
Fiscal Year 2011 Midterm Economic Report of the Governor

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**ECONOMIC REPORT
OF THE GOVERNOR
2010 - 2011**

Economic Report of the Governor

INTRODUCTION

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

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

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

The report will focus on eight areas including: (1) the general characteristics of the State; (2) the profile of employment in the State; (3) an in depth analysis of important Connecticut sectors; (4) the performance indicators 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 723 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 the coast in 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

On April 1, 2000, this nation's population was again counted. The 2000 Census of Population and Housing was the 22nd in a series that began in 1790, with a count of four million residents in 18 states.

TABLE 1
CENSUS POPULATION COUNTS*
(In Thousands)

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

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

Source: U.S. Bureau of the Census

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In 2000, the population in the 50 states and the District of Columbia totaled 281.4 million people. Since 1930, the population has risen in all three data series for all decades. However, during the 1970s, 1980s and 1990s, the rate of population growth in Connecticut and New England was significantly lower than the prior three decades and lower than the nation for the recent periods.

In the United States, the resident population, which excludes Armed Forces Overseas, increased from 248,709,873 in 1990 to 281,421,906 in 2000, an increase of 13.2% for the 1990s, and the greatest increase since the 1960s. New England's population increased 5.4% from 1990 to 2000, experiencing slower growth. Within New England, only Vermont and New Hampshire experienced growth significantly higher than the regional average. This trend is likely to continue.

During the last few decades, the heavily populated states experienced a slowdown in the growth of their populations. This 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 apportionment of seats in the U.S. House of Representatives changed as a result of both the 1990 Census and the 2000 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 2000 census, was 3,405,565, an increase of 118,449 from the 3,287,116 figure of 1990. This represented a growth of 3.6% for the decade, slower growth than was experienced by either the New England Region or the nation as a whole, for the third consecutive decade. In fact, between 1990 and 2000, the state's growth rate was the fourth lowest in the nation. During the recession of the early 1990s, Connecticut's population started declining as a result of the state's weak economy, the high relative cost of living, and a softened job market which collectively made the state less attractive. The minor population losses in the early 1990s were the result of small in-migration compared to a much larger out-migration. This net out-migration is not to be confused with overall population declines, because a surplus of births and an influx of foreign migration have offset domestic out-migration in most years. The migration of population to and from Connecticut during the late 1980s and 1990s parallels the performance of the state's economy, rising during the expansion, declining at the time of the recession, and rising again during the last few years of the 1990s. Connecticut counties experiencing faster growth during the 1990s generally were those not dominated by large urban areas.

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	<u>Percent 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	102,525	3.1	109,091	3.2	6.4
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>	<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>
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

Changes in Connecticut's Population Due to Migration By State Between 2002 and 2008

<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	20,976	Outside US	(16,822)	Outside US	4,154
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:

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>2008</u>			<u>2000</u>	<u>2008</u>	
Oxford	9,821	12,734	29.7%	East Hampton	13,352	12,685	-5.0%
Hampton	1,758	2,149	22.2%	Stratford	49,976	48,853	-2.2%
Sterling	3,099	3,748	20.9%	Bridgeport	139,529	136,405	-2.2%
Mansfield	20,720	24,622	18.8%	Wethersfield	26,271	25,719	-2.1%
Goshen	2,697	3,203	18.8%	East Hartford	49,575	48,571	-2.0%
Canton	8,840	10,104	14.3%	Waterford	19,152	18,794	-1.9%
Woodstock	7,221	8,229	14.0%	Groton	39,907	39,167	-1.9%
Middlebury	6,451	7,343	13.8%	New Britain	71,538	70,486	-1.5%
Chaplin	2,250	2,556	13.6%	West Hartford	61,046	60,495	-0.9%
Ellington	12,921	14,568	12.7%	Norfolk	1,660	1,647	-0.8%

State Average Growth 2.8%

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.

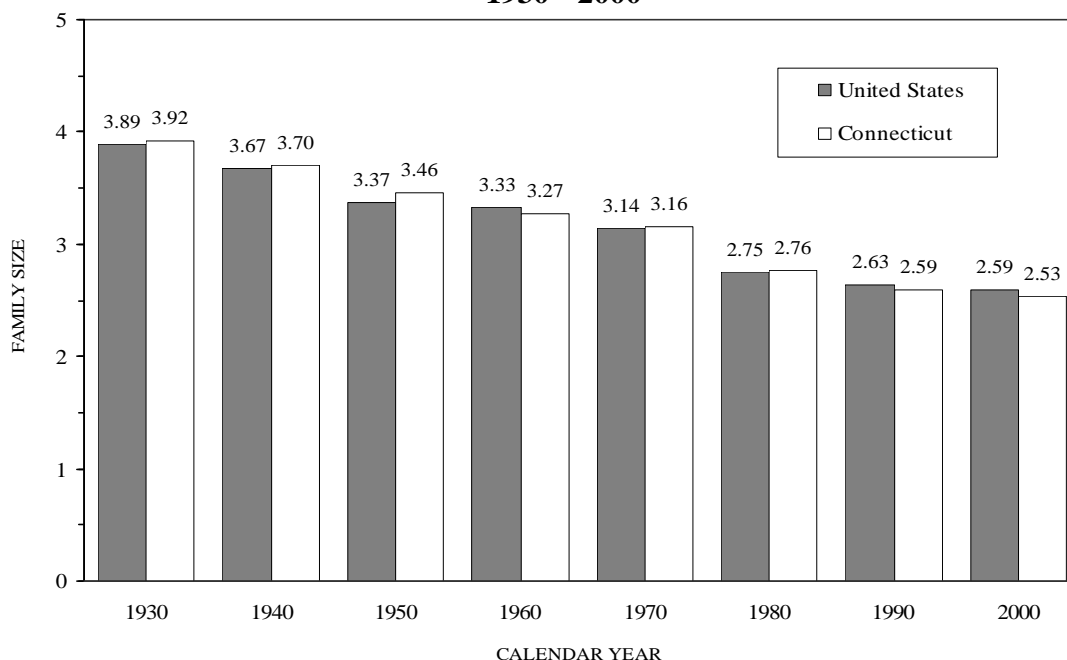
The number of households in Connecticut, in 2005, was 1,323,838, up 8.3% from the 1995 count, but up only 1.7% from the 2000 Census estimate. This is not unexpected in that it reflects the slow growth of Connecticut's population over the last several years. Family households include a householder and 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>US</u>	<u>Connecticut</u>		<u>US</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 declines in household size can be considered indicators of social change. Society is adjusting its mores to fit the demands of new generations including: delaying marriage, both delaying and having fewer children and the establishment of one or two person households by career minded men and women. Other social changes that result in smaller households are the increase in the elderly population and the increasing numbers of one parent families that are the consequence of the general rise in the number of divorces.

Age Cohorts

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, etc.

TABLE 7
POPULATION DISTRIBUTION BY AGE IN 2008
(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	74,018	29,788	83,519	78,139	38,910	5,728	304,375
% of Total	24.3	9.8	27.4	25.7	12.8	1.9	100.0
New England	3,178	1,405	3,825	3,994	1,961	315	14,363
% of Total	22.1	9.8	26.6	27.8	13.7	2.2	100.0
Connecticut	813	325	917	969	478	79	3,503
% of Total	23.2	9.3	26.2	27.7	13.7	2.3	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 burden of caring for the elderly may become much greater after 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			% Change <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 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 two 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, the housing sector has realized, and will continue to realize, record breaking declines.

Housing starts have fallen to record lows. During fiscal year 2009, housing starts in the U.S. fell 42.7% with approximately 648 thousand starts being recorded nationally. In Connecticut, starts for new dwelling units decreased in fiscal 2009 to an annual rate of 3,600 units, significantly below any level realized in the recent past. The declining housing starts have negatively impacted homebuilders, among others in the construction sector, and have undoubtedly contributed to the increasing unemployment rate nationwide. As families have lost and continue to lose one or more of their incomes, the likelihood of mortgage defaults, rises thereby creating additional foreclosures and further negatively impacting the housing market.

The table and chart on the following page provides a ten year historical profile of housing starts in the United States, the New England region, and Connecticut. Of the 3,600 housing starts that the State of Connecticut realized in fiscal year 2009, 64% or approximately 2,299 units were single-family dwellings with the remaining 36% or approximately 1,295 units constructed as multi-family units. The starts for single-family housing units were down 50.3% from the number of single-family residences that were started in fiscal year 2008.

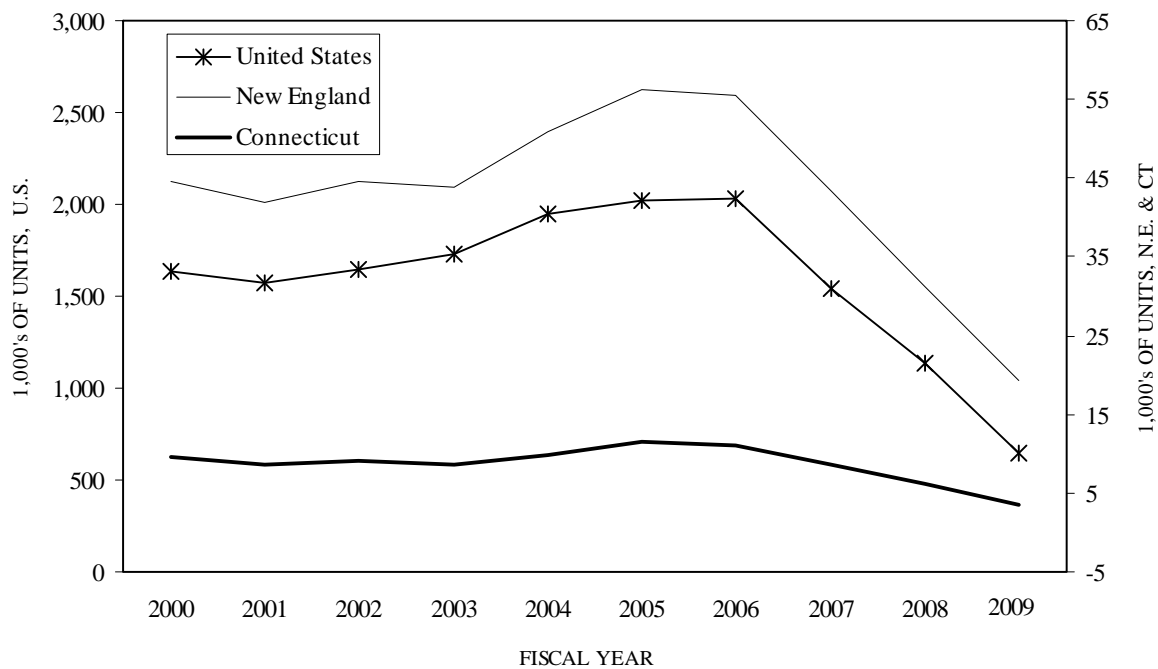
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**TABLE 12
HOUSING STARTS
(In Thousands)**

Fiscal Year	United States		New England		Connecticut	
	Number	% Growth	Number	% Growth	Number	% Growth
1999-00	1,637.8	(1.3)	44.6	(3.7)	9.6	(14.2)
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	18.7
2005-06	2,036.0	1.0	55.5	(1.2)	11.1	(4.9)
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	(25.7)
2008-09	648.4	(42.7)	19.3	(38.0)	3.6	(43.1)

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

**HOUSING STARTS
BY FISCAL YEAR**



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

A major indicator of housing activity is the number of building permits authorizing construction issued by local authorities. The Connecticut Department of Economic & Community Development (DECD), the lead agency for all matters relating to housing, tabulates this information and presents it in its annual report "Connecticut Housing Production & Permit Authorized Construction". It should be noted that construction is ultimately undertaken for all but a very small percentage of housing units authorized by permits. A major portion typically

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gets under way during the month of permit issuance and most of the remainder begins within the three following months. Because of this lag, housing permits reported do not represent the number of units actually put into construction for the period shown and should therefore not be interpreted as housing starts.

The table below shows the Connecticut counties in which privately owned housing permits were issued in calendar 2008, indicating the geographic distribution of housing construction activity.

According to the report, calendar 2008 registered a 32.6% decrease in housing permit activity. Permit activity totaling 5,220 units, down from 7,746 in 2007 and 9,236 in 2006, was authorized. Fairfield County led Connecticut counties with 1,814 permits issued, 34.8% of the total permits issued in calendar 2008. The 1,814 housing units that were authorized in Fairfield County, however, were a decrease of 20.8% from calendar year 2007 when the county issued 2,290 housing permits. While all eight counties realized negative growth in housing permit activity, New London County has the largest decline with a 49.4% decrease since calendar year 2007.

TABLE 13
CONNECTICUT HOUSING PERMIT ACTIVITY
Calendar Year 2008

<u>County</u>	<u>Total Units Authorized</u>	<u>% of Total</u>	<u>% Growth Over CY 2007</u>
Fairfield	1,814	34.8	(20.8)
Hartford	1,039	19.9	(39.3)
Litchfield	261	5.0	(32.0)
Middlesex	355	6.8	(36.4)
New Haven	920	17.6	(26.8)
New London	363	7.0	(49.4)
Tolland	297	5.7	(43.5)
Windham	<u>171</u>	<u>3.3</u>	<u>(43.6)</u>
State Total	5,220	100.0	(32.6)

Source: Connecticut State Department of Economic and Community Development

In addition, residential demolition permits issued during calendar 2008 totaled 1,462. Stamford issued the most demolition permits with 219, followed by New Haven and Norwich. These three cities accounted for 34.1% of all demolition permits. As a result, the net gain to Connecticut's housing inventory totaled 3,758 units in calendar 2008. At the end of 2008, an estimated 1,449,440 housing units existed in Connecticut. The following table shows changes in Connecticut's housing unit inventory on a calendar basis from 2007 to 2008.

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**TABLE 14
CONNECTICUT HOUSING INVENTORY**

<u>Structure Type</u>	<u>Inventory</u> <u>2007</u>	<u>% of</u> <u>Total</u>	<u>Inventory</u> <u>2008</u>	<u>% of</u> <u>Total</u>	<u>Net</u> <u>Gain</u>	<u>Growth</u> <u>Rate</u>
One-Unit	936,376	64.8	938,746	64.8	2,370	0.3%
Two-Units	120,285	8.3	120,328	8.3	43	0.0%
Three & Four Units	126,931	8.8	126,887	8.8	(44)	0.0%
Five Or More Units	249,924	17.3	251,319	17.3	1,395	0.6%
Other	<u>12,166</u>	<u>0.8</u>	<u>12,160</u>	<u>0.8</u>	<u>(6)</u>	<u>(0.1%)</u>
Total Inventory	1,445,682	100.0	1,449,440	100.0	3,758	0.3%

Source: Connecticut State Department of Economic and Community Development

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 table below, the median sales price in Connecticut in 2008 was \$292,470, up 14.4% since 2003.

**TABLE 15
SALES PRICE OF HOMES IN CONNECTICUT AND THE UNITED STATES
(By Calendar Year)**

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2003-08</u> <u>(Change)</u>
CT Median Price	\$255,640	\$279,560	\$307,000	\$314,000	\$321,230	\$292,470	\$36,830
% Change	13.7%	9.3%	9.8%	2.3%	2.3%	(9.0%)	14.4%
U.S. Median Price	\$172,280	\$192,250	\$215,040	\$217,000	\$210,200	\$187,360	\$15,080
% Change	8.3%	11.6%	11.8%	0.9%	(3.1%)	(10.9%)	8.8%
CT as a % of U.S.	148	145	143	145	153	156	
CT Affordability							
Index	120.79	117.63	109.61	104.79	107.69	124.60	3,810
% Change	(4.0%)	(2.6%)	(6.8%)	(4.4%)	2.8%	15.7%	3.2%
U.S. Affordability							
Index	149.72	141.88	131.15	125.47	135.85	157.20	7,480
% Change	2.9%	(5.2%)	(7.6%)	(4.3%)	8.3%	15.7%	5.0%

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 fallen in the U.S. and Connecticut over the past 6 years, indicating that housing prices are outpacing income increases, which also

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contributed to the current correction in the housing market. The affordability index for both the United States and Connecticut each increased by 15.7% in calendar year 2008.

Age of Buyer or Renter

As Table 8 demonstrates, current population projections anticipate a decline in the 18-44 year old age group of 3.6% between 2000 and 2010, a decline of 3.2% 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.

Table 8 also illustrates that 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-five years. Projected growth rates of the 65 and older age group are: 9.7% from 2000 to 2010, 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 sought after. As more baby-boomers turn into empty-nesters, they will 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.

Changes in the Mortgage Market

Fiscal year 2009 began with averages for the thirty-year fixed and one-year adjustable rate mortgages of 5.86% and 5.15% respectively. Throughout the fiscal year, thirty-year fixed rates fell to a record low of 4.97% in the third quarter of 2009. By fiscal year end, rates averaged 5.0%, 1.1 percentage points lower than the previous June.

Recent efforts by the federal government to lower interest rates and provide assistance to the mortgage markets continued during 2009. Through the American Recovery and Reinvestment Act of 2009, the federal government provided for as much as an \$8,000 tax credit to qualified first-time homebuyers. As a result of this program, home sales have been recovering steadily throughout 2009, but are still largely behind 2008 figures.

