by corporations, nonfarm corporations and farms. Total borrowings were \$10.87 trillion at the end of 2009. Borrowing instruments include corporate bonds, commercial paper, municipal securities, bank loans, mortgages, and others. Mortgages, corporate bonds, and others were divided almost evenly among the total. Business borrowings in 2009 from all financial vehicles declined, with bank loans dipping 18.4%, but increasing for corporate bonds by 10.1% as the Federal Reserve's near-zero interest rates and

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quantitative easing policy pushed the cost of debt to a favorably low level. Taking advantage of this opportunity of low interest rates, businesses replaced short term debt by extending debt maturities, bought back equity, and hoarded cash. Cash balances as a percentage of total assets on non-financial corporate balance sheets accounted for 6.2% in late 2009, the highest level since 1964. Although earning and profit conditions continued to improve both in the financial and non-financial sectors in late 2009, and indeed the recession ended in December 2009, businesses were hesitant to invest. Through 2009, year-end inventory levels have been continuously drawn down for 8 quarters. Investment in equipment and software continued to decline in 2009, dropping 18.3% after two consecutive decreases in 2008 and 2007. Inventories to sales ratios were down in all sectors from a year ago, including manufacturers, wholesalers, and retailers. The decline in manufacturing, for example, from a ratio of 1.39 at year-end 2008 to 1.26 at year-end 2009, signals continued cost cutting measures and a reduction in employment.

Government Borrowing

The U.S. federal budget has long been operating under deficits. The federal deficit started surging in the early 1980s from an expansionary fiscal policy and tax cuts, intending to sacrifice a short-term loss in revenue for a long-term gain through more rapid economic growth. This expectation, however, was not fully realized and deficits persisted into the late 1990s.

After registering deficits in most of the 1990s, the federal budget on unified basis, which includes all operating and trust funds such as Social Security and Medicare programs, turned to a surplus in 1998 and reached a high of \$254.8 billion in federal fiscal year (FFY) 2000. Federal operations, however, turned red again in FFY 2002 and continued to deteriorate with a deficit of \$680.5 billion in FFY 2008, and ballooned to \$1,471.3 billion in FFY 2009. The deficit in FFY 2010 is estimated at \$1,294.1 trillion, brought about by the federal government's sizable bailout and stimulus programs and the recessionary economy. The \$700 billion financial bailout known as the Troubled Asset Relief Program (TARP), and the \$787 billion economic stimulus program, per the American Recovery and Reinvestment Act (ARRA), along with increases in Medicare, Medicaid, unemployment insurance, Social Security, and defense, boosted federal spending for FFY 2009 and FFY 2010. At the same time, tax receipts declined due to the effects of the recession and tax cuts from the ARRA program. The federal government in FFY 2010 spent an estimated \$1.60 for every dollar it took in, a slight improvement from \$1.72 in FFY 2009. As the federal operating budget continued to post a deficit, the national debt also increased. Interest payments were the fourth largest single budgeted disbursement category, after defense, Social Security, and Medicare. By the end of FFY 2010, gross debt outstanding registered \$13,610 billion, up 15.6% from FFY 2009, following increases of 17.5% and 11.3% in the previous two years and a moderate 5.9% rise in FY 2007. In FFY 2009, per capita debt outstanding was approximately \$38,300, up from \$32,500 in FFY 2008. The federal budget deficit in the U.S. in 2010 is estimated at -9.0% of its GDP, according to *The Economist*, compared to -10.1% in Great Britain, -7.9% in France, -7.6% in Japan, -4.6% in Canada, and -3.7% in Germany. The U.S.'s deficit of 11.9% of GDP in FFY 2009 was a record high since WWII. Research shows that a continued deficit of 4% of GDP and higher may hinder economic growth as it may create a risk of inflation, higher interest rates, dissaving, a crowding out of private investments and a devaluation of the dollar.

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Of the 2010 total federal gross debt of \$13.61 trillion, \$9.02 trillion, or 66%, was held by the public and \$4.59 billion, or 34%, by intra-governmental agencies. Public holders include individuals, corporations, state or local governments, foreign governments, and other entities outside of the United States while intra-governmental 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 U.S. Treasury securities. The national debt of \$13.61 trillion in FFY 2010 stood at 95.3% of GDP.

Debt outstanding by state and local government, which includes states, counties, municipalities and other local entities, continued to increase at a faster rate in 2009 due to a widening in operating budget gaps brought about by a faster increase in expenditures than receipts. Weakness in wage growth, consumer spending, and corporate profits depressed state revenues. Interest payments grew by 3.3% in 2009 to \$105.1 billion, accounting for 5.2% of total current expenditures. Interest and principal payments in the next few years are expected to increase as federal stimulus grants wane and weak economic conditions persist, which have forced state and local governments to borrow in order to bridge the budget gap. The requirement of the balanced budget by all states, except Vermont, may delay the recovery of the national economy.

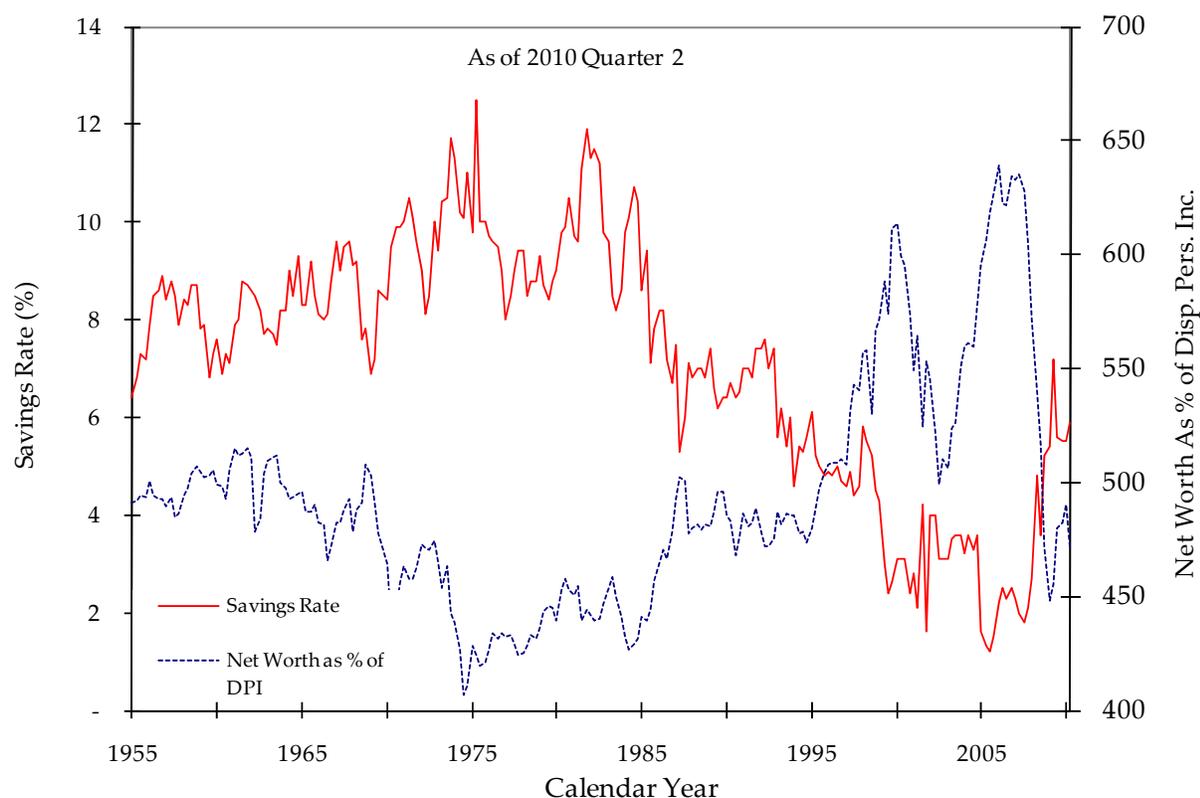
According to the U.S. Department of Commerce's "State Government Finances," state government debt outstanding in Connecticut at the end of fiscal 2008, the latest available year, was \$27.6 billion, compared to \$23.8 billion in 2007 and \$24.04 billion in 2006. Connecticut per capita state government debt was \$7,866 in fiscal 2008, compared to \$6,833 in fiscal 2007 and \$6,897 in fiscal 2006. The fifty state average registered at \$3,301 in fiscal 2008, compared to \$3,096 and \$2,903 in 2007 and 2006, respectively.

Connecticut's overall credit rating is determined by three major rating agencies: Moody's Investors Service, Standard & Poor's Corporation, and Fitch Investors Service, Inc. As of the end of October 2010, Connecticut's General Obligation bonds are rated Aa2 by Moody's and AA by both Standard & Poor's Corporation with "stable" credit outlook, and Fitch Investors Service, Inc. with a "negative" credit outlook. The rating process provides information for investors about risk. Low ratings will generally result in higher borrowing costs.

Savings by U.S. Households

A low personal savings rate has been a concern for some time as it will negatively impact our economy and society. Consumers' imprudent financing of consumption has created an unsustainable level of consumer debt, lowering potential economic growth, and may result in social problems. We may be witnessing an unexpected reversal of consumer-financing behavior that has caused a sudden drop in consumption and resulted in economic instability. The lower national savings rate has not generated sufficient funds domestically to support the investment necessary to sustain long-run economic growth. This has created a situation requiring excessive reliance on foreign capital and an unfavorable current account balance.

SAVINGS BY U.S. HOUSEHOLDS



Source: U.S. Department of Commerce, Bureau of Economic Analysis (BEA), Board of Governors of the Federal Reserve System

The solid line on the above chart shows the national savings rate for U.S. consumers from 1955 through the second quarter of 2010. After remaining at an average of 8.7% between 1955 and 1980, U.S. savings rate had been trending down from a high of 11.9% in late 1981 to a low of 1.2% in mid 2005, before bouncing back to 5.9% in mid 2010. The average savings rate for the past 5 decades is 7.1%. The savings rate is defined as personal savings divided by disposable personal income. Disposable personal income is defined as total personal income less “personal current taxes,” which includes personal tax and certain nontax, but excludes sales tax and property tax, payments to governments. Personal savings is defined as disposable personal income less consumption expenditures (including consumer durables), interest payments, and net transfer payments to the rest of the world.

The savings rate is often criticized because, by definition, personal incomes do not include the sales of existing assets. Realization of capital gains or losses from the appreciation or depreciation of assets such as stocks, bonds and antique collections, etc. are excluded in personal income, leading to under-/overvaluation of the income level. The definition of personal consumption outlay includes expenditures that might arguably be considered investments. For example, the purchase of a computer, a consumer durable, for education or training is treated as consumption. Mortgage interest payments also could be considered part of an investment. These expenditures are essentially “hidden savings”. In today’s economy, education and training, rather than physical capital, are the major inputs for economic growth.

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Education expenditures at all levels in the U.S. in 2005 accounted for approximately 5.3% of GDP, compared to 8.3% in Denmark, the highest among major industrialized nations, and 3.5% in Japan, according to the data compiled by the U.S. Central Intelligence Agency. Critics, therefore, conclude that our lower national savings rate may be due to an understated personal income with overstated consumption.

The chart also shows how the savings rate is affected by economic conditions by depicting the net worth of consumers as a percentage of disposable personal income. After the mid 1970s, the “wealth effect” took hold as people began to spend more because they had more assets to leverage and finance their consumption. This relative net worth has generally moved inversely with the savings rate. Before 1980, the savings rate was trending upward, with the relative net worth generally decreasing. During this period, before various innovative and creative financing mechanisms were available to the middle class, people generally lived on cash. During hard times, they may have saved less, left existing savings untouched to grow as long as possible, and eventually lived on what they had saved. After the 1970s, when credit cards and home equity loans became available to more households, savings rates decreased but net worth as a percentage of disposable personal income generally increased due to the acceleration in capital gains. During generally good economic times, people believe they are wealthier and spend more, driving the savings rate down. People had been spending more because they had greater assets and the ability to obtain financing secured by these assets. The recent increase in households’ saving rates reflects both a reduction in indebtedness and a continuing improvement in their balance sheet.

Household Balance Sheet

The Federal Reserve Bank’s “Flow of Funds Accounts” contains statistics on the assets, liabilities, and net worth for the household sector. The table on the following page shows these three components that comprise a balance sheet for 1955, 2000, and 2009, to evaluate the financial position of the nation’s households.

Assets

Total assets can be categorized into three components: real estate assets, stock related assets, and other assets (including bank deposits, bonds, money market fund shares, and consumer durable goods). In the fourth quarter of 2009, household assets totaled \$67.7 trillion with real estate comprising 27.5% of total assets; stocks, 34.5%; and the remaining 38.0% in other assets, compared to 26.2%, 19.5%, and 54.3%, respectively, in 1955. This reflects that real estate assets and stock related assets rose in importance over the past 5 decades. Nonetheless, holdings of other assets remain an important share of household assets with corporate bonds continuing to grow at an average rate of 7.6%, compared to an overall growth rate of 3.2%.

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TABLE 53
BALANCE SHEET OF HOUSEHOLDS AND NON-PROFIT ORGANIZATIONS
In Billions of Dollars

	1955	1955 In Real \$*	% of Total	2000 In Real \$*	% of Total	2009	% of Total	Average Growth**
A. Assets								
1. Real Estate	414.7	3,336.5	26.2%	16,696.9	26.8%	18,615.3	27.5%	3.2%
2. Stock related	308.5	2,478.4	19.5%	24,868.6	39.9%	23,364.1	34.5%	4.2%
3. Other	857.4	6,902.2	54.3%	20,694.7	33.2%	25,730.7	38.0%	2.5%
3a. Time & Saving Deposits	105.1	845.5	6.6%	3,766.9	6.1%	6,139.7	9.1%	3.7%
3b. Corporate Bonds	5.0	40.0	0.3%	685.5	1.1%	2,093.8	3.1%	7.6%
3c. Gov't Securities***	<u>88.0</u>	<u>708.1</u>	<u>5.6%</u>	<u>1,379.0</u>	<u>2.2%</u>	<u>1,735.4</u>	<u>2.6%</u>	<u>1.7%</u>
Total	1,580.6	12,717.1	100.0%	62,260.2	100.0%	67,710.1	100.0%	3.1%
B. Liabilities								
1. Home Mortgages	87.8	707.0	61.1%	5,959.6	65.0%	10,335.2	73.5%	5.1%
2. Consumer Credit	43.0	345.5	29.9%	2,162.7	23.6%	2,478.9	17.6%	3.7%
3. Other	<u>13.1</u>	<u>104.8</u>	<u>9.1%</u>	<u>1,039.6</u>	<u>11.3%</u>	<u>1,254.5</u>	<u>8.9%</u>	<u>4.7%</u>
Total	143.9	1,157.4	100.0%	9,161.9	100.0%	14,068.5	100.0%	4.7%
C. Net Worth								
1. Net Home Equity	371.8	2,629.5		10,737.3		8,280.2		2.1%
2. As a % of Net Worth	22.8%	22.8%		20.2%		15.4%		
3. Per Capita Net Worth(\$)		69,213		187,431		174,170		1.8%
D. As a % of Total Assets								
1. Home Mortgages		5.6%		9.6%		15.3%		
2. Liabilities		9.1%		14.7%		20.8%		
3. Net worth		90.9%		85.3%		79.2%		

Note:

* Real dollar is calculated by using the CPI-U in fourth quarter of 2009

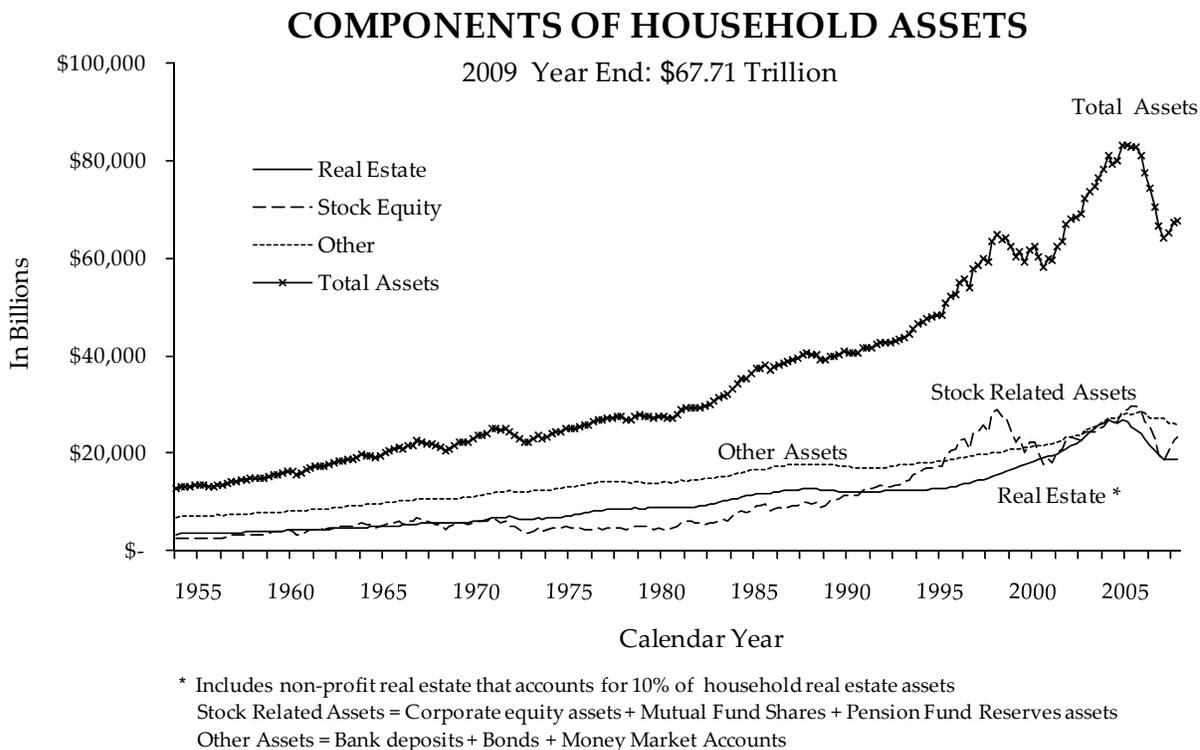
** Average annual real growth from 1955 to 2009

*** Includes Treasury and Municipal securities

Source: Board of Governors of the Federal Reserve System

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The chart below demonstrates that total assets began picking up steam in 1970 as financial vehicles such as home equity loans, credit cards, and before-tax retirement programs became popular. Total real assets reached a peak of \$83.3 trillion in first quarter of 2007 and then declined sharply, reflecting current recessionary economic conditions.



Source: Board of Governors of the Federal Reserve System

After trailing the other two asset groups, stock related assets overtook them in the early 1990s, then started declining in 1999, and by 2002 had converged with the other two categories. Of the three assets categories, real estate assets and other assets have been generally moving upward, while stock related assets fluctuated wildly. The growth in real estate assets slowed in 2007 and reversed course in 2008 as the housing sector retrenched and equity markets retreated from their recent highs. The massive use of home mortgages and the over-application of mortgage derivatives in the financial markets began to unwind with the rise in home foreclosures and created a world financial debacle in 2007 that worsened into 2008 and 2009.

Liabilities

Household liabilities totaled \$14.07 trillion in late 2009. Home mortgages accounted for 73.5% of the total with consumer credit at 17.6% and other liabilities at 8.9%. This compared to 61.1%, 29.9%, and 9.12%, respectively, in 1955, reflecting a much faster growth in home mortgage borrowings. Since 2002, growth in home mortgages has accelerated and outpaced the other two categories. Supported by extraordinarily favorable mortgage rates and an aggressive mortgage lending strategy, demand for homes and refinancings soared. Consumer credit primarily includes auto loans, personal loans, and credit card balances.

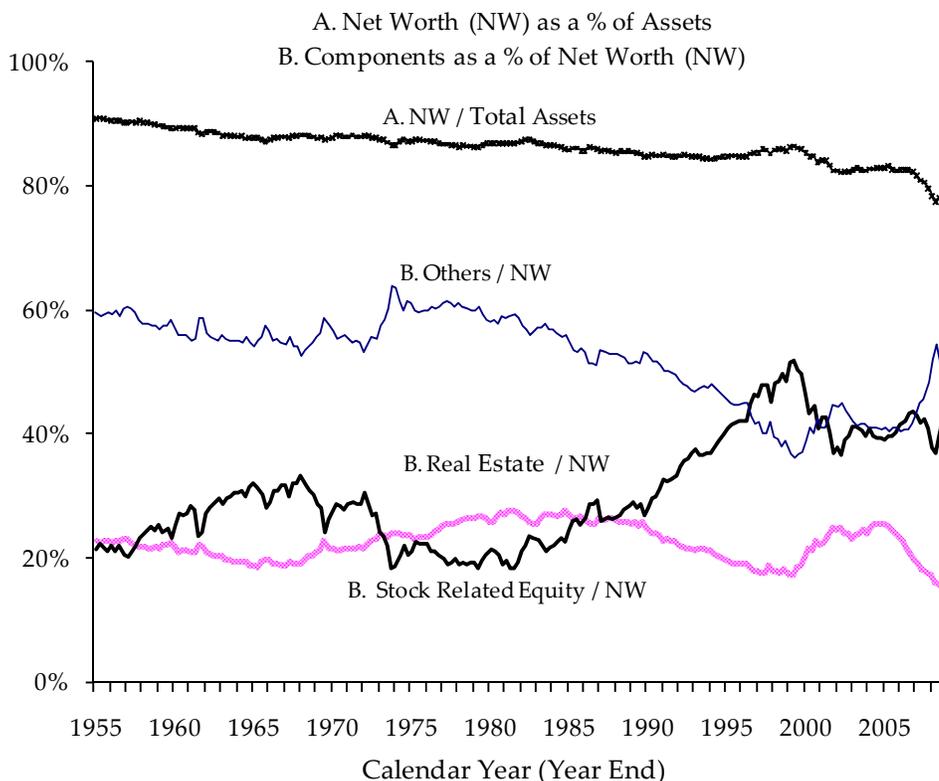
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Net Worth

Net worth (assets less liabilities) measures the resulting financial condition of consumers, which affects the overall economy through its wealth impact on consumers' spending and business activities. Net worth totaled \$53.64 trillion in late 2009. When measured in 2009 dollars, real net worth grew from \$11.56 trillion in 1955 to an all time high of \$68.88 trillion in the first quarter of 2007 and then declined to \$53.64 trillion in 2009. Per capita real net worth increased from \$69,213 in 1955 to \$174,170 in 2009, with annual growth averaging 1.8%. Per capita real net worth reached its peak of \$229,246 in first quarter of 2007 as value of real estate and stock related equities appreciated. Per capita net worth then declined as recession and deep depreciation in the housing market took its toll. Over the period between 2000 and 2009, per capita real net worth declined 8.1%, down from \$187,431 in 2000 to \$174,170 in 2009.

Along with the increase in net worth has come the additional burden of greater liabilities. In 1955 liabilities accounted for 9.1% of total assets, yet by 2009 they had risen to 20.8% of assets. The primary driver of this change was an increase in home mortgage liability. Indeed, the ratio of home mortgages to total assets grew from 5.6% in 1955, to 9.6% in 2000, and further up to 15.3% in 2009. The increasing use of debt to finance American lifestyles has also increased the proportion of income that must be devoted to repaying that debt. Debt service, which consists of the required payments on outstanding mortgage and consumer debt, as a percentage of disposable personal income has gradually risen from 10.98% in 1980, the earliest available data, to 13.54% in 2008 and then declined slightly to 13.01% in 2009.

HOUSEHOLD NET WORTH



Source: Board of Governors of the Federal Reserve System

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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. Statistics are provided indicating the relative economic performance of these entities and 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. GNP was generally used as a measure of a nation's economic performance to track the cyclical ups and downs of the economy, but GNP reflects more than domestic activity; 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, but 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, uses a chained-type inflation index based on calendar year 2000.

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 2009, the State of Connecticut produced \$227.4 billion worth of goods and services and \$205.7 billion worth of goods and services in 2005 chained type dollars. This was a drop between 2008 and 2009 of 1.2% in current dollars and 3.2% in real dollars, a larger drop than for either New England or the nation.

Between 2004 and 2009, the output contribution of only FIRE (Finance, Insurance and Real Estate) significantly increased, while manufacturing and retail trade fell, and most everything else remained fairly constant. The broadly defined services in the private sector, which includes industries in information, professional and technical services, health care and education, FIRE (Finance, Insurance and Real Estate) and other services, have increased to 60.7% of total GSP in 2009 from 58.2% in 2004, with information services decreasing from 3.9% to 3.6%, or 6.3%, and other services decreasing from 7.9% to 7.5%, or 4.8%. Health care and education increased from 8.6% to 9.3%, or 7.8%, and FIRE increased from 30.4% to 32.9%, or 8.3%. During this period, the shift toward services also continued for the nation as a whole, rising from 48.2% of GDP in 2004 to 50.5% in 2009. An increasing share of service production could help smooth the business

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cycle, reducing the span and depth of recessions and prolonging the length of expansions. 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 somewhat less vulnerable to foreign competition. Connecticut began moving toward services sooner than the nation as a whole.

**TABLE 54
GROSS PRODUCT**

Calendar Year	United States *		New England *		Connecticut	
	Dollars	% Growth	Dollars	% Growth	Dollars	% Growth
A. Millions of Current Dollars						
2004	11,788,900	6.5	659,529	5.9	188,576	8.2
2005	12,554,500	6.5	686,539	4.1	197,055	4.5
2006	13,310,900	6.0	721,860	5.1	210,278	6.7
2007	13,985,400	5.0	755,636	4.7	222,801	6.0
2008	14,344,000	2.6	778,055	3.0	230,101	3.3
2009	14,150,800	(1.4)	776,556	(0.2)	227,405	(1.2)
% Increase ('04 to '09)		20.0			17.7	20.6
B. Constant Dollars**						
2004	12,212,600	3.4	679,760	3.2	194,588	5.3
2005	12,554,500	2.8	686,539	1.0	197,055	1.3
2006	12,895,900	2.7	700,951	2.1	204,181	3.6
2007	13,162,800	2.1	714,526	1.9	210,545	3.1
2008	13,181,900	0.2	720,854	0.9	212,419	0.9
2009	12,903,800	(2.1)	706,538	(2.0)	205,735	(3.2)
% Increase ('04 to '09)		5.7			3.9	5.7

* Sum of State's Gross State Products.

** 2005 chained dollar series are calculated as the product of the chain-type quantity index and the 2005 current-dollar value of the corresponding series, divided by 100. The system for these calculations was converted from SIC Codes to the NAICS system starting in 1998.

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

Connecticut's production is concentrated in two areas: finance, insurance and real estate (FIRE) and manufacturing (ignoring the broad category of services). Production in these two industries accounted for 44.4% of total production in Connecticut, compared to 32.7% for the nation, up from 43.0% in 2004. This demonstrates that Connecticut's economy is more heavily concentrated in a few industries than the nation as a whole and this concentration has changed little in recent years. Additionally, Connecticut's portion of U.S. total GSP has increased from 1.60% to 1.61%.

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TABLE 55
GROSS PRODUCT BY SOURCE
(In Billions of Current Dollars)

Industry	----- Calendar 2004 -----				----- Calendar 2009-----			
	<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	142.7	1.2	0.380	0.2	136.4	1.0	0.339	0.1
Construction & Mining	713.7	6.1	6.480	3.4	809.6	5.7	6.422	2.8
Manufacturing	1,482.7	12.6	23.685	12.6	1,568.6	11.1	25.989	11.4
Wholesale Trade	684.5	5.8	9.656	5.1	793.3	5.6	11.540	5.1
Retail Trade	794.7	6.7	11.230	6.0	842.2	6.0	11.369	5.0
Transportation & Utilities	555.0	4.7	6.387	3.4	663.1	4.7	7.295	3.2
Information	564.1	4.8	7.302	3.9	633.8	4.5	8.254	3.6
Finance, Insurance, Real Estate	2,409.7	20.4	57.365	30.4	3,057.8	21.6	74.895	32.9
Professional, Technical Services	810.5	6.9	13.920	7.4	1,077.5	7.6	16.680	7.3
Health Care & Education	906.4	7.7	16.301	8.6	1,188.8	8.4	21.191	9.3
Other Services	993.0	8.4	14.852	7.9	1,192.0	8.4	17.057	7.5
Government	<u>1,731.8</u>	<u>14.7</u>	<u>21.018</u>	<u>11.1</u>	<u>2,187.6</u>	<u>15.5</u>	<u>26.374</u>	<u>11.6</u>
Total	11,788.9	100.0	188.576	100.0	14,150.8	100.0	227.405	100.0
Broadly Defined Services		48.2		58.2		50.5		60.7
CT as a % of U.S. Total GSP			1.60				1.61	

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, but 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.