As the economic climate continues to improve and further job losses and foreclosures slow, the housing crisis is gradually recovering. For instance, home sales have increased by 9.6% in July from June, but, remain 13.4% below July of 2008. Due to the fact that the existing home market is ten times larger than the new home market, there are still relatively high levels of inventory. Thus, the federal government continues to aid the housing and mortgage markets through a variety of programs. Such actions by the federal government helped spur demand resulting in higher home sales. However, foreclosures and delinquencies remain essentially unchanged from the 2009 first quarter's record high. According to the Mortgage Bankers Association, these

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rates are correlated with the employment rate. Consequently, as unemployment increased to its current high, foreclosures also hit a new record. In the second quarter of 2009, there were 890,000 foreclosure filings, an 11% increase from the previous quarter and a 20% increase from the second quarter of 2008, according to the Credit Suisse Group. More recently, RealtyTrac Inc. reports that the foreclosure crisis affected approximately 938,000 homes in the July-September quarter, and that foreclosure-related filings are on pace to hit 3.5 million this year. This figure is up from more than 2.3 million foreclosure filings last year, and up 5% from the previous quarter. Until the employment rate stabilizes and the overall economic climate strengthens, a new wave of foreclosures could soon be realized.

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EMPLOYMENT PROFILE

Employment Estimates

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

In an effort to provide a broader employment picture, the following table, based on residential employment, was developed. Total residential employment is estimated based on household surveys which include individuals excluded from establishment employment figures such as self employed and workers in the agricultural sector. By this measure, residential employment in fiscal year 2009 decreased by 13,200 jobs. Likewise, the level of establishment employment based on the survey response decreased by 34,400 jobs in fiscal year 2009.

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

TABLE 16
CONNECTICUT SURVEY EMPLOYMENT COMPARISONS
(In Thousands)

<u>Fiscal Year</u>	<u>Residential Employment</u>	<u>% Growth</u>	<u>Establishment Employment</u>	<u>% Growth</u>
1999-00	1,697.4	0.38	1,682.0	1.49
2000-01	1,698.4	0.06	1,690.4	0.49
2001-02	1,700.5	0.12	1,675.1	(0.90)
2002-03	1,699.0	(0.09)	1,652.4	(1.36)
2003-04	1,699.4	0.02	1,643.6	(0.53)
2004-05	1,710.5	0.65	1,656.9	0.81
2005-06	1,734.1	1.38	1,670.1	0.80
2006-07	1,759.2	1.44	1,689.0	1.13
2007-08	1,768.7	0.54	1,705.6	0.98
2008-09	1,755.5	(0.74)	1,671.2	(2.02)

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 17
NONAGRICULTURAL EMPLOYMENT
(In Thousands)

Fiscal Year	United States		New England		Connecticut	
	Number	% Growth	Number	% Growth	Number	% Growth
1999-00	130,597	2.49	6,943.2	2.22	1,682.1	1.49
2000-01	132,252	1.27	7,067.2	1.79	1,690.4	0.49
2001-02	130,876	(1.04)	6,971.3	(1.36)	1,675.1	(0.90)
2002-03	130,116	(0.58)	6,881.2	(1.29)	1,652.4	(1.36)
2003-04	130,474	0.28	6,853.2	(0.41)	1,643.6	(0.53)
2004-05	132,475	1.53	6,897.3	0.64	1,656.9	0.81
2005-06	135,016	1.92	6,948.8	0.75	1,670.1	0.80
2006-07	136,970	1.45	7,015.7	0.96	1,689.0	1.13
2007-08	137,762	0.58	7,062.5	0.67	1,705.6	0.98
2008-09	134,629	(2.27)	6,925.7	(1.94)	1,671.2	(2.02)

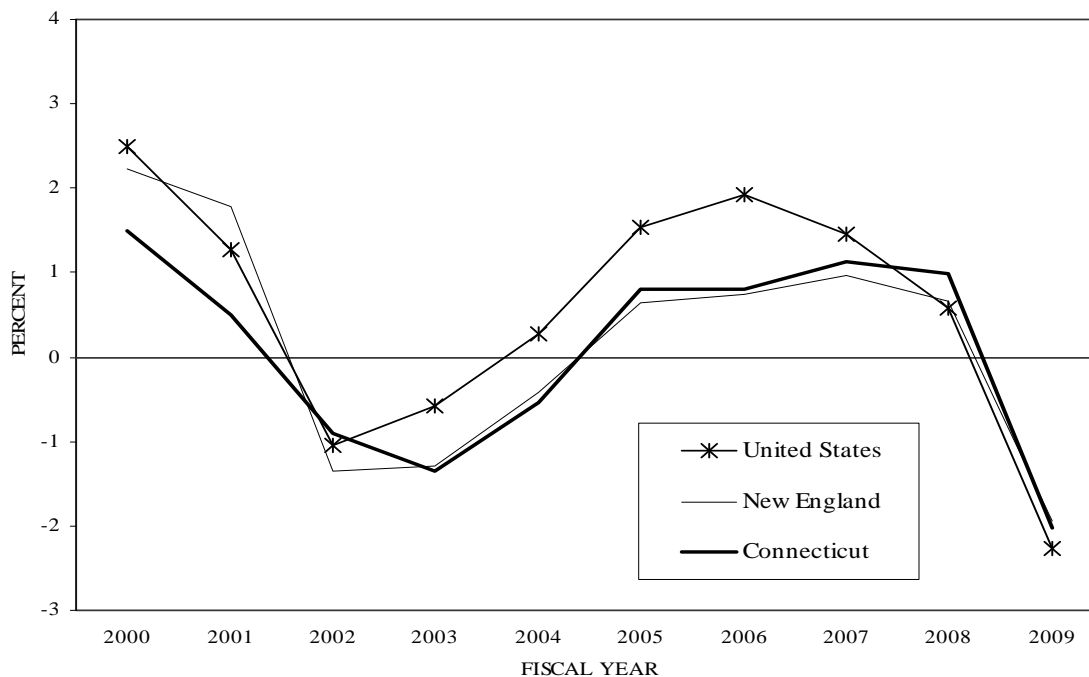
Source: U.S. Bureau of Labor Statistics, Connecticut State Labor Department

In Connecticut, approximately 53% 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.

The positive growth in nonagricultural employment did not continue through fiscal year 2009 with a decrease of approximately 34,400 jobs in Connecticut. 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

**TABLE 18
NONAGRICULTURAL EMPLOYMENT
LONG-TERM GROWTH RATES**

Fiscal Year	Growth Rates		Cumulative Growth Rates	
	United States	Connecticut	United States	Connecticut
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%	16.0%	148.8%	124.5%
1990-2000	19.8%	2.3%	198.2%	129.7%
2000-2009	3.1%	(0.6%)	207.4%	128.2%

The previous 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 2.3% growth between 1990 and 2000 and the slight negative 0.6% growth during the 2000-2009 time period. While the United States did not show the same decline in growth in that period, the U.S. growth did slow in the 2000-2009 period with only a 3.1% growth rate.

Throughout the last two decades, while manufacturing employment in Connecticut has been steadily declining, employment growth in nonmanufacturing industries has surged. Relatively rapid growth in the nonmanufacturing sector is a trend that is in evidence nationwide and reflects the increased importance of the service industry. This shift in employment provides for relatively

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more stable economic growth in the long run through the moderation of the peaks and troughs of economic cycles. In fiscal year 2009, approximately 89% of the state's workforce was employed in nonmanufacturing jobs, up from roughly 50% in the early 1950s.

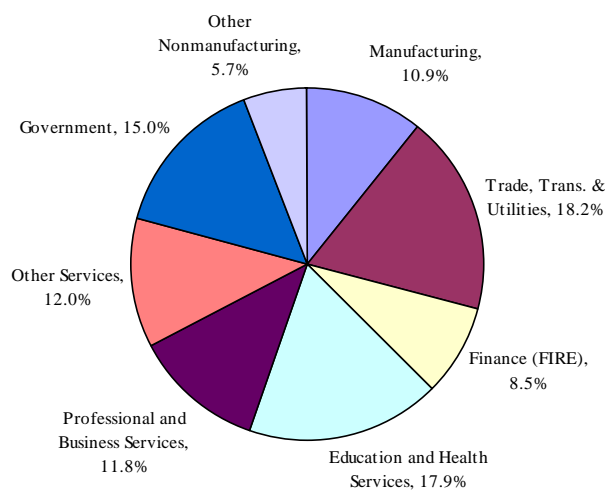
The following table depicts the decrease in the ratio of manufacturing employment to total employment in Connecticut over the last five decades.

TABLE 19
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	1,682.0	236.7	1,445.3	14.1
2009	1,671.2	181.8	1,489.4	10.9

The pie chart on the right provides a breakdown of Connecticut employment in fiscal year 2009. As evident in the pie, Connecticut employment is highly concentrated in nonmanufacturing employment sectors with only 10.9% 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, is clearly the leading sector in fiscal year 2009 with 41.8% of those working employed in that classification.

Fiscal Year 2009 Connecticut Employment



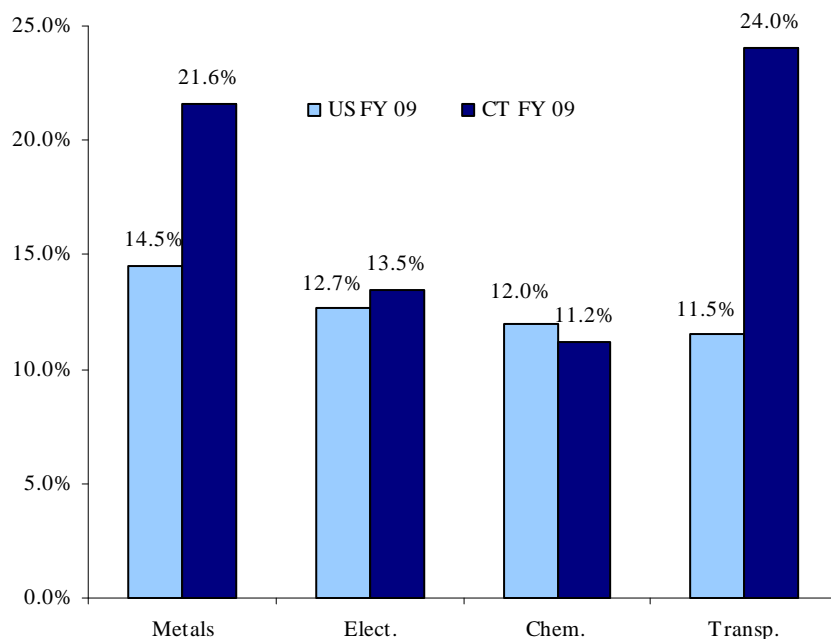
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Manufacturing Employment

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. One important component of this sector in Connecticut is defense-related business. The largest employer in this industry is United Technologies Corporation, including its Pratt & Whitney Aircraft Division in East Hartford. Defense-related businesses like United Technologies fall under the transportation equipment classification.

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 24.0% in fiscal year 2009. Similarly, the Metals Manufacturing sector employment figures have remained approximately level at approximately 21.0% of total state manufacturing employment in fiscal 2000 and fiscal 2009. The other major manufacturing sectors, Electronic and Electrical Manufacturing and Chemical, Plastics, and Rubber each comprise approximately 13.5% and 11.2% of the total manufacturing sector respectively. 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

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In fiscal year 2009, manufacturing employment in the state fell by a negative 3.91%, less than the negative 4.88% and the negative 7.18% realized by the New England Region and the United States respectively.

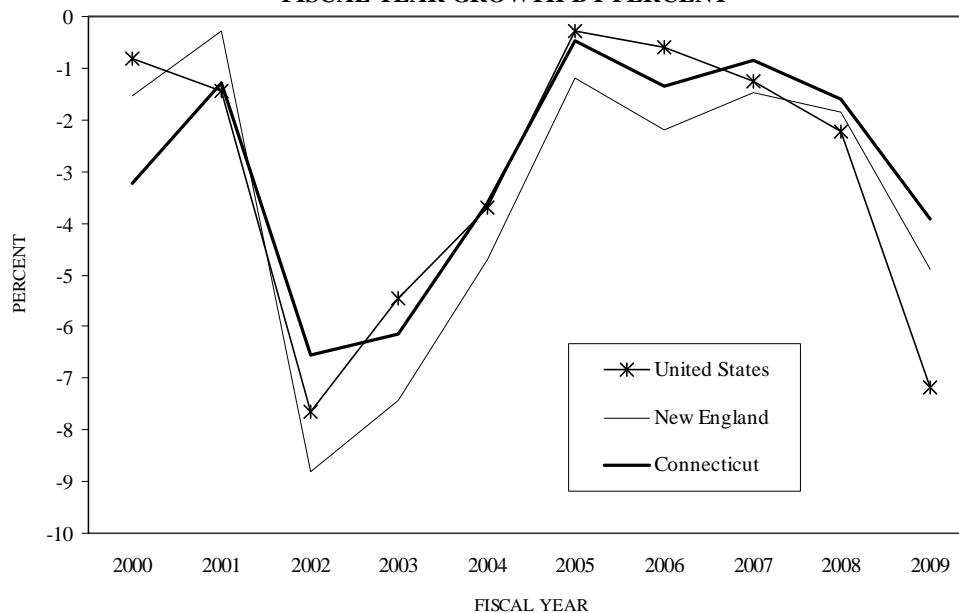
TABLE 20
MANUFACTURING EMPLOYMENT
(In Thousands)

Fiscal Year	United States		New England		Connecticut	
	Number	% Growth	Number	% Growth	Number	% Growth
2000-01	17,037	(1.45)	933.8	(0.28)	233.6	(1.30)
2001-02	15,736	(7.64)	851.6	(8.80)	218.3	(6.56)
2002-03	14,879	(5.45)	788.3	(7.44)	205.0	(6.13)
2003-04	14,328	(3.71)	751.2	(4.70)	197.6	(3.59)
2004-05	14,289	(0.27)	742.4	(1.18)	196.7	(0.48)
2005-06	14,203	(0.60)	726.0	(2.21)	194.0	(1.35)
2006-07	14,025	(1.25)	715.2	(1.48)	192.3	(0.86)
2007-08	13,711	(2.24)	702.0	(1.85)	189.3	(1.60)
2008-09	12,727	(7.18)	667.8	(4.88)	181.8	(3.91)

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

Historically, manufacturing employment closely parallels the business cycle, typically expanding when the economy is healthy and contracting during recessionary periods, as it did during the early 1980s. However, this phenomenon diverged in the latter part of the 1980s, as contractions in manufacturing employment were not initially accompanied by a recession. Other factors, such as 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 10.9% of all nonfarm payroll jobs, compared to 9.5% in the U.S. through fiscal year 2009. The sector is important. Manufacturing jobs remain one of the best-paid segments of payroll, contributing more to personal income than the same number of service jobs. The following table provides a breakdown of the state's manufacturing employment by industry and indicates percentage changes for the year and over a ten year period for each of the manufacturing sectors.

Manufacturing employment in each industry has declined in fiscal year 2009 from fiscal year 2008. The greatest reductions are seen in Printing, Publishing and Textile which dropped over 11%, and Chemical, Plastics and Rubber which dropped nearly 8%. Transportation Equipment remained relatively unchanged with only a 1% reduction. The percent change from fiscal year 2000 to 2009 demonstrates the overall decline in manufacturing employment over the last ten years.