Growth in Connecticut slowed during and following the recession of 2001, reflecting a struggle to recover from a deeper recession compared with the impact on the United States. The ratio of Connecticut's real per-capita output relative to the United States was generally increasing between 2004 and 2008, suggesting that Connecticut did eventually pull out of that recession with strength. The latest data, however, shows that the most recent recession hit Connecticut hard in 2009, with real per-capita output dropping 3.6% compared to 3.0% for the nation as a whole. Both per-capita output and real per-capita output for the state relative to the nation jumped between 2004 and 2009, respectively, from 135% to 140% of the U.S., and from 134% to 139%.

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**TABLE 56
PER CAPITA GROSS PRODUCT**

A. In Current Dollars

Calendar Year	United States		New England		Connecticut		
	Dollars	% Growth	Dollars	% Growth	Dollars	% Growth	% of U.S.
2004	40,229	5.5	46,392	5.7	54,273	8.0	135
2005	42,449	5.5	48,255	4.0	56,667	4.4	133
2006	44,579	5.0	50,626	4.9	60,335	6.5	135
2007	46,374	4.0	52,849	4.4	63,865	5.9	138
2008	47,126	1.6	54,172	2.5	65,688	2.9	139
2009	46,093	(2.2)	53,816	(0.7)	64,635	(1.6)	140
% Increase ('04 to '09)		14.6		16.0		19.1	

B. In 2000 Chained Dollars

Calendar Year	United States		New England		Connecticut		
	Dollars	% Growth	Dollars	% Growth	Dollars	% Growth	% of U.S.
2004	41,675	2.5	47,815	3.0	56,003	5.1	134
2005	42,449	1.9	48,255	0.9	56,667	1.2	133
2006	43,189	1.7	49,160	1.9	58,586	3.4	136
2007	43,646	1.1	49,974	1.7	60,352	3.0	138
2008	43,308	(0.8)	50,190	0.4	60,640	0.5	140
2009	42,031	(3.0)	48,964	(2.4)	58,476	(3.6)	139
% Increase ('04 to '09)		0.9		2.4		4.4	

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

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 table on the following page, 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 \$69.5 in 1999 to \$119.0 in 2008, a 71.3% increase in output per hour over the period compared to only a 29.2% increase in the Consumer Price Index over the same period.

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 the productivity factor is included. Per \$1 of output costs, the unit labor cost has declined from 23.9 cents in 1999 to 18.6 cents in 2008, a 21.9% reduction over the period, even while production workers have enjoyed a 33.7% increase in average hourly wages. Although the long-term trend remains favorable, it is worth noting, however, that as the economy declined during 2007 and 2008, both measures showed undesirable turns, with hourly output slowing and unit labor cost going up.

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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.

TABLE 57
CONNECTICUT'S MANUFACTURING LABOR PRODUCTIVITY

Cal. Year	GSP (Million)	Production Workhours (Million)	Hourly Production (Output Per Hour)	Total Wages (Million)	Average Hourly Wages	Unit Labor Cost (¢ Per \$1 Output)
1999	\$20,728	298.2	\$69.5	\$4,946.5	\$16.6	23.9¢
2000	\$21,215	295.1	\$71.9	\$5,093.9	\$17.3	24.0¢
2001	\$21,079	271.3	\$77.7	\$4,807.1	\$17.7	22.8¢
2002	\$21,152	250.9	\$84.3	\$4,525.6	\$18.0	21.4¢
2003	\$21,156	243.7	\$86.8	\$4,478.2	\$18.4	21.2¢
2004	\$24,212	231.2	\$104.7	\$4,509.9	\$19.5	18.6¢
2005	\$23,690	223.5	\$106.0	\$4,500.0	\$20.1	19.0¢
2006	\$26,863	219.6	\$122.3	\$4,549.1	\$20.7	16.9¢
2007	\$27,311	235.9	\$115.8	\$5,019.7	\$21.3	18.4¢
2008	\$25,946	218.0	\$119.0	\$4,833.9	\$22.2	18.6¢
% Increase ('99-'08)			71.3		33.7	(21.9)

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

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 lost 190,000 manufacturing jobs (50.4%) between calendar year 1977 and 2008, 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 table lists value added per production worker for Connecticut and the U.S. Connecticut's value added per production worker has steadily increased over every period covered in the table. Moreover, by 2008, Connecticut's value added per production worker was 123% of the national average, up from 100% in 1977.

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TABLE 58
VALUE ADDED PER PRODUCTION WORKER
(In Current Dollars)

Cal. <u>Year</u>	<u>Conn.</u>	United <u>States</u>	% Change From Prior Period		Cumulative % Change From 1972		Ratio of Conn. Value <u>Added to U.S.</u>
			<u>Conn.</u>	<u>U.S.</u>	<u>Conn.</u>	<u>U.S.</u>	
1977	42,828	42,741	61.9	63.3	61.9	63.3	1.002
1982	66,830	66,458	56.0	55.5	152.7	154.0	1.006
1987	103,228	94,927	54.5	42.8	290.3	262.7	1.087
1992	143,074	122,387	38.6	28.9	441.0	367.7	1.169
1997	179,595	151,317	25.5	23.6	579.1	478.2	1.187
2002	219,805	182,512	22.4	20.6	731.1	597.4	1.204
2007	299,483	253,867	36.2	39.1	1,032.4	870.1	1.180
2008	313,512	255,682	4.7	0.7	1,085.5	877.0	1.226

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"

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 of an industry, the volume of production, and the prevailing markup or profit on a product. The following table segments value added per production worker by industry in Connecticut for calendar year 2007 and 2008.

TABLE 59
VALUE ADDED PER PRODUCTION WORKER IN CONNECTICUT BY INDUSTRY
(In Current Dollars)

<u>Industry</u>	<u>2007</u>	<u>2008</u>	<u>% Change</u>
Manufacturing	299,483	313,512	4.7
Food	324,000	381,200	17.7
Paper	256,265	315,615	23.2
Printing	142,698	148,696	4.2
Chemical	1,798,955	1,910,675	6.2
Plastics & Rubber	146,540	144,373	(1.5)
Primary Metals	224,552	225,185	0.3
Fabricated Metals	168,335	179,731	6.8
Machinery	211,726	247,218	16.8
Computer & Electronic	310,647	315,532	1.6
Electrical Equipment	175,271	210,636	20.2
Transportation Equipment	375,211	375,573	0.1

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"

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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 one billion dollars. The following table details capital expenditures in Connecticut.

TABLE 60
TOTAL CAPITAL EXPENDITURES IN CONNECTICUT
(In Millions of Dollars)

Calendar <u>Year</u>	Connecticut <u>Capital Expenditures</u>	Percent <u>Change</u>
2000	1,861.6	8.5
2001	1,783.2	(4.2)
2002	1,448.5	(18.8)
2003	1,242.7	(14.2)
2004	1,236.2	(0.5)
2005	1,201.6	(2.8)
2006	1,260.5	4.9
2007	1,638.3	30.0
2008	1,166.1	(28.8)
2009	1,130.1	(3.1)

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 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 85% 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.

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Other Labor Income - consists primarily of employer contributions for employee pension and insurance funds and employer contributions for government social insurance.

Property Income - income from Dividends, Interest and Rents.

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 potential future performance.

According to figures provided by the U.S. Bureau of Economic Analysis, personal income to Connecticut residents during fiscal year 2010 was \$195.5 billion, a -0.68% decrease over fiscal 2009. Total personal income in Connecticut increased 32.6% from fiscal 2001 to 2010. For the United States, total personal income increased 40.3%, and in the New England region, the increase for the identical period was 33.1%.

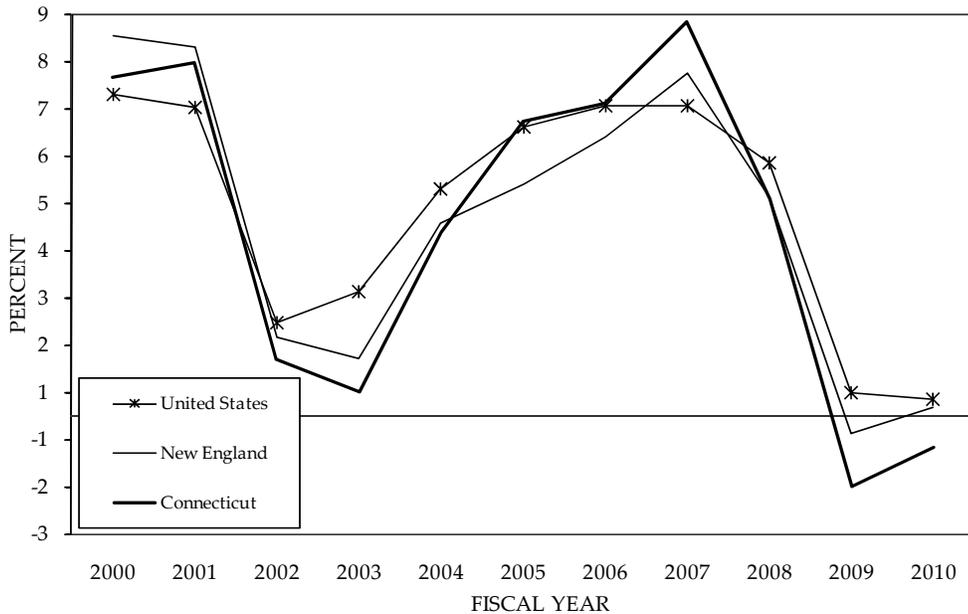
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The following table and chart shows personal income for the United States, the New England region, and Connecticut.

**TABLE 61
PERSONAL INCOME
(In Millions)**

Fiscal Year	United States		New England		Connecticut	
	Dollars	% Growth	Dollars	% Growth	Dollars	% Growth
2000-01	8,770,628	6.51	526,439	7.79	147,428	7.47
2001-02	8,942,844	1.96	535,091	1.64	149,204	1.20
2002-03	9,177,939	2.63	541,602	1.22	149,965	0.51
2003-04	9,619,019	4.81	563,683	4.08	155,767	3.87
2004-05	10,205,723	6.10	591,329	4.90	165,474	6.23
2005-06	10,874,683	6.55	626,075	5.88	176,413	6.61
2006-07	11,586,440	6.55	671,350	7.23	191,110	8.33
2007-08	12,203,591	5.33	702,286	4.61	199,830	4.56
2008-09	12,264,480	0.50	699,575	(0.39)	196,821	(1.51)
2009-10	12,306,902	0.35	700,857	0.18	195,479	(0.68)

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



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

Connecticut's sources of personal income vary slightly from those of the United States, with wages and employee salaries accounting for approximately 51.6% of total personal income compared to 51.1% for the nation in fiscal 2010. The following table shows a comparative study of the sources of personal income for the United States and Connecticut over a ten-year fiscal period. The table clearly shows a significant shift from manufacturing wages to other sources of income including property income and proprietors' income.

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TABLE 62
SOURCES OF PERSONAL INCOME
(In Billions of Dollars)

	<u>FISCAL YEAR 2000-01</u>				<u>FISCAL YEAR 2009-10</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	737.0	8.4	13.9	9.4	658.3	5.3	12.4	6.3
Nonmanufacturing Salaries & Wages	4,190.5	47.8	71.5	48.5	5,639.9	45.8	88.6	45.3
Proprietors Income	851.5	9.7	15.7	10.6	1,027.3	8.4	17.0	8.7
Property Income	1,586.1	18.1	26.4	17.9	2,189.9	17.8	38.0	19.5
Other Labor Income	990.7	11.3	16.1	10.9	1,546.3	12.6	25.7	13.2
Transfer Payments								
Less Payments to Social Insurance	<u>414.8</u>	<u>4.7</u>	<u>4.0</u>	<u>2.7</u>	<u>1,245.2</u>	<u>10.1</u>	<u>13.8</u>	<u>7.0</u>
Total	8,770.6	100.0	147.4	100.0	12,306.9	100.0	195.5	100.0

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

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

TABLE 63
WAGES AND SALARIES DISTRIBUTION BY INDUSTRY
(as a % of Total)

	<u>FISCAL YEAR 2000-01</u>		<u>FISCAL YEAR 2009-10</u>	
	<u>U.S. %</u>	<u>CT %</u>	<u>U.S. %</u>	<u>CT %</u>
Manufacturing	15.0	16.3	10.5	12.3
Finance, Insurance & Real Estate	8.9	16.0	8.9	17.7
Construction & Mining	6.0	4.0	5.6	3.3
Public Utility, Trade & Transp.	17.2	14.6	15.7	13.7
Information	4.4	3.4	3.2	2.6
Education & Health	10.0	11.4	13.3	15.2
Leisure & Hospitality	4.2	2.8	4.5	3.1
Other Professional & Business	14.8	15.9	16.0	14.7
Other Services	3.0	2.5	3.2	2.6
Government	16.0	12.9	18.5	14.6
Fishing, Forestry, & Farming	<u>0.6</u>	<u>0.2</u>	<u>0.6</u>	<u>0.2</u>
Total	100.0	100.0	100.0	100.0

Note: U.S. Total Wages & Salaries in FY 2001: \$4,927,443.0 million and \$6,298,162.0 million in FY 2010

CT Total Wages & Salaries in FY 2001: \$80,146.0 million and \$96,680.0 million in FY 2010

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

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Connecticut's distribution of wages and salaries by industry varies more significantly from those of the United States, with the Finance, Insurance, and Real Estate industry accounting for approximately 17.7% of total wages compared to 8.9% for the nation in fiscal 2010. The preceding table shows a comparative study of the wages and salaries distribution for the United States and Connecticut over a ten-year fiscal period. The table clearly shows a significant shift from manufacturing to education and health care and government.

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 28.6% from fiscal 2001 to 2010, compared to a national increase of 29.0% and a New England region increase of 29.7%.

Per capita personal income in Connecticut, for the most recent fiscal year, was 14.5% higher than for the New England region and 39.0% 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 provides a graphic representation of the growth rates in per capita personal income for the three entities over a ten fiscal year period.

TABLE 64
PER CAPITA PERSONAL INCOME

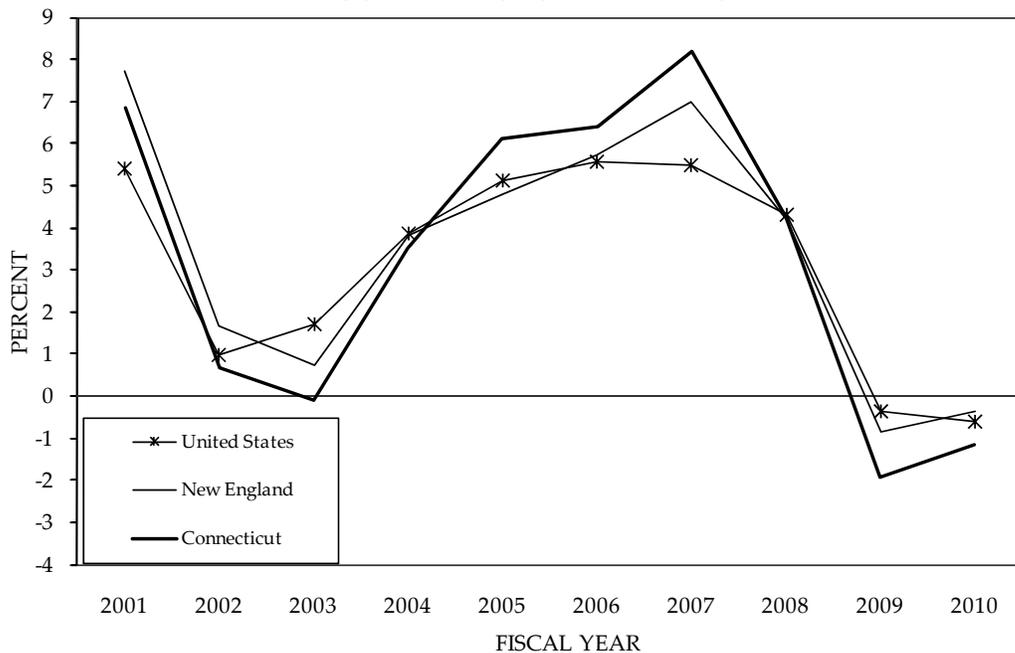
Fiscal Year	United States		New England		Connecticut	
	Dollars	% Growth	Dollars	% Growth	Dollars	% Growth
2000-01	30,882	5.39	37,308	7.72	43,076	6.84
2001-02	31,181	0.97	37,935	1.68	43,367	0.68
2002-03	31,716	1.72	38,212	0.73	43,329	(0.09)
2003-04	32,940	3.86	39,669	3.81	44,852	3.52
2004-05	34,626	5.12	41,574	4.80	47,601	6.13
2005-06	36,552	5.56	43,947	5.71	50,658	6.42
2006-07	38,562	5.50	47,010	6.97	54,809	8.19
2007-08	40,229	4.32	48,981	4.19	57,142	4.26
2008-09	40,079	(0.37)	48,568	(0.84)	56,034	(1.94)
2009-10	39,844	(0.59)	48,400	(0.35)	55,396	(1.14)

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

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

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PER CAPITA PERSONAL INCOME GROWTH FISCAL YEAR GROWTH BY PERCENT



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

The following table shows per capita income for each of the fifty states with their corresponding ranking for fiscal year 2010. In 2010, Connecticut ranked number 1 in the nation based on per capita personal income. Connecticut's figure of \$55,396 for per capita personal income remained approximately 39.0% higher than the national average.

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TABLE 65
PER CAPITA PERSONAL INCOME BY STATE
(Fiscal 2010)

<u>State</u>	<u>Per Capita Income</u>	<u>Rank</u>	<u>State</u>	<u>Per Capita Income</u>	<u>Rank</u>
Connecticut	\$55,396	1	Iowa	\$38,070	26
New Jersey	50,409	2	Wisconsin	37,733	27
Massachusetts	50,040	3	Louisiana	37,696	28
Maryland	48,545	4	Nevada	36,875	29
Wyoming	48,098	5	Maine	36,830	30
New York	47,329	6	Oregon	36,225	31
Virginia	44,316	7	Oklahoma	36,098	32
Alaska	43,731	8	Missouri	36,054	33
Washington	42,978	9	Ohio	35,889	34
New Hampshire	42,806	10	Montana	35,167	35
California	42,667	11	North Carolina	35,021	36
Illinois	42,191	12	Tennessee	34,593	37
Minnesota	42,131	13	Michigan	34,566	38
Hawaii	42,080	14	Indiana	34,196	39
Colorado	41,916	15	Georgia	33,990	40
Rhode Island	41,596	16	New Mexico	33,666	41
North Dakota	40,877	17	Alabama	33,647	42
Pennsylvania	40,537	18	Arizona	32,956	43
Delaware	39,915	19	Kentucky	32,727	44
Kansas	39,581	20	Arkansas	32,691	45
Vermont	39,460	21	South Carolina	32,606	46
Nebraska	39,439	22	West Virginia	32,427	47
Florida	38,721	23	Idaho	31,640	48
Texas	38,670	24	Utah	31,601	49
South Dakota	38,349	25	Mississippi	30,673	50
U.S. Average	\$39,844				

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

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

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 2010. 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 gift taxes. Nontax payments are made up of fines and fees.

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TABLE 66
PER CAPITA DISPOSABLE PERSONAL INCOME BY STATE
(Fiscal 2010)

<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	\$47,765	1	Maine	\$34,192	26
New Jersey	45,549	2	Texas	33,756	27
Massachusetts	44,770	3	Iowa	33,566	28
Maryland	43,749	4	Wisconsin	33,543	29
New York	42,056	5	Louisiana	32,883	30
Wyoming	40,891	6	Missouri	32,611	31
Virginia	39,776	7	Oklahoma	32,485	32
New Hampshire	39,472	8	Ohio	32,445	33
Alaska	39,239	9	Oregon	32,426	34
Hawaii	38,824	10	Tennessee	31,955	35
Washington	38,487	11	Michigan	31,545	36
California	38,127	12	North Carolina	31,480	37
Illinois	37,746	13	Indiana	31,228	38
Rhode Island	37,687	14	Montana	31,155	39
Colorado	37,626	15	Georgia	30,823	40
Minnesota	37,520	16	Alabama	30,738	41
North Dakota	37,347	17	New Mexico	30,736	42
Delaware	37,347	18	Arizona	30,037	43
Pennsylvania	36,183	19	West Virginia	29,851	44
Vermont	35,590	20	Arkansas	29,572	45
Nebraska	34,900	21	Kentucky	29,520	46
Nevada	34,783	22	South Carolina	29,456	47
Kansas	34,655	23	Idaho	29,035	48
Florida	34,641	24	Mississippi	28,232	49
South Dakota	34,416	25	Utah	28,021	50
U.S. Average	\$36,222				

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

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

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

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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 fiscal year period.

TABLE 67
THE U.S. CONSUMER PRICE INDEX
(1982-84=100)

<u>Fiscal Year</u>	<u>C.P.I.</u>	<u>% Growth</u>
2000-01	175.1	3.41
2001-02	178.2	1.77
2002-03	182.1	2.20
2003-04	186.1	2.21
2004-05	191.7	3.00
2005-06	198.9	3.78
2006-07	204.1	2.60
2007-08	211.7	3.71
2008-09	214.6	1.40
2009-10	216.8	0.99

Source: U.S. Bureau of Labor Statistics

The CPI is a weighted index that is based on prices of food (15.0%), apparel (3.7%), housing (42%), transportation (16.7%), medical care (6.5%), education (6.4%), and the other goods that people buy for day-to-day living (9.7%). 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 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.

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TABLE 68
REAL PERSONAL INCOME
(In Millions)

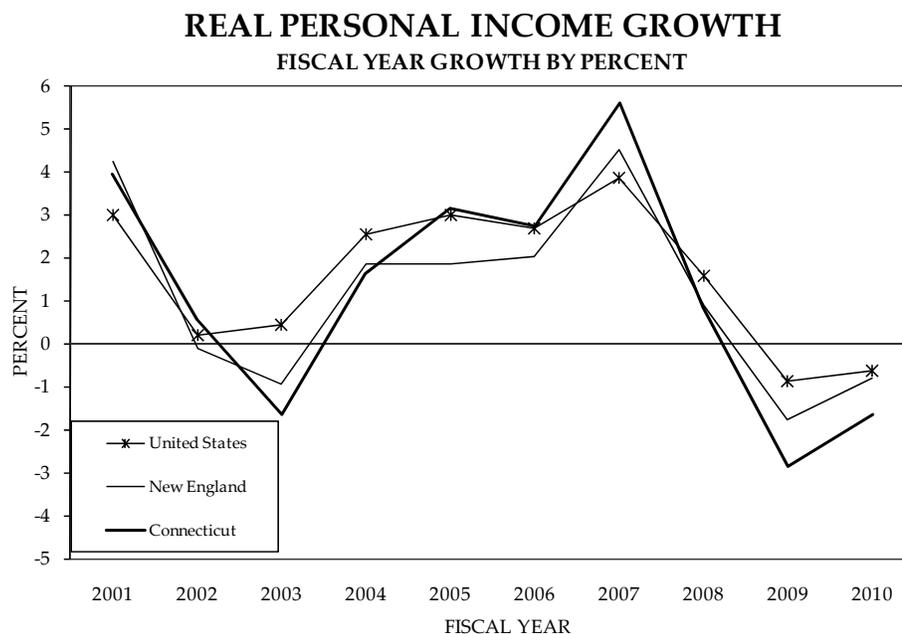
Fiscal Year	United States		New England		Connecticut	
	Dollars	% Growth	Dollars	% Growth	Dollars	% Growth
2000-01	5,009,879	3.00	300,708	4.23	84,212	3.93
2001-02	5,019,369	0.19	300,332	(0.12)	83,744	(0.56)
2002-03	5,040,285	0.42	297,434	(0.96)	82,357	(1.66)
2003-04	5,168,504	2.54	302,879	1.83	83,697	1.63
2004-05	5,323,799	3.00	308,466	1.84	86,319	3.13
2005-06	5,466,267	2.68	314,703	2.02	88,676	2.73
2006-07	5,676,490	3.85	328,911	4.51	93,629	5.59
2007-08	5,764,987	1.56	331,761	0.87	94,400	0.82
2008-09	5,713,892	(0.89)	325,925	(1.76)	91,697	(2.86)
2009-10	5,677,204	(0.64)	323,307	(0.80)	90,175	(1.66)

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.

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



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

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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.

TABLE 69
REAL PER CAPITA PERSONAL INCOME

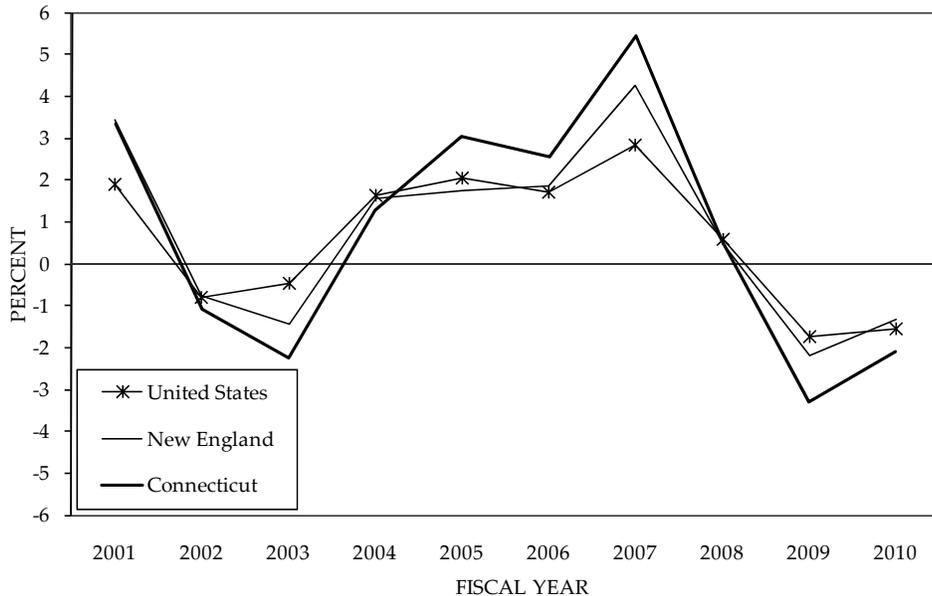
Fiscal Year	United States		New England		Connecticut	
	Dollars	% Growth	Dollars	% Growth	Dollars	% Growth
2000-01	17,640	1.91	21,454	3.44	24,605	3.32
2001-02	17,501	(0.79)	21,292	(0.76)	24,341	(1.08)
2002-03	17,418	(0.48)	20,985	(1.44)	23,795	(2.24)
2003-04	17,699	1.62	21,315	1.57	24,100	1.28
2004-05	18,063	2.05	21,687	1.75	24,831	3.03
2005-06	18,373	1.72	22,091	1.86	25,464	2.55
2006-07	18,893	2.83	23,032	4.26	26,852	5.45
2007-08	19,004	0.59	23,139	0.47	26,994	0.53
2008-09	18,673	(1.75)	22,627	(2.21)	26,105	(3.29)
2009-10	18,380	(1.56)	22,327	(1.33)	25,554	(2.11)

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

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

The previous table shows the growth in real per capita personal income for the United States, the New England region, and Connecticut. The chart below provides a graphic presentation of the growth in real per capita personal income for the three entities over a ten fiscal year period.

REAL PER CAPITA INCOME GROWTH
FISCAL YEAR GROWTH BY PERCENT



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

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TABLE 70
GROWTH IN REAL PER CAPITA PERSONAL INCOME
(Base Year: 2010)

Fiscal Year	% Growth		% Cumulative Growth	
	<u>United States</u>	<u>Connecticut</u>	<u>United States</u>	<u>Connecticut</u>
1950-1960	27.7%	28.4%	27.7%	28.4%
1960-1970	37.3%	40.3%	75.3%	80.2%
1970-1980	17.7%	12.8%	106.3%	103.3%
1980-1990	20.9%	37.4%	149.5%	179.3%
1990-2000	15.9%	16.1%	189.3%	224.1%
2000-2010	6.7%	7.9%	208.5%	249.7%

Note: FY's 1950-2009 reflect annual data and FY 2010 is based on quarterly data

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

The above table highlights the cumulative growth in real per capita personal income over the past sixty years. Overall, Connecticut has enjoyed higher cumulative growth in real per capita personal income, exceeding the United States by 41.2 percentage points. In one decade alone, 1980 to 1990, Connecticut's growth in real personal income was 16.5 percentage points higher than the United States' growth. On the other hand, during the most recent decade, Connecticut's personal income growth has been alarmingly weak at only 7.9%, a likely result of two economic bubbles bursting (technology and housing) and the Great Recession of the last two years of the decade. Even though job growth in the state has lagged that of the nation, Connecticut residents' income growth has out-performed that of the nation's over the long-term.