TABLE 21
CONNECTICUT MANUFACTURING EMPLOYMENT BY INDUSTRY
(In Thousands)

<u>Industry</u>	<u>F.Y.</u> <u>1999-00</u>	<u>F.Y.</u> <u>2007-08</u>	<u>F.Y.</u> <u>2008-09</u>	<u>Percent Change</u>	
				<u>FY 2008 to</u> <u>FY 2009</u>	<u>FY 2000 to</u> <u>FY 2009</u>
Transportation Equipment	47.93	43.93	43.59	(0.76)	(9.05)
Metal Manufacturing	50.06	40.38	39.18	(2.97)	(21.73)
Electronic & Electrical	35.10	25.25	24.61	(2.55)	(29.90)
Chemical, Plastics & Rubber	28.67	22.14	20.40	(7.85)	(28.83)
Printing, Publishing & Textile	24.96	16.66	14.75	(11.45)	(40.91)
Industrial Machinery	23.70	18.00	17.52	(2.69)	(26.10)
Food, Beverage & Tobacco	8.93	8.01	7.55	(5.79)	(15.51)
Miscellaneous	17.35	14.88	14.18	(4.67)	(18.26)
Total Mfg. Employment	236.72	189.25	181.78	(3.95)	(23.21)

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 22
MANUFACTURING WAGES AS A PERCENT OF PERSONAL INCOME BY STATE
Fiscal Year 2009
(In Millions of Dollars)

<u>State</u>	<u>Personal Income</u>	<u>Mfg. Wages</u>	<u>%</u>	<u>Rank</u>	<u>State</u>	<u>Personal Income</u>	<u>Mfg. Wages</u>	<u>%</u>	<u>Rank</u>
Indiana	218,914	26,810	12.25%	1	Texas	912,550	53,306	5.84	26
Wisconsin	210,774	24,056	11.41%	2	Maine	48,109	2,782	5.78	27
Iowa	112,001	10,379	9.27%	3	Nebraska	69,315	3,986	5.75	28
Michigan	343,996	31,081	9.04%	4	Massachusetts	330,826	18,356	5.55	29
Ohio	410,955	36,154	8.80%	5	Georgia	334,384	18,525	5.54	30
New Hampshire	56,950	4,861	8.54%	6	Louisiana	160,507	8,757	5.46	31
Kansas	107,930	9,022	8.36%	7	New Jersey	441,314	23,436	5.31	32
Alabama	156,373	12,365	7.91%	8	Rhode Island	43,279	2,295	5.30	33
South Carolina	145,506	11,218	7.71%	9	Oklahoma	130,749	6,704	5.13	34
Minnesota	222,471	17,061	7.67%	10	South Dakota	30,563	1,530	5.01	35
Kentucky	135,310	10,213	7.55%	11	Arizona	220,164	10,372	4.71	36
Tennessee	217,105	16,179	7.45%	12	West Virginia	58,322	2,677	4.59	37
North Carolina	324,039	23,688	7.31%	13	Delaware	35,274	1,554	4.41	38
Vermont	23,954	1,737	7.25%	14	Colorado	210,072	8,277	3.94	39
Arkansas	92,302	6,682	7.24%	15	Virginia	343,909	13,406	3.90	40
Mississippi	88,892	6,368	7.16%	16	North Dakota	25,537	978	3.83	41
Oregon	137,150	9,610	7.01%	17	Maryland	275,123	9,486	3.45	42
Connecticut	194,238	13,255	6.82%	18	New York	930,276	26,457	2.84	43
Utah	86,796	5,851	6.74%	19	Florida	709,494	17,936	2.53	44
Illinois	540,697	35,688	6.60%	20	New Mexico	66,345	1,633	2.46	45
Pennsylvania	499,847	32,205	6.44%	21	Montana	33,310	765	2.30	46
Washington	279,915	17,713	6.33%	22	Nevada	104,405	2,203	2.11	47
Missouri	215,944	13,564	6.28%	23	Wyoming	25,594	485	1.89	48
Idaho	49,623	2,933	5.91%	24	Alaska	30,020	454	1.51	49
California	1,584,884	93,329	5.89%	25	Hawaii	54,290	557	1.03	50
United States	12,118,934	703,742	5.81%						

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

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Nonmanufacturing Employment

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

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 23
CONNECTICUT NONMANUFACTURING EMPLOYMENT BY INDUSTRY
(In Thousands)

<u>Industry</u>	Percent Change				
	F.Y. <u>1999-00</u>	F.Y. <u>2007-08</u>	F.Y. <u>2008-09</u>	FY 2008 to <u>FY 2009</u>	FY 2000 to <u>FY 2009</u>
Construction & Mining	63.60	68.97	59.00	(14.46)	(7.23)
Information	45.36	38.47	36.32	(5.59)	(19.93)
Transp., Trade & Utilities	315.08	312.43	303.63	(2.82)	(3.63)
Transp., & Warehousing	41.73	44.10	43.23	(1.97)	3.59
Utilities	9.72	8.34	8.82	5.76	(9.26)
Wholesale	67.04	69.14	68.91	(0.33)	2.79
Retail	196.59	190.85	182.68	(4.28)	(7.08)
Finance (FIRE)	141.82	144.09	141.38	(1.88)	(0.31)
Finance & Insurance	120.48	123.23	121.42	(1.47)	0.78
Real Estate	21.34	20.86	19.97	(4.31)	(6.47)
Services	639.96	700.75	697.83	(0.42)	9.04
Professional & Business	214.33	207.37	197.82	(4.61)	(7.7)
Education & Health	244.47	292.18	298.96	2.32	22.29
Leisure & Hospitality	120.48	137.37	137.81	0.32	14.38
All Other Services	60.68	63.83	63.24	(0.92)	4.22
Government	239.52	251.63	251.27	(0.14)	4.91
Federal	23.38	19.57	19.53	(0.20)	(16.47)
State	68.14	69.73	70.12	0.56	2.91
Local	148.00	162.33	161.62	(0.44)	9.20
Total Nonmanufacturing Employment	1445.34	1516.34	1489.43	(1.77)	3.05

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

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

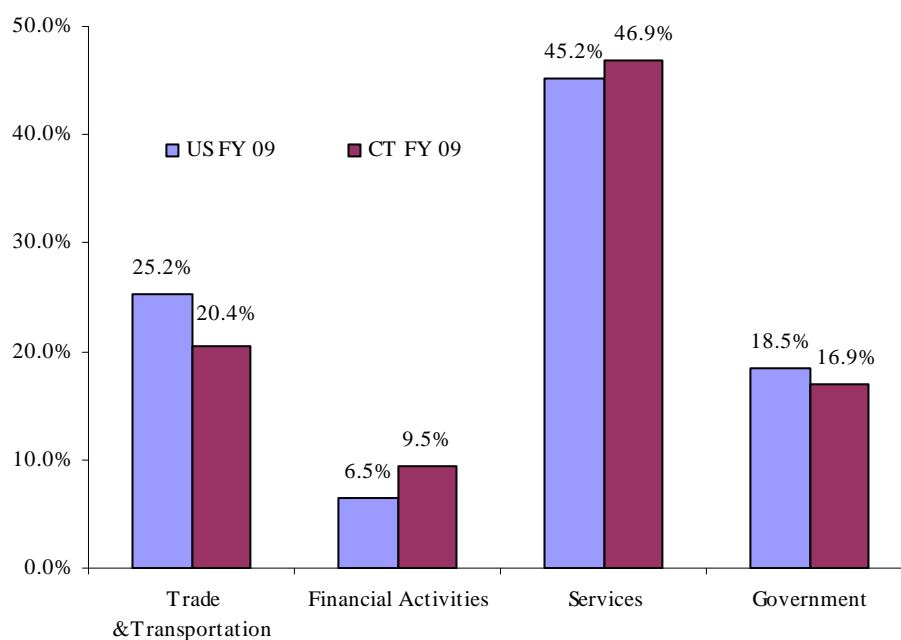
Nonmanufacturing employment lost approximately 27,000 positions and declined by approximately 1.8% in fiscal year 2009, from 2008. Despite this decline, utilities employment grew by 5.8% (480 additional employed). The education and health sector grew by 2.3% from fiscal year 2008 to 2009 with an additional 6,800 employed in that sector. The education and health sector

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also experienced the largest percentage growth from fiscal year 2000 to 2009 with a 22.3% gain during that period.

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.

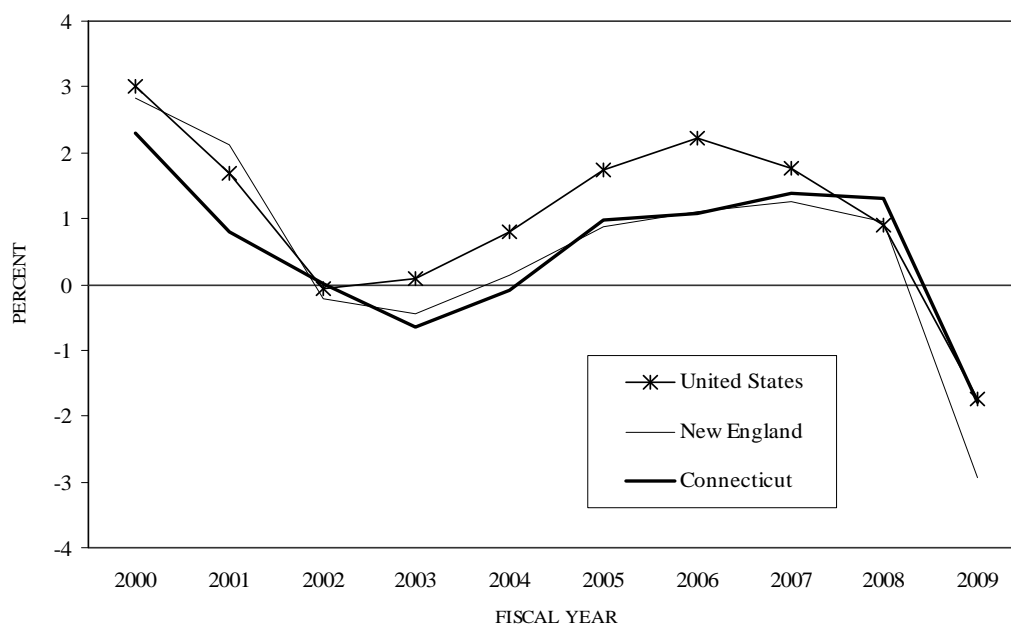
**TABLE 24
NONMANUFACTURING EMPLOYMENT
(In Thousands)**

Fiscal Year	United States		New England		Connecticut	
	Number	% Growth	Number	% Growth	Number	% Growth
1999-00	113,309	3.01	6,006.9	2.83	1,445.3	2.31
2000-01	115,211	1.68	6,133.4	2.11	1,456.7	0.79
2001-02	115,141	(0.06)	6,119.7	(0.22)	1,456.8	0.01
2002-03	115,240	0.09	6,092.7	(0.44)	1,447.5	(0.64)
2003-04	116,148	0.79	6,101.9	0.15	1,446.0	(0.10)
2004-05	118,186	1.75	6,154.9	0.87	1,460.3	0.99
2005-06	120,811	2.22	6,222.8	1.10	1,476.1	1.09
2006-07	122,941	1.76	6,300.5	1.25	1,496.7	1.39
2007-08	124,049	0.90	6,360.4	0.95	1,516.3	1.31
2008-09	121,898	(1.73)	6,173.3	(2.94)	1,489.4	(1.78)

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 25
CONNECTICUT NONMANUFACTURING ANNUAL SALARIES**

<u>Industry</u>	<u>F.Y.</u> 1999-00	<u>F.Y.</u> 2007-08	<u>F.Y.</u> 2008-09	Percent Change	
				<u>FY 2008</u> <u>FY 2009</u>	<u>FY 2000</u> <u>FY 2009</u>
Construction	\$46,537	\$59,456	\$61,945	4.2	33.1
Information	57,310	68,122	70,379	3.3	22.8
Transp., Trade & Utilities	36,325	45,209	45,391	0.4	25.0
Wholesale Trade	61,014	79,829	78,782	(1.3)	29.1
Retail Trade	26,466	30,882	30,803	(0.3)	16.4
Finance, Ins. & Real Estate	79,553	130,158	125,810	(3.3)	58.1
Professional & Business	56,435	74,127	75,613	2.0	34.0
Education & Health Services	35,369	45,679	47,245	3.4	33.6
Leisure & Hospitality Services	17,936	22,258	21,831	(1.9)	21.7
Government	40,640	54,883	56,374	2.7	38.7
Federal	58,717	86,026	90,230	4.9	53.7
State and Local	38,683	52,257	53,521	2.4	38.4

Source: U.S. Bureau of Economic Analysis

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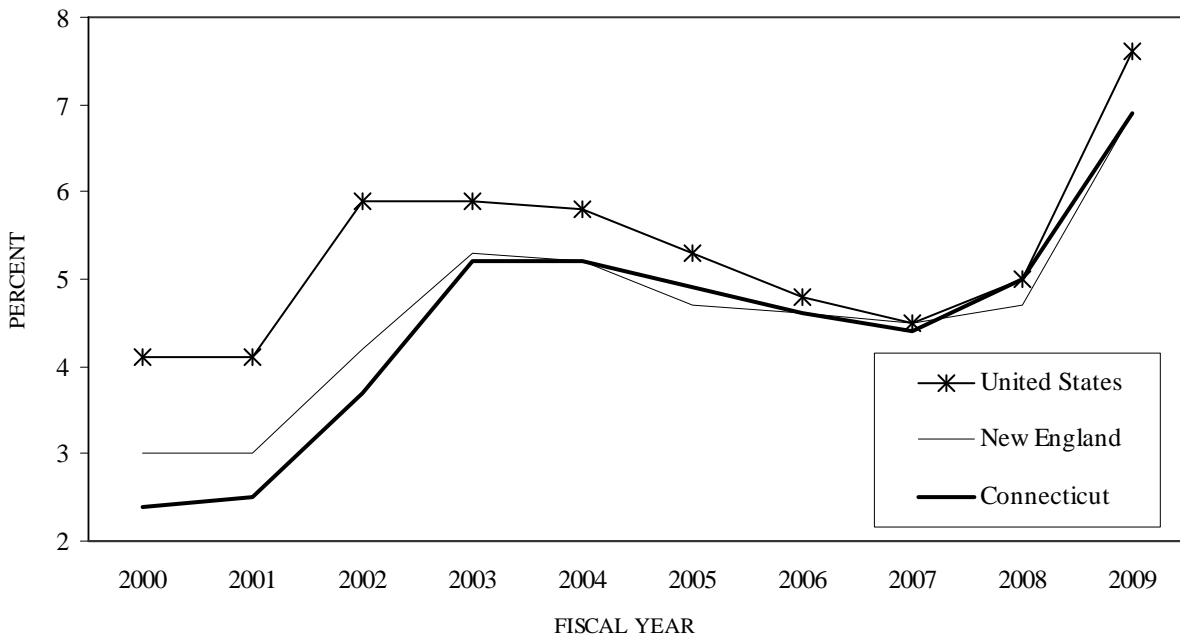
Unemployment Rate

The unemployment rate is the proportion of persons in the civilian labor force who do not have jobs but are actively looking for work. The 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.

**TABLE 26
UNEMPLOYMENT RATES**

<u>Fiscal Year</u>	<u>United States</u>	<u>New England</u>	<u>Connecticut</u>
1999-00	4.1	3.0	2.4
2000-01	4.1	3.0	2.5
2001-02	5.5	4.2	3.7
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	5.0	4.7	5.0
2008-09	7.6	6.9	6.9

**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 has 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 36 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 current 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. Reaching a record high above \$94.62 a barrel in October 2007, domestic West Texas Intermediate crude oil averaged \$92.95 a barrel in December 2007, up 70% from a year earlier. The price continued to rise to an all time monthly record of \$133.93 a barrel in May 2008, and then, 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.

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

In the world oil market, 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 35.72 million barrels per day (MBPD) in 2008 and consumed 11.97 MBPD, leaving a 23.75 MBPD surplus. The Organization for Economic Cooperation and Development (OECD), on the other hand, consumed more than it supplied. In 2008, the OECD consumed 47.56 MBPD, while supplying only 20.92 MBPD, registering a 26.64 MBPD deficit.

The United States consumed 19.30 MBPD in 2008, representing almost a quarter of total world demand, compared to a production of 8.51 MBPD, or 10% of world supply, reflecting a 55% dependency on foreign oil supplies. The deficit between supply and demand also exists in larger economies such as Japan, France, and Germany. Demand in China and India, Asia's two most populous and fastest economically growing countries, continues its upward trend, accounting for some 13% of the worldwide demand total in 2008, up from 5.5% in 1991. China, 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 2008, China consumed 7.85 MBPD while supplying 3.97 MBPD, leaving a 3.88 MBPD deficit. China is also approaching a 50% dependency on foreign oil supplies. While the world economy slowed in 2008 and overall demand for oil by the developed countries declined, China and India continued to increase their demand. Faced with soaring demand and fierce competition for resources, China and

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India have teamed up to acquire oil and gas fields and secure long term supply contracts in Africa, Latin America, and elsewhere.

TABLE 27
WORLD OIL SUPPLY AND DEMAND
Calendar 2008

	Supply			Demand	
	Millions of Barrels <u>Per Day</u>	% of <u>Total</u>		Millions of Barrels <u>Per Day</u>	% of <u>Total</u>
Total OECD (a)	20.92	24.5%	Total OECD	47.56	55.6%
United States	8.51	10.0	United States	19.30	24.1
Canada	3.35	3.9	Canada	2.26	2.6
Mexico	3.19	3.7	Mexico	2.13	2.5
North Sea (b)	4.29	5.0	Japan	4.78	5.6
Other OECD	1.58	1.9	Germany	2.57	3.0
			France	1.99	2.3
Total OPEC (c)	35.72	41.8	Italy	1.64	1.9
Saudi Arabia	9.26	10.8	United Kingdom	1.71	2.0
Iran	4.05	4.7	Other OECD	11.18	13.1
Iraq	2.38	2.8			
Other OPEC	20.03	23.5	Total Non-OECD	37.97	44.4
			Former USSR	4.33	5.1
Total Non-OECD	28.74	33.7	China	7.85	9.2
Former USSR	12.52	14.7	India	2.94	3.4
China	3.97	4.6	OPEC	11.97	14.0
Other	<u>12.25</u>	<u>14.3</u>	Other	<u>10.88</u>	<u>12.7</u>
Total Supply	85.38	100.0%	Total Demand	85.53	100.0%

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 2008*

The following table shows world oil and natural gas reserves by country. Oil or natural gas reserves are the estimated quantities that are recoverable in the future from known reservoirs under the existing technological, operating 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 75%. Of the total, the Middle East controls approximately 62% of world oil reserves with Saudi Arabia alone controlling approximately one-quarter of the total, followed by Iran's 11.6% and Iraq's 10.6%. The Middle East countries

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controlled 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. For example, the abundance of oil sands in Canada will boost proved world oil reserves in 2009. Energy companies whose equities are traded on the U.S. stock market are required to report their holdings of proved reserves.

TABLE 28
WORLD OIL & NATURAL GAS RESERVES
January 1, 2008

	Oil		Gas	
	Billions of Barrels	% of Total	Trillions of Cubic Feet	% of Total
North America	57.5	4.9%	314.1	4.9%
United States	21.3	1.8	237.7	3.7
Mexico	11.1	0.9	18.1	0.3
Canada	25.2	2.1	58.3	0.9
Central & South America	104.8	8.8	247.0	3.9
Venezuela	81.0	6.8	152.0	2.4
Western Europe	13.8	1.2	169.0	2.6
Eurasia *	126.0	10.6	2,104.0	32.9
Russia	76.0	6.4	1,654.0	25.9
Middle East	727.3	61.4	2,570.2	40.2
Saudi Arabia	264.8	22.4	254.0	4.0
Iran	137.0	11.6	985.0	15.4
Iraq	126.0	10.6	91.0	1.4
Kuwait	99.4	8.4	66.3	1.0
Other Mid. East	100.1	8.5	1,173.9	18.4
Africa	114.7	9.7	504.2	7.9
Nigeria	37.2	3.1	184.5	2.9
Far East & Others	40.0	3.4	527.6	8.2
Total	1,184.2	100.0	6,436.0	100.0

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

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

As the economy grows, the United States continues to deplete its energy reserves. U.S. crude oil and natural gas reserves in 2008 were estimated at 21.3 billion barrels and 237.7 trillion cubic feet, or 1.8% and 3.7%, 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.

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United States

The U.S. has the largest demand for world oil. While it counts for about 5% of world population and supplies 10% of world oil, it consumes 25% 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 99.31 quadrillion British Thermal Units (QBTU's) of energy in 2008, 2.3 times the 1960 level. Whereas the U.S. produced only 73.71 QBTU's and exported 7.07 QBTU's in 2008, it required net imports of 25.78 QBTU's, which represented 26.0% of total national energy consumption, up from 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, 32.3%; natural gas, 28.7%; and crude oil, 14.3%) that accounted for 75.3% of total production in 2008. Coal has been the leading energy source since the 1980s while crude oil has declined sharply after the Arab oil embargo.

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 2008 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 37.14 quadrillion petroleum-generated BTU's accounted for approximately 40.0% of U.S. fuel consumption, followed by natural gas at 23.84 QBTU's and coal at 22.45 QBTU's. These three fuel sources together accounted for approximately 85% of U.S. fuel consumption. Nuclear power and hydroelectric power were distant followers. The U.S. is a laggard in utilizing renewable energy. Hydroelectricity, for example, provided approximately 6% 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, the major alternative resource for production in the U.S., continue to decline to 104 units in 2008, down from a peak of 112 units in 1990. 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 8 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 31.21 QBTU's in 2008, followed by transportation at 27.92 QBTU's, residential at 21.64 QBTU's, and commercial at 18.54 QBTU's.

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TABLE 29
U.S. ENERGY CONSUMPTION IN 2008
(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	4.99	3.20	8.15	0.67	6.82	23.84	23.3%
Petroleum	1.18	0.58	9.59	26.33	0.46	37.14	39.2%
Coal	0.01	0.07	1.82	0.01	20.55	22.45	22.4%
Nuclear	0.00	0.00	0.00	0.00	8.46	8.46	8.3%
Renewables							
Hydroelectric	0.00	0.00	0.02	0.00	2.43	2.45	2.4%
Other*	0.60	0.12	2.06	0.83	1.26	4.87	4.3%
Electricity	4.71	4.62	3.35	0.03	0.11	12.81	12.7%
Electric Losses	<u>10.15</u>	<u>9.96</u>	<u>7.23</u>	<u>0.06</u>	<u>(40.09)</u>	<u>(12.70)</u>	<u>(12.6)%</u>
Total Demand	21.64	18.54	31.21	27.92	0.00	99.31	100.0%
% of Total	21.8%	18.7%	31.4%	28.1%	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. Department of Energy, Energy Information Administration, *Annual Energy Review 2008*

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 in response to high oil prices and economic slowdown. The electric power generation sector consumes and also produces energy. Energy losses occur throughout the entire electrical system beginning with utility generation in fossil-fired, nuclear or hydroelectric power plants all the way to the end-users. Energy losses are approximately two-thirds of total energy input during the conversion process of heat energy into mechanical energy for turning electric generators. Of the electricity generated, about 5% is lost in plant use and 9% is lost in transmission and distribution.

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 other events. Mounting world consumption has directly brought 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 9.40 barrels in 2008 with a 49% 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.

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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 recently, as the dollar serves as the world standard unit of trade. To defend against the 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 has sent daily oil prices down more than 80% to hover around \$30 per barrel in November 2008. Crude oil went back to \$80 a barrel in November of 2009 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 \$12.52 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 upper \$60s in 2007 and near \$130 per barrel in July of 2008. It then plummeted 70% close to \$38 per barrel in late 2008. 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 \$88.31 per barrel price became the new high, surpassing the last annual peak of \$78.21 per barrel registered in 1981.

TABLE 30
CRUDE OIL PRICES AND U.S. CONSUMPTION
Refiners' Crude Oil Acquisition Costs* Per Barrel

<u>Year</u>	<u>Current \$</u>	<u>In 2006\$*</u>	<u>Year</u>	<u>Current \$</u>	<u>In 2006\$*</u>
1973	4.15	18.83	2001	22.95	26.13
1975	10.37	38.84	2002	24.02	26.92
1980	28.22	69.05	2003	28.60	31.34
1981	35.28	78.21	2004	36.91	39.39
1985	26.75	50.11	2005	50.32	51.95
1990	22.34	34.47	2006	60.10	60.10
1995	17.23	22.79	2007	67.98	66.09
2000	28.24	33.06	2008	94.29	88.31
			2009**	53.18	50.22

Note: * Adjusted by 2006 CPI-U, where 1982-84=100.00 and 2006 = 201.58.

** The average for the first eight months.

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

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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 in Asia, the Middle East, some industrialized countries, and elsewhere. However, as the world enters a recession, demand falls and so do prices. 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 42% 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. The world rate of replenishment of oil reserves relative to their rate of supply, the so-called Reserve Replenishment Ratio (RRR), has been declining and is expected to move below the healthy ratio of 100% for the next five years. Although new discoveries such as Tiber Prospect and Jack Field in the Gulf of Mexico, and Tupi Field in Brazil, etc. may add tens of billions of barrels of crude oil reserves and help increase the RRR ratio, meaningful production may not happen for years to come.

Efficiency

Increasing efficiency has spearheaded 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. The *Energy Star* label now covers more than 50 product categories from small battery chargers to central AC to big new homes. 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.

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 GDP has trended down at an average annual rate of 2.25% 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 2008, that had fallen to 7,460 BTU's, a 49% reduction in

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three decades. 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 valued 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 31
U.S. PRIMARY ENERGY CONSUMPTION & ENERGY EFFICIENCY

Calendar Year	U.S. Energy Consumption		GDP	BTU	Percent Change
	Total Quadrillion BTU's	Percent Change	Billion (In 2005\$)	Per \$1 GDP (In 2005\$)	
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%)
2001	96.33	(2.7%)	11,347.2	8,489	(3.7%)
2002	97.86	1.6%	11,553.0	8,470	(0.2%)
2003	98.21	0.4%	11,840.7	8,294	(2.1%)
2004	100.35	2.2%	12,263.8	8,183	(1.3%)
2005	100.48	0.1%	12,638.4	7,951	(2.8%)
2006	99.88	(0.6%)	12,976.2	7,697	(3.2%)
2007	101.55	1.7%	13,254.1	7,662	(0.5%)
2008	99.30	(2.2%)	13,312.2	7,460	(2.6%)

Source: U.S. Department of Energy, Energy Information Administration, *Annual Energy Review 2008*, U.S. Department of Labor, Bureau of Labor Statistics

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.

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

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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 4,879 BTU's per current dollar of Gross State Product in 2007, the latest available data, ranking the second most efficient state among the 50 states and 32% less than the national average of 7,208 BTU's. When compared to the national per person consumption, Connecticut residents are moderate energy users. Connecticut consumed 249.5 million BTU's of energy per person in 2007, ranking it 45th among the 50 states and 26% less than the national average of 336.8 million BTU's. These figures were far less than Alaska's consumption of 1,062.3 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 37% higher than the national average. Connecticut residents in 2007 spent \$24.93 per million BTU, compared to \$18.23 for the Nation.

The table on the following page shows a breakdown of the amount and percentage share of total energy consumed in Connecticut by fuel in 2007, 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.

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 2007, the latest available data, the state generated 33,171,209 gigawatt hours of electricity mostly using nuclear power and sold 34,129,107 gigawatt hours of electricity. This implies that, in 2007, the state was 97.2% 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.

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TABLE 32
CONNECTICUT ENERGY CONSUMPTION IN 2007
(Trillion 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>CT Total</u>	<u>% of CT Total</u>	<u>% of US Total</u>
Natural Gas	44.6	37.0	23.5	4.6	74.5	184.2	21.2%	24.0%
Petroleum	82.2	17.8	28.9	253.8	14.2	397.0	45.6%	37.4%
Coal	0.0	0.1	0.0	0.0	39.8	39.9	4.6%	22.6%
Nuclear	0.0	0.0	0.0	0.0	171.9	171.9	19.7%	8.5%
Hydroelectric	0.0	0.0	0.0	0.0	3.6	3.6	0.4%	2.5%
Other	5.7	0.6	4.3	0.0	18.2	28.8	3.3%	4.9%
Deliv. Elec.	45.6	51.6	18.5	0.7	0.0	116.4	13.4%	12.9%
Deliv. Losses	<u>98.4</u>	<u>111.4</u>	<u>40.0</u>	<u>1.5</u>	<u>(322.3)</u>	<u>(71.0)</u>	<u>(8.2)%</u>	<u>(12.9)%</u>
Total Demand	276.5	218.5	115.2	260.5	0.0	870.8	100.0%	100.0%
% of Total-CT	31.8%	25.1%	13.2%	29.9%	0.0%	100.0%		
% of Total-U.S.*	21.8%	18.7%	31.4%	28.1%	0.0%	100.0%		

Note: * % of Total -U.S. from 2008 data

Totals may not add due to rounding.

Source: U.S. Department of Energy, Energy Information Administration, *State Data, 2007*

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 2007, the latest available data, there were 1,624,052 electricity consumers in Connecticut, with residential units accounting for approximately 90%; commercial units, 9%; and 0.5% each for industrial units and others. Approximately 92% 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.

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 2007 were 37% higher than the national average, with electricity above the nation by 80%.

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TABLE 33
CONSUMER ENERGY PRICES IN THE UNITED STATES AND CONNECTICUT
Nominal Dollars Per Million BTU in 2007

	<u>Natural</u> <u>Gas</u>	<u>Motor</u> <u>Gasoline</u>	<u>Residential</u> <u>Heating Fuel</u>	<u>All *</u> <u>Petroleum</u>	<u>Retail</u> <u>Electricity</u>	<u>Total</u> <u>Energy</u>
Connecticut	\$11.03	\$22.27	\$8.82	\$20.76	\$48.20	\$24.93
United States	\$9.30	\$18.84	\$8.56	\$19.45	\$26.84	\$18.23
CT as a % of the U.S.	119%	118%	103%	107%	180%	137%

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*

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 2007, gasoline consumption in the U.S. totaled 140.4 billion gallons, the equivalent of 9.16 million barrels per day. Gasoline consumption in Connecticut totaled 1.57 billion gallons or 37.3 million barrels, accounting for 1.1% of the nation's consumption. In 2007, 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 2007, each Connecticut resident consumed 449.0 gallons of gasoline versus 466.2 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 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. During the period between 1998 and 2007, per capita gasoline consumption in Connecticut has increased by 6.0%, versus only 0.5% for the nation. 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.

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**TABLE 34
GASOLINE CONSUMPTION IN THE UNITED STATES & CONNECTICUT**

Calendar Year	U.S. Total	%	CT Total	%	Per Capita Gallon	
	Gallons (000's)	Change	Gallons (000's)	Change	US	CT
1998	127,977,505	2.1%	1,425,178	1.8%	463.9	423.5
1999	132,260,590	3.3%	1,551,446	8.9%	474.0	458.1
2000	132,279,950	0.0%	1,476,340	-4.8%	468.8	432.7
2001	134,110,264	1.4%	1,496,469	1.4%	470.5	436.5
2002	137,664,309	2.7%	1,589,580	6.2%	478.5	461.0
2003	139,065,057	1.0%	1,645,268	3.5%	479.2	474.4
2004	141,700,177	1.9%	1,860,908	13.1%	483.8	535.5
2005	140,338,710	-1.0%	1,614,697	-13.2%	474.8	464.2
2006	140,320,089	0.0%	1,566,875	-3.0%	470.3	449.2
2007	140,448,924	0.1%	1,566,785	0.0%	466.2	449.0
Change '98 to '07	9.7%		9.9%		0.5%	6.0%

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.

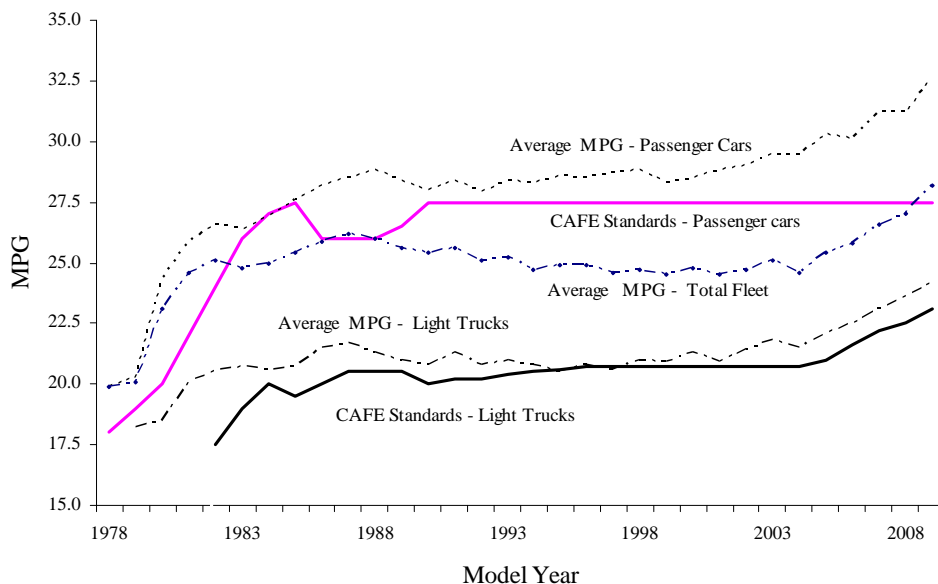
Source: U. S. Department of Transportation, Office of Highway Information Management, *Highway Statistics*

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 Transportation to set automobile fuel efficiency standards, starting in model year (MY) 1978 for passenger cars and MY 1979 for light trucks. 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 since 1982, 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 32.6 MPG in MY 2009, and, for light trucks produced, from 18.2 MPG in MY 1979 to 24.2 MPG in MY 2009, with a 63.8% and 33.0% improvement, respectively, in fuel efficiency.

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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 2009 was a banner year that raised MPG to an historic high of 32.6 MPG for passenger cars and 24.2 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 49.0% of market sales after peaking at 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 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 Obama Administration accelerated those requirements and moved up the deadline to MY 2016 to reach the goal.

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 5.215% relative weight to this single component to calculate the CPI-U index, the consumer price index for all urban consumers in 2008, up from 4.303% in 2007.

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

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grades in the U.S. in October of 2009, for example, was \$2.61 per gallon, compared to \$3.22 a year earlier and down from its all time high of \$4.14 in July of 2008. Monthly prices fluctuated 46% from \$1.84 to \$2.68 in 2009. 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, etc. California's October 2009 retail price of all grades branded gasoline of \$3.02 per gallon, for example, can be broken down into four categories as follows: crude oil (\$1.75, 57.9%), federal & state taxes (\$0.61, 20.2%), refining costs and profits (\$0.46, 15.2%), and distribution and marketing (\$0.20, 6.6%) when domestic West Texas Intermediate crude oil averaged \$75.82 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.

TABLE 35
RETAIL MOTOR GASOLINE PRICES
(Dollars per Gallon, Regular Gasoline)

Calendar <u>Year</u>	<u>Nominal Price</u>	<u>Real Price*</u>	<u>Average Real Price (for the Decade of)</u>
1950	\$0.27	\$1.62	\$1.54
1960	0.31	1.48	1.40
1970	0.36	1.30	1.40
1980	1.25	2.20	1.70
1990	1.16	1.43	1.27
2000	1.51	1.51	1.69
2001	1.46	1.43	-
2002	1.36	1.31	-
2003	1.59	1.50	-
2004	1.88	1.72	-
2005	2.30	2.03	-
2006	2.59	2.22	-
2007	2.80	2.34	-
2008	3.27	2.67	-

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

* Real prices are in chained 2000 dollars, calculated by using GDP implicit price deflators.

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

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. 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. To remove the effects of inflation, the use of inflation-adjusted prices for comparison can better reflect the real price changes. The table above shows that the average real price in 2008 reached a three-decade high at \$2.67 per gallon; however, it was only 34 cents higher than the previous all-time high of \$2.33 set in 1981.

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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. In 2008, according to the "GTZ International Fuel Prices 2008" report 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. Under 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 been using the 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 September of 2009. The tax portion of the price of gasoline in the U.S. accounted for only 15.8% of the retail price, compared to 66.4% in the U.K. and 66.6% in Germany. Of the \$0.40 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 been remained at 18.4 cents per gallon since August of 1993.