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. An inflation index such as the CPI-U is used to measure purchasing power relative to its historical performance, 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.

A widely used index to measure cost of living differences among urban areas is *ACCRA Cost of Living Index*, which is produced by The Council for Community and Economic Research (C2ER). This report includes indices for approximately 320 Metropolitan Statistical Areas (MTAs), Metropolitan Statistical Divisions (MTDs), and Micropolitan Statistical Areas (MCAs) as defined by the U.S. Office of Management and Budget (OMB). In Connecticut, the C2ER survey includes the four urban areas from the following MTAs: Stamford in the Bridgeport-Stamford-Norwalk MTA, Hartford in the Hartford-West Hartford-East Hartford MTA, New Haven in the New Haven-Milford MTA, and New London in the Norwich-New London MTA.

The following table shows the cost of living comparison for three neighboring cities: Boston in the Boston-Quincy MTD, Hartford in the Hartford-West Hartford-East Hartford MTA, and New York (Manhattan) in the New York-White Plains-Wayne NY-NJ MTD for the 2009 annual average.

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**TABLE 71
COMPARISON OF COST OF LIVING**

2009 Annual Average <u>MTA/MTD</u>	Composite <u>Index</u>	Grocery <u>Items</u>	<u>Housing</u>	<u>Utilities</u>	Trans- <u>portation</u>	Health <u>Care</u>	<u>Misc.*</u>
Hartford, CT	119.8	117.4	134.4	122.6	109.6	110.3	111.8
Boston, MA	130.9	117.0	146.7	156.6	100.7	127.5	125.9
New York**, NY	217.2	145.9	399.5	156.8	128.3	130.7	144.2
Index Weights	100%	12.95%	28.99%	10.02%	11.98%	4.07%	31.99%

Note: * denotes miscellaneous goods and services

** Manhattan

Source: The Council for Community and Economic Research (C2ER), "ACCRA Cost of Living Index", 2009 Annual Average Data

The Cost of Living Composite Index is weighted by a "market basket" of approximately 60 goods and services for the typical professional and executive household. It is further broken down into six categories including grocery items, housing, utilities, transportation, health care, and miscellaneous goods and services to reflect the different categories of consumer expenditures. The index for the Hartford area, for example, in 2009 was 119.8 compared to the national average of 100. This index demonstrates that the overall living cost in the Hartford area was higher than the national average by 19.8% in 2009. Among the six categories, the cost of housing in the Hartford area was the most expensive item, a full 34.4% higher than the national average, followed by utilities at 22.6%, grocery items at 17.4%, miscellaneous goods and services at 11.8%, health care at 10.3%, and transportation at 9.6% higher than the national average. The index, updated quarterly with an annual report published in January of the succeeding year, does not measure tax differentials.

In 2009, numerous cities had a relatively higher cost of living than the Hartford area. These include, for example, New York City (Manhattan) at 217.2; Honolulu, Hawaii at 166.3; and San Francisco, California at 162.9. Living costs in most southern states' cities are relatively low; for example, Pryor Creek, Oklahoma at 83.6; Harlingen, Texas at 86.7; and Louisville, Kentucky at 89.6. The cost of living in the Hartford area was collectively on par with Fort Lauderdale, Florida; Providence, Rhode Island; and Philadelphia, Pennsylvania, which registered at 118.8, 118.9, and 123.9, respectively. The cost of living index can provide 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 Hartford resident is considering a move to New York City (Manhattan) and wants to maintain his or her current lifestyle, other things being equal, his or her after-tax income level has to increase by 81.3%, $(217.2-119.8)/119.8$, in order to compensate for the higher cost of living. On the contrary, if a New York City resident is contemplating a move to Hartford, his or her after-tax income level can be reduced by 44.8%, $(119.8-217.2)/217.2$, in order to sustain the same current life style.

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The cost of living for metropolitan statistical areas within Connecticut also varies. In 2009, the ACCRA cost of living Index for the Stamford area was at 146.8, New Haven at 120.2, and New London at 114.9, compared to 119.8 for Hartford. These four 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 72
COMPARISON OF COST OF LIVING IN CONNECTICUT
Hartford, New Haven, New London, and Stamford MTAs

2009 <u>MTA</u>	Composite <u>Index</u>	Grocery <u>Items</u>	<u>Housing</u>	<u>Utilities</u>	Trans- <u>portation</u>	Health <u>Care</u>	<u>Misc.</u>
Hartford	119.8	117.4	134.4	122.6	109.6	110.3	111.8
New Haven	120.2	119.2	132.5	124.3	104.7	110.8	115.1
New London	114.9	110.5	121.8	135.1	103.3	110.0	109.0
Stamford	146.8	112.2	219.0	134.8	113.0	113.0	116.0

Source: The Council for Community and Economic Research (C2ER), "ACCRA Cost of Living Index", January 2010

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THE MAJOR REVENUE RAISING TAXES IN THE STATE OF CONNECTICUT

In fiscal 2009, Connecticut's General Fund derived 68 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 2009. The table shows overall state tax collections as a percentage of personal income. In the table, note that Connecticut ranks 18th, signifying that in 17 other states a greater percentage of an individual's income is going for state taxes than in Connecticut.

TABLE 73
STATE TAX COLLECTIONS AS A PERCENTAGE OF PERSONAL INCOME
Fiscal 2009

<u>State</u>	<u>Percentage</u>	<u>Rank</u>	<u>State</u>	<u>Percentage</u>	<u>Rank</u>
Alaska	16.31%	1	Oklahoma	6.10%	26
Vermont	10.33%	2	Kansas	6.01%	27
Wyoming	10.26%	3	Massachusetts	5.97%	28
North Dakota	9.14%	4	Pennsylvania	5.94%	29
Hawaii	8.63%	5	Rhode Island	5.93%	30
West Virginia	8.25%	6	Louisiana	5.89%	31
Arkansas	7.98%	7	Ohio	5.80%	32
Delaware	7.88%	8	Washington	5.72%	33
Minnesota	7.69%	9	Nebraska	5.64%	34
New Mexico	7.28%	10	Maryland	5.51%	35
Maine	7.26%	11	Nevada	5.45%	36
Mississippi	7.20%	12	Arizona	5.35%	37
New York	7.09%	13	Illinois	5.35%	38
Montana	7.08%	14	Oregon	5.35%	39
Kentucky	7.03%	15	Alabama	5.27%	40
Wisconsin	6.79%	16	South Carolina	4.84%	41
Indiana	6.77%	17	Tennessee	4.82%	42
<u>Connecticut</u>	<u>6.57%</u>	<u>18</u>	Georgia	4.77%	43
Michigan	6.56%	19	Missouri	4.75%	44
Idaho	6.41%	20	Virginia	4.69%	45
California	6.35%	21	Florida	4.38%	46
North Carolina	6.28%	22	South Dakota	4.28%	47
New Jersey	6.15%	23	Texas	4.23%	48
Iowa	6.15%	24	Colorado	4.08%	49
Utah	6.12%	25	New Hampshire	3.74%	50
U.S. Average	5.83%				

Source: U.S. Department of Commerce, "State Government Finances, 2009"

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

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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. Beginning with tax years commencing January 1, 2003 the 4.5% rate was increased to 5.0%. Beginning with tax years commencing January 1, 2009, a third higher bracket of 6.5% was introduced on incomes in excess of \$500,000 for single filers and \$1,000,000 for joint filers. 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 \$13,000 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 74 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 has been modified over the years and since income year 2006 has remained at \$500.

The Personal Income Tax generated \$6,586.1 million in fiscal year 2009-10, \$6,385.9 million in fiscal year 2008-09, and \$7,512.7 million in fiscal year 2007-08. In fiscal year 2009-10, this tax accounted for 37.2% of total revenue and 57.3% of total tax collections, while in fiscal year 2008-09 it accounted for 40.7% of total revenue and 54.3% of total tax collections.

**TABLE 74
TAXABLE INCOME AMOUNTS SUBJECT TO THE LOWER RATE
WITH THE REMAINDER SUBJECT TO THE HIGHER RATE**

<u>Income Year</u>	<u>Low Rate</u>	<u>High Rate</u>	<u>Amount At Low Rate By Filing Status</u>		
			<u>Single</u>	<u>Joint</u>	<u>Head of Household</u>
1996	3.0%	4.5%	\$ 2,250	\$ 4,500	\$ 3,500
1997	3.0%	4.5%	\$ 6,250	\$12,500	\$10,000
1998	3.0%	4.5%	\$ 7,500	\$15,000	\$12,000
1999 - 2002	3.0%	4.5%	\$10,000	\$20,000	\$16,000
2003 - 2008	3.0%	5.0%	\$10,000	\$20,000	\$16,000
2009 & After	3.0%	6.5%	\$10,000	\$20,000	\$16,000

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The following table compares the personal income tax collections as a percentage of personal income for the fifty states for fiscal 2009.

TABLE 75
STATE INCOME TAX COLLECTIONS AS A PERCENTAGE OF PERSONAL INCOME
Fiscal 2009

<u>State</u>	<u>Percentage</u>	<u>Rank</u>	<u>State</u>	<u>Percentage</u>	<u>Rank</u>
New York	4.02%	1	Georgia	2.31%	23
Oregon	3.92%	2	Nebraska	2.26%	24
<u>Connecticut</u>	<u>3.24%</u>	<u>3</u>	Rhode Island	2.20%	25
Massachusetts	3.21%	4	Vermont	2.20%	26
Minnesota	3.11%	5	Missouri	2.19%	27
North Carolina	2.93%	6	Colorado	2.07%	28
Maine	2.85%	7	Ohio	2.02%	29
Wisconsin	2.81%	8	Indiana	1.96%	30
California	2.79%	9	Oklahoma	1.90%	31
West Virginia	2.68%	10	Pennsylvania	1.88%	32
Utah	2.62%	11	Louisiana	1.73%	33
Virginia	2.56%	12	Alabama	1.69%	34
Delaware	2.56%	13	Michigan	1.69%	35
Hawaii	2.45%	14	Illinois	1.68%	36
Kansas	2.45%	15	Mississippi	1.65%	37
Montana	2.43%	16	South Carolina	1.59%	38
Arkansas	2.39%	17	North Dakota	1.40%	39
Kentucky	2.39%	18	New Mexico	1.40%	40
New Jersey	2.38%	19	Arizona	1.16%	41
Iowa	2.38%	20	New Hampshire	0.17%	42
Idaho	2.38%	21	Tennessee	0.10%	43
Maryland	2.36%	22			
U.S. Average	2.01%				

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, 2009"

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The following table shows Connecticut personal income tax exemptions ranging from \$13,000 to \$24,000 including the phase out as income levels rise depending on adjusted gross income for each income tax filing status.

TABLE 76
CONNECTICUT PERSONAL INCOME TAX CREDITS & EXEMPTIONS
Income Year 2011

<u>Single</u>			<u>Married Filing Jointly</u>			<u>Head of Household</u>		
Exemption: \$13,000			Exemption: \$24,000			Exemption: \$19,000		
Phase Out: \$1K of exemption for each \$1K from \$26.0K to \$38.0K			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
\$13,000	\$16,300	75%	\$24,000	\$30,000	75%	\$19,000	\$24,000	75%
\$16,300	\$16,800	70%	\$30,000	\$30,500	70%	\$24,000	\$24,500	70%
\$16,800	\$17,300	65%	\$30,500	\$31,000	65%	\$24,500	\$25,000	65%
\$17,300	\$17,800	60%	\$31,000	\$31,500	60%	\$25,000	\$25,500	60%
\$17,800	\$18,300	55%	\$31,500	\$32,000	55%	\$25,500	\$26,000	55%
\$18,300	\$18,800	50%	\$32,000	\$32,500	50%	\$26,000	\$26,500	50%
\$18,800	\$19,300	45%	\$32,500	\$33,000	45%	\$26,500	\$27,000	45%
\$19,300	\$19,800	40%	\$33,000	\$33,500	40%	\$27,000	\$27,500	40%
\$19,800	\$21,700	35%	\$33,500	\$40,000	35%	\$27,500	\$34,000	35%
\$21,700	\$22,200	30%	\$40,000	\$40,500	30%	\$34,000	\$34,500	30%
\$22,200	\$22,700	25%	\$40,500	\$41,000	25%	\$34,500	\$35,000	25%
\$22,700	\$23,200	20%	\$41,000	\$41,500	20%	\$35,000	\$35,500	20%
\$23,200	\$27,100	15%	\$41,500	\$50,000	15%	\$35,500	\$44,000	15%
\$27,100	\$27,600	14%	\$50,000	\$50,500	14%	\$44,000	\$44,500	14%
\$27,600	\$28,100	13%	\$50,500	\$51,000	13%	\$44,500	\$45,000	13%
\$28,100	\$28,600	12%	\$51,000	\$51,500	12%	\$45,000	\$45,500	12%
\$28,600	\$29,100	11%	\$51,500	\$52,000	11%	\$45,500	\$46,000	11%
\$29,100	\$52,000	10%	\$52,000	\$96,000	10%	\$46,000	\$74,000	10%
\$52,000	\$52,500	9%	\$96,000	\$96,500	9%	\$74,000	\$74,500	9%
\$52,500	\$53,000	8%	\$96,500	\$97,000	8%	\$74,500	\$75,000	8%
\$53,000	\$53,500	7%	\$97,000	\$97,500	7%	\$75,000	\$75,500	7%
\$53,500	\$54,000	6%	\$97,500	\$98,000	6%	\$75,500	\$76,000	6%
\$54,000	\$54,500	5%	\$98,000	\$98,500	5%	\$76,000	\$76,500	5%
\$54,500	\$55,000	4%	\$98,500	\$99,000	4%	\$76,500	\$77,000	4%
\$55,000	\$55,500	3%	\$99,000	\$99,500	3%	\$77,000	\$77,500	3%
\$55,500	\$56,000	2%	\$99,500	\$100,000	2%	\$77,500	\$78,000	2%
\$56,000	\$56,500	1%	\$100,000	\$100,500	1%	\$78,000	\$78,500	1%

Source: General Statutes of the State of Connecticut

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

TABLE 77
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	T	T
Arizona	E	T	Nevada (no tax)		
Arkansas	E	T	New Hampshire	E	T
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 (1)	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	T	E (2)
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) Taxable for bonds acquired after 2002 if the other state or locality imposes an income-based tax on Utah bonds.

Source: Commerce Clearing House, Inc.

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

**TABLE 78
PERSONAL INCOME 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 (3)	2.0	1,000	5.0	6,001	Missouri (1)	1.5	1,000	6.0	9,001
Arizona (1)	2.59	20,000	4.54	300,001	Montana (1)	1.0	2,600	6.9	15,401
Arkansas (3)	1.0	3,899	7.0	32,600	Nebraska (1)	2.56	4,800	6.84	54,001
California (1)	1.25	14,248	9.55	93,533	New	(b)			
Colorado (2)	4.63	All			New Jersey (3)	1.4	20,000	8.97	500,001
Connecticut (1)	3.0	20,000	6.5	1,000,001	New Mexico (1)	1.7	8,000	4.9	24,001
Delaware (1)	2.2	5,000	6.95	60,001	New York (1)	4.0	16,000	8.97	500,001
Georgia (1)	1.0	1,000	6.0	10,001	N. Carolina (2)	6.0	21,250	7.75	100,001
Hawaii (1)	1.4	4,800	11.0	400,001	N. Dakota (2)	1.84	56,750	4.86	372,951
Idaho (1)	1.6	2,641	7.8	52,836	Ohio (1)	0.618	5,050	6.24	201,801
Illinois (1)	3.0	All			Oklahoma (1)	0.5	2,000	5.5	15,001
Indiana (1)	3.4	All			Oregon (2)	5.0	4,000	11.0	250,001
Iowa (1)	0.36	1,428	8.98	64,261	Pennsylvania	3.07	All		
Kansas (1)	3.5	30,000	6.45	60,001	Rhode Island	3.75	56,800	9.9	373,650
Kentucky (1)	2.0	3,000	6.0	75,001	S. Carolina (2)	3.0	5,480	7.0	13,701
Louisiana (1)	2.0	25,000	6.0	100,001	Tennessee	(b)			
Maine (1)	2.0	9,949	8.5	39,550	Utah (1)	5.0	All		
Maryland (1)	2.0	1,000	6.25	1,000,001	Vermont (2,d)	3.55	56,800	8.95	373,651
Massachusetts	5.3	All	(a)		Virginia (1)	2.0	3,000	5.75	17,001
Michigan (1)	4.35	All			W. Virginia (1)	3.0	10,000	6.5	60,001
Minnesota (2)	5.35	33,280	7.85	132,221	Wisconsin (1)	4.6	13,420	7.75	295,551
Mississippi (3)	3.0	5,000	5.0	10,001	Dist. of Col. (2)	4.0	10,000	8.5	40,001

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) - State's Individual Definition of Taxable Income

- (a) The rate is 12% for short-term capital gains and 5.3% for interests and dividends.
- (b) Income taxes are limited to interest and dividends: 5.0% in New Hampshire and 6.0% in Tennessee.
- (c) Rhode Island taxpayers may elect to pay a flat rate of 6.0%.
- (d) Brackets for Vermont not yet available but rates will range from 3.55% to 8.95%.

Source: Commerce Clearing House, Inc.

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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. Certain items are taxed at reduced rates. Hotel rooms are taxed at 12%.

The sales and use tax is an important source of revenue for the State of Connecticut. However, its significance has declined recently due to economic recession that created two-consecutive annual drops in collections in fiscal years 2008-09 and 2009-10. In fiscal 2009-10, sales and use taxes accounted for 18.1% of total revenue and 26.8% of total tax collections, compared to 21.1% and 28.2%, respectively, in fiscal 2008-09 and 21.8% and 28.6%, respectively, in fiscal 2007-08.

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 table on the following page shows sales tax collections as a percentage of personal income and the corresponding ranking of the states. Note that Connecticut's tax burden is less than 32 other states. The comparison is based on fiscal year 2009 data. From fiscal 1991 to fiscal 2009, Connecticut's sales tax collections as a percentage of personal income dropped from 3.15% with a rank of ninth to 1.67% with a rank of 33rd, and compared to the national average of 1.86%. 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 \$50, machinery, professional services, residential utilities and motor fuels. Table 80 shows the comparison for major sales tax exemptions.

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TABLE 79
SALES TAX COLLECTIONS AS A PERCENTAGE OF PERSONAL INCOME
Fiscal 2009

<u>State</u>	Tax Rate			<u>State</u>	Tax Rate		
	<u>(%)</u>	<u>%</u>	<u>Rank</u>		<u>(%)</u>	<u>%</u>	<u>Rank</u>
Hawaii	4.0*	4.51	1	Iowa	6.0*	1.94	24
Wyoming	4.0*	3.68	2	Wisconsin	5.0	1.93	25
Washington	6.5*	3.50	3	West Virginia	6.0	1.91	26
Mississippi	7.0	3.37	4	New Jersey	7.0	1.88	27
Arkansas	6.0*	2.95	5	Rhode Island	7.0	1.87	28
Tennessee	7.0*	2.93	6	California	8.25	1.82	29
New Mexico	5.125	2.83	7	Ohio	5.5*	1.77	30
Indiana	7.0	2.82	8	Louisiana	4.0	1.74	31
Florida	6.0*	2.64	9	Pennsylvania	6.0*	1.68	32
Nevada	6.85*	2.63	10	<u>Connecticut</u>	<u>6.0</u>	<u>1.67</u>	<u>33</u>
Michigan	6.0	2.59	11	Oklahoma	4.5*	1.62	34
Arizona	6.6*	2.56	12	Georgia	4.0*	1.57	35
Idaho	6.0	2.44	13	North Carolina	5.75*	1.52	36
South Dakota	4.0*	2.43	14	Maryland	6.0	1.40	37
North Dakota	5.0*	2.30	15	Missouri	4.225*	1.39	38
Texas	6.25*	2.18	16	Illinois	6.25*	1.37	39
Nebraska	5.5*	2.12	17	Vermont	6.0	1.32	40
Maine	5.0	2.11	18	Alabama	4.0*	1.31	41
Kentucky	6.0	2.06	19	New York	4.0*	1.21	42
Kansas	6.3*	2.00	20	Massachusetts	6.25	1.18	43
South Carolina	6.0*	1.97	21	Colorado	2.9*	1.00	44
Utah	4.7*	1.97	22	Virginia	4.0*	0.97	45
Minnesota	6.875*	1.96	23				
U.S. Average		1.86					

Notes:

- * Local tax rates are additional
- Tax rates are as of November 12, 2010
- 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.

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TABLE 80
MAJOR SALES TAX EXEMPTIONS BY STATE

<u>State</u>	<u>Food</u>	<u>Prescription Drugs</u>	<u>Motor Fuels</u>	<u>Clothes</u>	<u>Cigarette's</u>
Alabama	T	E	E	T	T
Arizona	E	E	E	T	T
Arkansas	T(1)	E	E	T	T
California	E	E	T	T	T
Colorado	E	E	E	T	T
Connecticut	E	E	E	E (2)	T
Florida	E	E	T	T	T
Georgia	E	E	T (1)	T	T
Hawaii	T	E	T	T	T
Idaho	T	E	E	T	T
Illinois	T (1)	T (1)	T(8)	T	T
Indiana	E	E	T	T	T
Iowa	E	E	E	T	T
Kansas	T (7)	E	E	T	T
Kentucky	E	E	E	T	T
Louisiana	E	E	E	T	T
Maine	E	E	E	T	T
Maryland	E	E	E	T	T
Massachusetts	E	E	E	E (3)	T
Michigan	E	E	T	T	T
Minnesota	E	E	E	E	T
Mississippi	T	E	E	T	T
Missouri	T (1)	E	E	T	T
Nebraska	E	E	E	T	T
Nevada	E	E	E	T	T
New Jersey	E	E	E	E	T
New Mexico	E	E	E	T	T
New York	E	E	T	T	T
North Carolina	E	E	E	T	T
North Dakota	E	E	E	T	T
Ohio	E	E	E	T	T
Oklahoma	T	E	E	T	T
Pennsylvania	E	E	E	E	T
Rhode Island	E	E	E	E	T
South Carolina	E	E	E	T	T
South Dakota	T	E	E	T	T
Tennessee	T (1)	E	E	T	T
Texas	E	E	E	T	T
Utah	T	E	E	T	T
Vermont	E	E	E	E (4)	T
Virginia	T (1)	E	E	T	T
Washington	E	E	E	T	T
West Virginia	T (1)	E	T	T	T
Wisconsin	E	E	E	T	T
<u>Wyoming</u>	<u>E</u>	<u>E</u>	<u>E</u>	<u>T</u>	<u>T</u>
Total Taxable	14	1	10	37	45

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

Taxed at a reduced rate. (2) Up to a sales price of \$50 per item. (3) Up to a sales price of \$175 per item. (4) Up to a sales price of \$110 per item (Effective 4/1/2012 in NY). (5) Downloaded "prewritten" computer software taxable. (6) Sales of software used to provide data processing services for others are exempt. (7) Refund available for disabled, elderly and low-income households. (8) Sales of majority blended ethanol fuel are exempt.

Source: Commerce Clearing House, Inc.

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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, and 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 2009-10, the Corporation Business Tax accounted for 3.8% of total revenue and 5.6% of total tax collections, while in fiscal 2008-09 they were 3.9% 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 7.5%. Public Act 09-3 of the June Special Session imposes a 10% surcharge for income years 2009, 2010, and 2011. The surcharge does not apply to companies with less than \$100 million in annual gross revenue or whose tax liability does not exceed the minimum tax of \$250. The surcharge is calculated prior to the application of any credits.

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 table on the following page provides a comparison of the assessed rates for the corporation business tax for the fifty states and the District of Columbia.

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**TABLE 81
CORPORATION TAX BY STATE**

State	Low Bracket		High Bracket		State	Low Bracket		High Bracket	
	Rate %	To Net	Rate %	From Net		Rate %	To Net	Rate %	From Net
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	6.97	All			Montana	6.75	All		
Arkansas	1.0	3,000	6.5	100,000	Nebraska	5.58	100,000	7.81	100,000
California (1)	8.84	All			New Hampshire	8.5	All		
Colorado	4.63	All			New Jersey (7)	6.5	50,000	9.0	100,000
Connecticut (2)	7.5	All			New Mexico	4.8	500,000	7.6	1.0M
Delaware	8.7	All			New York	7.1	All		
Florida (3)	5.5	All			N. Carolina	6.9	All		
Georgia	6.0	All			N. Dakota	2.1	25,000	6.4	50,000
Hawaii	4.4	25,000	6.4	100,000	Ohio (8)	0.26	All		
Idaho	7.6	All			Oklahoma	6.0	All		
Illinois (4)	4.8	All			Oregon	6.6	250,000	7.9	250,000
Indiana	8.5	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	50,000	6.0	100,000	Tennessee	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	6.0	10,000	8.5	25,000
Maryland	8.25	All			Virginia	6.0	All		
Massachusetts	8.75	All			West Virginia	8.5	All		
Michigan (6)	4.95	All			Wisconsin	7.9	All		
Minnesota	9.8	All			District of Col.	9.98	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: AZ \$50; CA \$800; CT \$250; ID \$20; MA \$456; MT \$50; NJ \$500; NY \$25; OR \$150; RI \$500; UT \$100; VT \$250; District of Columbia \$10

- (1) Tax rate on financial S-corporations is 3.5%, and the tax rate all other S-corporations is 1.5%. Banks and financial corporations (except financial S-corporations) are subject 10.84%. An alternative minimum tax imposed is 6.65%.
- (2) A 10% surcharge is imposed for Income Years 2009, 2010, and 2011 on companies with more than \$100 million in annual gross revenue.
- (3) An alternative minimum tax imposed 3.3%, an exemption of \$5,000 is allowed.
- (4) Additional personal property replacement tax is imposed at the rate of 2.5% of net income for corporations other than S-corporations. 1.5% for S corporations.
- (5) A surtax of 3.05% is imposed on income over \$50,000.
- (6) All taxpayers subject to a surcharge of 21.99% of tax liability before application of credits. Plus, 0.8% of modified gross receipts on receipts of \$350,000 or more.
- (7) A 4.0% surtax is imposed on the liability remaining after credits allowed for IY 2009.
- (8) The Commercial Activity Tax-based on gross receipts was instituted in 2005 at the 0.26% rate, Corporate Franchise Tax will be fully phased out in IY 2010.

Source: Commerce Clearing House, Inc., As of November 12, 2010.

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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: (1) passenger vehicles seating more than nine persons; (2) road tractors or tractor trucks; or (3) 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 25 cents per gallon. Effective July 1, 2010, the Special Fuels and Motor Carrier Taxes were reduced from 45.1 cents per gallon to 39.6 cents per gallon. The 1983 session of the General Assembly enacted a Special Transportation Fund for highway construction and maintenance and 1 cent 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.

The table on the following page shows the comparative rates for Motor Fuel Taxes for the 50 states.

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TABLE 82 MOTOR FUEL TAXES BY STATE

State	Sales			State	Sales		
	Excise Tax	Tax Rate %	Total Tax*		Excise Tax	Tax Rate %	Total Tax*
Alabama	16.0¢	-	16.0¢	Montana	27.0¢	-	27.0¢
Alaska	8.0	-	8.0	Nebraska	27.1	-	27.1
Arizona	18.0	-	18.0	Nevada	24.0	-	24.0
Arkansas	21.5	-	21.5	New Hampshire	18.0	-	18.0
California	0.4	8.3	51.8	New Jersey	10.5	-	10.5
Colorado	22.0	-	22.0	New Mexico	17.0	-	17.0
Connecticut (a)	25.0	-	25.0	New York	8.0	4.0	16.0
Delaware	23.0	-	23.0	North Carolina (e)	31.9	-	31.9
Florida	16.0	6.0	28.0	North Dakota	23.0	-	23.0
Georgia (b)	15.3	-	15.3	Ohio	28.0	-	28.0
Hawaii (c)	17.0	4.0	25.0	Oklahoma	16.0	-	16.0
Idaho	25.0	-	25.0	Oregon	24.0	-	24.0
Illinois	19.0	6.3	31.5	Pennsylvania (f)	31.2	-	31.2
Indiana (g)	18.0	7.0	29.8	Rhode Island	32.0	-	32.0
Iowa	21.0	-	21.0	South Carolina	16.0	-	16.0
Kansas	24.0	-	24.0	South Dakota	22.0	-	22.0
Kentucky (d)	24.2	-	24.2	Tennessee	20.0	-	20.0
Louisiana	20.0	-	20.0	Texas	20.0	-	20.0
Maine	29.5	-	29.5	Utah	24.5	-	24.5
Maryland	23.5	-	23.5	Vermont	19.0	-	19.0
Massachusetts	21.0	-	21.0	Virginia	17.5	-	17.5
Michigan	19.0	6.0	31.0	Washington	37.5	-	37.5
Minnesota	27.5	-	27.5	West Virginia (g)	20.5	6.0	32.5
Mississippi	18.0	-	18.0	Wisconsin	30.9	-	30.9
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 \$2.00 per gallon.

- (a) Plus a petroleum gross receipts tax of 7.0%
- (b) Includes a pre-paid sales tax converted to a cents per gallon rate of 7.8¢ in Georgia
- (c) County taxes between 8.8¢ and 16.5¢ per gallon are levied in addition to the state tax of 17¢ per gallon. An average of 12.7¢ was used in calculating the excise tax.
- (d) Rate is variable, adjusted quarterly.
- (e) Includes an additional tax based on the average wholesale price of motor fuel.
- (f) Rate includes oil company franchise tax (19.2¢), which is collected at the same time as liquid fuels tax (12¢).
- (g) Specified the total tax inclusive of the sales tax.

Source: Commerce Clearing House, Inc. Gasoline Rates effective October 1, 2010

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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 83
CIGARETTE TAXES BY STATE**

<u>State</u>	<u>Rate</u>	<u>State</u>	<u>Rate</u>
Alabama	\$0.43	Montana	\$1.70
Alaska	\$2.00	Nebraska	\$0.64
Arizona	\$2.00	Nevada	\$0.80
Arkansas	\$1.15	New Hampshire	\$1.78
California	\$0.87	New Jersey	\$2.70
Colorado	\$0.84	New Mexico	\$1.66
Connecticut	\$3.00	New York	\$4.35
Delaware	\$1.60	North Carolina	\$0.45
Florida (1)	\$0.34	North Dakota	\$0.44
Georgia	\$0.37	Ohio	\$1.25
Hawaii	\$3.00	Oklahoma	\$1.03
Idaho	\$0.57	Oregon	\$1.18
Illinois	\$0.98	Pennsylvania	\$1.60
Indiana	\$1.00	Rhode Island	\$3.46
Iowa	\$1.36	South Carolina	\$0.57
Kansas	\$0.79	South Dakota	\$1.53
Kentucky	\$0.60	Tennessee	\$0.62
Louisiana	\$0.36	Texas	\$1.41
Maine	\$2.00	Utah	\$1.70
Maryland	\$2.00	Vermont	\$2.24
Massachusetts	\$2.51	Virginia	\$0.30
Michigan	\$2.00	Washington	\$3.03
Minnesota	\$1.23	West Virginia	\$0.55
Mississippi	\$0.68	Wisconsin	\$2.52
Missouri	\$0.17	Wyoming	\$0.60

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

(1) Plus a \$1 surcharge per pack of 20 cigarettes.

Source: Commerce Clearing House, Inc.

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TABLE 84
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)	0.50-3.60	0.50-3.60	Montana (1)	0.75-2.75	0.75-2.75
Alaska (1)	0.75-6.00	0.75-6.00	Nebraska (1,4)	0.50-3.00	0.50-3.00
Arizona (1,3)	2.00-3.00	2.00-3.00	Nevada	3.50	3.50
Arkansas (1)	0.75-3.00	0.75-3.00	New Hampshire (7)	1.00-5.00	1.00-5.00
California (1)	0.50-5.00	0.50-5.00	New Jersey (1)	1.00-5.00	1.00-5.00
Colorado (1,2)	0.50-2.25	0.50-2.25	New Mexico	3.003-4.003	3.003-4.003
Connecticut	1.75-4.00	1.75-4.00	New York (1,7)	0.80-4.30	0.80-4.30
Delaware (1,3)	1.75-5.00	1.75-5.00	North Carolina (1)	0.74-5.00	0.74-5.00
Florida (1,4)	0.75-5.00	0.75-5.00	North Dakota (1,7)	1.75-2.00	1.75-2.00
Georgia (1,2,4)	2.25-3.25	2.25-3.25	Ohio (1,4,7)	1.00-5.00	1.00-5.00
Hawaii (1)	0.88-4.68	0.88-4.68	Oklahoma (4)	2.25-6.00	2.25-6.00
Idaho (1,2)	1.50	1.50	Oregon	(8)	(8)
Illinois (1,4)	4.00-5.00	4.00-5.00	Pennsylvania (1)	1.25-5.00	1.25-5.00
Indiana (1)	0.50-1.30	0.50-1.30	Rhode Island	2.00	2.00
Iowa	1.00-2.00	1.00-2.00	South Carolina (1)	0.75-4.50	0.75-4.50
Kansas (1,4)	2.00-6.00	2.00-6.00	South Dakota (1)	0.25-2.50	0.25-2.50
Kentucky (1,4,5)	2.00	2.00	Tennessee (1,2,7)	1.00-5.50	1.00-5.50
Louisiana (4)	(6)	(6)	Texas (1)	1.35-4.85	1.35-4.85
Maine (1)	1.00-2.55	1.00-2.55	Utah	0.45-4.30	0.45-4.30
Maryland	2.00-3.00	2.00-3.00	Vermont	2.00-3.00	2.00-3.00
Massachusetts (1,3)	1.00-2.00	1.00-2.00	Virginia (1)	0.75-2.25	0.75-2.25
Michigan	1.25-2.00	1.25-2.00	Washington (1)	0.95-2.00	0.95-2.00
Minnesota (1,4)	0.50-2.00	0.50-2.00	W. Virginia (1,4,7)	1.00-2.00	1.00-2.00
Mississippi (1)	1.00-4.00	1.00-4.00	Wisconsin (1)	0.375-3.50	0.375-3.00
Missouri (1)	1.00-2.00	1.00-2.00	Wyoming (1)	0.75-1.00	0.75-1.00

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, 0.25% in Delaware, and 14% of the tax imposed in Massachusetts.
- (4) Plus a fire marshal's tax not to exceed 1%, 0.313% in Oklahoma, 0.55% in West Virginia, 0.75% in Kentucky and Nebraska, 0.80% in Kansas, 1.25% in Louisiana, 1.4% in Ohio, 1.50% in Minnesota.
- (5) Plus a surcharge or \$1.50 per \$100 of premiums on Kentucky risks other than health & life.
- (6) Life and 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, \$185; over \$6,000, \$185 plus \$300 per \$10,000.
- (7) With minimum tax of \$200 in New Hampshire, North Dakota, & West Virginia, \$150 in Tennessee and \$250 in New York and Ohio.
- (8) After 2001, foreign and alien insurers are no longer subject to gross premium tax, but are subject to the corporate excise tax.

Source: Commerce Clearing House, Inc.

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TABLE 85
ALCOHOLIC BEVERAGE TAXES BY STATE
(Dollars Per Gallon)

State	Distilled Spirits	Wines 14% or Less	Wines 14% to 21%	Beer	State	Distilled Spirits	Wines 14% or Less	Wines 14% to 21%	Beer
Alabama (1,2)	58%	1.7	58%	.53	Montana (1,2)	16%	1.02	1.02	.14
Alaska	12.80	2.50	2.50	1.07	Nebraska	3.75	.95	.95	.31
Arizona	3.00	.84	.84	.16	Nevada	3.60	.70	1.30	.16
Arkansas	2.50	.75	.75	.23	New Hampshire (1)	.30	.30	.30	.30
California	3.30	.20	.20	.20	New Jersey	5.50	.88	.88	.12
Colorado	2.28	.32	.32	.08	New Mexico	6.06	1.70	5.68	.41
Connecticut	4.50	.60	.60	.20	New York	3.04	.30	.30	.11
Delaware	5.46	.97	.97	.16	N. Carolina (1,2)	25%	.79	.90	.53
Florida	9.53	2.25	3.00	.48	N. Dakota	2.50	.50	.60	.16
Georgia	4.54	1.51	2.54	.48	Ohio (1)	1.20	.30	.98	.18
Hawaii	5.98	1.38	1.38	.93	Oklahoma	5.57	.72	1.40	.40
Idaho (1,2)	2%	.45	.45	.15	Oregon (1)		.67	.77	.08
Illinois	4.50	.73	.73	.19	Pennsylvania (1,2)	18%	18%	18%	.08
Indiana	2.68	.47	.47	.12	Rhode Island	3.75	.60	.75	.10
Iowa (1)	1.75	1.75	1.75	.18	S. Carolina (3)	2.72	.90	.90	.77
Kansas	2.50	.30	.75	.18	S. Dakota	3.93	.93	1.45	.28
Kentucky	1.92	.50	.50	.08	Tennessee (4)	4.40	1.21	1.21	.14
Louisiana	2.50	.11	.23	.30	Texas	2.40	.20	.41	.19
Maine (1)	1.25	.60	.60	.30	Utah (1,2)	-	-	-	.41
Maryland	1.50	.40	.40	.09	Vermont (1,2)	25%	.55	25%	.27
Massachusetts	4.05	.55	.55	.10	Virginia (1,2,5)	20%	1.51	1.51	.26
Michigan (1,2)	9.9%	.51	.76	.20	Washington (1)	9.25	.87	1.72	.26
Minnesota	5.03	.30	.95	.15	W. Virginia (2,6)	5%	1.00	1.00	.18
Mississippi (1)	2.50	.35	.35	.43	Wisconsin (7)	3.25	.25	.45	.06
Missouri	2.00	.30	.30	.06	Wyoming (1)	.95	12%	12%	.02

- (1) Monopoly state, receives most or all of revenue through markup. Tax rates shown are in addition to any price markup.
- (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.

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 fiscal year period.

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**TABLE 86
GENERAL FUND REVENUES**

<u>TAXES (\$K)</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>
Personal Income	\$6,156,373	\$6,749,462	\$7,512,688	\$6,385,856	\$6,586,099
Sales and Use Corporation	3,401,966	3,496,110	3,582,317	3,318,752	3,203,988
Public Service Corporation	787,702	890,730	733,942	615,921	667,132
Insurance Companies	225,263	235,502	237,113	268,495	267,945
Inheritance & Estate	269,902	253,016	227,221	202,217	226,550
Cigarettes	196,258	179,922	170,618	238,337	177,601
Oil Companies	272,230	269,525	335,197	317,775	387,435
Real Estate Conveyance	212,091	144,404	205,483	104,413	123,018
Alcoholic Beverages	207,458	211,222	158,544	90,802	100,267
Admissions, Dues, Cabaret	45,998	46,006	47,077	47,064	48,196
Miscellaneous	35,367	33,439	37,277	36,040	34,379
	<u>142,180</u>	<u>144,517</u>	<u>139,980</u>	<u>143,305</u>	<u>141,892</u>
Total - Taxes	11,952,788	12,653,855	13,387,458	11,768,977	11,964,502
Less Refunds of Taxes	(730,850)	(746,539)	(852,184)	(1,052,286)	(1,061,433)
Less Refunds of R&D Credit	(6,694)	(5,982)	(11,362)	(8,428)	(8,937)
Total - Taxes Less Refunds	<u>11,215,244</u>	<u>11,901,334</u>	<u>12,523,911</u>	<u>10,708,263</u>	<u>10,894,132</u>
<u>OTHER REVENUE</u>					
Transfer-Special Revenue	289,946	283,808	287,604	287,195	289,314
Indian Gaming Payments	427,527	430,476	411,410	377,805	384,248
Licenses, Permits & Fees	157,400	151,738	171,739	162,474	257,569
Sales of Commodities & Services	34,612	35,528	30,066	32,558	33,678
Investment Income	53,702	63,610	63,943	18,806	4,062
Rents, Fines & Escheats	91,456	51,782	59,922	64,018	252,792
Miscellaneous	176,596	188,324	140,089	163,023	142,910
Less Refunds of Payments	(438)	(513)	(501)	(662)	(1,189)
Total - Other Revenue	<u>1,230,801</u>	<u>1,224,753</u>	<u>1,164,272</u>	<u>1,105,217</u>	<u>1,363,384</u>
<u>OTHER SOURCES</u>					
Federal Grants	2,549,577	2,602,774	2,701,603	3,619,490	4,066,314
Transfer from Tobacco Fund	89,400	100,000	115,300	115,800	102,898
Transfer From/(To) Other Funds	(86,300)	(45,300)	(102,300)	152,031	1,261,800
Total - Other Sources	<u>2,552,677</u>	<u>2,657,474</u>	<u>2,714,603</u>	<u>3,887,321</u>	<u>5,431,012</u>
GRAND TOTAL	<u>\$14,998,721</u>	<u>\$15,783,561</u>	<u>\$16,402,786</u>	<u>\$15,700,801</u>	<u>\$17,688,529</u>
<u>TAXES</u>					
	<u>% of Total</u>				
Personal Income	41.05%	42.76%	45.80%	40.67%	37.23%
Sales and Use Corporation	22.68	22.15	21.84	21.14	18.11
Public Service Corporation	5.25	5.64	4.47	3.92	3.77
Insurance Companies	1.50	1.49	1.45	1.71	1.51
Inheritance & Estate	1.80	1.60	1.39	1.29	1.28
Cigarettes	1.31	1.14	1.04	1.52	0.96
Oil Companies	1.82	1.71	2.04	2.02	2.19
Real Estate Conveyance	1.41	0.91	1.25	0.66	0.70
Alcoholic Beverages	1.38	1.34	0.97	0.58	0.57
Admissions, Dues, Cabaret	0.31	0.29	0.29	0.30	0.27
Miscellaneous	0.24	0.21	0.23	0.23	0.19
Total - Taxes	<u>79.69</u>	<u>80.17</u>	<u>81.62</u>	<u>74.95</u>	<u>67.64</u>
Less Refunds of Taxes	(4.87)	(4.73)	(5.20)	(6.70)	(6.00)
Less Refunds of R&D Credit	(0.04)	(0.04)	(0.07)	(0.05)	(0.05)
Total - Taxes Less Refunds	<u>74.78</u>	<u>75.40</u>	<u>76.35</u>	<u>68.20</u>	<u>61.59</u>
<u>OTHER REVENUE</u>					
Transfer-Special Revenue	1.93	1.80	1.75	1.83	1.64
Indian Gaming Payments	2.85	2.73	2.51	2.40	2.17
Licenses, Permits & Fees	1.05	0.96	1.05	1.03	1.46
Sales of Commodities & Services	0.23	0.23	0.18	0.21	0.19
Investment Income	0.36	0.53	0.39	0.12	0.02
Rents, Fines & Escheats	0.61	0.33	0.37	0.41	1.43
Miscellaneous	1.18	1.19	0.85	1.04	0.81
Less Refunds of Payments	-	-	-	-	(0.01)
Total - Other Revenue	<u>8.20</u>	<u>7.76</u>	<u>7.10</u>	<u>7.04</u>	<u>7.71</u>
<u>OTHER SOURCES</u>					
Federal Grants	17.00	16.49	16.47	23.05	22.99
Transfer from Tobacco Fund	0.60	0.63	0.70	0.74	0.58
Transfer From/(To) Other Funds	(0.58)	(0.29)	(0.62)	0.97	7.13
Total - Other Sources	<u>17.02</u>	<u>16.84</u>	<u>16.55</u>	<u>24.76</u>	<u>30.70</u>
GRAND TOTAL	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

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TABLE 87 SPECIAL TRANSPORTATION FUND REVENUES

<u>TAXES (\$K)</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>
Motor Fuels	\$480,868	\$478,250	\$495,123	\$495,025	\$503,635
Oil Companies	43,500	141,000	127,800	141,900	141,900
DMV Sales	68,419	67,889	64,863	57,134	67,784
Less Refunds of Taxes	<u>(8,853)</u>	<u>(7,916)</u>	<u>(6,999)</u>	<u>(6,085)</u>	<u>(7,315)</u>
Total - Taxes Less Refunds	583,934	679,223	680,787	687,974	706,004
<u>OTHER REVENUE</u>					
Motor Vehicle Receipts	227,261	224,678	225,524	220,780	220,703
Licenses, Permits & Fees	160,442	170,460	153,762	142,431	135,004
Interest Income	40,125	45,999	36,555	15,583	6,681
Federal Grants	-	-	-	-	3,002
Transfer from Other Funds	-	8,000	16,700	9,400	71,200
Transfer to Other Funds	(4,600)	(7,000)	(9,500)	(15,992)	(6,500)
Transfer to TSB	(25,300)	(20,300)	(20,800)	(15,300)	(15,300)
Less Refunds of Payments	<u>(2,666)</u>	<u>(2,716)</u>	<u>(2,719)</u>	<u>(2,772)</u>	<u>(2,906)</u>
Total - Other Revenue	395,262	419,121	399,517	344,730	411,884
GRAND TOTAL	\$979,196	\$1,098,344	\$1,080,304	\$1,042,104	\$1,117,888
<u>TAXES</u>					
	<u>% of Total</u>				
Motor Fuels	49.11%	43.54%	45.83%	47.93%	45.05%
Oil Companies	4.44	12.84	11.83	13.74	12.69
DMV Sales	6.99	6.18	6.00	5.53	6.06
Less Refunds of Taxes	<u>(0.90)</u>	<u>(0.72)</u>	<u>(0.65)</u>	<u>(0.59)</u>	<u>(0.65)</u>
Total - Taxes Less Refunds	59.63	61.84	63.02	66.62	63.15
<u>OTHER REVENUE</u>					
Motor Vehicle Receipts	23.21	20.46	20.88	21.38	19.74
Licenses, Permits & Fees	16.39	15.52	14.23	13.79	12.08
Interest Income	4.10	4.19	3.38	1.51	0.60
Federal Grants	-	-	-	-	0.27
Transfer from Other Funds	-	0.73	1.55	-	6.37
Transfer to Other Funds	(0.47)	(0.64)	(0.88)	(1.55)	(0.58)
Transfer to TSB	(2.58)	(1.85)	(1.93)	(1.48)	(1.37)
Less Refunds of Payments	<u>(0.27)</u>	<u>(0.25)</u>	<u>(0.25)</u>	<u>(0.27)</u>	<u>(0.26)</u>
Total - Other Revenue	40.37	38.16	36.98	33.38	36.85
GRAND TOTAL	100.00%	100.00%	100.00%	100.00%	100.00%

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ECONOMIC ASSUMPTIONS OF THE GOVERNOR'S BUDGET

The Foreign Sector

As the world's economy continues to become more globalized, the U.S. economy is impacted by the rest of the world through increasingly integrated flows of trade, finance, technology diffusion, information networking, and cross-cultural exchanges. During the past two decades or so, total U.S. exports in both goods and services have increased much faster than the growth in the GDP. Measured in 2005 dollars, real exports have increased from \$600.2 billion in 1990 to \$1,490.7 billion in 2009, an increase of 148.4% versus only a 60.3% 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 more than two times as fast as the growth in domestic economic activity. U.S. exports are highly related to the prevailing economic condition of our major partners, generally growing faster during their recovery periods and slower during recessionary periods. As globalization continues, cooperation on trade treaties and coordination of financial and economic systems between countries or regions will help promote mutual trade and GDP growth as well as economic and price stability.

World GDP growth declined in 2009 as the financial and credit crises, slower international trade and capital flows spread to developing countries. As the world economy declined, so did U.S. exports of goods and services. U.S. total real exports as measured in 2005 dollars in 2009 were \$1,490.7 billion, declining 9.5% from 2008. Connecticut's total exports also declined in 2009, down 8.4% in nominal terms to \$14.0 billion from \$15.3 billion in 2008. U.S. exports will increase as the global economy recovers. U.S. real exports are anticipated to grow three times faster than the overall U.S. economy for the forecast period from 2011 through 2013, expanding 12.6% in 2011, 11.9% in 2012, and 8.6% in 2013 versus a projected 4.0%, 3.7%, and 3.1%, respectively, for real U.S. GDP. Like the nation, Connecticut's exports also hinge upon our trade partners' economic conditions. When forecasting the U.S. and Connecticut economies, the worldwide economic condition must be taken into consideration. The weighted export growth index can be used as a reference to measure worldwide economic conditions and to predict Connecticut's export potential. Connecticut's export growth index is constructed by weighing the state's share of exports to each trade partner multiplied by the projected GDP growth for that partner.

The following table displays actual real growth in GDP 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 India, and the overall world economy. Negative economic growth in 2009 in our major trade partners forced Connecticut's weighted growth index to decline by 1.9%. As the world economy improves and global financial conditions become more favorable, the world economy is projected to grow by 3.0% in 2011, 4.4% in 2012, and 3.9% in 2013. Connecticut's export index is anticipated to rebound with growth of 3.2% in 2011, 4.4% in both 2012 and 2013 after an estimated 4.0% expansion in 2010. Collectively, the G-7 nations, Mexico as well as the countries in the Pacific Basin area and India account for 69.4% of Connecticut's total exports in 2009, down from 74.7% in 2005. This reflects that, while relying less on the G-7 countries and Mexico, Connecticut also has been diversifying its exports into the Pacific Basin area and other regions such as Eastern Europe and South America.

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TABLE 88
ECONOMIC GROWTH OF MAJOR TRADING PARTNERS
(GNP/GDP % Growth)

Calendar Year	U.S.	Canada	Japan	Ger- many	U.K.	France	Italy	Mexico	Pacific Basin (a)	World (b)	CT Export
											Weighted Growth(c)
2002	1.8	2.9	0.3	0.0	2.1	1.1	0.3	0.8	6.2	2.0	2.4
2003	2.5	1.9	1.5	(0.2)	2.8	1.1	0.2	1.4	6.5	2.5	2.4
2004	3.6	3.1	2.7	0.7	3.0	2.3	1.4	4.1	7.6	3.8	3.7
2005	3.1	3.0	1.9	0.9	2.2	2.0	0.8	3.2	7.4	3.3	3.2
2006	2.7	2.8	2.0	3.6	2.8	2.4	2.1	4.9	8.4	3.8	4.2
2007	1.9	2.2	2.3	2.8	2.7	2.3	1.4	3.3	8.9	3.7	4.1
2008	0.0	0.5	(1.2)	0.7	(0.1)	0.1	(1.3)	1.5	6.0	1.3	1.7
2009	(2.6)	(2.5)	(5.2)	(4.7)	(5.0)	(2.6)	(5.1)	(6.5)	4.7	(2.3)	(1.9)
2010 (E)	2.9	3.1	3.0	3.5	1.3	1.3	1.1	4.7	8.3	3.5	4.0
2011 (P)	3.9	2.6	1.3	1.3	0.9	0.9	0.3	3.4	7.4	3.0	3.2
2012 (P)	4.0	3.5	1.6	2.0	2.5	2.1	0.7	4.6	8.9	4.4	4.4
2013 (P)	3.7	2.5	0.9	2.9	2.3	2.0	1.2	3.5	7.9	3.9	4.4

<u>% of CT's Exports *</u>											<u>Total</u>
2005		17.3	4.5	8.6	7.2	16.5	1.5	5.8	13.3		74.7
2006		15.8	5.7	9.9	7.0	9.9	1.3	5.8	18.9		74.3
2007		13.6	4.5	10.5	6.2	10.2	1.0	5.7	18.9		70.6
2008		12.0	4.4	9.5	5.7	11.3	1.0	6.8	17.3		68.0
2009		10.3	3.5	9.3	4.6	16.0	0.8	5.4	19.5		69.4

* For 2010 to 2013, assumes the same percentage as in 2009.

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

Source: Moody's Economy.com & U.S. Dept. of Commerce & Univ. of Massachusetts (MISER)

Despite a promising outlook for trade in 2011 through 2013, actual economic growth and trade performance rely more upon a smooth and orderly world financial market as well as economic and social conditions. Numerous risk factors may profoundly affect the world economy and hamper Connecticut exports, affecting the outcome in either direction.

Although the world economy should continue to recover, growth will remain uneven among regions and between industrialized and emerging countries. The Asian area is expected to grow the fastest, followed by Latin America, North America, and Europe, which is being dragged down by the sovereign debt crisis, high budget deficits, and high unemployment rates. The sovereign debt crisis that has hit countries in Western Europe may continue if efforts to

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orchestrate a rescue are unsuccessful. The financial health of regional European banks in particular may disturb the still weak world financial landscape. The intertwined linkages between bank bailouts and government debts are raising concerns. In addition these same countries are confronting huge budget deficits and many have previously employed stimulative fiscal measures, but now have replaced them with austerity measures. This uneven economic growth may hinder progress in world economic expansion. Capital out-flows to the already inflationary emerging market countries from the heavily indebted industrialized countries may continue. Huge funding needs by the industrialized economies may lead to higher interest rates and negatively affect economic growth. Japan's national debt has been downgraded as its budget deficits are expected to grow and its financial indicators are projected to be less stable. About 60% of the 43 countries compiled by *The Economist* had budget deficits greater than a negative 3% of their GDP in 2010, with the industrialized countries being much worse than that level (e.g., U.K., -10.1%; Spain, -9.6%; U.S., -8.9%; France, -7.8%; and Japan, -7.4%, with the Euro area at -6.2 %). Saddled with heavy household debts and unemployment rates as high as 10% (Spain at 20%), consumer confidence in developed countries is still weak, albeit improving. Stagnant consumption due to a tempering in government spending may halt world economic expansion.

After a brisk expansion, the economies of major emerging market countries have slowed to a more sustainable pace as global trade softened. However, these countries are being confronted with higher-than-desirable inflation and concerns are mounting about the re-emergence of overheating economies. Countries such as China, India and Brazil have either increased key interest rates or tightened their credit markets by raising reserve requirements and imposing restrictions on bank lending in order to curb inflation. Stricter monetary policy may be applied in these countries if inflation persists, potentially slowing the worldwide economy and negatively affect U.S. exports. As world economic gravity continues to shift to the East, especially to China and India, the health of their economic and financial fundamentals becomes increasingly vital to our exports and economy. China is the world's second largest economy when measured based on purchasing power parity (PPP) and imported 6.6% of U.S. exports in 2009 (5.4% in 2008) and ranked third among our trading partners next to Canada and Mexico. China is also one of America's biggest creditors. The real estate market in China is also of concern as its ratio of total value of housing relative to its GDP has reached 3.5, about twice that of the U.S. during our most recent housing market bubble. An over-heating housing market may shake China's banking industry and financial market, which could prove disastrous to itself and the rest of world if its fiscal or monetary policy is not modified in a swift and timely manner.

An unexpected geopolitical or natural disturbance, either domestically or elsewhere, has the potential to alter the international economic landscape, sending the world economy into a tailspin. The spreading unrest in North Africa including Egypt, for example, may disrupt the normal flow of oil and food, creating unstable energy and commodity prices. Food related riots have broken out in about dozen countries recently. Unrest in other politically unstable countries with similar economic and social conditions could possibly spread throughout the Middle East. With U.S. domestic oil production less than 50% of total U.S. demand and with the expansion of just-in-time inventory strategies, the stability of world oil prices will remain vital to the U.S. economy. Significant and abrupt increases in oil prices or cuts to new productivity enhancing capital investments can create inflationary pressure and lead to an erosion in consumers' purchasing power, thereby contributing to a possible inflationary setback to the economy.

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The United States Economy

The table below shows the December 2010 forecasts for fiscal 2011-12 and 2012-13. The U.S. economy is projected to expand at a rate better than 3%, the natural long-term trend growth rate, in GDP with continued improvement in the unemployment rate. Easy monetary policy and a stimulative fiscal policy will boost real GDP growth in fiscal 2011-12 to 4.2%, but slow modestly to 3.8% in fiscal 2012-13 as these accommodative policies begin to wind down. New vehicle sales are projected to continue their upward trend after passing a recent low in fiscal 2008-09. The housing market is expected to begin expanding in fiscal 2010-11 after sinking for four consecutive years from its peak in fiscal 2005-06. Inflation is expected to remain below 2% for fiscal 2011-12, but pick up in fiscal 2012-13 as an improving economy boosts personal income and investment, pulling aggregate demand and pushing materials prices higher. Health care expenses are expected to register high rates of inflation.

<u>December 2010 Fiscal Year</u>	<u>Actual 2009-10</u>	<u>Estimate 2010-11</u>	<u>Forecast 2011-12</u>	<u>Forecast 2012-13</u>
Gross Domestic Product	1.2%	4.3%	5.6%	6.5%
Real Gross Domestic Product	0.7%	3.3%	4.2%	3.8%
G.D.P. Deflator	0.5%	0.9%	1.2%	2.6%
Consumer Price Index	1.0%	1.2%	1.9%	3.0%
Unemployment Rate	9.7%	9.7%	8.8%	7.5%
Housing Starts (Million)	0.59	0.66	1.15	1.62
New Vehicle Sales (Million)	11.17	12.34	13.85	15.62

The recent economic downturn, which started in December 2007 and ended in June 2009 (as identified by the National Bureau of Economic Research) lasted for 18 months, about 7 months longer than the post-World War II average. Past experience had it that, in general, faster recovery rates followed deeper recessions; but, that is not the case for this past recession. Rather than being brought about by business over-investment or the Federal Reserve's aggressiveness in interest rate policy, this past recession was brought about by the crippled housing market, the shattered financial system, and a rapid contraction in credit, creating far-reaching and wide-ranging consequences.