TABLE 36
END-USER GASOLINE PRICES AMONG DEVELOPED COUNTRIES
Unleaded Premium Gasoline, September 2009

<u>Country</u>	<u>Before Tax (\$)</u>	<u>Tax *(\$)</u>	<u>End-User Price (\$)</u>	<u>Tax As a % of Price</u>	<u>U.S. End-User Price as a % of Other Country</u>
France	2.36	4.52	6.89	65.7%	36.9%
Germany	2.42	4.83	7.25	66.6%	35.1%
Italy	2.71	4.33	7.04	61.5%	36.1%
Spain	2.60	3.26	5.86	55.6%	43.3%
United Kingdom	2.17	4.29	6.45	66.4%	39.4%
Average of Above	2.45	4.25	6.70	63.4%	37.9%
Japan	2.81	2.60	5.41	48.0%	47.0%
Canada	2.34	1.13	3.48	32.6%	73.1%
USA	2.14	0.40	2.54	15.8%	

* Excise tax only

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

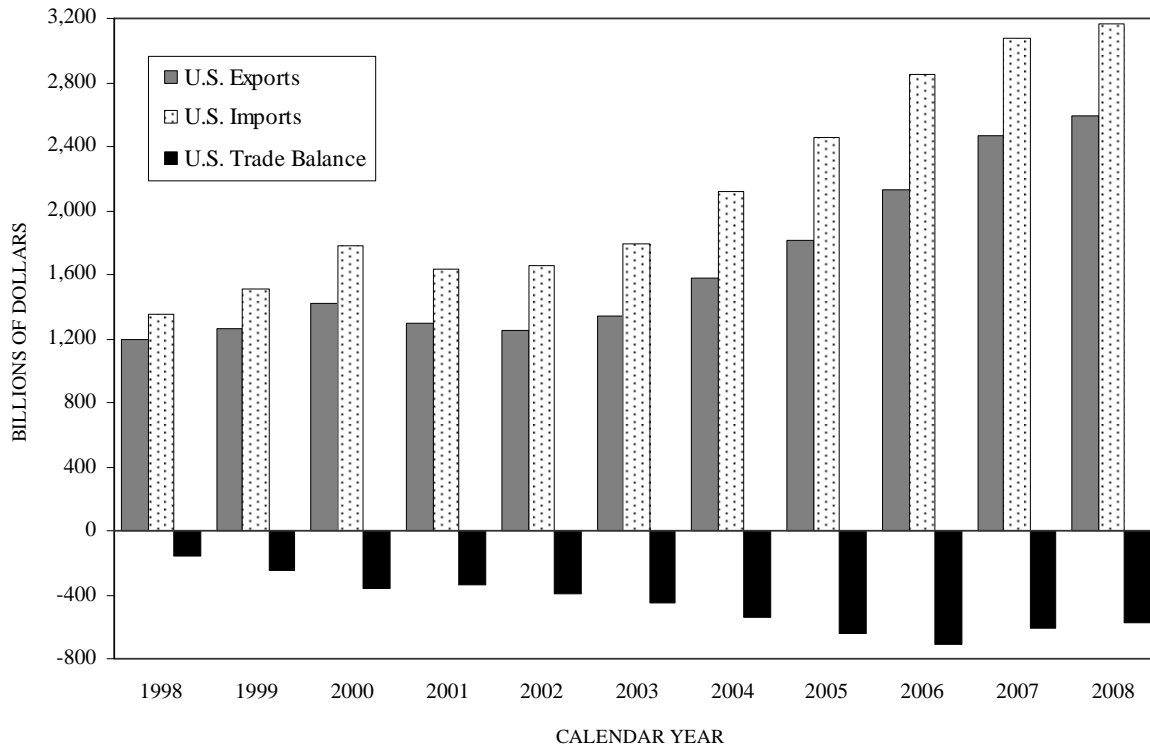
Export Sector

Trade is playing an increasingly important role in the U.S. economy. U.S. real exports and imports accounted for 37.3% of Gross Domestic Product (GDP) in 2008, up from 34.6% in 2007, 25.7% in 2000, 16.3% in 1990, 12.3% in 1980, 9.9% in 1970, and 7.8% in 1960. The increase in

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2008 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. Real exports grew 11.2% in 2008 while real imports grew by only 7.6%, down from double digit growth between 2004 and 2006.

U.S. TRADE BALANCE BY CALENDAR YEAR



Source: U.S. Department of Commerce, "Survey of Current Business", July 2009

The previous graph illustrates the United States' trade balance for the past ten years. In 2008, the deficit improved to \$577.7 billion, down from \$610.6 billion in 2007. 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. In addition, the U.S. has benefited from the recent decline in the world price of oil and many other imported commodities.

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. 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.

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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 increased slightly by 1.1% and registered \$840.2 billion in 2008, up from \$831.0 billion in 2007.

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 90% of total merchandise imports over the past decade. In contrast, U.S. exports have been concentrated in two categories: capital goods and industrial supplies and materials. These two categories accounted for approximately 66% of the country's merchandise exports in 2008. The broad penetration of foreign imports indicates the difficulty the U.S. would have in improving its trade position.

Of the total trade deficit of \$577.7 billion, industrial supplies and materials and consumer goods accounted for the largest portions of the deficit, reaching \$398.3 billion and \$323.4 billion respectively in 2008. Industrial supplies and materials include energy products, iron and steel, metal products, lumber and paper and chemicals excluding medicinals. In 2008, the U.S. imported \$786.4 billion worth of these goods compared to the \$388.1 billion that the U.S. exported. The industrial supplies and materials trade deficit at \$398.3 billion represents a 23.3% increase from 2007's deficit of \$323.0 billion. According to the International Trade Administration, the top growth categories for industrial supplies in 2008 were fuel oil which was up \$19.3 billion, other petroleum products which were up \$8.5 billion, nonmonetary gold which was up \$5.4 billion, chemicals-fertilizers which were up \$4.5 billion and steelmaking materials which were up \$4.3 billion.

The second largest portion of the deficit occurred in consumer goods which 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 this category decreased in 2008 by 2.6% after growth of 4.8% in 2007 and 7.3% in 2006. The third largest portion of the merchandise trade deficit occurred in the auto category at \$112.3 billion, an improvement of 18.6% from 2007's deficit of \$137.9 billion. The decrease in the auto trade deficit was attributable to the U.S. importing 9.8% fewer foreign automobiles in 2008 compared with 2007.

Service Transactions

The United States is highly competitive in the delivery of services. It is estimated that the U.S. is 20% more productive than our major foreign competitors in this area. The surplus in service transactions increased to \$144.3 billion in 2008, up from a surplus of \$129.6 billion in 2007. Imports increased 8.0% to \$405.3 billion while exports of services increased 8.9% to \$549.6 billion. Of the \$144.3 billion total surplus in 2008, \$145.2 billion was attributable to royalty and license fees, which more than offset the deficit in other services. The service trade surplus of \$144.3 billion in 2008 was a record surplus amount in that category.

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TABLE 37
U.S. TRADE DEFICIT BY CATEGORY
(In Billions of Dollars)

	2007			2008		
	<u>Exports</u>	<u>Imports</u>	<u>Balance</u>	<u>Exports</u>	<u>Imports</u>	<u>Balance</u>
Total Trade	2,462.1	3,072.7	(610.6)	2,591.2	3,168.9	(577.7)
Merchandise	1,138.4	1,969.4	(831.0)	1,277.0	2,117.2	(840.2)
Foods/Beverages	84.3	81.7	2.6	108.3	89.0	19.3
Industrial Supplies & Materials	316.4	639.4	(323.0)	388.1	786.4	(398.3)
Capital Goods, Excluding Autos	433.0	446.0	(13.0)	457.7	455.2	2.5
Autos	121.3	259.2	(137.9)	121.5	233.8	(112.3)
Consumer Goods	146.0	478.2	(332.2)	161.3	484.7	(323.4)
Others	37.4	64.9	(27.5)	40.1	68.1	(28.0)
Services	504.8	375.2	129.6	549.6	405.3	144.3
Travel & Transportation	174.3	171.9	2.4	200.6	184.4	16.2
Royalties, License fees, etc.	303.9	166.4	137.5	325.1	179.9	145.2
Other Services	26.6	36.9	(10.3)	23.9	41.0	(17.1)
Investment Income	818.9	728.1	90.8	764.6	646.4	118.2
Direct Investment	363.2	126.5	236.7	370.7	120.9	249.8
Other Private Investment	450.5	427.2	23.3	385.9	349.9	36.0
U.S. Gov't Receipts/Payments	2.2	164.3	(162.1)	4.9	165.3	(160.4)
Compensation of Employees	3.0	10.1	(7.1)	3.1	10.3	(7.2)
	<u>Percent Change From Previous Year</u>					
Total Trade	15.4	8.0	(14.3)	5.2	3.1	(5.4)
Merchandise	12.1	5.7	(1.9)	12.2	7.5	1.1
Foods/Beverages	27.7	9.1	(129.2)	28.5	8.9	642.3
Industrial Supplies & Materials	14.6	6.1	(1.0)	22.7	23.0	23.3
Capital Goods, Excluding Autos	7.2	6.2	(18.8)	5.7	2.1	(119.2)
Autos	13.0	1.0	(7.6)	0.2	(9.8)	(18.6)
Consumer Goods	13.1	7.2	4.8	10.5	1.4	(2.6)
Others	12.3	3.0	(7.4)	7.2	4.9	1.8
Services	15.8	7.5	49.1	8.9	8.0	11.3
Travel & Transportation	13.2	4.2	(122.0)	15.1	7.3	575.0
Royalties, License fees, etc.	18.4	11.7	27.7	7.0	8.1	5.6
Other Services	5.6	5.1	4.0	(10.2)	11.1	66.0
Investment Income	20.0	14.8	88.8	(6.6)	(11.2)	30.2
Direct Investment	11.8	(16.1)	36.0	2.1	(4.4)	5.5
Other Private Investment	27.9	26.1	76.5	(14.3)	(18.1)	54.5
U.S. Gov't Receipts/Payments	(8.3)	21.7	22.2	122.7	0.6	(1.0)
Compensation of Employees	3.4	7.4	9.2	3.3	2.0	1.4

Note: Percent changes were derived before rounding to billions.

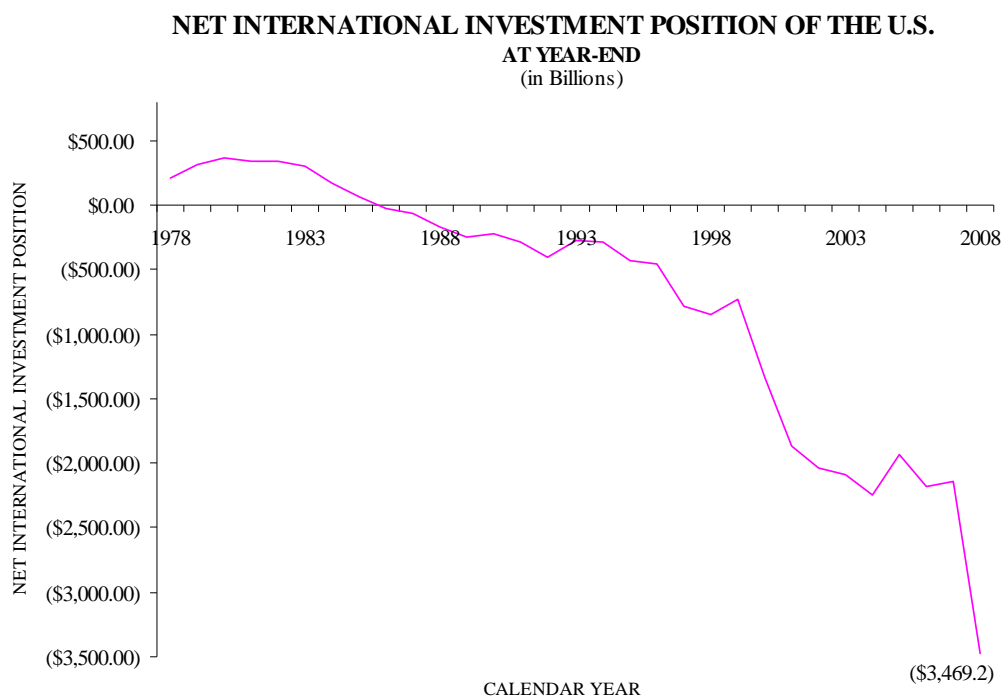
Source: U.S. Department of Commerce, "Survey of Current Business", July 2009

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Investment Income

The balance in investment income registered a surplus of \$118.2 billion, a 30.2% increase from 2007. 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.

According to the U.S. Department of Commerce, in calendar 2008 foreign assets in the U.S., measured at current cost increased by \$2,938.6 billion, or 14.4%, to \$23,357.4 billion, compared to an increase of \$1,609.3 billion, or 8.8%, to \$19,888.2 billion for U.S. assets abroad. This placed U.S. international investment at a net negative of \$3,469.2 billion. U.S. direct investment in assets abroad continues to exceed foreign direct investment in the U.S. In 2008, the U.S.'s direct investment abroad was \$3,698.8 billion and foreign direct investment in the U.S. was \$2,646.8 billion, registering \$1,052.0 billion in net investment, up from \$910.0 billion in 2007. 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 2009

The following table shows U.S. trade transactions by area for 2008. The deficit on goods and services in 2008 was \$577.7 billion, a decrease of \$32.9 billion. The United States continues to import more from Europe, Canada, Japan, Latin America, Asia and Pacific, Africa, and the

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Middle East than it exports to those regions. The 2008 exports and imports to and from Canada were record levels. The U.S. trade deficit with Africa and the Middle East continued to grow in 2008, as the U.S. is importing far more than it is exporting to those regions.

TABLE 38
U.S. INTERNATIONAL TRANSACTIONS
(By Area, In Billions of Dollars)

	----- 2007 -----			----- 2008 -----		
	<u>Exports</u>	<u>Import</u>	<u>Bal.</u>	<u>Exports</u>	<u>Import</u>	<u>Bal.</u>
Total Trade	2,462.1	3,072.7	(610.6)	2,591.2	3,168.9	(577.7)
Western Europe	893.3	926.1	(32.8)	914.1	934.4	(20.3)
Canada	337.0	372.5	(35.5)	358.6	394.0	(35.4)
Latin America (1)	516.4	570.6	(54.2)	545.2	570.6	(25.4)
Asia & Pacific (2)	544.2	975.2	(431.0)	577.0	982.8	(405.8)
Africa	42.0	100.0	(58.0)	49.0	122.5	(73.5)
Middle East	76.3	110.8	(34.5)	88.6	146.8	(58.2)
Others (3)	52.9	17.5	35.4	58.7	17.8	40.9
European Union (4)	776.4	809.7	(33.3)	780.4	784.9	(4.5)
Australia	46.6	29.2	17.4	52.0	27.2	24.8
Japan	129.4	241.2	(111.8)	135.2	224.8	(89.6)
China	84.6	375.2	(290.6)	93.8	399.4	(305.6)

Percent Change From Previous Year

	----- 2007 -----			----- 2008 -----		
	<u>Exports</u>	<u>Import</u>	<u>Bal.</u>	<u>Exports</u>	<u>Imports</u>	<u>Bal.</u>
Total Trade	15.4	8.0	(14.3)	5.2	3.1	(5.4)
Western Europe	20.6	8.7	(70.6)	2.3	0.9	(38.1)
Canada	7.9	4.1	(22.1)	6.4	5.8	(0.3)
Latin America (1)	15.1	9.2	(26.8)	5.6	0.0	(53.1)
Asia & Pacific (2)	12.4	7.6	2.1	6.0	0.8	(5.8)
Africa	17.3	14.4	12.4	16.7	22.5	26.7
Middle East	16.0	8.6	-4.7	16.1	32.5	68.7
Others (3)	13.0	(4.4)	24.2	11.0	1.7	15.5
European Union (4)	20.3	8.4	(67.3)	0.5	(3.1)	(86.5)
Australia	18.9	25.9	8.7	11.6	(6.8)	42.5
Japan	4.4	1.4	(1.9)	4.5	(6.8)	(19.9)
China	18.3	14.1	13.0	10.9	6.4	5.2

(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, "Survey of Current Business", July 2008

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In 2008, the United States imported \$399.4 billion worth of goods and services from China while exporting only \$93.8 billion to that country. The resulting trade deficit with China was \$305.6 billion in 2008, 5.2% higher than the 2007 deficit of \$290.6 billion. The 2008 negative trade balance of \$305.6 billion was a record and the imbalance continues to grow at alarming rates. The top five U.S. imports from China in 2008 are electrical machinery and equipment at \$80.3 billion, power generation equipment at \$65.1 billion, toys and games at \$27.2 billion, apparel at \$24.0 billion, and furniture at \$19.4 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 is \$80.3 billion in 2008, that same commodity was number one on the top U.S. exports to China at only \$11.4 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 5.87% 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 \$15,313.1 million in 2008. 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.

Exports of services of approximately \$6.6 billion and income receipts of approximately \$9.2 billion on Connecticut direct investment abroad also play a vital role in Connecticut. These bring Connecticut's total export related receipts to approximately \$31.1 billion, or approximately 14.4% of the State's GSP. Exports of services include foreign transactions generated from travel, royalties and license fees, as well as private services including education and business services. Income receipts on Connecticut investment abroad include profits, interest, dividends and capital gains generated from direct investment and securities owned by the state's citizens or companies. As a high-tech state with excellent institutes of higher education and growing entertainment attractions, along with superior expertise in finance and insurance, Connecticut's service exports and investment income are estimated to be higher than the national average.

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 82.3% of Connecticut's foreign sales in 2008. The following table shows the breakdown of major products by NAICS code for the past five years. In 2008, transportation equipment, which includes aircraft engines and spare parts, gas turbines, and helicopters,

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spacecraft, etc. accounted for 42.0% of total exports slightly up from 41.7% of exports in 2007. In terms of average annual growth from 2004 to 2008, chemicals posted the strongest growth at 31.5%.