The anemic improvement in employment, which is also reflected in a stubbornly high unemployment rate, is a result of heavy household debt, fiscally challenged state and local governments, and businesses' hesitancy to hire due to strong productivity gains, world competition, and uncertainty in federal fiscal policy. The impact of the housing market crisis has been enormous, lingering, and profound. Financial turmoil has severely constrained the flow of credit, resulting in the curtailment of economic activity. The overhang of inventory due to foreclosed homes and negative equity positions of many home-owners has created a negative wealth effect on spending and will continue to be a drag on the recovery of the economy. Labor force mobility has typically contributed positively to the dynamism of the American economy. However, trapped by the sluggish housing market and saddled with its negative equity, labor mobility has been infringed upon and will remain slack until housing activity rebounds. Deficit spending is not an option for cash-strapped state governments as all states, except Vermont, are required to balance their budgets. State budget shortfalls, after reaching \$123 billion in fiscal 2010, are estimated at \$101 billion in fiscal 2011 and to worsen to \$134 billion by fiscal 2012, prior

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to any legislative action, according to Center on Budget and Policy Priorities. The financial condition of local governments will be impacted as aid from federal and state governments are deeply cut while growth in their own revenue base remains sluggish. Employment at the state and local government levels are estimated to decline by 40,000 jobs by first quarter of fiscal 2012 compared to its peak in the third quarter of 2008. At the federal level, a two-year pay freeze for employees and the elimination of 200,000 workers were recommended by President's bi-partisan 18-member Deficit Commission. The U.S. deficit is estimated to reach \$1.5 trillion in 2011, up from \$1.2 trillion 2010.

Inflation is expected to accelerate in the second year of the forecast period, reaching a rate of 3% as the recovery in the housing and labor markets proceed ahead. The former deflationary pressures on housing and lower rates of inflation in health care, which had depressed overall inflation during the recession, will fade away. Demand for health care will increase as employment improves. Shelter and health care expenses account for 32% and 6%, respectively, of the consumer price index. The price of crude oil is projected to trend higher as strong demand from the emerging market economies continues along with an improvement in the economies of the OECD. The supply of crude oil should also increase from OPEC's existing capacity and from non-OPEC countries, mainly Brazil. U.S. gas supplies should expand as reserves from recoverable shale gas rise. Prices for electricity and natural gas are expected to be in line with the over-all inflation rate.

Credit availability from investment banks and financial entities should expand as loan quality and profits improve. Consumer spending will recover, tempered by the resources devoted to the re-construction of consumer balance sheets either by increasing savings or paying down debt. In late 2010, the Federal Reserve announced it will continue with its purchases of longer-dated government securities (a program referred to as quantitative easing totaling \$660 billion). Moreover, Congress and the President agreed to a payroll tax cut for 2011, maintain the Bush tax cuts for two more years, and extending unemployment insurance. These should boost consumer spending and GDP growth in 2012. Consumption of durable goods is expected to fare better than non-durables as the economy and the flow of credit continues to improve with interest rates still at favorably low levels. As the economy regains traction and consumer confidence is gradually rebuilt, spending on vehicles and housing should rise. The American motor vehicle industry will continue to recover after the bankruptcy of both General Motors and Chrysler.

Business fixed investment including software and equipment, inventory, and construction is expected to increase as the economy resumes its growth. Net capital investment has been negative as equipment spending was less than the amount amortized for depreciation, creating pent-up demand for capital investment. Profits are expected to rise after years of cost control, low interest rates, supportive federal policies and continued economic recovery. Replenishing depleted inventory levels, which started in 2010, to meet increasing demand will continue as the economy improves. Rebuilding of inventory is typically an engine of economic growth as increases in employment will raise income and in turn support the consumption of goods and services.

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Forecast Caveats

The projection of a faster than trend-line rate of growth in real output in fiscal 2011-12 and a relatively slower one in fiscal 2012-13 with subdued inflation assumes that federal policy will be effective, along with continued improvement in the financial and credit markets, domestically and globally. The Federal government's massive efforts and the Federal Reserve System's zero interest rate policy (ZIRP) with a smooth flow of capital should continue to help shore up the troubled housing market and boost consumer, business, and investor confidence. Therefore, the economy should continue on its growth path. However, an unexpected slowdown in consumer spending would exacerbate a fragile economic recovery. Any decline in the stock and housing markets will destroy any remnants of the "wealth effect". The slumping housing market has brought a hefty loss in home values since its peak. A quick turnaround in this market is still unlikely. Growth in consumption could be further curbed as consumers become more conscientious about boosting their inadequate level of savings, thereby affecting consumer behavior which impacts two-thirds of the national economy. A continued decline in the value of the dollar combined with increasing world commodity prices could further exacerbate already rising inflationary pressures thereby affecting consumption as real disposable income declines. The large deficits at the federal, state and local government levels could either cause interest rate to rise and/or reduce aggregate demand, slowing the economic expansion.

The plan to forestall a sovereign debt crisis in Europe, if not successful, may rock world financial and equity markets and potentially spread to the U.S., damaging domestic businesses and consumption. The emerging market countries, such as China and India, are both big trade partners and creditors of the U.S. Should they be overly aggressive in attempting to contain inflation, or if they fail to act sufficiently to correct the domestic imbalances developing in their economies, they could cause an unexpected slow-down in the worldwide economy and negatively affect U.S. exports.

Energy prices, always the wildcard, will continue to exert significant influence over the economy. Any geopolitical tension, speculative disorder, or other unexpected event could drive the price higher, sending the economy into a tailspin. There are also a myriad of other factors that may affect domestic growth and inflation projections, including an unexpected economic or financial shock in a major country or region, the unfavorable outcome of any regional conflict, unstable foreign geopolitical conditions, and even an unexpected natural disaster. Any major disturbance could steer the forecast in either direction.

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The Connecticut Economy (History)

A comparison of the original forecasts for Connecticut's personal income, nonagricultural employment and unemployment rates with actual figures for fiscal 2007-08 through 2009-10 and the current forecast for fiscal 2010-11 is presented in the following table.

TABLE 89
HISTORICAL COMPARISON OF CONNECTICUT ECONOMIC INDICATORS

<u>Fiscal Year</u>		<u>Personal Income</u>	<u>Nonagricultural Employment</u>	<u>Unemployment Rate</u>
2007-08	12/06 Forecast	\$191.2 Billion	1,692.1 Thousand	4.4%
	Actual	\$199.8 Billion	1,705.9 Thousand	4.9%
	Difference	\$8.6 Billion	13.8 Thousand	0.5%
2008-09	12/07 Forecast	\$199.2 Billion	1,708.5 Thousand	4.8%
	Actual	\$196.8 Billion	1,665.2 Thousand	7.0%
	Difference	(\$2.4) Billion	(43.3) Thousand	2.2%
2009-10	12/08 Forecast	\$201.3 Billion	1,634.1 Thousand	8.0%
	Actual	\$195.5 Billion	1,615.0 Thousand	8.8%
	Difference	(\$5.8) Billion	(19.1) Thousand	0.8%
2010-11	12/09 Forecast	\$198.9 Billion	1,617.6 Thousand	9.3%
	Latest Forecast	\$203.0 Billion	1,622.0 Thousand	9.1%
	Difference	\$4.1 Billion	4.4 Thousand	(0.2)%

After employment bottomed out in September of 2003 in Connecticut, the nation's economic engine resumed its positive growth, and Connecticut's growth also resumed. Employment, per-capita gross state product, per capita personal income, and labor productivity all saw healthy growth for the next several years, and the unemployment rate remained below the national rate. Approximately four years ago, however, early signs of softness began to appear, as we entered into what has been described as The Great Recession, linked to national issues of sub-prime loans, credit tightening and dramatic job losses. The number employed in Connecticut had finally reached the last pre-recession peak of July, 2000, in June of 2007, and the unemployment rate reached a low in March of 2006, when the initial rumblings of economic problems began to emerge. By December of 2009 Connecticut had lost 103,400 jobs and the unemployment rate continued rising until it peaked at 9.2% in March of 2010. As a final indication of the severity of the situation, the average duration of unemployment in the nation hit 36.9 weeks in January of 2011, the longest it has been since records have been kept, starting in January of 1948.

The following table compares nonagricultural employment and its two major components for the U.S. and Connecticut: first, during the recession of the early 2000s, showing the peak at the beginning of the recession and the most current peak after coming out of that recession and, second, the most current situation, since the last peak, in December of 2007 for the nation and in March of 2008 for Connecticut, as the state entered the most recent recession.

Economic Report of the Governor

In the thirty-three months since employment peaked in March of 2008, the state has lost more than 98,000 jobs, or 5.7% of the total number of jobs existing at the peak. At the lowest level of employment, in December of 2009, the state had lost a total of approximately 103,400 jobs, or 6.0%. In comparison, at the low point of the last recession, the state lost a total of 61,200 jobs, or 3.6% of the July, 2000, peak. Moreover, the pace of job recovery has been quite slow. Since bottoming out in December of 2009, the state has only added 5,300 jobs over the past twelve months. Also, Connecticut has, so far, lost a greater percentage of its total peak workforce than the nation, which has lost 5.2%, even though the national workforce level peaked three months before the state.

TABLE 90
UNITED STATES & CONNECTICUT CHANGE IN EMPLOYMENT
(In Thousands, Seasonally Adjusted)

	United States				Connecticut			
	<u>2/01</u>	<u>12/07</u>	<u>Change</u>	<u>% Chg.</u>	<u>7/00</u>	<u>3/08</u>	<u>Change</u>	<u>% Chg.</u>
Mfg. Empl.	17,029	13,726	(3,303)	(19.4%)	237	188	(49)	(20.7%)
NonMfg. Empl.	<u>115,501</u>	<u>124,225</u>	<u>8,724</u>	7.6%	<u>1,464</u>	<u>1,524</u>	<u>57</u>	3.9%
NonAgr. Empl.	132,530	137,951	5,421	4.1%	1,701	1,712	8	0.5%
	Recovery achieved February of 2005				Recovery achieved August of 2007			
Most Recent Recession								
	United States				Connecticut			
	<u>12/07</u>	<u>12/10</u>	<u>Change</u>	<u>% Chg.</u>	<u>3/08</u>	<u>12/10</u>	<u>Change</u>	<u>% Chg.</u>
Mfg. Empl.	13,726	11,670	(2,056)	(15.0%)	188	167	(21)	(11.2%)
NonMfg. Empl.	<u>124,225</u>	<u>119,042</u>	<u>(5,183)</u>	(4.2%)	<u>1,524</u>	<u>1,446</u>	<u>(78)</u>	(5.1%)
NonAgr. Empl.	137,951	130,712	(7,239)	(5.2%)	1,712	1,613	(99)	(5.7%)

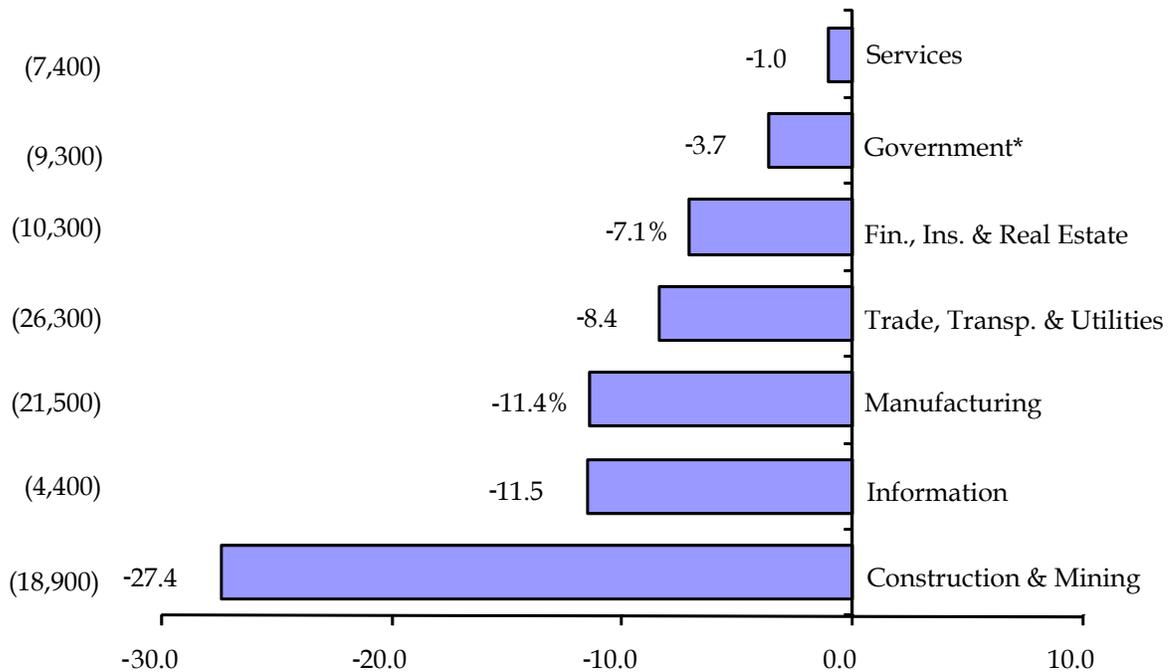
The table and chart below provide a breakdown of the employment totals and changes, in thousands of jobs, for each sector and the corresponding impact on the unemployment rate in state labor market areas (LMA), since employment last peaked in March of 2008.

Connecticut Employment (Seasonally Adjusted)				Selected LMA Unemployment Rates (Not Seasonally Adjusted)			
<u>Sectors</u>	<u>Mar. '08</u>	<u>Dec. '10</u>	<u>Chg.</u>	<u>LMA</u>	<u>Mar. '08</u>	<u>Dec. '10</u>	<u>Chg.</u>
Trade, Transp. & Utilities	313.3	287.0	(26.3)	Waterbury	7.3%	11.6%	4.3%
Manufacturing	188.4	166.9	(21.5)	Brdgprt/Stmfrd	4.7%	8.1%	3.4%
Construction & Mining	69.0	50.1	(18.9)	Hartford	5.4%	8.7%	3.3%
Fin., Ins. & Real Estate	144.7	134.4	(10.3)	Danielson	6.3%	9.7%	3.4%
Information	38.2	33.8	(4.4)	Torrington	5.5%	8.7%	3.2%
Services	705.4	698.0	(7.4)	New London	5.0%	8.4%	3.4%
Government *	<u>252.5</u>	<u>243.2</u>	<u>(9.3)</u>	New Haven	5.4%	9.0%	3.6%
Total	1,711.5	1,613.4	(98.1)	Danbury	4.2%	7.0%	2.8%
				Enfield	5.2%	8.3%	3.1%

* Includes Native American tribal government employment, including casino employment, and federal, state and local government.

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CONNECTICUT EMPLOYMENT Percent Change In Employment By Sector And Jobs Gained/(Lost) (From March 2008 to December 2010)



*Government includes employees of Sovereign Tribal Nations in casinos and federal, state and local governments.

Personal income in Connecticut fell by 0.7% in fiscal 2010, while the rate for the nation was growth of 0.3%. After adjusting for inflation, Connecticut's real per capita personal income fell by 1.7% in fiscal year 2010, which followed a drop of 2.9% in 2009. However, Connecticut per capita personal income still remains well above the U.S. average by 39.0%.

Mortgage rates have remained relatively low from an historical perspective. The Federal Reserve reduced rates seven times in 2008, by a total of 400 to 425 basis points, to an all-time low. The number of housing permits in calendar year 2009 was down 27.5% compared to the year before, with each of the counties except New London County experiencing declines between 10% and 45%. The number of housing starts in fiscal year 2010 was up 1.7% over fiscal 2009, following a drop of 41.9% in fiscal 2009 and 25.6% in fiscal 2008. The median price of homes in the state fell 11.3% in calendar year 2009, following a drop of 9.0% in calendar year 2008, which was the first decrease in recent memory. Happily, for the third year in a row, the affordability of homes for Connecticut residents improved. Because housing construction and prices did not reach quite the frenzied levels of other parts of the country earlier in the 2000s, the impact of the sub-prime mortgage issue in Connecticut has been less severe than in most other states, but the full impact of lower prices and reduced sales is being felt and will continue for some time.

Economic Report of the Governor

Finally, Connecticut's personal income tax revenues, after falling 15.0% the previous year, grew 3.1% in fiscal 2010, as estimated and final payments, which include capital gains, grew 3.5% compared to last year, after falling 28.9% in 2009. When combined with changes in all the other taxes, total tax receipts grew year-over year by 1.71% after dropping 14.5% in the prior year. Total General Fund revenues fell 4.4% in fiscal year 2009 but increased by 12.7% in 2010.

The Connecticut Economy (Forecast)

Any attempt to forecast the economic outlook for the state over the next few years must factor in certain other considerations which are not easily quantified, at least at this time: prices for fuels, and energy in general, are expected to rise; borrowing costs are expected to rise, for those who can get credit; and the federal recovery plan initiative, the main elements of which are expiring, but did bring financial help to consumers and workers, businesses, and state and local governments. The federal recovery funds directed at the states, however, are leaving a large hole in state budgets in fiscal year 2012 after those programs cease. On the brighter side, Connecticut's job mix and income is more heavily weighted towards the financial services industry than the nation as a whole. Since March of 2009 the markets have performed much better and should help boost state revenues in the near-term.

Fiscal year 2009 was very disappointing for the state's economy, but signs of improvement began to emerge in fiscal 2010. Moving forward, the state is expected to continue to experience continued slow improvement, like the rest of the nation, which emerged from recession in June of 2009. Although Connecticut's economy has become more diversified, thus tempering the impact, employment, housing, and state revenues remain fragile.

Employment in the state has bottomed out and has been experiencing a very slow rate of growth. Total nonagricultural employment is projected to increase 0.4%, 1.5% and 1.6%, respectively, during fiscal years 2011, 2012 and 2013, having fallen by 3.0% in fiscal year 2010. Employment reached a low point in December of 2009. Not surprisingly, manufacturing employment, where the vast majority of job losses were concentrated during the early-2000s recession and subsequent weak recovery, continued its drag on employment growth through fiscal year 2010 and into 2011, with some weak growth projected to start within fiscal year 2011. Employment growth is expected to accelerate in fiscal year 2012, but not see substantial improvement until the end of fiscal year 2013 in any sectors except health and education services and information services.

While forecasts of productivity gains are respectable, corporate earnings are expected to continue the build on the strong growth they have already experienced, as industrial production continues to rise. Housing values, however, have declined, and household net worth has been reduced. While federal taxes have remained lower since being cut in 2001, disposable income is projected to grow and as credit availability expands, it remains to be seen whether consumers will revert back to their pre-recession spending pace, as consumer confidence continues to improve. Personal income is projected to grow by 4.8% and 6.4%, respectively, in fiscal years 2012 and 2013 and outpace inflation. The unemployment rate in the state, which stood at 4.4% in fiscal year 2007 and is projected to average 9.1% in fiscal 2011, according to latest estimates, is expected to fall to 8.4% in fiscal year 2012 and 7.2% in fiscal year 2013.

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Connecticut's population growth during the forecast period is estimated to be moderate, and remain below the national growth rate, based upon the trend of the last several years. In the next couple of years, the supply of labor will be more than adequate to meet demand. However, long-term demand for skilled workers will have to be met by a rise in the state's trained labor force. Once sustained economic growth resumes, shortages of skilled workers could develop as typically happens when the economy reaches full employment.

The forecast for the most widely used economic indicators for Connecticut's economy is shown below.

<u>12/10 Forecast</u>	<u>Fiscal Year 2011-12</u>	<u>Fiscal Year 2012-13</u>
Personal Income	\$212.7 Billion	\$226.3 Billion
Nonagricultural Employment	1,646.8 Thousand	1,672.3 Thousand
Unemployment Rate	8.4%	7.2%

Many of the negative trends discussed the last two years have bottomed out and are on the upswing. Personal income will continue growing, and housing sales and prices have bottomed out and there is cautious optimism that improvement has begun. Major risks facing the state and the nation discussed over the last few years have also been lessened: (1) The recession has ended; (2) The stock market has experienced a healthy upturn; (3) Job growth has been positive although fragile.

The following table shows the impact of prior recessionary periods on the state. This shows that the recovery of jobs lost took longer than might have been expected once the economy began expanding.

RECESSIONS IMPACT ON CONNECTICUT'S LABOR MARKET

<u>Employment Peak To Trough</u>	<u>Jobs Lost As A Percent Of Total Jobs</u>	<u>Months From Peak To Trough</u>	<u>Months From 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
Jul. '00 - Jul. '03	3.5%	36	85
Average	4.0%	22	52
Mar. '08 - Dec. '09	6.0%	21	*

* Assumes that the latest peak of the labor market was reached in March of 2008, and the low point of the current recession occurred in December of 2009 at an employment level of 1,608,100 jobs with a total loss of 103,400 jobs.

Based on all the reduced risks, there are reasons to be cautiously optimistic about the near- to intermediate-term employment situation even though it will likely be some time before a strong recovery is in sight, with projections showing employment not regaining previous peak levels until 2014.

Economic Report of the Governor

The following tables provide historical and forecasted values for the major economic variables used in revenue forecasting for the United States and Connecticut.

TABLE 91
UNEMPLOYMENT RATES
Seasonally Adjusted

<u>Fiscal Year</u>	<u>Quarters</u>	<u>United States</u>	<u>Connecticut</u>
2008-09	1	6.0%	5.8%
	2	6.9%	6.4%
	3	8.2%	7.4%
	4	9.3%	8.2%
2009-10	1	9.7%	8.6%
	2	10.0%	8.7%
	3	9.7%	9.1%
	4	9.6%	8.9%
2010-11	1	9.6%	9.0%
	2	9.6%	9.1%
	3	9.9%	9.3%
	4	9.7%	9.1%
2011-12	1	9.4%	8.9%
	2	9.0%	8.5%
	3	8.6%	8.2%
	4	8.3%	7.9%
2012-13	1	8.0%	7.6%
	2	7.6%	7.3%
	3	7.3%	7.0%
	4	7.0%	6.8%

Start of Forecast

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

Economic Report of the Governor

TABLE 92
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 Income</u>	<u>% Change Year Ago</u>	<u>Personal Income</u>	<u>% Change Year Ago</u>	<u>GDP</u>	<u>% Change Year Ago</u>
2001-02	149.145	1.2	8,942.9	2.0	10,444.7	2.9
2002-03	149.826	0.5	9,178.0	2.6	10,841.3	3.8
2003-04	155.767	3.9	9,631.0	4.9	11,512.0	6.2
2004-05	165.474	6.2	10,211.9	6.0	12,247.9	6.4
2005-06	176.413	6.6	10,887.3	6.6	13,047.1	6.5
2006-07	191.110	8.3	11,598.8	6.5	13,715.5	5.1
2007-08	199.830	4.6	12,214.3	5.3	14,312.4	4.3
2008-09	196.821	-1.5	12,275.0	0.5	14,190.0	-0.9
2009-10	195.479	-0.7	12,317.6	0.3	14,354.3	1.2
2010-11 (E)	202.970	3.8	12,840.2	4.2	14,965.1	4.3
2011-12 (P)	212.653	4.8	13,599.3	5.9	15,796.3	5.6
2012-13 (P)	226.320	6.4	14,572.7	7.2	16,816.6	6.5

(E) = Estimated / (P) = Projected

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

Economic Report of the Governor

TABLE 93
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>	
2008-09	1	201,753	1.7	1,697.4	-0.2	
	2	199,075	-0.3	1,680.3	-1.4	
	3	191,393	-4.4	1,654.5	-3.3	
	4	195,064	-3.0	1,628.4	-4.7	
	Average	196,821	-1.5	1,665.2	-2.4	
2009-10	1	193,681	-4.0	1,615.7	-4.8	
	2	194,767	-2.2	1,612.0	-4.1	
	3	193,998	1.4	1,612.3	-2.3	
	4	199,468	2.3	1,620.0	-0.5	
	Average	195,479	-0.7	1,615.0	-3.0	
2010-11	1	199,383	2.9	1,614.9	-0.1	
	2	200,711	3.1	1,618.7	0.4	Start of Forecast
	3	205,125	5.7	1,624.3	0.7	
	4	206,660	3.6	1,630.0	0.6	
	Average	202,970	3.8	1,622.0	0.4	
2011-12	1	208,982	4.8	1,636.7	1.4	
	2	211,674	5.5	1,644.4	1.6	
	3	213,015	3.8	1,650.1	1.6	
	4	216,942	5.0	1,656.0	1.6	
	Average	212,653	4.8	1,646.8	1.5	
2012-13	1	220,322	5.4	1,661.7	1.5	
	2	224,088	5.9	1,667.8	1.4	
	3	228,361	7.2	1,675.6	1.5	
	4	232,508	7.2	1,684.2	1.7	
	Average	226,320	6.4	1,672.3	1.6	

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TABLE 94
U.S. CONSUMER PRICE INDEX, SEASONALLY ADJUSTED
 (1982-84 = 100)

<u>Fiscal Year</u>		<u>Consumer Price Index</u>	<u>% Change Year Ago</u>	
2008-09	1	218.9	5.3	
	2	213.7	1.6	
	3	212.5	(0.2)	
	4	213.5	(1.0)	
	Average	214.6	1.4	
2009-10	1	215.4	(1.6)	
	2	216.8	1.5	
	3	217.6	2.4	
	4	217.2	1.8	
	Average	216.8	1.0	
2010-11	1	218.0	1.2	
	2	219.4	1.2	
	3	219.8	1.0	Start of Forecast
	4	220.7	1.6	
	Average	219.5	1.2	
2011-12	1	221.6	1.7	
	2	222.6	1.5	
	3	224.1	2.0	
	4	225.6	2.2	
	Average	223.5	1.9	
2012-13	1	227.5	2.7	
	2	229.4	3.1	
	3	231.2	3.2	
	4	233.1	3.3	
	Average	230.3	3.0	

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

Economic Report of the Governor

REVENUE FORECAST

The following Table shows the actual General Fund Revenue collections for fiscal 2009-10, and estimated revenue collections for fiscal 2010-11 and projected revenue collections for fiscal 2011-12 and fiscal 2012-13 by major sources.

TABLE 95
STATE OF CONNECTICUT - GENERAL FUND REVENUES
(In Millions of Dollars)

	Actual Revenue 2009-10	Estimated Revenue 2010-11	Projected Revenue At Current Rates 2011-12	Proposed Revenue Changes 2011-12	Net Projected Revenue 2011-12
Taxes					
Personal Income Tax	\$ 6,586.1	\$ 6,893.5	\$ 7,456.5	\$ 879.8	\$ 8,336.3
Sales & Use Tax	3,204.0	3,308.9	3,430.6	466.3	3,896.9
Corporation Tax	667.1	660.5	649.4	44.0	693.4
Public Service Tax	267.9	276.1	281.7	-	281.7
Inheritance & Estate Tax	177.6	171.9	113.5	4.0	117.5
Insurance Companies Tax	226.6	220.7	222.4	31.4	253.8
Cigarette Tax	387.4	409.8	398.8	54.3	453.1
Real Estate Conveyance Tax	100.3	88.3	93.6	-	93.6
Oil Companies Tax	123.0	113.1	121.4	(30.4)	91.0
Electric Generation Tax	-	-	-	58.4	58.4
Alcoholic Beverages	48.2	48.7	49.2	9.2	58.4
Admissions and Dues	34.4	35.1	35.6	8.0	43.6
Health Provider Tax	122.4	122.4	122.4	314.6	437.0
Miscellaneous	19.5	15.8	15.9	-	15.9
Total Taxes	\$ 11,964.5	\$ 12,364.8	\$ 12,991.0	\$ 1,839.6	\$ 14,830.6
Less Refunds of Taxes	(1,061.4)	(970.0)	(1,030.5)	-	(1,030.5)
Less R&D Credit Exchange	(8.9)	(9.1)	(10.0)	-	(10.0)
TOTAL - Taxes Less Refunds	\$ 10,894.1	\$ 11,385.7	\$ 11,950.5	\$ 1,839.6	\$ 13,790.1
Other Revenues					
Transfers Special Revenue	\$ 289.3	\$ 291.0	\$ 292.6	\$ -	\$ 292.6
Indian Gaming Payments	384.2	365.0	379.9	-	379.9
License, Permits, Fees	257.6	241.5	263.5	9.5	273.0
Sales of Commodities &	33.7	35.8	36.4	-	36.4
Rents, Fines & Escheats	252.8	126.5	110.0	8.0	118.0
Investment Income	4.1	1.5	3.6	-	3.6
Miscellaneous	142.9	162.2	162.6	-	162.6
Less Refunds of Payments	(1.2)	(1.5)	(38.3)	-	(38.3)
TOTAL - Other Revenues	\$ 1,363.4	\$ 1,222.0	\$ 1,210.3	\$ 17.5	\$ 1,227.8
Other Sources					
Federal Grants	\$ 4,066.3	\$ 4,166.6	\$ 3,507.0	\$ 17.8	\$ 3,524.8
Transfer From Tobacco	102.9	103.2	102.7	-	102.7
Transfers From/ (To) Other	1,261.8	1,184.7	(259.1)	73.8	(185.3)
TOTAL - Other Sources	\$ 5,431.0	\$ 5,454.5	\$ 3,350.6	\$ 91.6	\$ 3,442.2
TOTAL - General Fund	\$ 17,688.5	\$ 18,062.2	\$ 16,511.4	\$ 1,948.7	\$ 18,460.1

Economic Report of the Governor

Projected Revenue At Current Rates <u>2012-13</u>	Proposed Revenue Changes <u>2012-13</u>	Net Projected Revenue <u>2012-13</u>
\$ 8,108.7	\$ 702.7	\$ 8,811.4
3,586.2	489.0	4,075.2
674.7	61.0	735.7
288.5	-	288.5
118.1	4.0	122.1
225.3	28.0	253.3
387.9	40.7	428.6
101.9	-	101.9
125.3	(33.1)	92.2
-	58.4	58.4
50.0	9.2	59.2
36.2	8.0	44.2
122.6	320.5	443.1
16.1	-	16.1
\$ 13,841.5	\$ 1,688.4	\$ 15,529.9
(1,074.4)	-	(1,074.4)
(10.5)	-	(10.5)
\$ 12,756.6	\$ 1,688.4	\$ 14,445.0
\$ 293.9	\$ -	\$ 293.9
391.7	-	391.7
245.2	9.5	254.7
37.3	-	37.3
112.1	-	112.1
6.2	-	6.2
163.5	-	163.5
(22.6)	-	(22.6)
\$ 1,227.3	\$ 9.5	\$ 1,236.8
\$ 3,621.8	\$ (0.3)	\$ 3,621.5
102.0	-	102.0
(307.8)	73.2	(234.6)
\$ 3,416.0	\$ 72.9	\$ 3,488.9
\$ 17,399.9	\$ 1,770.8	\$ 19,170.7

Explanation of Changes

Personal Income Tax

Introduce five new tax brackets and increase the maximum rate from 6.5% to 6.7%. Eliminate the \$500 Property Tax Credit. Establish a refundable Earned Income Tax Credit at 30%. Phase-out 3% tax rate.

Sales Tax

Increase Sales Tax rate to 6.35% with 0.1% reserved for municipalities. Tax clothing and footwear under \$50. Eliminate various exemptions.

Corporation Tax

Continue 10% Surcharge for IY 2012 and IY 2013. Modify existing tax credits to promote job growth. Establish a "throw-back" rule.

Estate Tax

Reduce exemption level from \$3.5 million to \$2.0 million.

Cigarette Tax

Increase rate from \$3.00 to \$3.40 per pack. Increase snuff and other tobacco products tax.

Insurance Companies Tax

Increase rate from 1.75% to 1.95%, modify existing tax credits to promote job growth.

Oil Companies Tax

Increase transfer to Special Transportation Fund, eliminate transfer to Fuel Oil Conservation Board.

Electric Generation Tax

Establish a two-tenths of a cent per kilowatt hour tax.

Alcoholic Beverages Tax

Increase rates.

Health Provider Tax

Establish a provider tax on Hospitals and Intermediate Care Facilities. Increase existing Nursing Home Provider Tax.

Admissions & Dues Tax

Repeal targeted exemptions.

Licenses, Permits, Fees

Miscellaneous fee changes.

Rents, Fines, Escheats

Reduce transfer to the Citizens' Election Fund.

Federal Grants

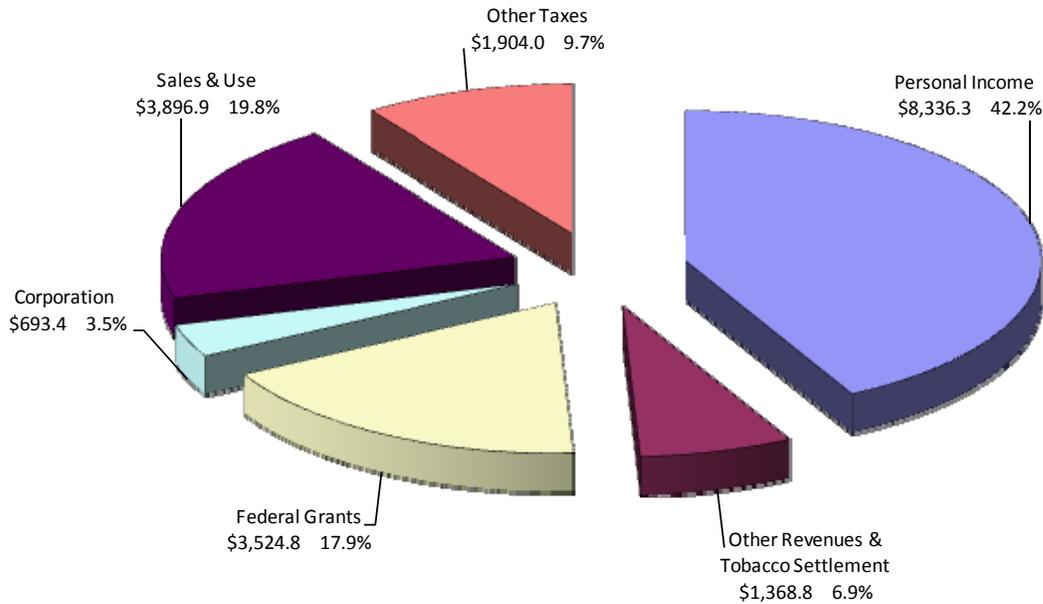
Impact of Health Provider Tax & recommended expenditure changes.

Transfers From/(To) Other Funds

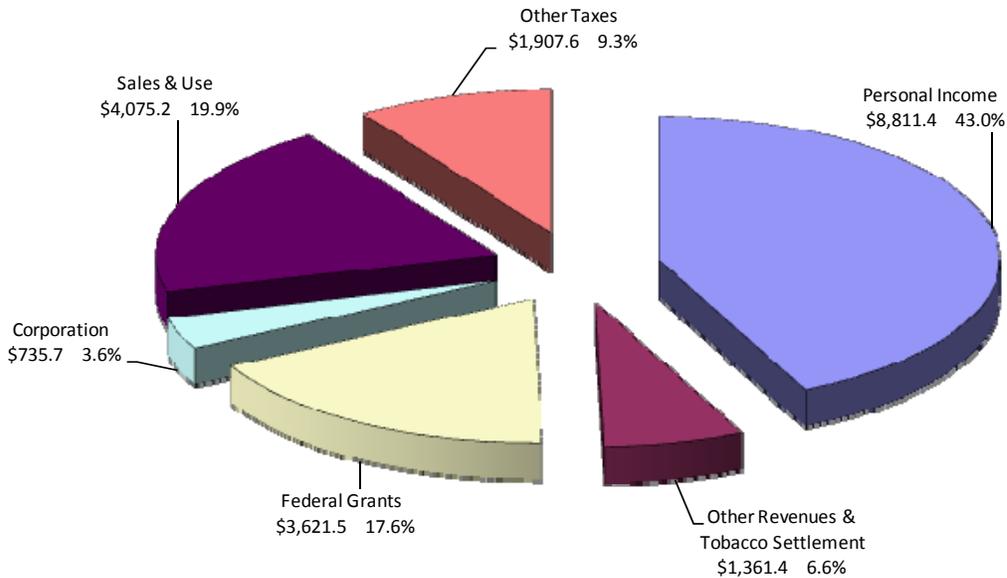
Level fund the Mashantucket Pequot and Mohegan grant.

Economic Report of the Governor

GENERAL FUND FISCAL YEAR 2011-12 - TOTAL \$18,460.1 MILLION*



GENERAL FUND FISCAL YEAR 2012-13 - TOTAL \$19,170.7 MILLION*



* Refunds of Taxes are estimated at \$1,030.5M for FY 2011-12 and \$1,074.4M for FY 2012-13, R&D Credit Exchange are estimated at \$10.0M for FY 2011-12 and \$10.5 M for FY 2012-13, Refunds of Payments are estimated at \$38.3M for FY 2011-12 and \$22.6M for FY 2012-13, Transfers to the Mashantucket-Pequot and Mohegan Fund are \$61.8M for both FY 2011-12 and FY 2012-13. Transfers to Other Funds are \$185.9M in FY 2011-12 and \$234.6M in FY 2012-13. Transfers from Other Funds are \$0.6M in FY 2011-12.

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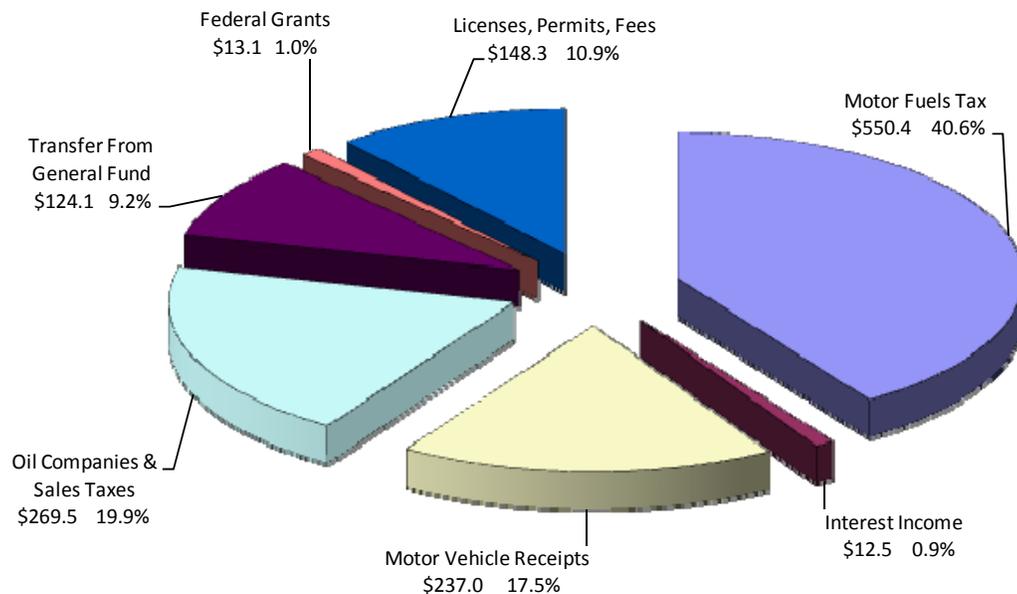
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TABLE 96
STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND REVENUES
(In Millions of Dollars)

	Actual Revenue 2009-10	Estimated Revenue 2010-11	Projected Revenue Current Rates 2011-12	Proposed Revenue Changes 2011-12	Net Projected Revenue 2011-12
Taxes					
Motor Fuels Tax	\$ 503.6	\$ 490.7	\$ 498.8	\$ 51.6	\$ 550.4
Oil Companies Tax	141.9	165.3	165.3	35.4	200.7
Sales Tax DMV	67.8	67.8	68.8	-	68.8
Less Refunds of Taxes	(7.3)	(7.2)	(7.3)	-	(7.3)
TOTAL - Taxes Less Refunds	\$ 706.0	\$ 716.6	\$ 725.6	\$ 87.0	\$ 812.6
Other Sources					
Motor Vehicle Receipts	\$ 220.7	\$ 221.9	\$ 226.0	\$ 11.0	\$ 237.0
Licenses, Permits & Fees	135.0	135.2	137.6	10.7	148.3
Interest Income	6.7	7.5	12.5	-	12.5
Federal Grants	3.0	9.3	13.1	-	13.1
Transfers From (To) Other Funds	64.7	101.1	117.6	-	117.6
Transfer To TSB	(15.3)	(15.3)	(15.3)	0.3	(15.0)
Less Refunds of Payments	(2.9)	(3.1)	(3.2)	-	(3.2)
TOTAL - Other Sources	\$ 411.9	\$ 456.6	\$ 488.3	\$ 22.0	\$ 510.3
TOTAL - S.T.F.	\$ 1,117.9	\$ 1,173.2	\$ 1,213.9	\$ 109.0	\$ 1,322.9

FISCAL YEAR 2011-12 - TOTAL \$1,322.9 MILLION*



* Refunds of Taxes are estimated at \$7.3M, Transfers to the Emissions Fund is estimated at \$6.5M, Refunds of Payments are estimated at \$3.2M and Transfers to Transportation Strategy Board are estimated at \$15.0M in fiscal 2011-12.

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Projected Revenue Current Rates 2012-13	Proposed Revenue Changes 2012-13	Net Projected Revenue 2012-13
\$ 501.8	\$ 50.9	\$ 552.7
165.3	38.1	203.4
70.5	-	70.5
(7.5)	-	(7.5)
<u>\$ 730.1</u>	<u>\$ 89.0</u>	<u>\$ 819.1</u>
\$ 231.0	\$ 11.2	\$ 242.2
139.7	11.7	151.4
15.0	-	15.0
13.1	-	13.1
166.3	-	166.3
(15.3)	0.3	(15.0)
(3.3)	-	(3.3)
<u>\$ 546.5</u>	<u>\$ 23.2</u>	<u>\$ 569.7</u>
\$ 1,276.6	\$ 112.2	\$ 1,388.8

Explanation of Changes

Motor Fuels Tax

Increase Gasoline Tax by 3 cents from 25 cents to 28 cents/gallon.
Increase base Diesel Tax by 2 cents from 26 cents to 28 cents/gallon.

Oil Companies Tax

Increase transfer from the General Fund.

Motor Vehicle Receipts

Raise Various Registration Fees.
Increase Driver's License fee from \$66 to \$72 and the Commercial Driver's License from \$60 to \$70.

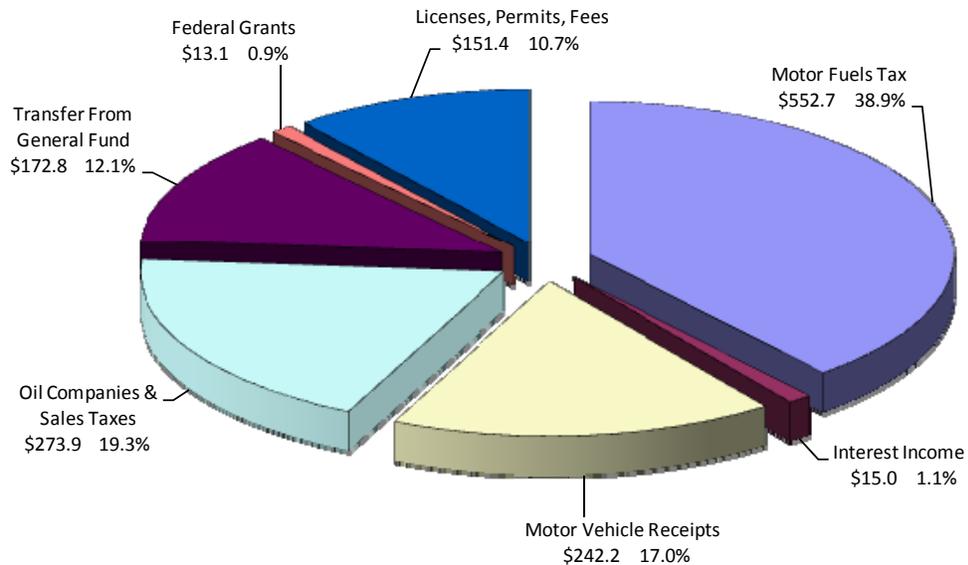
License, Permits, Fees

Implement a License Renewal Late fee of \$25.
Implement a \$10 fee for Electronic Vehicle VIN Inspections.
Increase permit fees for overweight/oversize vehicles.

Transfers to Transportation Strategy Board

Eliminate transfer to the Transportation Strategy Board Account for administrative expenses.

FISCAL YEAR 2012-13 - TOTAL \$1,388.8 MILLION*



* Refunds of Taxes are estimated at \$7.5M, Transfers to the Emissions Fund is estimated at \$6.5M, Refunds of Payments are estimated at \$3.3M and Transfers to Transportation Strategy Board are estimated at \$15.0M in fiscal 2012-13.

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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 estimates how much these services will cost; and it defines the resources that are required to provide these services. The budget is a fundamental policy document of every level of government. As proposed, enacted and implemented, it represents a consensus regarding what government realistically can and ought to do.

The economic implications of governmental budgets are significant. Government expenditures and investment, including federal, state and local governments are an important dimension of the national economy, accounting for 19.4% 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 8.4% of the Gross State Product, it is inevitable that state government's expenditure and revenue actions influence the state's economy.

The national and Connecticut economy have been ailing since December of 2007, although there are now subtle hints of recovery beginning to appear. The current modest recovery is headed in the right direction, but economic growth has been insufficient to significantly reduce the high unemployment rate and the housing market remains weak. Recovery is expected to come slowly. The result is a budget recommendation that is severely constrained by these harsh economic realities, yet attempts to shield the most vulnerable citizens from the shock that threatens their social and economic wellbeing. Through shared sacrifice, Governor Malloy believes this budget will preserve the most important aspects of our quality of life, while placing the state's finances on a more sustainable path in light of today's economic realities.

Expenditure Actions

Education and Workforce

Human capital will determine whether Connecticut succeeds in an increasingly competitive global economy. Connecticut's education continuum, which stretches from the earliest stages of a child's development through the college years, will need to produce high-skilled, technologically savvy workers. For those states which have skilled and educated workforces, the global marketplace will reward them with sustainable 21st century businesses.

From the perspective of personal economic growth, a bachelor's degree is both the key to a middle class living and insurance during bad economic times. First, college graduates earn more than non-college graduates, on average \$22,000 more per year (according to the College Board). Second, for poor and often minority citizens, getting a college degree often paves the way into the middle class. Conversely, not having a college degree, particularly for minority workers, has been a particular liability during this recession. During this economic downturn, the ranks of the unemployed were disproportionately populated by those who did not have college degrees and by minority workers (College Board, 2010). This recession has illustrated that a state's economy, and the economic welfare of its citizens, is tied to education.

For Connecticut's economy to thrive and expand, the state's education system must be strategically linked with economic development. Not only must the elementary and secondary education system produce college-ready graduates, but the college graduates of Connecticut

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higher education institutions must be work-ready, with the requisite technological, communications and analytic skills needed for high- skill high- tech jobs. To ensure the right jobs are available for these new college graduates, Connecticut's economic development programs must be improved and the system aligned to be more business-friendly, effective and productive.

Governor Malloy's proposed budget will transform and invigorate the state's education and economic development systems with programmatic improvements to early childhood education, elementary and secondary education, economic development and higher education by:

- Improving service delivery to the state's most academically needy preschool students by breaking down silos of early childhood care and education through the merger of two similar programs, one in the State Department of Education (SDE), the other in the Department of Social Services (DSS);
- Equalizing the rates for new SDE early childhood slots to sustain and stabilize provider slots;
- Increasing funding for data collection and personnel as part of the infrastructure needed for elementary and secondary school reform;
- Reinvigorating vocational high school education by providing grants to school districts or regional educational service centers to phase in local control of the schools;
- Financing expansive new school choice seats and providing the Commissioner of Education with the flexibility to reward suburban communities who are willing to educate more students;
- Creating a high-level Education Funding Sustainability Commission to study the state's current system of funding education through the Education Cost Sharing grant and to provide alternatives to improve and sustain education funding for the 21st century;
- Streamlining the state's economic development and workforce programming, allowing for the competitive bidding of scarce funding for improved results;
- Incorporating the Office of Workforce Competitiveness (OWC) and Commission on Culture and Tourism (CCT) and certain key Department of Labor workforce programs into the Department of Economic and Community Development (DECD) to create a consistent approach to both economic development and the workforce;
- Linking all of the economic development agencies through a common web portal and creating a single vision by having the Commissioner of DECD chair the boards of the Connecticut Development Authority (CDA), the Connecticut Housing Finance Authority (CHFA) and the Connecticut Innovations Incorporated (CII); and
- Amplifying the academic missions of the Community College (CC) and Connecticut State University (CSU) systems by merging their administrative staffing and aligning them with the Department of Higher Education in a new structure to be called the Board of Regents for Higher Education, and tying future growth to the workforce needs of Connecticut's economy.

Health and Human Services

Each individual's health is important not only to that person, but to our society and our economy. The state's challenge in supporting and providing healthcare is challenged by a recession of historic proportions combined with the loss of significant federal assistance during

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the next biennium. The Governor's budget attempts to preserve what works and is necessary and to improve what is not. The proposals aim to deliver better care at lower cost, expand services to meet needs, while costing less and maximizing federal funding. The Governor's proposals streamline services to increase efficiency, service coordination and results.

In terms of investments, the Governor has made a commitment to maintain the safety net, which is especially important during an economic downturn, when residents are more likely to require services such as health care, income supports, and other social services. The Governor's budget maintains expansions in Medicaid eligibility, including HUSKY A eligibility which remains at 185% of the federal poverty level (FPL) and eligibility for pregnant women which remains at 250% FPL. The Governor's proposed budget also maintains funding for caseload growth in many programs under the Department of Social Services (DSS), the Department of Children and Families (DCF) and the Department of Mental Health and Addition Services (DMHAS). At the same time, the Governor is not proposing across-the-board reductions to private provider funding.

The Governor is driving policies and the budget towards the right services at the best cost to the state. Connecticut is investing more in the expansion of community services while maximizing federal reimbursement. The federal Money Follows the Person (MFP) Rebalancing Demonstration encourages states to reduce their reliance on institutional care for Medicaid recipients by transitioning individuals out of institutional settings and into community settings with appropriate supports. Given the success of the program and with the encouragement and support of the federal government, DSS is increasing its initial goal to transition 700 individuals to the community through MFP to over 5,200 transitions by 2016. The department is also pursuing federal support to help nursing facilities diversify their existing business model by restructuring and reducing the number of skilled nursing beds to help address low census due to individuals transitioning to the community.

The Governor is providing leadership regarding health care reform by taking the first steps to making the system more efficient for patients, health care providers and the state. His proposals include restructuring the health care delivery system under the Department of Social Services. For more than a decade, DSS has managed health care services for HUSKY A and HUSKY B recipients through capitated contracts with managed care organizations. Under the Governor's proposal, capitated managed care for the HUSKY A and HUSKY B programs will be replaced with an Administrative Services Organization (ASO) model. Rather than paying managed care organizations to assume full financial risk, the state will assume all risk by paying medical claims directly as they are accrued, similar to current management of the state employee health plan. The medical benefits for recipients under these programs will be managed by the new medical ASO(s). The Charter Oak Health Plan will also move from a capitated managed care model to an ASO model, with services reimbursed through the department's claims processing system.

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General Government

In an effort to restructure state government, reduce redundancies in agencies, and create efficiencies, Governor Malloy has proposed to consolidate and merge a number of state agencies. Examples include:

- The Department of Information and Technology and a portion of the Department of Public Works will be combined into the Department of Administrative Services. This realignment will allow for a more cohesive approach to providing support services and functions to other state agencies;
- The newly created Department of Construction Services will include facilities design and construction staff previously housed by the Department of Public Works to plan and manage construction of new state-owned facilities and major renovations of existing state facilities for state agencies; oversight of the school construction grant program previously managed by the State Department of Education; and staff responsible for activities related to various aspects of building and fire safety inspections and training previously under the Department of Public Safety Division of Fire, Emergency and Building Services (DFEBS);
- The Department of Consumer Protection will absorb the Division of Special Revenue (DSR), the Board of Accountancy (BOA), and two Department of Public Safety staff tasked with park ride inspection and circus licensing to provide a consolidation of licensing and inspections of non-construction related activities; and
- The Department of Public Safety and the Department of Emergency Management and Homeland Security will be merged to build on the available synergies that these similar agencies can provide.

In total, Governor Malloy proposes to reduce the number of budgeted agencies by 30 percent – from 81 separately budget state agencies to 57 agencies.

Governor Malloy also proposes criminal justice reforms that will result in savings to the Department of Correction. Through the implementation of an offender management incentive plan, which includes a risk reduction credit program, and house arrest for some driving under the influence and drug offenses, the prison populations will be decreased sufficiently to allow for the closure of one prison. The risk reduction program reduces the time served for those inmates that participate in programs and increases their ability to remain in the community. By employing house arrest instead of incarceration, offenders will be able to maintain their connections to family and employment, thereby contributing to the economy and reducing the number of institutionalized offenders. By implementing these reforms, the Governor will allow offenders opportunities to demonstrate that they are deserving of a place in the community.

Capital Actions

Governor Malloy is proposing a capital budget focused on funding projects and programs that create and retain jobs in the state. The proposal emphasizes significant investments in the state's transportation infrastructure, the environment, housing and economic development.

Proposed new general obligation (GO) bond authorizations total \$1.075 billion in fiscal year 2012 and \$1.116 billion in fiscal year 2013. These proposed bond authorizations are in addition

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to those that were previously authorized by the General Assembly and would become effective during the biennium, which includes \$95 million each year for the CSUS 2020 program, and \$157.2 million in FY 2012 and \$143 million in FY 2013 for UCONN 2000.

Amongst many other proposed bond authorizations, the Governor's proposed GO bond authorizations include:

- The largest infusion of funds in the twenty-five year history of the Clean Water Fund which will begin to address a project backlog created by years of underfunding. Over the biennium, the program will receive \$186.6 million for grants and \$471.8 million for subsidized low interest loans to fund critical infrastructure projects that will benefit the environment and create jobs;
- \$18 million over the biennium to finance enhancements and upgrades to the state's financial information systems to improve transparency and accountability through the implementation of Generally Accepted Accounting Principles statewide;
- \$50 million in each year of the biennium for housing development and rehabilitation projects to increase the availability of affordable housing options for workers, young professionals and low income families;
- \$30 million in FY 2012 to continue development of units under the successful supportive housing program;
- \$40 million in each year of the biennium for the Department of Economic and Community Development to continue to provide low interest loans to attract and retain businesses and jobs in the state; and
- \$32 million over the biennium for capital investments in facilities of the state's nonprofit providers.

Proposed Special Tax Obligation bond authorizations for transportation projects total \$572.3 million in FY 2012 and \$515.2 million in FY 2013. Additionally, \$25 million of GO bonds are proposed each year for transportation purposes.

The Governor's proposed transportation bond authorizations include:

- New authorizations of \$50 million over the biennium for improvements, including dredging, at the state's economically vital deep water ports. Improving the ports in Bridgeport, New Haven and New London will foster economic growth, increase trade, reduce the overreliance on trucks to transport goods, and create jobs;
- \$227 million over the biennium to fully fund DOT's priority projects under the Fix-it-First initiatives to repair the state's roads and bridges;
- \$196 million over the biennium, above and beyond base program funding, to address deferred maintenance in the bus and rail infrastructure;
- Significantly enhanced funding for environmental remediation at DOT facilities and sites;
- Enhanced funding for DOT support facility construction which will increase efficiencies and reduce long term costs; and
- An adjustment to road resurfacing bond authorizations to coordinate financing with construction seasons. Previously, funds would have to be authorized by the General Assembly on a fast track basis in order to be available for the limited months in which paving can be accomplished. This adjustment will eliminate the need to fast track

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resurfacing bond authorizations by authorizing funds one year in advance of the construction season, allowing the State Bond Commission to allocate the funds on time to maximize paving seasons.

Revenue Actions

Even with improvement in revenue trends, FY 2012 will be the first year that General Fund revenues attain their pre-recessionary peak reached in FY 2008 (and this is after having raised taxes and other fees by over \$750 million during the 2009 legislative session). Moreover, the growth in revenues in FY 2012 is insufficient to compensate for the loss of over \$2 billion in one-time revenues that were included in the FY 2011 budget, including federal stimulus funding of \$740 million, securitization proceeds of \$647 million, FY 2010 surplus funds of \$450 million, and the last vestiges of the budget reserve fund of \$103 million.