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

<u>NAICS</u>	<u>Industry</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>% of 2008 Total</u>	<u>Average Growth 04-08</u>
322	Paper	165.8	219.8	230.3	147.7	146.9	1.0	0.2%
325	Chemicals	608.2	590.4	748.6	1,447.9	1,575.0	10.3	31.5%
326	Plastics & Rubber	179.6	178.4	204.6	212.4	251.0	1.6	9.0%
331	Primary Metal	275.7	325.9	639.0	480.4	508.5	3.3	23.8%
332	Fabricated Metal	406.5	408.2	541.2	585.9	621.7	4.1	11.8%
333	Machinery, exc. Elec.	1,106.8	1,129.2	1,387.1	1,618.5	1,555.6	10.2	9.4%
334	Computer & Electronic	803.6	885.4	1,077.1	1,312.5	1,301.6	8.5	13.2%
335	Electrical Equipment	469.7	433.0	551.4	607.0	602.9	3.9	7.2%
336	Transportation Equip.	3,177.8	3,936.7	5,382.1	5,795.4	6,434.4	42.0	19.8%
339	Miscellaneous MFG	606.2	562.1	286.2	229.5	272.0	1.8	(14.4%)
	Others	<u>759.0</u>	<u>1,018.2</u>	<u>1,200.4</u>	<u>1,361.9</u>	<u>2,043.5</u>	<u>13.3</u>	<u>28.9%</u>
	Total Commodity Exports	8,559.2	9,687.3	12,248.0	13,799.1	15,313.1	100%	15.8%
	% Growth	5.2%	13.2%	26.4%	12.7%	11.0%		
	Gross State Product (\$M)	182,112	190,499	201,635	212,252	216,174		
	% Growth	7.20%	4.61%	5.85%	5.27%	1.85%		4.4%
	Exports as a % of GSP	4.70%	5.09%	6.07%	6.50%	7.08%		

Source: U.S. Dept. of Commerce, Massachusetts Institute of Social and Economic Research

Overall growth in exports of commodities for the past five years averaged 15.8%. Exports of \$15.3 billion are estimated to account for 7.08% of Connecticut Gross State Product (GSP), which is slightly higher than recently seen percentages between 4.70% and 6.50% for the past five years.

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 \$15.3 billion, with 59.5% of the total being shipped by air, 22.6% being delivered by sea, and the remaining 17.9% 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 2008 Canada remained the largest destination country at 12.0%, followed by France, Germany, Mexico, and the United Kingdom. These five countries accounted for 45.3%

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of total state exports in 2008. While exports to Canada decreased 2.4% to \$1.83 billion in 2008, exports to France and Mexico experienced double digit growth from 2007 to 2008. France increased 22.9% to \$1.7 billion while Mexico increased 33.3% to \$1.5 billion. Because of the large increase in exports to Mexico in 2008, Mexico now has the largest average growth from 2004-2008 at 50.8%. Another major partner, China, experienced 19.6% growth from 2007 purchasing \$676.0 million of the state's exports in 2008 up from \$565.1 million worth of goods in 2007.

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

<u>Destination</u>	<u>2008</u> <u>Rank</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	Percent of 2008 <u>Total</u>	2004-08 Average Growth <u>Rate</u>
Canada	1	1,472.5	1,681.0	1,943.0	1,879.1	1,834.3	12.0	6.0
France	2	762.2	832.2	1,216.5	1,410.9	1,733.5	11.3	23.6
Germany	3	1,181.7	1,602.0	1,212.4	1,450.5	1,454.4	9.5	7.8
Mexico	4	340.9	246.6	705.9	784.9	1,046.0	6.8	50.8
United Kingdom	5	547.8	697.0	857.2	855.4	875.5	5.7	13.1
China	6	227.3	160.7	369.3	565.1	676.0	4.4	43.3
Japan	7	501.5	436.8	702.8	622.5	671.5	4.4	11.1
Singapore	8	586.3	559.8	840.2	748.5	657.1	4.3	5.6
Belgium	9	228.2	262.6	251.8	450.6	523.1	3.4	26.5
Korea	10	270.1	364.5	379.5	555.5	489.1	3.2	18.4
Other Areas		<u>2,440.7</u>	<u>2,844.1</u>	<u>3,769.4</u>	<u>4,476.1</u>	<u>5,352.6</u>	<u>35.0</u>	<u>21.8</u>
TOTAL		8,559.2	9,687.3	12,248.0	13,799.1	15,313.1	100.0%	12.2

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 7.1% of the state's total private industry employment in 2006 was a result of foreign investment in Connecticut. In 2006, 104,900 Connecticut workers were employed by foreign-controlled companies. Major sources of foreign investment in Connecticut in 2006 included the Netherlands, the United Kingdom, Germany, France, and Switzerland. One quarter of these jobs, or 26,300 workers, were employed in the manufacturing sector.

The International Division of the 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.

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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>

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 2008, contractors in the state were awarded \$9.7 billion worth of defense-related prime contracts, with the heaviest concentration in the state's transportation equipment sector. This was up 12.8% from the \$8.6 billion received in awards in FFY 2007. 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. Finmeccanica S.p.A. | Electrical Generators, Power Transmission Equipment |
| 4. Colt Defense LLC | Military Arms |
| 5. Ensign-Bickford Industries, Inc. | Munitions |

The following table shows the distribution of prime defense contracts in the state by program or type of work, with a heavy reliance on 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 41
VALUE OF PRIME CONTRACT AWARDS BY PROGRAM IN FFY 2008
(In Millions of Dollars)

<u>Connecticut</u>			<u>United States</u>		
<u>Program</u>	<u>Value</u>	<u>Percent</u>	<u>Program</u>	<u>Value</u>	<u>Percent</u>
Aircraft, Rotary Wing	\$4,063	41.9%	Construction, Structures, Facilities, Buildings	\$21,214	5.8%
Submarines	1,874	19.3%	Aircraft, Fixed Wing	20,159	5.5%
Gas Turbines and Jet Engines	1,499	15.5%	Combat, Assault, Tactical Vehicles, Tracked	15,281	4.2%
Aircraft, Operational Defense Systems, R&D	1,012	10.4%	Liquid Propellants, Fuels, Petroleum Based	13,196	3.6%
Ships, Advanced Development, R&D	535	5.5%	Trucks, Tractors, Wheeled	11,761	3.2%
Other	715	7.4%	Other	284,360	77.7%
Total	\$9,697	100.0%	Total	\$365,972	100.0%

Source: U.S. Department of Defense

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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 42
GEOGRAPHIC DISTRIBUTION OF CONNECTICUT PRIME CONTRACT AWARDS
(And Total Awards in Thousands of Dollars)

<u>County of Contractor</u>	<u>FFY 2004</u>	<u>FFY 2005</u>	<u>FFY 2006</u>	<u>FFY 2007</u>	<u>FFY 2008</u>
Fairfield	26.6%	25.9%	32.7%	34.1%	60.6%
Hartford	33.5%	29.8%	22.0%	17.6%	9.0%
Litchfield	0.4%	0.5%	0.4%	0.9%	0.3%
Middlesex	0.6%	12.2%	11.4%	1.5%	0.9%
New Haven	1.1%	1.5%	1.8%	2.5%	1.6%
New London	37.7%	29.4%	31.3%	43.0%	27.2%
Tolland	0.1%	0.6%	0.3%	0.2%	0.2%
Windham	<u>0.1%</u>	<u>0.1%</u>	<u>0.1%</u>	<u>0.3%</u>	<u>0.2%</u>
State Total	100.0%	100.0%	100.0%	100.0%	100.0%
State Total	\$8,959,424	\$8,753,063	\$7,780,793	\$8,601,359	\$9,696,154

Source: U.S. Department of Defense

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

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 0.400 compared with 0.049 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.

It is also possible to look at real contract awards for the past decade by taking into account the erosion of the dollar by adjusting contracts for inflation. From \$3.3 billion in FFY 1999, real defense contract awards increased to \$7.8 billion in FFY 2008. This represents an average growth of 10.1% per year from FFY 1999 to FFY 2008, with virtually all of the growth occurring after 2000, spurred by the wars on terrorism and in Iraq.

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**TABLE 43
CONNECTICUT DEFENSE CONTRACT AWARDS AND RELATED EMPLOYMENT**

Federal Fiscal Year	Defense Contract Awards (000's)	% Growth	Connecticut Transportation Equipment Employment (000's)	% Growth	Defense Contract Awards in 2000 Dollars (000's)	% Growth
1998-99	3,169,394	(7.0)	49.85	(4.6)	3,275,928	(9.0)
1999-00	2,177,465	(31.3)	46.92	(5.9)	2,177,465	(33.5)
2000-01	4,269,544	96.1	46.86	(0.1)	4,151,414	90.7
2001-02	5,638,585	32.1	45.32	(3.3)	5,397,245	30.0
2002-03	8,064,809	43.0	43.34	(4.4)	7,547,609	39.8
2003-04	8,959,424	11.1	43.17	(0.4)	8,167,352	8.2
2004-05	8,753,063	(2.3)	43.50	0.8	7,717,754	(5.5)
2005-06	7,780,793	(11.1)	43.59	0.2	6,646,094	(13.9)
2006-07	8,601,359	10.5	43.58	0.0	7,143,530	7.5
2007-08	9,696,554	12.7	44.29	1.7	7,759,046	8.6
Coefficient of Variation	0.400		0.049		0.354	

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

**TABLE 44
COMPARISON OF U.S. AND CONNECTICUT DEFENSE CONTRACT AWARDS**

Federal Fiscal Year	Connecticut Defense Contract Awards (Millions \$)	% Growth	3-year Moving Average (Millions \$)	% Growth	U.S. Defense Contract Awards (Millions \$)	% Growth	3-year Moving Average (Millions \$)	% Growth
1998-99	3,169	(7.0)	3,038	6.2	114,875	5.0	110,274	1.7
1999-00	2,177	(31.3)	2,918	(3.9)	123,295	7.3	115,852	5.1
2000-01	4,270	96.1	3,205	9.8	135,225	9.7	124,465	7.4
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
Coefficient of Variation	0.400				0.400			

Source: United States Department of Defense

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The coefficient of variation for Connecticut, over the past decade, was 0.400, compared to 0.400 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 past analyses 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 13.2% during this time, compared to an average growth of 13.7% for the nation. Most of this growth has come between 2000 and 2005 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 has begun 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, came back up to 4.1% in FFY 2004 and has generally stayed around 4.0% or higher. (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 2008, while Connecticut ranked eleventh in total defense contracts awarded, it ranked fourth in per capita defense dollars awarded with a figure of \$2,769. This figure was 2.3 times the national average of \$1,204. In 2007, Connecticut ranked ninth in total defense contracts awarded and third in per capita defense dollars awarded with a figure of \$2,456. This was almost 2.4 times the national average of \$1,046 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 45
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
1998-99	3,169	114,875	2.8	150,303	3,038	2.0
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	166,073	4,029	2.4
2002-03	8,065	191,222	4.2	169,885	5,991	3.5
2003-04	8,959	203,389	4.4	182,112	7,554	4.1
2004-05	8,753	236,986	3.7	190,499	8,592	4.5
2005-06	7,781	257,456	3.0	201,635	8,498	4.2
2006-07	8,601	315,532	2.7	212,252	8,378	3.9
2007-08	9,697	365,972	2.6	216,174	8,693	4.0

Coefficient of Variation 0.400 0.400

Source: United States Department of Defense and Department of Commerce

The primary defense systems of interest to Connecticut include:

1. The AH-64 Apache Helicopter
2. The CH-47 Chinook Helicopter
3. The CH-53K Helicopter
4. The UH-60 Utility Helicopter (Blackhawk)
5. The MH-60R Helicopter
6. The MH-60S Helicopter (Seahawk)
7. The C-17 Globemaster Aircraft
8. The F-15 Aircraft
9. The F-16 Aircraft
10. The F-22 Raptor Aircraft
11. The F-35 Joint Strike Fighter (JSF) Aircraft
12. The H-92 Superhawk
13. The RQ-4 Global Hawk Unmanned Aircraft
14. The S-70B Seahawk
15. The Virginia Class Submarine

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TABLE 46
COMPARISON OF STATE PRIME CONTRACT AWARDS
Federal Fiscal Year 2008

<u>State</u>	Prime Contract Awards \$ (000)	Rank	\$ Per Capita Prime Contract		<u>State</u>	Prime Contract Awards \$ (000)	Rank	\$ Per Capita Prime Contract	
			Awards	Rank				Awards	Rank
Virginia	52,833,012	2	6,800	1	Utah	1,734,028	32	634	26
Alaska	2,940,671	27	4,285	2	Wisconsin	3,537,478	23	629	27
Maryland	15,644,793	4	2,777	3	Michigan	6,251,801	18	625	28
Connecticut	9,696,554	11	2,769	4	Georgia	6,025,053	19	622	29
Texas	58,769,854	1	2,416	5	Ohio	6,854,877	17	597	30
Missouri	12,014,570	8	2,032	6	Minnesota	3,096,595	25	593	31
Massachusetts	13,129,706	6	2,021	7	Oklahoma	1,951,447	30	536	32
Arizona	11,218,384	9	1,726	8	Nebraska	933,865	38	524	33
Alabama	8,026,145	13	1,722	9	Washington	3,379,109	24	516	34
Colorado	7,197,280	16	1,457	10	Maine	645,308	41	490	35
Mississippi	3,853,639	21	1,311	11	New York	8,600,647	12	441	36
New Hampsh.	1,672,492	33	1,271	12	Iowa	1,289,466	36	429	37
Indiana	7,812,756	14	1,225	13	Rhode Island	450,860	42	429	38
California	42,853,660	3	1,166	14	South Dakota	313,581	45	390	39
Vermont	722,262	40	1,163	15	Oregon	1,195,467	37	315	40
Hawaii	1,391,329	35	1,080	16	Tennessee	1,940,311	31	312	41
Kentucky	4,419,754	20	1,035	17	Nevada	801,538	39	308	42
Pennsylvania	12,654,069	7	1,017	18	Delaware	247,249	47	283	43
New Jersey	7,590,182	15	874	19	North Dakota	152,193	49	237	44
Florida	15,485,470	5	845	20	North Carolina	2,177,290	29	236	45
South Carolina	3,706,768	22	827	21	Idaho	347,583	43	228	46
Kansas	2,283,994	28	815	22	Montana	188,285	48	195	47
Illinois	9,852,776	10	764	23	West Virginia	268,831	46	148	48
New Mexico	1,464,560	34	738	24	Arkansas	333,581	44	117	49
Louisiana	2,997,770	26	680	25	Wyoming	38,391	50	72	50
U.S. Total	365,972,089		1,204						

Source: U.S. Department of Defense, U.S. 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 2009. Over the past twenty-five years, retail sales as a percentage of GDP has consistently averaged around seventy-four percent, except during the 1991-1993 recession period where they fell to approximately seventy-two percent. During the last decade, variations

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in retail trade closely matched variations in GSP growth, making retail trade an important barometer of economic health.

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 2009 totaled \$45.5 billion, a 7.3% decrease over fiscal year 2008.

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

<u>NAICS</u> <u>Industry</u>	<u>FY</u> <u>2008</u>	<u>% of</u> <u>Total</u>	<u>FY</u> <u>2009</u>	<u>% of</u> <u>Total</u>	<u>%</u> <u>Change</u>
441 Motor Vehicle and Parts Dealers	\$8,214	16.8%	\$6,475	14.3%	(21.2)%
442 Furniture and Home Furnishings Stores	1,996	4.1%	1,456	3.2%	(27.1)%
443 Electronics and Appliance Stores	1,689	3.4%	1,595	3.5%	(5.6)%
444 Building Material and Garden Supply Stores	3,245	6.6%	2,767	6.1%	(14.7)%
445 Food and Beverage Stores	9,493	19.4%	8,927	19.6%	(6.0)%
446 Health and Personal Care Stores	3,907	8.0%	4,961	10.9%	27.0%
447 Gasoline Stations	3,427	7.0%	2,868	6.3%	(16.3)%
448 Clothing and Clothing Accessories Stores	2,951	6.0%	2,667	5.9%	(9.6)%
451 Sporting Goods, Hobby, Book and Music Stores	1,195	2.4%	1,052	2.3%	(12.0)%
452 General Merchandise Stores	5,194	10.6%	5,215	11.5%	0.4%
453 Miscellaneous Store Retailers	4,092	8.3%	3,964	8.7%	(3.1)%
454 Nonstore Retailers	<u>3,629</u>	<u>7.4%</u>	<u>3,508</u>	<u>7.7%</u>	<u>(3.3)%</u>
Total	\$49,032	100.0%	\$45,455	100.0%	5.2%
Durables (NAICS 441,442, 443, 444)	\$16,329	30.9%	\$12,293	27.0%	(18.8)%
Nondurables (All Other NAICS)	\$30,099	69.1%	\$33,162	73.0%	(2.1)%

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. Purchases of durable goods drop off when interest rates increase or individuals encounter a

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slowdown in income growth or become concerned about future employment and income stream prospects as was the case in fiscal 2009 when durable good sales fell by 18.8%.

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 2.1% in fiscal 2009. The slight decline seen in nondurable goods sales was largely attributable to the significant decline in energy prices that had inflated gasoline and fuel sales in fiscal 2008.