In order to bring the state's budget into balance, Governor Malloy has recommended a variety of revenue actions to sustain operating expenses and initiatives included in the Governor's proposed budget. The Governor's proposed budget includes General Fund tax changes totaling \$1.514 billion in FY 2012 and \$1.345 billion in FY 2013, which are explained more fully below. The budget does include other General Fund revenue measures, the largest of which are initiatives related to garnering additional federal revenue. When all measures are included, total revenue initiatives equal \$1.947 billion in FY 2012 and \$1.769 billion in FY 2013.

The Governor's tax package reflects the imperative of balancing the state's fiscal operations without gimmicks or use of one-time resources, and certainly without increasing our indebtedness just to fund ongoing operations. The tax package was also constructed to minimize harm to the state's long-term economic competitiveness, particularly by eliminating numerous tax exemptions and limiting the amount to derived from the business sector.

Personal Income Tax

The Governor's proposed budget calls for the introduction of five new tax brackets to enhance the progressivity of the personal income tax while generating additional revenue for the state. Currently, Connecticut's income tax structure contains three tax rates: 3.0%, 5.0% and 6.5%. Under the Governor's proposal the upper tax rate would be increased a modest two-tenths of a percentage point, and five new brackets are inserted between the existing 5.0% rate and the new 6.7% rate. These rates -- 5.5%, 5.75%, 6.0%, 6.25%, and 6.5% -- are expected to yield \$495 million in FY 2012 and \$350 million in FY 2013. Because this and other changes are retroactive to January 1, 2011, essentially eighteen months of revenue occur in FY 2012, hence the higher revenue gain in that fiscal year.

The Governor's proposal also calls for the elimination of the \$500 property tax credit. This credit was not an original feature of the income tax when it was passed in 1991, but became effective with the 1996 income year, initially at a level of \$100. Over time, it has risen, been scaled back, and risen again. Given the state's financial situation, eliminating the credit will yield \$365 million for the General Fund.

Another proposed change to the income tax is the phase-out of the lowest tax rate of 3% at higher income levels. Currently, all taxpayers receive the benefit of this lower rate regardless

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their income level. This proposal would recapture this lower rate beginning at \$56,500 for single filers and \$100,500 for joint filers and is expected to yield \$126.0 million in FY 2012 and \$90.0 million in FY 2013.

Finally, the Governor's proposed budget includes the implementation of an Earned Income Tax Credit. Connecticut will join the 24 other states plus the District of Columbia with such a credit, which is currently proposed at 30% of the federal amount. This fully refundable credit is estimated at a cost of approximately \$110 million annually and will provide a benefit to roughly 190,000 of our lower income citizens.

Sales and Use Tax Changes

Over the years, Connecticut's tax code has become riddled with special exemptions and carve-outs from taxation for products or services which at the time may have seemed reasonable and affordable. As a state, Connecticut no longer has that luxury. Most of these items lay buried deep within the state's sales tax code. The Governor undertook a systematic review of such exemptions, with an eye toward eliminating those that would not place Connecticut at a competitive disadvantage relative to our neighboring states. By eliminating some of these tax expenditures the Governor was able to minimize the tax rate increase, which is scheduled to rise from 6.0% to 6.35% effective July 1, 2011, with 0.10% of that increase reserved for municipalities. In total, sales tax changes net to a general fund impact of \$466.3 million in FY 2012 and \$489.0 million in FY 2013, of which approximately \$155 million annually is due to the increase in the sales tax rate.

Business Taxes

The Governor's tax package for businesses is relatively modest compared with other components of his plan. His rationale is simple - it's all about jobs. This recession has cost Connecticut over 100,000 jobs and the unemployment rate remains stubbornly high at 9.0%. Moreover, under current federal law, businesses will be assessed over the next several years a new charge in order to repay the federal government for loans extended to the state's unemployment trust fund. This is expected to cost employers approximately \$72 million in FY 2012, climbing to \$92 million in FY 2013. Finally, many of the sales tax changes will be borne by business, too. Therefore, the modest proposals include extending the existing 10% surtax on business income for another two income years, revising the provisions regarding the transferability of film tax credits to encourage businesses with a corporate presence in the state, and establishing a throwback rule under the corporation tax in order to better assure that all business income is accounted for on our state tax returns.

In addition, the insurance premiums tax will rise from 1.75% to 1.95%. Offsetting these increases, the Governor is proposing an innovative way for companies to unlock their existing unused tax credits while encouraging job creation in the state. Under current law companies can only access their tax credits up to 70% of their liability. The Governor's proposal would allow them to receive the full value of their credits, up to 100% of their liability, at a rate of \$6,000 for every net new job created. The corporation and insurance tax changes are expected to yield \$75.4 million in FY 2012 and \$89 million in FY 2013, not including the amounts businesses will be assessed for repaying the federal unemployment insurance loan.

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Cigarettes and Alcohol

The Governor's proposed budget would increase the cigarette tax from \$3.00 per pack to \$3.40 per pack while also raising the rates on other tobacco products. Rates on alcoholic beverages, which were last increased in 1989, would also increase. The tax on beer would rise by 4 cents per gallon, wines by 12 cents per gallon and distilled spirits would rise by 90 cents per gallon. In total, these changes would increase General Fund revenue by \$66.8 million in FY 2012 and \$52.4 million in FY 2013 (inclusive of the sales tax impact).

Maximizing Federal Revenue

The Governor's main initiative to maximize federal revenue is the imposition of provider taxes on both hospitals and intermediate care facilities for the mentally retarded (ICF/MRs). This program will be structured similar to the existing provider tax on nursing homes, which will also be enhanced. The revenue gained from the nursing home and ICF/MR user fee assessment will be returned in the form of increased Medicaid rates as well as any federal dollars gained from that initial federal claiming. As part of this effort, the Governor also proposes to reinstate a hospital user fee. In total, this will permit Connecticut to claim additional federal funding, up to certain limits, and will result in a net benefit to the General Fund of approximately \$150 million annually.

Other Revenue Changes

The Governor's budget would impose a luxury tax on the sale of certain items at a rate of 3%. Automobiles over \$50,000, boats over \$100,000, jewelry over \$5,000 and clothing over \$1,000 would be subject to this new levy only on the increment above those thresholds.

Numerous exemptions from the admissions and dues tax were reviewed as part of the Governor's overall examination of existing tax expenditures. Under this budget, such exemptions are recommended for elimination.

During the 2009 legislative session the exemption level under the unified gift and estate tax was raised from \$2.0 million to \$3.5 million. The Governor's budget proposes to reduce the exemption level back to \$2.0 million, but does not change tax rates, nor does it reintroduce the tax cliff that was seen as so problematic for that tax. Finally, a tax of two-tenths of one cent per kilowatt would be imposed on generators of electricity in the state. In order to encourage the generation of "green" electricity, wind, hydro, solar, biomass, and fuel cell derived electricity in the state will be exempted from this new tax.

Special Transportation Fund

The Governor's initiatives for revenue in the Transportation Fund seek to maintain long-term structural balance. Transportation infrastructure is one of the main arteries of our economy and neglecting investments in this area is perilous to our long-term prosperity. Overall, revenue changes to the Transportation Fund total \$109.0 million in FY 2012 and \$112.2 million in FY 2013. The few changes to the revenue structure of the fund include increasing the gas tax by 3 cents from 25 cents per gallon to 28 cent per gallon, and increasing the base diesel fuel tax rate by 2 cents per gallon from 26 cents to 28 cents. In addition, the fee for passenger registrations

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would be increased, rising from \$75 to \$80 biennially, and driver's licenses would rise by \$6 from \$66 every 6 years to \$72 every 6 years—an increase of one dollar per year. Finally, the Governor is proposing that all gasoline related receipts under the Oil Companies tax be deposited into the Transportation Fund where they belong.

Municipal Revenue Sharing

A cornerstone of the Governor's budget proposal is diversification of our local government's tax base. Like state government, municipalities have also been severely impacted by the Great Recession. Within the Governor's budget are several additional sources of revenues for our municipalities including the following proposals:

- An additional sales tax of 0.10%;
- An additional 1% tax on hotels;
- An additional 1% tax on car rentals;
- Make permanent the 0.25% municipal real estate conveyance tax and expand the current optional conveyance tax to all municipalities (bringing the total municipal rate from 0.11% to 0.5%);
- A new 3% cabaret tax;
- A personal property tax on boats in the state at a state-wide rate of 20 mills; and
- A personal property tax on aircraft in the state at a state-wide rate of 20 mills.

In total, these additional revenue sources for towns are estimated at \$85.2 million in FY 2012, rising to \$129.3 million in FY 2013.

Conclusion

These proposals, taken all together, demonstrate Governor Malloy's recognition of the reality of an extremely challenging economic climate for the state. This budget also demonstrates a pragmatic response to this environment. The Governor has attempted to preserve the established fiscal stability of the state by making difficult but necessary decisions.

APPENDIX

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Connecticut Resident Population Census Counts

	Population		Population		1990-2000	%	2009
	<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	3,518,288
Andover	2,540	149	3,036	147	496	19.5	3,210
Ansonia	18,403	52	18,554	57	151	0.8	18,514
Ashford	3,765	138	4,098	135	333	8.8	4,470
Avon	13,937	72	15,832	68	1,895	13.6	17,357
Barkhamsted	3,369	140	3,494	143	125	3.7	3,692
Beacon Falls	5,083	124	5,246	125	163	3.2	5,866
Berlin	16,787	60	18,215	59	1,428	8.5	20,467
Bethany	4,608	128	5,040	126	432	9.4	5,582
Bethel	17,541	56	18,067	61	526	3.0	18,534
Bethlehem	3,071	144	3,422	144	351	11.4	3,577
Bloomfield	19,483	51	19,587	52	104	0.5	20,696
Bolton	4,575	129	5,017	127	442	9.7	5,155
Bozrah	2,297	152	2,357	153	60	2.6	2,466
Branford	27,603	35	28,683	32	1,080	3.9	29,014
Bridgeport	141,686	1	139,529	1	-2,157	-1.5	137,298
Bridgewater	1,654	161	1,824	160	170	10.3	1,889
Bristol	60,640	9	60,062	11	-578	-1.0	61,027
Brookfield	14,113	71	15,664	69	1,551	11.0	16,680
Brooklyn	6,681	110	7,173	113	492	7.4	7,977
Burlington	7,026	107	8,190	108	1,164	16.6	9,178
Canaan	1,057	168	1,081	168	24	2.3	1,099
Canterbury	4,467	131	4,692	130	225	5.0	5,128
Canton	8,268	101	8,840	101	572	6.9	10,125
Chaplin	2,048	155	2,250	156	202	9.9	2,558
Cheshire	25,684	37	28,543	33	2,859	11.1	29,142
Chester	3,417	139	3,743	141	326	9.5	3,832
Clinton	12,767	77	13,094	81	327	2.6	13,609
Colchester	10,980	87	14,551	74	3,571	32.5	15,685
Colebrook	1,365	164	1,471	165	106	7.8	1,532
Columbia	4,510	130	4,971	129	461	10.2	5,369
Cornwall	1,414	163	1,434	166	20	1.4	1,488
Coventry	10,063	91	11,504	87	1,441	14.3	12,307
Cromwell	12,286	79	12,871	83	585	4.8	13,669
Danbury	65,585	8	74,848	7	9,263	14.1	79,743
Darien	18,196	53	19,607	51	1,411	7.8	20,292
Deep River	4,332	132	4,610	133	278	6.4	4,683
Derby	12,199	80	12,391	84	192	1.6	12,385
Durham	5,732	120	6,627	116	895	15.6	7,469
East Granby	4,302	133	4,745	132	443	10.3	5,210
East Haddam	6,676	111	8,333	105	1,657	24.8	8,941
East Hampton	10,428	88	13,352	78	2,924	28.0	12,766
East Hartford	50,452	17	49,575	19	-877	-1.7	48,634
East Haven	26,144	36	28,189	35	2,045	7.8	28,572
East Lyme	15,340	67	18,118	60	2,778	18.1	19,203

Economic Report of the Governor

Connecticut Resident Population Census Counts

	Population		Population		1990-2000	%	2009
	<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	11,041
Eastford	1,314	165	1,618	163	304	23.1	1,800
Easton	6,303	113	7,272	111	969	15.4	7,383
Ellington	11,197	84	12,921	82	1,724	15.4	14,829
Enfield	45,532	20	45,212	20	-320	-0.7	45,259
Essex	5,904	118	6,505	117	601	10.2	6,810
Fairfield	53,418	14	57,340	13	3,922	7.3	57,578
Farmington	20,608	48	23,641	45	3,033	14.7	25,144
Franklin	1,810	160	1,835	159	25	1.4	1,906
Glastonbury	27,901	33	31,876	29	3,975	14.2	33,353
Goshen	2,329	151	2,697	151	368	15.8	3,244
Granby	9,369	93	10,347	93	978	10.4	11,220
Greenwich	58,441	12	61,101	9	2,660	4.6	62,368
Griswold	10,384	89	10,807	89	423	4.1	11,508
Groton	45,144	21	39,907	23	-5,237	-11.6	39,551
Guilford	19,848	50	21,398	49	1,550	7.8	22,469
Haddam	6,769	109	7,157	114	388	5.7	7,954
Hamden	52,434	15	56,913	14	4,479	8.5	58,119
Hampton	1,578	162	1,758	161	180	11.4	2,144
Hartford	139,739	2	124,121	2	-15,618	-11.2	124,060
Hartland	1,866	158	2,012	158	146	7.8	2,087
Harwinton	5,228	123	5,283	124	55	1.1	5,596
Hebron	7,079	106	8,610	104	1,531	21.6	9,304
Kent	2,918	147	2,858	150	-60	-2.1	2,960
Killingly	15,889	64	16,472	67	583	3.7	17,828
Killingworth	4,814	127	6,018	121	1,204	25.0	6,522
Lebanon	6,041	115	6,907	115	866	14.3	7,409
Ledyard	14,913	68	14,687	72	-226	-1.5	15,172
Lisbon	3,790	137	4,069	136	279	7.4	4,256
Litchfield	8,365	100	8,316	106	-49	-0.6	8,686
Lyme	1,949	157	2,016	157	67	3.4	2,098
Madison	15,485	66	17,858	64	2,373	15.3	18,824
Manchester	51,618	16	54,740	15	3,122	6.0	56,388
Mansfield	21,103	45	20,720	50	-383	-1.8	25,268
Marlborough	5,535	121	5,709	123	174	3.1	6,359
Meriden	59,479	11	58,244	12	-1,235	-2.1	59,186
Middlebury	6,145	114	6,451	118	306	5.0	7,394
Middlefield	3,925	135	4,203	134	278	7.1	4,257
Middletown	42,762	22	43,167	21	405	0.9	48,383
Milford	49,938	18	52,305	17	2,367	4.7	56,424
Monroe	16,896	59	19,247	54	2,351	13.9	19,435
Montville	16,673	61	18,546	58	1,873	11.2	19,910
Morris	2,039	156	2,301	155	262	12.8	2,341
Naugatuck	30,625	29	30,989	30	364	1.2	32,019
New Britain	75,491	7	71,538	8	-3,953	-5.2	70,548
New Canaan	17,864	55	19,395	53	1,531	8.6	20,000

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Connecticut Resident Population Census Counts

	Population		Population		1990-2000	%	2009
	<u>1990</u>	<u>Rank</u>	<u>2000</u>	<u>Rank</u>	<u>Change</u>	<u>Chg.</u>	<u>DPH* Est.</u>
New Fairfield	12,911	75	13,953	75	1,042	8.1	14,099
New Hartford	5,769	119	6,088	120	319	5.5	6,763
New Haven	130,474	3	123,626	3	-6,848	-5.2	123,330
New London	28,540	32	25,671	41	-2,869	-10.1	26,184
New Milford	23,629	40	27,121	37	3,492	14.8	28,505
Newington	29,208	31	29,306	31	98	0.3	29,818
Newtown	20,779	47	25,031	42	4,252	20.5	26,842
Norfolk	2,060	154	1,660	162	-400	-19.4	1,658
North Branford	12,996	74	13,906	76	910	7.0	14,387
North Canaan	3,284	142	3,350	145	66	2.0	3,366
North Haven	22,247	41	23,035	39	788	3.5	23,916
North Stonington	4,884	126	4,991	128	107	2.2	5,272
Norwalk	78,331	6	82,951	6	4,620	5.9	83,802
Norwich	37,391	25	36,117	26	-1,274	-3.4	36,639
Old Lyme	6,535	112	7,406	110	871	13.3	7,402
Old Saybrook	9,552	92	10,367	92	815	8.5	10,545
Orange	12,830	76	13,233	79	403	3.1	13,772
Oxford	8,685	96	9,821	96	1,136	13.1	12,890
Plainfield	14,363	69	14,619	73	256	1.8	15,442
Plainville	17,392	57	17,328	66	-64	-0.4	17,284
Plymouth	11,822	81	11,634	86	-188	-1.6	12,014
Pomfret	3,102	143	3,798	140	696	22.4	4,186
Portland	8,418	99	8,732	102	314	3.7	9,577
Preston	5,006	125	4,688	131	-318	-6.4	4,955
Prospect	7,775	105	8,707	103	932	12.0	9,494
Putnam	9,031	95	9,002	98	-29	-0.3	9,307
Redding	7,927	103	8,270	107	343	4.3	8,836
Ridgefield	20,919	46	23,643	44	2,724	13.0	24,228
Rocky Hill	16,554	62	17,966	62	1,412	8.5	18,827
Roxbury	1,825	159	2,136	154	311	17.0	2,320
Salem	3,310	141	3,858	138	548	16.6	4,142
Salisbury	4,090	134	3,977	137	-113	-2.8	3,986
Scotland	1,215	167	1,556	164	341	28.1	1,721
Seymour	14,288	70	15,454	70	1,166	8.2	16,320
Sharon	2,928	146	2,968	149	40	1.4	3,029
Shelton	35,418	26	38,101	25	2,683	7.6	40,305
Sherman	2,809	148	3,827	139	1,018	36.2	4,120
Simsbury	22,023	44	23,234	47	1,211	5.5	23,648
Somers	9,108	94	10,417	91	1,309	14.4	11,215
South Windsor	22,090	42	24,412	43	2,322	10.5	26,258
Southbury	15,818	65	18,567	56	2,749	17.4	19,706
Southington	38,518	24	39,728	24	1,210	3.1	42,534
Sprague	3,008	145	2,971	148	-37	-1.2	3,019
Stafford	11,091	85	11,307	88	216	1.9	11,869
Stamford	108,056	5	117,083	4	9,027	8.4	121,026
Sterling	2,357	150	3,099	146	742	31.5	3,755

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Connecticut Resident Population Census Counts

	Population		Population		1990-2000	%	2009
	<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	18,513
Stratford	49,389	19	49,976	18	587	1.2	48,952
Suffield	11,427	83	13,552	77	2,125	18.6	15,163
Thomaston	6,947	108	7,503	109	556	8.0	7,801
Thompson	8,668	97	8,878	100	210	2.4	9,249
Tolland	11,001	86	13,146	80	2,145	19.5	14,823
Torrington	33,687	27	35,202	27	1,515	4.5	35,408
Trumbull	32,016	28	34,243	28	2,227	7.0	34,918
Union	612	169	693	169	81	13.2	761
Vernon	29,841	30	28,063	36	-1,778	-6.0	30,182
Voluntown	2,113	153	2,528	152	415	19.6	2,643
Wallingford	40,822	23	43,026	22	2,204	5.4	44,881
Warren	1,226	166	1,254	167	28	2.3	1,389
Washington	3,905	136	3,596	142	-309	-7.9	3,689
Waterbury	108,961	4	107,271	5	-1,690	-1.6	107,143
Waterford	17,930	54	19,152	55	1,222	6.8	18,897
Watertown	20,456	49	21,661	48	1,205	5.9	22,217
West Hartford	60,110	10	61,046	10	936	1.6	60,852
West Haven	54,021	13	52,360	16	-1,661	-3.1	53,007
Westbrook	5,414	122	6,292	119	878	16.2	6,685
Weston	8,648	98	10,037	95	1,389	16.1	10,199
Westport	24,410	39	25,749	40	1,339	5.5	26,799
Wethersfield	25,651	38	26,271	38	620	2.4	25,767
Willington	5,979	117	5,959	122	-20	-0.3	6,169
Wilton	15,989	63	17,633	65	1,644	10.3	17,771
Winchester	11,524	82	10,664	90	-860	-7.5	10,779
Windham	22,039	43	22,857	46	818	3.7	23,733
Windsor	27,817	34	28,237	34	420	1.5	29,014
Windsor Locks	12,358	78	12,043	85	-315	-2.5	12,517
Wolcott	13,700	73	15,215	71	1,515	11.1	16,462
Woodbridge	7,924	104	8,983	99	1,059	13.4	9,188
Woodbury	8,131	102	9,198	97	1,067	13.1	9,700
Woodstock	6,008	116	7,221	112	1,213	20.2	8,220

* 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, 2009"

Economic Report of the Governor

MAJOR U.S. ECONOMIC INDICATORS - FISCAL YEAR BASIS

**TABLE 1
U.S. ECONOMIC VARIABLES**

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Gross Domestic Product (\$B)	10,153.4	10,444.7	10,841.3	11,512.0	12,247.9	13,047.1	13,715.5	14,312.4	14,190.1	14,354.3
Percent Change	5.0%	2.9%	3.8%	6.2%	6.4%	6.5%	5.1%	4.4%	-0.9%	1.2%
Real GDP	11,317.7	11,434.2	11,644.9	12,079.9	12,458.9	12,827.6	13,077.5	13,332.6	12,965.0	13,053.4
Percent Change	2.6%	1.0%	1.8%	3.7%	3.1%	3.0%	1.9%	2.0%	-2.8%	0.7%
GDP Deflator (2000=100)	87.6	89.7	91.3	93.1	95.3	98.3	101.7	104.8	107.3	109.4
Percent Change	2.4%	1.8%	1.9%	2.4%	3.2%	3.5%	3.1%	2.4%	2.0%	0.5%
Housing Starts (K)	1,570.7	1,645.9	1,729.2	1,945.3	2,016.3	2,036.0	1,546.2	1,132.4	647.9	592.4
Percent Change	-4.1%	4.8%	5.1%	12.5%	3.7%	1.0%	-24.1%	-26.8%	-42.8%	-8.6%
Unemployment Rate	4.1%	5.5%	5.9%	5.8%	5.3%	4.8%	4.5%	4.9%	7.6%	9.8%
New Vehicle Sales (M)	16.89	16.96	16.64	16.81	17.04	16.76	16.33	15.34	10.64	11.17
Percent Change	-3.7%	0.4%	-1.9%	1.0%	1.3%	-1.7%	-2.6%	-6.1%	-30.7%	5.0%
Consumer Price Index ('82-'84=100)	175.1	178.2	182.1	186.1	191.7	198.9	204.1	211.7	214.6	216.8
Percent Change	3.4%	1.8%	2.2%	2.2%	3.0%	3.8%	2.6%	3.7%	1.4%	1.0%
Industrial Production Index ('02=100)	91.1	88.1	89.8	91.1	94.0	96.1	98.8	99.7	90.7	89.9
Percent Change	0.5%	-3.3%	1.9%	1.4%	3.3%	2.2%	2.8%	1.0%	-9.1%	-0.8%
Personal Income (\$B)	8,770.6	8,942.8	9,177.9	9,619.0	10,205.7	10,874.7	11,586.4	12,203.6	12,264.5	12,306.9
Percent Change	6.5%	2.0%	2.6%	4.8%	6.1%	6.6%	6.6%	5.3%	0.5%	0.4%
Real Personal Income (\$B in 82-84=100)	5,009.9	5,019.4	5,040.3	5,168.5	5,323.8	5,466.3	5,676.5	5,765.0	5,713.9	5,677.2
Percent Change	3.0%	0.2%	0.4%	2.5%	3.0%	2.7%	3.8%	1.6%	-0.9%	-0.6%
Disposable Personal Income (\$B)	7,497.9	7,845.3	8,147.4	8,631.6	9,083.8	9,602.4	10,177.0	10,743.5	10,972.2	11,188.1
Percent Change	6.2%	4.6%	3.9%	5.9%	5.2%	5.7%	6.0%	5.6%	2.1%	2.0%
Disposable Personal Income (\$B in 1996\$)	8,256.8	8,535.1	8,693.1	9,015.7	9,230.5	9,454.4	9,782.3	9,995.8	10,061.7	10,131.3
Percent Change	3.7%	3.4%	1.9%	3.7%	2.4%	2.4%	3.5%	2.2%	0.7%	0.7%

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MAJOR U.S. ECONOMIC INDICATORS - FISCAL YEAR BASIS

**TABLE 2
U.S. PERSONAL INCOME
(BILLIONS OF DOLLARS)**

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Personal Income	8,770.6	8,942.8	9,177.9	9,619.0	10,205.7	10,874.7	11,586.4	12,203.6	12,264.5	12,306.9
Percent Change	6.5%	2.0%	2.6%	4.8%	6.1%	6.6%	6.5%	5.3%	0.5%	0.3%
Wages & Salaries	4,927.4	4,951.3	5,041.1	5,259.5	5,562.5	5,884.2	6,245.0	6,522.7	6,395.0	6,298.2
Percent Change	6.1%	0.5%	1.8%	4.3%	5.8%	5.8%	6.1%	4.4%	-2.0%	-1.5%
Manufacturing Income	737.0	689.5	672.4	679.2	705.4	726.1	746.2	751.5	700.0	658.3
Percent Change	0.8%	-6.4%	-2.5%	1.0%	3.8%	2.9%	2.8%	0.7%	-6.8%	-6.0%
Nonmanufacturing Inc.	4,190.5	4,261.7	4,368.7	4,580.3	4,857.1	5,158.1	5,498.8	5,771.2	5,694.9	5,639.9
Percent Change	7.0%	1.7%	2.5%	4.8%	6.0%	6.2%	6.6%	5.0%	-1.3%	-1.0%
Other Labor Income	990.7	1,058.9	1,168.2	1,250.3	1,312.4	1,377.1	1,414.1	1,463.5	1,512.0	1,546.3
Percent Change	7.9%	6.9%	10.3%	7.0%	5.0%	4.9%	2.7%	3.5%	3.3%	2.3%
Proprietor's Income	851.5	877.2	901.3	986.4	1,051.0	1,109.6	1,116.2	1,098.0	1,050.9	1,027.3
Percent Change	9.1%	3.0%	2.8%	9.4%	6.5%	5.6%	0.6%	-1.6%	-4.3%	-2.3%
Farm Income	31.0	21.8	28.3	46.2	45.7	35.6	32.7	48.6	36.9	35.0
Percent Change	14.6%	-29.8%	30.1%	63.2%	-1.2%	-22.1%	-8.0%	48.4%	-24.0%	-5.2%
Nonfarm Income	820.4	855.4	873.0	940.2	1,005.4	1,074.1	1,083.5	1,049.4	1,014.0	992.3
Percent Change	8.9%	4.3%	2.1%	7.7%	6.9%	6.8%	0.9%	-3.1%	-3.4%	-2.1%
Rental Income	222.6	233.6	207.0	201.0	191.1	163.8	133.4	175.3	258.5	288.4
Percent Change	4.8%	5.0%	-11.4%	-2.9%	-4.9%	-14.3%	-18.5%	31.4%	47.5%	11.6%
Personal Dividend Inc.	374.7	381.8	403.7	475.1	561.1	621.0	758.0	805.3	749.4	693.2
Percent Change	5.3%	1.9%	5.7%	17.7%	18.1%	10.7%	22.1%	6.2%	-6.9%	-7.5%
Personal Interest Income	988.8	945.6	898.6	867.2	908.3	1,061.4	1,192.0	1,308.9	1,275.0	1,208.3
Percent Change	4.2%	-4.4%	-5.0%	-3.5%	4.7%	16.8%	12.3%	9.8%	-2.6%	-5.2%
Transfer Payments	1,133.2	1,239.5	1,310.6	1,379.7	1,461.6	1,553.4	1,663.3	1,800.3	1,993.3	2,219.8
Percent Change	8.1%	9.4%	5.7%	5.3%	5.9%	6.3%	7.1%	8.2%	10.7%	11.4%

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MAJOR U.S. ECONOMIC INDICATORS - FISCAL YEAR BASIS

**TABLE 3
U.S. PERSONAL INCOME AND ITS DISPOSITION
(BILLIONS OF DOLLARS)**

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Less:										
Contributions to										
Social Insurance	724.1	740.5	762.1	802.0	850.5	899.2	940.6	976.6	977.2	983.8
Percent Change	6.0%	2.3%	2.9%	5.2%	6.1%	5.7%	4.6%	3.8%	0.1%	0.7%
Equals:										
Personal Income	8,770.6	8,942.8	9,177.9	9,619.0	10,205.7	10,874.7	11,586.4	12,203.6	12,264.5	12,306.9
Percent Change	6.5%	2.0%	2.6%	4.8%	6.1%	6.6%	6.5%	5.3%	0.5%	0.3%
Less:										
Personal Taxes	1,275.1	1,112.7	1,031.9	999.4	1,128.0	1,284.9	1,421.7	1,470.7	1,302.8	1,129.5
Percent Change	8.6%	-12.7%	-7.3%	-3.1%	12.9%	13.9%	10.7%	3.4%	-11.4%	-13.3%
Equals:										
Disposable Personal Inc.	7,497.9	7,845.3	8,147.4	8,631.6	9,083.8	9,602.4	10,177.0	10,743.5	10,972.2	11,188.1
Percent Change	6.2%	4.6%	3.9%	5.9%	5.2%	5.7%	6.0%	5.6%	2.1%	2.0%
Less:										
Personal Outlays	7,303.8	7,574.1	7,887.9	8,330.2	8,863.1	9,425.0	9,945.0	10,433.4	10,385.6	10,549.2
Percent Change	6.4%	3.7%	4.1%	5.6%	6.4%	6.3%	5.5%	4.9%	-0.5%	1.6%
Equals:										
Personal Savings	194.0	271.2	259.5	301.4	220.7	177.3	232.0	310.1	586.6	638.9
Percent Change	-1.9%	39.8%	-4.3%	16.1%	-26.8%	-19.7%	30.8%	33.7%	89.2%	8.9%
Personal Savings Rate	2.6%	3.4%	3.2%	3.5%	2.4%	1.9%	2.3%	2.9%	5.3%	5.7%

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MAJOR U.S. ECONOMIC INDICATORS - FISCAL YEAR BASIS

TABLE 4
U.S. EMPLOYMENT AND THE LABOR FORCE
(MILLIONS OF JOBS)

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Establishment Employ.	132.3	130.9	130.1	130.5	132.5	135.0	137.0	137.7	133.9	130.0
Percent Change	1.3%	-1.0%	-0.6%	0.3%	1.5%	1.9%	1.4%	0.6%	-2.8%	-3.0%
Manufacturing	17.0	15.7	14.9	14.3	14.3	14.2	14.0	13.7	12.7	11.6
Percent Change	-1.4%	-7.7%	-5.5%	-3.7%	-0.3%	-0.6%	-1.2%	-2.3%	-7.7%	-8.2%
Nonmanufacturing	115.2	115.1	115.2	116.1	118.2	120.8	122.9	124.0	121.3	118.3
Percent Change	1.7%	-0.1%	0.1%	0.8%	1.8%	2.2%	1.8%	0.9%	-2.2%	-2.4%
Construction & Mining	7.4	7.4	7.3	7.4	7.7	8.2	8.4	8.2	7.4	6.4
Percent Change	1.8%	-0.8%	-1.3%	2.0%	4.4%	6.2%	2.2%	-2.3%	-10.3%	-13.1%
Information	3.7	3.5	3.3	3.1	3.1	3.1	3.0	3.0	2.9	2.7
Percent Change	3.9%	-4.6%	-6.5%	-4.0%	-2.2%	-0.9%	-0.7%	-0.3%	-4.0%	-5.2%
Public Utility, Trade & Transportation	26.2	25.7	25.4	25.4	25.7	26.1	26.5	26.6	25.6	24.7
Percent Change	0.6%	-2.0%	-1.2%	-0.1%	1.5%	1.6%	1.2%	0.6%	-3.9%	-3.4%
Finance, Insurance & Real Estate	7.7	7.8	7.9	8.0	8.1	8.3	8.3	8.2	8.0	7.6
Percent Change	1.0%	1.0%	1.1%	1.2%	0.9%	2.2%	1.0%	-1.2%	-3.3%	-3.9%
Services	49.3	49.4	49.8	50.7	51.8	53.3	54.6	55.6	54.9	54.3
Percent Change	2.3%	0.3%	0.8%	1.7%	2.4%	2.7%	2.5%	1.8%	-1.3%	-1.1%
Professional & Business	16.7	16.1	15.9	16.2	16.6	17.3	17.8	18.0	17.1	16.5
Percent Change	2.3%	-3.6%	-1.3%	1.4%	3.0%	3.9%	3.0%	0.9%	-4.7%	-3.6%
Education & Health	15.3	15.9	16.4	16.8	17.1	17.6	18.1	18.6	19.0	19.4
Percent Change	2.7%	3.8%	3.0%	2.0%	2.3%	2.7%	2.6%	3.0%	2.4%	1.7%
Leisure & Hospitality	12.0	12.0	12.1	12.3	12.7	12.9	13.3	13.5	13.3	13.1
Percent Change	2.3%	0.1%	0.6%	2.1%	2.6%	2.3%	2.6%	1.6%	-1.8%	-1.5%
Other Services	5.2	5.3	5.4	5.4	5.4	5.4	5.5	5.5	5.4	5.3
Percent Change	1.3%	2.5%	1.2%	0.3%	-0.2%	0.3%	1.0%	0.9%	-1.3%	-2.1%
Government	20.9	21.4	21.6	21.6	21.7	21.9	22.1	22.4	22.6	22.6
Percent Change	1.3%	2.3%	1.1%	-0.1%	0.6%	0.8%	1.0%	1.2%	1.0%	-0.1%
Civilian Labor Force	143.2	144.3	145.7	146.8	148.2	150.4	152.4	153.7	154.6	153.9
Percent Change	1.4%	0.8%	1.0%	0.7%	1.0%	1.4%	1.4%	0.8%	0.6%	-0.4%
Unemployment Rate	4.1%	5.5%	5.9%	5.8%	5.3%	4.8%	4.5%	4.9%	7.6%	9.8%

Economic Report of the Governor

MAJOR U.S. ECONOMIC INDICATORS - FISCAL YEAR BASIS

TABLE 5
CONSUMER PRICE INDEXES
(1982-1984 = 100)

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
All Items – Urban Consumers	175.1	178.2	182.1	186.1	191.7	198.9	204.1	211.7	214.6	216.8
Percent Change	3.4%	1.8%	2.2%	2.2%	3.0%	3.8%	2.6%	3.7%	1.4%	1.0%
Food & Beverages	170.9	175.6	178.1	183.6	189.1	193.4	198.9	208.1	218.2	218.6
Percent Change	2.8%	2.8%	1.4%	3.1%	3.0%	2.3%	2.9%	4.6%	4.8%	0.2%
Housing	173.4	178.2	182.6	186.9	192.4	199.6	206.5	212.8	217.6	216.5
Percent Change	4.2%	2.8%	2.5%	2.3%	3.0%	3.7%	3.5%	3.1%	2.2%	-0.5%
Energy	131.5	121.0	130.3	142.0	159.7	194.2	198.7	226.6	208.2	206.6
Percent Change	13.4%	-8.0%	7.7%	8.9%	12.5%	21.6%	2.3%	14.1%	-8.1%	-0.8%
Commodities	150.6	149.6	150.7	152.4	156.9	163.1	165.0	172.0	170.9	173.2
Percent Change	2.4%	-0.6%	0.7%	1.1%	3.0%	3.9%	1.2%	4.2%	-0.6%	1.3%
Apparel	128.9	125.3	122.1	120.7	120.2	119.2	119.5	118.6	119.4	120.0
Percent Change	-1.4%	-2.8%	-2.5%	-1.2%	-0.4%	-0.8%	0.3%	-0.8%	0.6%	0.5%
Transportation	155.2	151.9	156.2	159.3	167.0	179.8	181.2	192.8	182.6	189.0
Percent Change	3.9%	-2.1%	2.8%	2.0%	4.9%	7.7%	0.8%	6.4%	-5.3%	3.6%
Services	199.6	206.5	213.2	219.5	226.2	234.6	242.9	251.0	258.1	260.1
Percent Change	4.1%	3.5%	3.3%	3.0%	3.0%	3.7%	3.6%	3.3%	2.8%	0.8%
Medical Care	266.7	278.9	291.6	303.5	316.7	329.8	343.0	358.7	369.4	382.2
Percent Change	4.4%	4.6%	4.5%	4.1%	4.3%	4.1%	4.0%	4.6%	3.0%	3.5%
Other Goods & Services	276.3	288.6	296.6	301.4	308.9	317.6	327.5	338.9	355.3	376.9
Percent Change	4.3%	4.5%	2.8%	1.6%	2.5%	2.8%	3.1%	3.5%	4.8%	6.1%

Economic Report of the Governor

MAJOR CONNECTICUT ECONOMIC INDICATORS - FISCAL YEAR BASIS

**TABLE 6
PERSONAL INCOME
(BILLIONS OF DOLLARS)**

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Personal Income	147.43	149.20	149.96	155.77	165.47	176.41	191.11	199.83	196.82	195.48
Percent Change	7.5%	1.2%	0.5%	3.9%	6.2%	6.6%	8.3%	4.6%	-1.5%	-0.7%
Disposable										
Personal Income	118.43	123.81	127.35	133.31	139.74	147.72	156.64	161.02	163.79	168.55
Percent Change	6.5%	4.5%	2.9%	4.7%	4.8%	5.7%	6.0%	2.8%	1.7%	2.9%
Total Wages	85.37	84.29	84.13	87.37	92.43	97.01	102.76	107.05	103.20	100.97
Percent Change	5.8%	-1.3%	-0.2%	3.9%	5.8%	5.0%	5.9%	4.2%	-3.6%	-2.2%
Manufacturing Wages	13.91	12.78	12.26	12.47	12.90	13.14	13.61	14.05	13.19	12.40
Percent Change	3.9%	-8.1%	-4.1%	1.7%	3.5%	1.8%	3.6%	3.2%	-6.1%	-6.0%
Nonmanufacturing										
Wages	71.46	71.51	71.87	74.91	79.53	83.88	89.15	93.00	90.01	88.57
Percent Change	6.2%	0.1%	0.5%	4.2%	6.2%	5.5%	6.3%	4.3%	-3.2%	-1.6%
Other Labor Income	16.12	17.22	18.81	19.64	20.89	21.74	22.39	24.20	25.55	25.74
Percent Change	7.3%	6.9%	9.2%	4.4%	6.3%	4.1%	3.0%	8.1%	5.6%	0.7%
Proprietor's Income	15.65	16.55	16.79	17.50	18.52	19.71	20.07	18.56	17.02	16.95
Percent Change	19.3%	5.7%	1.4%	4.3%	5.8%	6.4%	1.8%	-7.5%	-8.3%	-0.4%
Property Income	26.35	26.34	25.15	25.95	27.94	32.02	39.02	42.18	40.07	38.04
Percent Change	6.2%	0.0%	-4.5%	3.2%	7.6%	14.6%	21.8%	8.1%	-5.0%	-5.1%
Transfer Payments										
Less Social Insurance	3.94	4.80	5.09	5.30	5.70	5.93	6.87	7.85	10.98	13.78
Percent Change	10.7%	21.7%	6.0%	4.1%	7.6%	4.0%	15.8%	14.3%	40.0%	25.4%
Transfer Payments	15.36	16.40	17.13	17.72	18.76	19.46	20.90	22.45	25.52	28.36
Percent Change	6.1%	6.8%	4.4%	3.5%	5.9%	3.8%	7.4%	7.4%	13.7%	11.1%
Social Insurance	11.41	11.60	12.03	12.42	13.06	13.53	14.04	14.61	14.54	14.59
Percent Change	4.6%	1.7%	3.7%	3.2%	5.1%	3.6%	3.7%	4.0%	-0.5%	0.3%

Economic Report of the Governor

MAJOR CONNECTICUT ECONOMIC INDICATORS - FISCAL YEAR BASIS

**TABLE 7
DEFLATED PERSONAL INCOME
(BILLIONS OF DOLLARS)**

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Personal Income	168.27	166.32	164.18	167.32	173.65	179.47	187.91	190.64	183.47	178.63
Percent Change	5.6%	-1.2%	-1.3%	1.9%	3.8%	3.3%	4.7%	1.5%	-3.8%	-2.6%
Disposable										
Personal Income	135.18	138.00	139.42	143.20	146.64	150.27	154.01	153.61	152.67	154.03
Percent Change	4.7%	2.1%	1.0%	2.7%	2.4%	2.5%	2.5%	-0.3%	-0.6%	0.9%
Total Wages	97.44	93.96	92.10	93.85	97.00	98.69	101.04	102.12	96.20	92.27
Percent Change	4.0%	-3.6%	-2.0%	1.9%	3.4%	1.7%	2.4%	1.1%	-5.8%	-4.1%
Manufacturing Wages	15.88	14.25	13.42	13.39	13.54	13.36	13.38	13.40	12.30	11.33
Percent Change	-1.3%	-1.3%	-1.3%	-0.2%	1.1%	-1.3%	0.1%	0.2%	-8.2%	-7.9%
Nonmanufacturing Wages	81.56	79.71	78.68	80.46	83.46	85.33	87.66	88.72	83.90	80.94
Percent Change	4.4%	-2.3%	-1.3%	2.3%	3.7%	2.2%	2.7%	1.2%	-5.4%	-3.5%
Other Labor Income	18.39	19.20	20.60	21.10	21.92	22.11	22.02	23.08	23.82	23.52
Percent Change	5.5%	4.4%	7.3%	2.4%	3.9%	0.9%	-0.4%	4.8%	3.2%	-1.3%
Proprietor's Income	17.87	18.45	18.38	18.80	19.43	20.05	19.73	17.71	15.87	15.49
Percent Change	17.2%	3.3%	-0.4%	2.3%	3.4%	3.2%	-1.6%	-10.3%	-10.4%	-2.4%
Property Income	30.07	29.36	27.53	27.88	29.32	32.58	38.36	40.24	37.35	34.77
Percent Change	4.4%	-2.4%	-6.2%	1.3%	5.2%	11.1%	17.8%	4.9%	-7.2%	-6.9%
Transfer Payments										
Less Social Insurance	4.50	5.35	5.57	5.69	5.98	6.03	6.75	7.48	10.24	12.59
Percent Change	8.8%	18.9%	4.1%	2.2%	5.1%	0.8%	11.9%	10.9%	36.8%	23.0%
Transfer Payments	17.53	18.28	18.75	19.03	19.68	19.80	20.55	21.42	23.79	25.92
Percent Change	4.3%	4.3%	2.6%	1.5%	3.4%	0.6%	3.8%	4.2%	11.1%	9.0%
Social Insurance	13.02	12.93	13.18	13.34	13.70	13.77	13.80	13.93	13.55	13.33
Percent Change	2.8%	-0.7%	1.9%	1.2%	2.7%	0.5%	0.3%	1.0%	-2.7%	-1.6%

Note: All categories are deflated by GDP Price Index (2000 = 100).

Economic Report of the Governor

MAJOR CONNECTICUT ECONOMIC INDICATORS - FISCAL YEAR BASIS

TABLE 8
MANUFACTURING EMPLOYMENT
(THOUSANDS -SA)

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Manufacturing	233.65	218.33	204.96	197.61	196.67	194.03	192.37	189.31	180.47	167.90
Percent Change	-1.3%	-6.6%	-6.1%	-3.6%	-0.5%	-1.3%	-0.9%	-1.6%	-4.7%	-7.0%
Electronic & Electrical	35.46	31.40	27.79	26.00	25.80	25.10	25.06	25.27	24.59	22.96
Percent Change	1.0%	-11.5%	-11.5%	-6.4%	-0.8%	-2.7%	-0.2%	0.8%	-2.7%	-6.7%
Metals Manufacturing	49.14	44.81	41.91	40.74	41.31	41.06	40.81	40.39	37.98	34.14
Percent Change	-1.8%	-8.8%	-6.5%	-2.8%	1.4%	-0.6%	-0.6%	-1.0%	-6.0%	-10.1%
Industrial Machinery	23.32	21.23	19.51	18.65	18.35	17.99	18.15	18.00	17.05	15.64
Percent Change	-1.6%	-9.0%	-8.1%	-4.4%	-1.7%	-1.9%	0.9%	-0.8%	-5.3%	-8.2%
Transportation Equip.	46.95	46.34	44.18	43.06	43.31	43.60	43.51	43.93	43.94	42.54
Percent Change	-2.1%	-1.3%	-4.7%	-2.5%	0.6%	0.7%	-0.2%	1.0%	0.0%	-3.2%
Chemical, Plast. & Rub.	29.48	27.89	26.53	25.52	25.21	24.56	23.58	22.13	20.30	18.59
Percent Change	2.8%	-5.4%	-4.9%	-3.8%	-1.2%	-2.6%	-4.0%	-6.1%	-8.3%	-8.4%
Printing, Publ. & Textile	23.87	21.74	19.88	19.25	18.51	17.59	17.27	16.68	14.90	13.01
Percent Change	-4.4%	-8.9%	-8.5%	-3.2%	-3.8%	-5.0%	-1.8%	-3.4%	-10.7%	-12.7%
Food, Bev. & Tobacco	8.51	8.61	8.80	8.45	8.44	8.59	8.49	8.02	7.76	8.14
Percent Change	-4.7%	1.1%	2.2%	-4.0%	-0.1%	1.7%	-1.1%	-5.5%	-3.3%	4.9%
Miscellaneous	16.91	16.31	16.34	15.94	15.75	15.54	15.50	14.88	13.95	12.88
Percent Change	-2.6%	-3.5%	0.2%	-2.5%	-1.2%	-1.3%	-0.3%	-4.0%	-6.3%	-7.6%

Economic Report of the Governor

MAJOR CONNECTICUT ECONOMIC INDICATORS - FISCAL YEAR BASIS

**TABLE 9
NONMANUFACTURING EMPLOYMENT
(THOUSANDS -SA)**

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Nonmanufacturing	1,456.7	1,456.8	1,447.5	1,446.1	1,460.4	1,476.2	1,496.9	1,516.6	1,484.7	1,447.1
Percent Change	0.8%	0.0%	-0.6%	-0.1%	1.0%	1.1%	1.4%	1.3%	-2.1%	-2.5%
Construction & Mining	65.90	65.77	62.39	64.42	67.25	67.09	68.51	68.98	60.49	53.03
Percent Change	3.6%	-0.2%	-5.1%	3.2%	4.4%	-0.2%	2.1%	0.7%	-12.3%	-12.3%
Information	46.43	42.64	40.09	39.13	38.68	37.83	38.06	38.51	36.45	34.32
Percent Change	2.4%	-8.2%	-6.0%	-2.4%	-1.1%	-2.2%	0.6%	1.2%	-5.3%	-5.8%
Utilities	9.48	9.07	8.92	8.70	8.65	8.30	8.14	8.34	8.71	8.57
Percent Change	-2.4%	-4.3%	-1.7%	-2.4%	-0.6%	-4.0%	-2.0%	2.5%	4.4%	-1.6%
Transportation	41.98	40.30	39.85	40.41	42.77	43.97	44.06	44.13	42.96	39.93
Percent Change	0.6%	-4.0%	-1.1%	1.4%	5.9%	2.8%	0.2%	0.1%	-2.6%	-7.0%
Wholesale Trade	68.11	66.58	65.75	65.57	65.91	67.18	67.71	69.14	67.36	63.38
Percent Change	1.6%	-2.3%	-1.2%	-0.3%	0.5%	1.9%	0.8%	2.1%	-2.6%	-5.9%
Retail Trade	195.63	195.13	192.43	191.26	192.73	191.30	190.95	190.83	182.61	178.05
Percent Change	-0.5%	-0.3%	-1.4%	-0.6%	0.8%	-0.7%	-0.2%	-0.1%	-4.3%	-2.5%
Finance & Insurance	121.68	122.21	122.54	121.15	120.75	122.31	123.81	123.25	121.01	116.61
Percent Change	1.0%	0.4%	0.3%	-1.1%	-0.3%	1.3%	1.2%	-0.5%	-1.8%	-3.6%
Real Estate	21.58	20.67	20.28	20.22	20.52	21.00	21.15	20.87	19.88	18.73
Percent Change	1.1%	-4.2%	-1.9%	-0.3%	1.5%	2.4%	0.7%	-1.3%	-4.8%	-5.8%
Professional & Business	214.08	205.81	199.02	196.49	197.93	202.56	205.40	207.38	196.73	183.45
Percent Change	-0.1%	-3.9%	-3.3%	-1.3%	0.7%	2.3%	1.4%	1.0%	-5.1%	-6.8%
Education & Health	247.77	256.58	262.17	266.24	270.96	276.02	283.76	292.25	299.92	305.69
Percent Change	1.3%	3.6%	2.2%	1.6%	1.8%	1.9%	2.8%	3.0%	2.6%	1.9%
Leisure & Hospitality	120.46	121.08	123.51	126.62	128.73	130.76	133.98	137.39	135.16	137.17
Percent Change	-0.1%	0.5%	2.0%	2.5%	1.7%	1.6%	2.5%	2.5%	-1.6%	1.5%
Other Services	61.52	62.84	62.36	62.31	62.69	63.04	64.19	63.82	62.11	61.15
Percent Change	1.4%	2.2%	-0.8%	-0.1%	0.6%	0.6%	1.8%	-0.6%	-2.7%	-1.5%
Federal Government	22.07	21.38	21.14	20.39	19.96	19.77	19.61	19.58	19.48	19.88
Percent Change	-5.6%	-3.2%	-1.1%	-3.5%	-2.1%	-1.0%	-0.8%	-0.1%	-0.6%	2.1%
State & Local Gov't.	219.99	226.79	227.03	223.18	222.90	225.12	227.56	232.07	231.83	227.13
Percent Change	1.8%	3.1%	0.1%	-1.7%	-0.1%	1.0%	1.1%	2.0%	-0.1%	-2.0%

Economic Report of the Governor

MAJOR CONNECTICUT ECONOMIC INDICATORS - FISCAL YEAR BASIS

**TABLE 10
LABOR FORCE & OTHER ECONOMIC INDICATORS
(THOUSANDS -SA)**

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Labor Force	1,735.8	1,755.6	1,788.8	1,791.3	1,795.3	1,815.6	1,839.0	1,858.0	1,882.5	1,895.7
Percent Change	-0.2%	1.1%	1.9%	0.1%	0.2%	1.1%	1.3%	1.0%	1.3%	0.7%
Nonagricultural Employment	1,690.3	1,675.2	1,652.4	1,643.7	1,657.1	1,670.3	1,689.2	1,705.9	1,665.2	1,615.0
Percent Change	0.5%	-0.9%	-1.4%	-0.5%	0.8%	0.8%	1.1%	1.0%	-2.4%	-3.0%
Residential Employment	1,692.4	1,691.8	1,696.3	1,697.5	1,708.2	1,731.5	1,757.6	1,766.6	1,751.6	1,728.4
Percent Change	-0.3%	0.0%	0.3%	0.1%	0.6%	1.4%	1.5%	0.5%	-0.8%	-1.3%
Unemployed	43.5	63.8	92.5	93.8	87.1	84.1	81.4	91.4	130.9	167.3
Percent Change	1.1%	46.7%	44.9%	1.5%	-7.2%	-3.4%	-3.2%	12.2%	43.2%	27.8%
Unemployment Rate	2.5%	3.6%	5.2%	5.2%	4.9%	4.6%	4.4%	4.9%	7.0%	8.8%
Households	1,308.2	1,314.9	1,322.9	1,327.6	1,329.1	1,331.9	1,333.6	1,336.1	1,340.3	1,345.1
Percent Change	0.7%	0.5%	0.6%	0.4%	0.1%	0.2%	0.1%	0.2%	0.3%	0.4%
Housing Starts	8,597.7	9,215.4	8,547.8	9,800.6	11,597.4	11,087.6	8,521.4	6,337.6	3,684.8	3,747.4
Percent Change	-10.0%	7.2%	-7.2%	14.7%	18.3%	-4.4%	-23.1%	-25.6%	-41.9%	1.7%
Single Family Percent Change	7,352.2	8,268.3	7,326.5	7,880.1	9,634.0	9,139.2	6,958.4	4,620.0	2,423.7	2,808.8
	-12.5%	12.5%	-11.4%	7.6%	22.3%	-5.1%	-23.9%	-33.6%	-47.5%	15.9%
Multi Family Percent Change	1,245.5	947.1	1,221.4	1,920.5	1,963.4	1,948.4	1,562.9	1,717.6	1,261.1	938.6
	8.6%	-24.0%	29.0%	57.2%	2.2%	-0.8%	-19.8%	9.9%	-26.6%	-25.6%
New Car Registrations	245.0	231.8	227.4	254.8	228.1	230.5	212.8	212.4	155.5	148.6
Percent Change	4.8%	-5.4%	-1.9%	12.0%	-10.5%	1.1%	-7.7%	-0.2%	-26.8%	-4.4%

Note: Connecticut housing starts are already in thousands.

Economic Report of the Governor

MAJOR CONNECTICUT ECONOMIC INDICATORS - FISCAL YEAR BASIS

**TABLE 11
ANALYTICS**

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Wages/Total Income	57.91%	56.49%	56.10%	56.09%	55.86%	54.99%	53.77%	53.57%	52.43%	51.65%
Other Labor Income /Total Income	10.93%	11.54%	12.55%	12.61%	12.62%	12.32%	11.72%	12.11%	12.98%	13.17%
Social Insurance /Total Income	7.74%	7.77%	8.03%	7.97%	7.89%	7.67%	7.35%	7.31%	7.39%	7.46%
Transfer Payments /Total Income	10.42%	10.99%	11.42%	11.38%	11.34%	11.03%	10.94%	11.24%	12.97%	14.51%
Proprietor's Income /Total Income	10.62%	11.09%	11.19%	11.24%	11.19%	11.17%	10.50%	9.29%	8.65%	8.67%
Property Income /Total Income	17.87%	17.65%	16.77%	16.66%	16.88%	18.15%	20.42%	21.11%	20.36%	19.46%
Average Wages (Thousands in 2000 \$)	54.65	56.60	57.43	57.83	57.80	57.83	57.87	57.54	57.23	59.01
Average Mfg. Wages (Thousands in 2000 \$)	66.37	64.08	64.25	66.20	66.72	66.57	67.46	69.14	66.80	67.16
Average Nonmfg. Wages (Thousands in 2000 \$)	52.84	55.45	56.41	56.64	56.57	56.66	56.64	56.12	56.05	58.03
Manufacturing Share of Non-Agricultural Employment	13.42%	13.39%	13.03%	12.46%	12.09%	11.76%	11.36%	10.92%	10.95%	10.79%
Residential Employment /Total Nonagricultural	0.972	1.038	1.078	1.071	1.050	1.050	1.038	1.019	1.063	1.111

Economic Report of the Governor

MAJOR CONNECTICUT REGIONAL ECONOMIC INDICATORS - CALENDAR YEAR BASIS

**TABLE 12
PERSONAL INCOME (MILLIONS-SAAR)**

BRIDGEPORT-STAMFORD-NORWALK

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Personal Income	52,692.1	54,743.6	53,436.3	53,220.4	57,963.8	60,922.9	67,966.7	70,746.7	70,755.8	66,455.4
Percent Change	10.2%	3.9%	-2.4%	-0.4%	8.9%	5.1%	11.6%	4.1%	0.0%	-6.1%
Total Wages	27,435.0	28,277.4	26,958.9	27,647.1	29,406.4	31,140.0	33,314.9	36,136.4	35,842.9	32,877.0
Percent Change	9.0%	3.1%	-4.7%	2.6%	6.4%	5.9%	7.0%	8.5%	-0.8%	-8.3%

HARTFORD-WEST HARTFORD-EAST HARTFORD

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Personal Income	42,964.2	45,022.6	45,396.9	46,577.5	49,039.4	51,418.7	55,443.2	59,191.8	60,457.7	59,406.6
Percent Change	9.1%	4.8%	0.8%	2.6%	5.3%	4.9%	7.8%	6.8%	2.1%	-1.7%
Total Wages	26,970.7	28,167.2	28,152.1	28,524.5	30,294.5	31,733.1	33,190.6	35,425.3	35,829.7	34,532.3
Percent Change	6.9%	4.4%	-0.1%	1.3%	6.2%	4.7%	4.6%	6.7%	1.1%	-3.6%

NEW LONDON-NORWICH, CT-RI

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Personal Income	8,629.8	9,172.9	9,516.8	9,883.1	10,347.0	10,640.8	11,316.5	12,061.7	12,341.3	12,296.3
Percent Change	6.2%	6.3%	3.7%	3.8%	4.7%	2.8%	6.4%	6.6%	2.3%	-0.4%
Total Wages	4,997.2	5,274.4	5,465.5	5,629.2	5,863.3	6,057.8	6,300.5	6,622.0	6,870.7	6,724.9
Percent Change	5.1%	5.5%	3.6%	3.0%	4.2%	3.3%	4.0%	5.1%	3.8%	-2.1%