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 2009 national retail e-commerce sales are estimated at \$129.2 billion, accounting for 3.5% of total retail sales of \$3,737.9 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. E-commerce retail sales fell 3.5% in fiscal 2009 compared to an 8.8% decrease 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 October 2009, 23 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. The likelihood of Congressional action on the issue also increases as more states adopt the streamlined approach. 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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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 27.5% in fiscal 2008, from 30.5% in FY 2008. 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 \$47,049 in FY 2009 was 32.7% above the national average of \$35,452. In FY 2009, Connecticut per capita retail trade was estimated at \$12,967. 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, which affect the level of expenditures, can include tax burden, consumer confidence, economic climate as well as the condition of a household's balance sheet.

According to the 2002 economic census on retail sales, a survey that is done once every five years by the U.S. Department of Commerce, Connecticut had \$42.0 billion of retail sales, up from \$34.9 billion in 1997. Retail sales varied among the state's eight counties with most sales concentrated in Fairfield, Hartford, and New Haven. These three counties accounted for 79.7% of total sales, with the remaining 20.3% spread among the other five counties. The following two tables provide detail on retail sales activity by county. Growth in sales also varied among counties. Between 1997 and 2002, Windham increased the fastest at 33.4%, followed by Litchfield at 29.8%, compared to a less than 20% growth for Hartford, Middlesex, and Tolland.

Although the retail trade sector is one of the major sources of jobs in the Connecticut economy, the number of establishments has declined. In 2002, the sector had 13,861 establishments down from 14,574 in 1997 and 21,012 in 1992.

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The following table compares retail sales with personal income growth and changes in population. Slower sales growth in Hartford reflected below average growth in income and population while the healthy sales growth in Windham reflected the 1.8% increase in the number of establishments rather than a marked increase in personal income or population.

TABLE 48
RETAIL SALES IN CONNECTICUT BY COUNTY

	Sales (\$M)	% Of Total	Number of Employees	Per Employee Sales (\$ 000's)	Employees Per Establish.	Number of Establish.	Annual Payroll (\$M)	% of Total
A. 1997 Economic Census								
Fairfield	11,563.9	33.1%	54,012	214.1	13.5	4,008	1,218.0	33.5%
Hartford	8,829.0	25.3%	51,121	172.7	13.9	3,683	943.6	26.0%
Litchfield	1,611.0	4.6%	8,193	196.6	10.0	816	158.0	4.3%
Middlesex	1,345.0	3.8%	8,050	167.1	10.8	742	143.1	3.9%
New Haven	7,725.2	22.1%	41,942	184.2	12.6	3,335	775.9	21.3%
New London	2,405.0	6.9%	13,923	172.7	11.8	1,182	240.3	6.6%
Tolland	763.9	2.2%	5,028	151.9	11.7	428	81.8	2.3%
Windham	<u>695.8</u>	<u>2.0%</u>	<u>4,666</u>	<u>149.1</u>	<u>12.3</u>	<u>380</u>	<u>73.6</u>	<u>2.0%</u>
Total	34,938.8	100.0%	186,935	186.9	12.8	14,574	3,634.3	100.0%
B. 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%
C. Growth (%) from 1997 to 2002								
Fairfield	20.5		1.5	18.7	5.0	(3.3)	25.1	
Hartford	15.8		(0.5)	16.3	9.5	(9.1)	16.8	
Litchfield	29.8		7.8	20.4	12.2	(3.9)	34.7	
Middlesex	19.5		3.7	15.3	3.5	0.1	30.8	
New Haven	20.0		6.4	12.8	10.3	(3.5)	27.1	
New London	25.2		6.0	18.2	11.9	(5.3)	32.9	
Tolland	17.1		(10.1)	30.2	(0.5)	(9.6)	19.9	
Windham	33.4		7.7	23.9	5.7	1.8	38.3	
Total	20.1		22.5	17.0	7.9	(4.9)	24.7	

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

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TABLE 49
RETAIL SALES, INCOME AND POPULATION BY COUNTY

	Retail Sales	Personal Income (\$B)			Population (000's)		
	% Change			% Change			% Change
	<u>'97 to '02</u>	<u>1997</u>	<u>2002</u>	<u>'97 to '02</u>	<u>1997</u>	<u>2002</u>	<u>'97 to '02</u>
Fairfield	20.5%	40.62	53.78	32.4%	861.0	894.8	3.9%
Hartford	15.8%	26.58	33.29	25.2%	846.0	867.1	2.5%
Litchfield	29.8%	5.69	7.04	23.7%	179.8	186.4	3.7%
Middlesex	19.5%	4.76	6.11	28.4%	150.4	159.6	6.1%
New Haven	20.0%	23.90	29.76	24.5%	813.5	834.9	2.6%
New London	25.2%	7.29	9.16	25.7%	258.7	262.7	1.5%
Tolland	17.1%	3.70	4.76	28.6%	132.6	142.4	7.4%
Windham	33.4%	2.58	3.18	23.3%	107.4	111.2	3.5%
Connecticut	20.1%	115.13	147.08	27.8%	3,349.3	3,459.1	3.3%

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

Small Business in Connecticut

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

Structurally, small 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 amount of annual receipts and number of 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

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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.

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 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.

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TABLE 50
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

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For more information, please write or contact the following:

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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 1999 to 2008 for total DNFD and each of its components. In 2008, the year-end total domestic nonfinancial debt outstanding was \$33,589.8 billion, approximately 2.5 times of GDP.

Hovering at a 9% growth rate from 2003 through 2007, total non-financial debt continued to grow at 6.0% in 2008 despite a financial tsunami that started hitting the U.S. economy in mid 2008. Total non-financial debt for the past decade has grown 94.3%, outpacing the growth in GDP of 49.3%. Among the four components, household debts grew the fastest at 115.7% while Federal indebtedness the slowest at 72.8%, with both business and local government close to 90%. 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. Over the past decade, the private sector has increasingly played a more important role in the debt market. Debt growth in the private sector grew by 101.1% versus 76.8% for the public sector that includes the federal government as well as state and local government. Of the total \$33.6 trillion nonfinancial debt outstanding, households accounted for 41.1%, followed by nonfinancial businesses at 33.3%, the federal government at 18.9%, and state and local governments at 6.6%. Debt outstanding in the private sector accounted for 74.4% of the total in 2008, up from 71.9% in 1999.

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TABLE 51
DOMESTIC NON-FINANCIAL DEBT (DNFD) OUTSTANDING BY SECTOR IN THE U.S.
In Billions of Dollars by Yearend

	<u>1990</u>	<u>1999</u>	<u>2008</u>	2008 % of <u>Total</u>	<u>Growth</u>	
					<u>('90 to '99)</u>	<u>('99 to '08)</u>
1. Private Sector						
a. Households						
Home Mortgages	\$2,488.8	\$4,416.3	\$10,430.7	31.1%	77.4%	136.2%
Consumer Credit	824.4	1,553.6	2,592.1	7.7%	88.5%	66.8%
Other	<u>267.7</u>	<u>426.1</u>	<u>772.0</u>	2.3%	59.2%	81.2%
Sub-Total	\$3,580.9	\$6,296.0	\$13,794.8	41.1%	78.6%	115.7%
b. Business						
Mortgages	\$1,205.5	\$1,586.8	\$3,768.6	11.2%	31.6%	37.5%
Bank Loans	1,250.0	2,107.1	3,763.5	11.2%	109.0%	78.6%
Other	<u>1,554.8</u>	<u>2,339.8</u>	<u>3,667.9</u>	10.9%	50.5%	56.8%
Sub-Total	\$3,768.5	\$6,033.7	\$11,200.0	33.3%	60.1%	85.6%
Sub-Total - Private sector	\$7,349.4	\$12,429.7	\$24,994.8	74.4%	69.1%	101.1%
2. Public Sector						
Federal Government	\$2,498.1	\$3,681.0	\$6,361.5	18.9%	47.3%	72.8%
State & Local Gov't	<u>9,487.4</u>	<u>1,181.0</u>	<u>2,233.5</u>	6.6%	19.6%	89.1%
Sub-Total - Public Sector	\$3,485.6	\$4,896.0	\$8,595.0	25.6%	39.5%	76.8%
 Total DNFD	 \$10,834.9	 \$17,291.6	 \$33,589.8	 100.0%	 59.6%	 94.3%
 GDP, 4th Quarter	 \$ 5,846.0	 \$9,607.7	 \$14,347.3		 64.3%	 49.3%
DNFD as a % of GDP	185.3	180.0	234.1			

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

The DNFD-to-GDP ratio stood at 234.1% in 2008, up from 185.3% in 1999, 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 its consumers, creating a more competitive and efficient market. The ratio declined in the 1990s 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 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.

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Household Borrowing

Household borrowings, which include home mortgages, consumer credit, and other miscellaneous items, totaled \$13.79 trillion and accounted for 41.1% of total non-financial debt. Growth in household borrowings in the long run had been experiencing a faster upward trend than the three other 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 6.6% in 2007 and continued to grow in 2008 albeit at a scant 0.3% rate 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 96% in late 2008, up from 66% in 1999. Household borrowings started declining in early 2009 as consumers continued to refrain from spending, paid off debt, and increased savings to strengthen their balance sheet.

Faster household borrowing is due fundamentally to the low personal saving 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 most 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 binge. U.S. saving rates, defined as personal saving as a percentage of disposable income, averaged only 2.7% since 2000, dropping from an average of 5.4% in the 1990s, 8.5% in the 1990s, and 9.6% in the 1970s. U.S. saving rates deteriorated to a low of 0.8% in early 2007 and came back to 5.0% in mid-2009. Concerned about job losses and declining wealth, households are saving more and paying down debt, boosting up the saving rate. These constraint measures have led to a slow growth in personal consumption and economic growth. A 1% increase in the saving rate is equivalent to a spending decrease of approximately \$110 billion, which equates to 0.7% of GDP.

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 growing important to the economy. The net value of home equity grew 111% from 1999 to early 2006 when the net equity reached its all-time high and then declined 38% by the end of 2008. The share of net home equity of total family net assets has played 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 more permanent 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.

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Among total household borrowings of \$13.79 trillion in 2008, home mortgage loans accounted for \$10.43 trillion, or 75.6% of household borrowings, followed by consumer credit at \$2.59 trillion, or 18.8%, with the remainder in other miscellaneous items. After six consecutive years of rapid 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, up from 1.95% in 2006 to 3.04% in 2007 and deteriorated to 6.31% by 2008. 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 tighten 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 sent the credit market to an almost frozen status. At the same time, the economy began bearing the brunt of a severe job reduction. 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 registered \$2.6 trillion in late 2008, 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 and continued to increase in late 2008 although delinquency rates for home mortgages, auto loans and bank credit cards rose. More consumers rely on credit cards for making purchases online or by telephone despite interest rate charges that are higher.

Business Borrowing

Business borrowings include debts owed by corporations, nonfarm corporations and farms. Total borrowings registered \$11.20 trillion at the end of 2008. 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 2008 from all financial vehicles continued to increase, with bank loans rising 11.3%, compared to 5.3% for total business borrowings. Overall businesses in 2008, however, were not confronting the same financial stresses as households. Encountering feeble economic conditions, businesses were forced to drawdown their stockpiles. Under the extremely tight credit market, businesses had to resort to either internal funding or borrowing at an exceptionally high cost for their operations. As a result, inventory investment, especially in the manufacturing sector, and most drastically in the motor vehicle industry, declined and capital investment spending dropped. Equipment and software investment, for example, declined at an annualized rate of 28% in 2008. An inventory decline at the manufacturing level, rather than at the retail one, signals a further reduction in employment.

Government Borrowing

The U.S. federal budget has long been operating under deficits since the early 1950s. The federal deficit started surging in the early 1980s from an expansionary fiscal policy and tax

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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 turned to a surplus in 1998 and reached a high of \$254.9 billion in federal fiscal year (FFY) 2000. Federal operations, however, turned red in FFY 2002 and continued to deteriorate with a deficit of \$454.8 billion in FFY 2008 and a further worsening to \$1,417.2 billion in FFY 2009, brought about by the federal government's sizable bailout and stimulus programs and the recessionary economy. The \$700 billion financial bailout project, per 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 by \$543.3 billion, or 18.2%, over 2008 levels. At the same time, tax receipts declined \$419.0 billion, or -16.6%, due to the effects of the recession and tax cuts from ARRA program. The federal government in FFY 2009 spent \$1.67 for every dollar it took in. 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 2009, gross debt outstanding registered \$11,776 billion, up 17.5% from FFY 2008 that followed an accelerating 11.3% increase in the previous year. 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 2009 is estimated at -11.9% of its GDP, according to *The Economist*, compared to -14.5% in Great Britain, -8.2% in France, -7.7% in Japan, -4.6% in Germany, and -2.4% in Canada. The U.S.'s deficit of 11.9% of GDP in FFY 2009 was the 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. Other than issuing notes/bonds to public and foreign investors, the federal government likely will have to issue notes to the Federal Reserve thereby increasing the money supply ("printing money") to fund the gap necessary to carry out its policies.

Of the 2009 total federal gross debt of \$11.78 trillion, \$7.46 trillion, or 63%, was held by the public and \$4.32 billion, or 37%, 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 \$11.78 trillion in FFY 2009 stood at 82.3% 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. The requirement of the balanced budget by all states, except Vermont, may delay the recovery of the national economy.

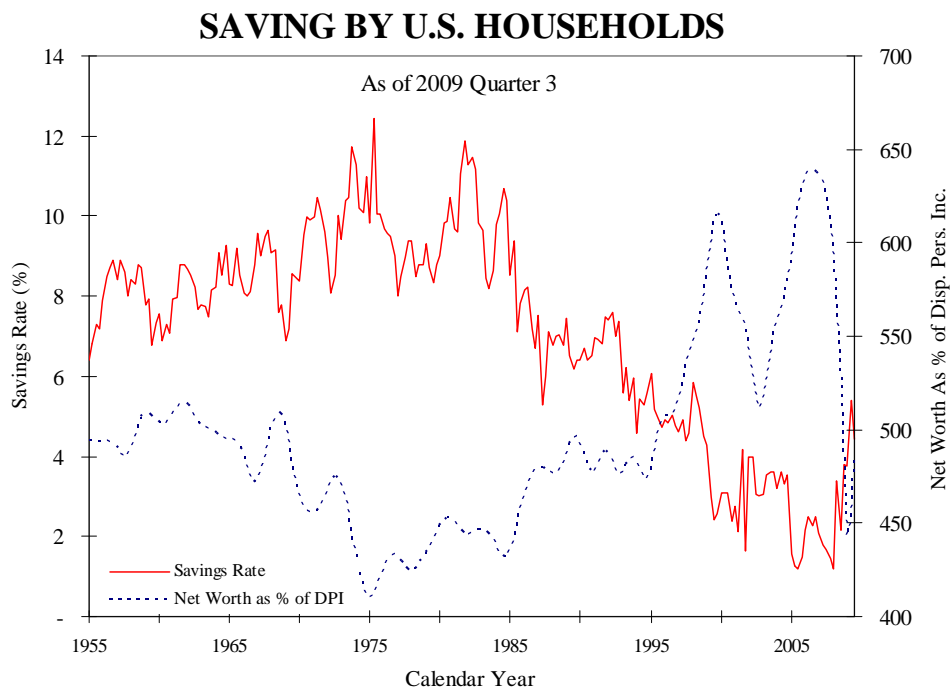
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According to the U.S. Department of Commerce's "State Government Finances," state government debt outstanding in Connecticut at the end of fiscal 2007, the latest available year, was \$23.8 billion, compared to \$24.04 billion in 2006 and \$23.05 billion in 2005. Connecticut per capita state government debt was \$6,830 in fiscal 2007, compared to \$6,876 in fiscal 2006 and \$6,584 in fiscal 2005. The fifty state average registered at \$3,113 in fiscal 2007, compared to \$2,915 and \$2,693 in 2006 and 2005, 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 November 2009, Connecticut's General Obligation bonds are rated Aa3 by Moody's and AA by Standard & Poor's Corporation and Fitch Investors Service, Inc. 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.



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

The solid line on the previous chart shows the national savings rate for U.S. consumers from 1955 through the third quarter of 2009. After staying at an average of 8.8% between 1955 and

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1980, U.S. saving rates have been trending down from a high of 11.8% in late 1981 to a low of 1.2% in early 2008. The savings rate is defined as personal savings divided by disposable personal income. Disposable personal income is defined as total personal income less personal tax and nontax 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 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. 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 and there are some merits to this argument.

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.

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, 1999, and 2008, to evaluate the financial position of the nation's households.

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TABLE 52
BALANCE SHEET OF HOUSEHOLDS AND NON-PROFIT ORGANIZATIONS
In Billions of Dollars

	1955	1955	% of	1999	% of		% of	Average
	1955	In Real \$*	Total	In Real \$*	Total	2008	Total	Growth**
A. Assets								
1. Real Estate	414.7	3,289.0	26.2%	14,906.3	23.7%	19,112.3	29.1%	3.4%
2. Stock related	308.5	2,443.1	19.5%	28,123.0	44.7%	19,736.7	30.1%	4.0%
3. Other	857.4	6,803.4	54.3%	19,856.4	31.6%	26,748.2	40.8%	2.6%
3a. Time & Saving Deposits	105.1	833.5	6.6%	3,514.0	5.6%	5,996.8	9.1%	3.8%
3b. Corporate Bonds	5.0	39.5	0.3%	637.0	1.0%	1,971.9	3.0%	7.7%
3c. Gov't Securities***	88.0	698.0	5.6%	1,700.0	2.7%	1,209.9	1.8%	1.0%
Total	1,580.6	12,535.5	100.0%	62,885.7	100.0%	65,597.2	100.0%	3.2%
B. Liabilities								
1. Home Mortgages	87.8	696.9	61.1%	5,592.3	65.2%	10,432.1	73.4%	5.2%
2. Consumer Credit	43.0	340.6	29.9%	1,967.3	22.9%	2,592.1	18.2%	3.9%
3. Other	13.1	103.4	9.1%	1,18.6	11.9%	1,193.8	8.4%	4.7%
Total	143.9	1,140.9	100.0%	5,592.3	100.0%	14,218.0	100.0%	4.9%
C. Net Worth								
1. Net Home Equity	371.8	2,592.1		9,314.1		8,680.2		2.3%
2. As a % of Net Worth	22.8%			17.2%		16.9%		
3. Per Capita Net Worth		68,224		193,791		168,450		1.7%
D. As a % of Total Assets								
1. Home Mortgages	5.6%			8.9%		15.9%		
2. Liabilities	9.1%			13.6%		21.7%		
3. Net worth	90.9%			86.4%		78.3%		

Note:

* Real dollar is calculated by using the CPI-U in fourth quarter of 2008

** Average annual real growth from 1955 to 2008

*** Includes Treasury and Municipal securities

Source: Board of Governors of the Federal Reserve System

Assets

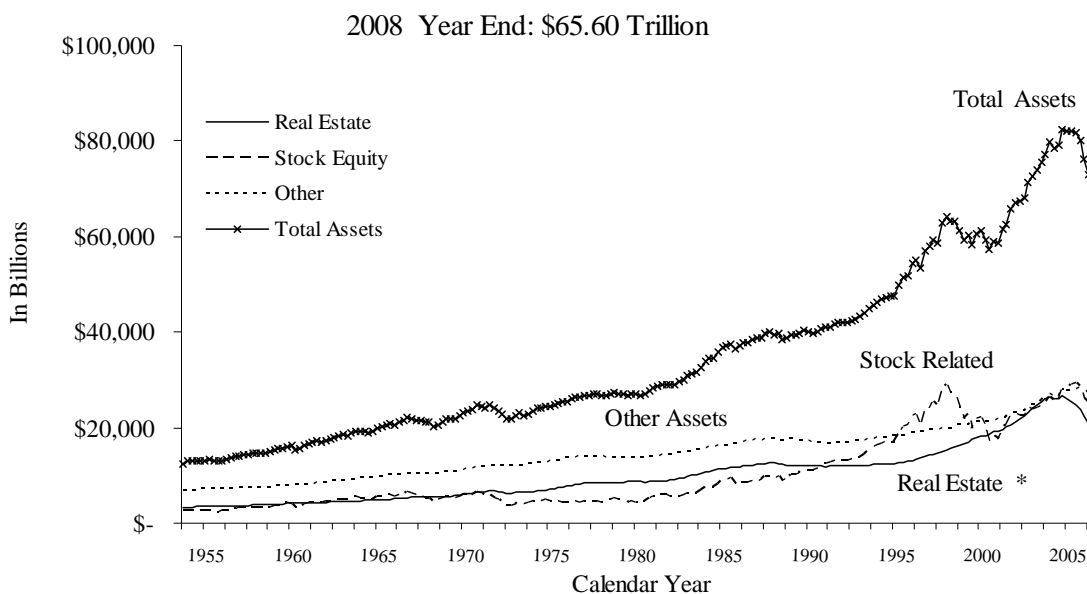
Total assets can be categorized into three components: real estate assets, stock related assets, and other assets (including bank deposits, bonds, money market fund shares, and consumer durable goods). In the fourth quarter of 2008, household assets totaled \$65.6 trillion with real estate comprising 29.1% of total assets; stocks, 30.1%; and the remaining 40.8% 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

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other assets remain an important share of household assets with corporate bonds continuing to grow at an average rate of 7.7%, compared to an overall growth rate of 3.2%. 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 assets reached a peak of \$82.3 trillion in fourth quarter of 2006 and then declined sharply, reflecting current recessionary economic conditions.

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.

COMPONENTS OF HOUSEHOLD ASSETS



* Includes non-profit real estate that accounts for 10% of household real estate assets

Stock Related Assets = Corporate equity assets + Mutual Fund Shares + Pension Fund Reserves assets

Other Assets = Bank deposits + Bonds + Money Market Account

Source: Board of Governors of the Federal Reserve System

Liabilities

Household liabilities totaled \$14.2 trillion in late 2008. Home mortgages accounted for 73.4% of the total with consumer credit at 18.2% and other liabilities at 8.4%. 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.

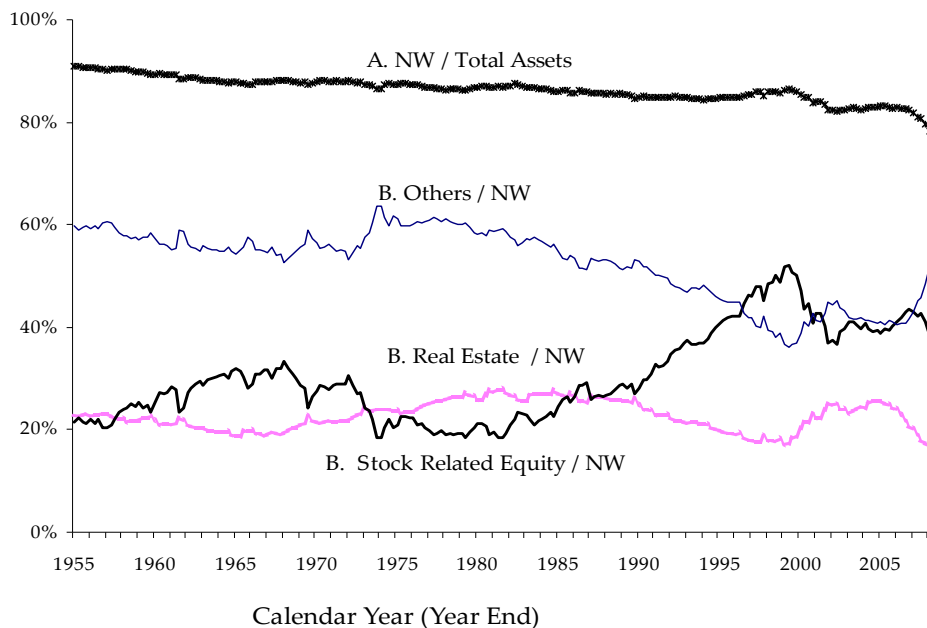
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Net Worth

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 \$51.38 trillion in late 2008. When measured in 2008 dollars, real net worth grew from \$11.39 trillion in 1955 to an all time high of \$68.16 trillion in the fourth quarter of 2006 and then declined to \$51.38 trillion in 2008. Per capita real net worth increased from \$68,224 in 1955 to \$168,450 in 2008, with annual growth averaging 1.7%. Per capita real net worth reached its peak of \$227,611 in fourth quarter of 2006 as value of real estate and stocked related equities appreciated. Per capita net worth then declined as recession and deep depreciation in the housing market took its toll.

Household Net Worth

- A. Net Worth (NW) as a % of Assets
- B. Components as a % of Net Worth (NW)



Source: Board of Governors of the Federal Reserve System

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 2008 they had risen to 21.7% 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 8.9% in 1999, and further up to 15.9% in 2008. 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 as a percentage of disposable personal income rose from 10.9% in 1980, the earliest available data, to 18.5% by 2008.

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PERFORMANCE INDICATORS

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

Gross Product

Gross National Product (GNP) is defined as the aggregate current market value of final goods and services produced by a nation's citizens and capital, regardless of location, in a given period of time. 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 2008, the State of Connecticut produced \$216.2 billion worth of goods and services and \$177.7 billion worth of goods and services in 2000 chained type dollars.

Between 2003 and 2008, the output contribution of manufacturing, transportation, warehousing and utilities increased, while construction and mining 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 decreased to 59.9% of total GSP in 2008 from 60.1% in 2003, with information services decreasing from 4.0% to 3.8%, or 4.1%, and FIRE decreasing from 29.3% to 28.29%, or 3.6%. Health care and education increased from 9.2% to 9.5%, or 2.9%. During this period, the shift toward services continued for the nation as a whole, but the trend shifted in the opposite direction in Connecticut, as broad services accounted for 61.0% in 2003 and 59.9% in 2008. An increasing share of service production could help smooth the business 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

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capital requirements, and somewhat less vulnerable to foreign competition. Connecticut began moving toward services sooner than the nation as a whole, but appears to now have experienced a resurgence in manufacturing.

**TABLE 53
GROSS PRODUCT**

Calendar <u>Year</u>	United States *		New England *		Connecticut	
	<u>Dollars</u>	<u>% Growth</u>	<u>Dollars</u>	<u>% Growth</u>	<u>Dollars</u>	<u>% Growth</u>
A. Millions of Current Dollars						
2003	10,886,172	4.7	612,006	3.4	169,885	2.3
2004	11,607,041	6.6	647,473	5.8	182,112	7.2
2005	12,339,002	6.3	671,797	3.8	190,499	4.6
2006	13,090,776	6.1	707,672	5.3	201,635	5.8
2007	13,715,741	4.8	741,597	4.8	212,252	5.3
2008	14,165,565	3.3	763,683	3.0	216,174	1.8
% Increase ('03 to '08)		30.1			24.8	27.2
B. Constant Dollars**						
2003	10,225,679	2.4	579,651	1.9	159,456	0.5
2004	10,580,223	3.5	597,196	3.0	165,828	4.0
2005	10,912,180	3.1	605,048	1.3	169,094	2.0
2006	11,218,785	2.8	620,103	2.5	174,310	3.1
2007	11,439,232	2.0	634,166	2.3	178,470	2.4
2008	11,523,637	0.7	640,765	1.0	177,717	0.0
% Increase ('03 to '08)		12.7			10.5	11.5

* Sum of State's Gross State Products.

** 2000 chained dollar series are calculated as the product of the chain-type quantity index and the 2000 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 41.6% of total production in Connecticut compared to 31.7% for the nation and was an increase from 40.5% in 2003. 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 declined from 1.56% to 1.53%, a drop of 0.03 percentage points, or 2.2%.

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TABLE 54
GROSS PRODUCT BY SOURCE
(In Billions of Current Dollars)

<u>Industry</u>	----- Calendar 2003 -----				----- Calendar 2008 -----			
	<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	114.4	1.1	0.302	0.2	157.7	1.1	0.371	0.2
Construction & Mining	639.6	5.9	5.522	3.3	906.9	6.4	5.897	2.7
Manufacturing	1,359.3	12.5	19.109	11.2	1,637.7	11.6	28.864	13.4
Wholesale Trade	637.0	5.9	9.271	5.5	818.8	5.8	11.293	5.2
Retail Trade	751.5	6.9	10.678	6.3	885.5	6.3	11.876	5.5
Transportation & Utilities	536.6	4.9	5.767	3.4	720.9	5.1	7.922	3.7
Information	489.1	4.5	6.731	4.0	622.0	4.4	8.213	3.8
Finance, Insurance, Real Estate	2,244.6	20.6	49.748	29.3	2,848.4	20.1	61.023	28.2
Professional, Technical Services	733.1	6.7	12.912	7.6	1,095.6	7.7	16.893	7.8
Health Care & Education	857.3	7.9	15.663	9.2	1,157.9	8.2	20.504	9.5
Other Services	1,179.9	10.8	18.600	10.9	1,573.3	11.1	22.871	10.6
Government	1,343.8	12.3	15.583	9.2	1,740.9	12.3	20.448	9.5
Total	10,886.2	100.0	169.885	100.0	14,165.6	100.0	216.174	100.0
Broadly Defined Services		50.6		61.0		51.5		59.9
CT as a % of U.S. Total GSP			1.56				1.53	

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 2003 and 2007, suggesting that Connecticut did eventually pull out of that recession with strength. The latest data, however, shows that the current recession hit Connecticut hard in 2008, with real per-capita output dropping 0.7% compared to 0.2% for the nation as a whole. Both per-capita output and real per-capita output for the state relative to the nation dropped slightly in 2008, respectively, from 134% to 133% of the U.S., and from 135% to 134%.

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**TABLE 55
PER CAPITA GROSS PRODUCT**

A. In Current Dollars

Calendar Year	United States		New England		Connecticut		
	Dollars	% Growth	Dollars	% Growth	Dollars	% Growth	% of U.S.
2003	37,511	3.8	43,156	3.0	48,987	1.7	131
2004	39,629	5.6	45,589	5.6	52,401	7.0	132
2005	41,748	5.3	47,282	3.7	54,761	4.5	131
2006	43,875	5.1	49,722	5.2	57,810	5.6	132
2007	45,523	3.8	52,008	4.6	60,819	5.2	134
2008	46,588	2.3	53,391	2.7	61,742	1.5	133
% Increase ('03 to '08)		24.2		23.7		26.0	

B. In 2000 Chained Dollars

Calendar Year	United States		New England		Connecticut		
	Dollars	% Growth	Dollars	% Growth	Dollars	% Growth	% of U.S.
2003	35,235	1.6	40,874	1.5	45,980	0.0	130
2004	36,123	2.5	42,049	2.9	47,715	3.8	132
2005	36,920	2.2	42,584	1.3	48,608	1.9	132
2006	37,601	1.8	43,569	2.3	49,976	2.8	133
2007	37,967	1.0	44,474	2.1	51,139	2.3	135
2008	37,899	(0.2)	44,796	0.7	50,758	(0.7)	134
% Increase ('03 to '08)		7.6		9.6		10.4	

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 \$67.1 in 1998 to \$123.7 in 2007, an 84.4% increase in output per hour over the period compared to only a 27.2% 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 23.6 cents in 1998 to 16.7 cents in 2007, a 29.4% reduction over the period, even while production workers have enjoyed a 30.2% increase in average hourly wages.

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,

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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 56
CONNECTICUT'S MANUFACTURING LABOR PRODUCTIVITY

<u>Cal. Year</u>	<u>GSP (Million)</u>	<u>Production Workhours (Million)</u>	<u>Hourly Production (Output Per Hour)</u>	<u>Total Wages (Million)</u>	<u>Average Hourly Wages</u>	<u>Unit Labor Cost (¢ Per \$1 Output)</u>
1998	\$21,457	320.0	\$67.1	\$5,064.6	\$15.8	23.6¢
1999	\$20,525	298.2	\$68.8	\$4,946.5	\$16.6	24.1¢
2000	\$20,963	295.1	\$71.0	\$5,093.9	\$17.3	24.3¢
2001	\$21,405	271.3	\$78.9	\$4,807.1	\$17.7	22.5¢
2002	\$20,870	251.2	\$83.1	\$4,529.6	\$18.0	21.7¢
2003	\$19,109	243.7	\$78.4	\$4,478.2	\$18.4	23.4¢
2004	\$21,628	232.8	\$92.9	\$4,534.7	\$19.5	21.0¢
2005	\$22,555	231.2	\$97.6	\$4,509.9	\$19.5	20.0¢
2006	\$25,849	224.3	\$115.3	\$4,502.3	\$20.1	17.4¢
2007	\$27,373	221.3	\$123.7	\$4,561.8	\$20.6	16.7¢
% Increase ('98-'07)			84.4		30.2	(29.4)

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 has lost 176,000 manufacturing jobs (47.6%) between calendar year 1977 and 2006, 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 2006, Connecticut's value added per production worker was 120% of the national average, up from 100% in 1977.

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TABLE 57
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 2002		Ratio of CT 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			1.002
1982	66,830	66,458	56.0	55.5			1.006
1987	103,228	94,927	54.5	42.8			1.087
1992	143,074	122,387	38.6	28.9			1.169
1997	179,595	151,317	25.5	23.6			1.187
2002	219,805	182,512	22.4	20.6			1.204
2003	220,268	194,966	0.2	6.8	0.2	6.8	1.130
2004	251,111	217,983	14.0	11.8	14.2	19.4	1.152
2005	267,644	239,329	6.6	9.8	21.8	31.1	1.118
2006	301,115	251,178	12.5	5.0	37.0	37.6	1.199

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 for 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 2005 and 2006.

TABLE 58
VALUE ADDED PER PRODUCTION WORKER IN CONNECTICUT BY INDUSTRY
(In Current Dollars)

<u>Industry</u>	<u>2005</u>	<u>2006</u>	<u>% Change</u>
Manufacturing	267,644	301,115	12.5
Food	406,478	410,804	1.1
Printing	137,317	142,283	3.6
Paper	255,824	257,636	0.7
Chemical	1,334,698	1,752,000	31.3
Plastics & Rubber	146,830	159,538	8.7
Primary Metals	160,667	216,360	34.7
Fabricated Metals	160,035	162,086	1.3
Machinery	229,717	249,050	8.4
Computer & Electronic	262,850	336,243	27.9
Electrical Equipment	205,483	210,983	2.7
Transportation Equipment	321,103	391,397	21.9

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 the one billion dollar figure. The following table details capital expenditures in Connecticut.

To further promote the expansion of manufacturing firms in Connecticut, the Legislature passed and the Governor signed into law, the Manufacturing Assistance Act of 1990 and the Manufacturing Recovery Act of 1992. These laws provide substantial incentives for manufacturers to make capital expenditures within Connecticut. The main tenet of the acts is a five year alleviation of local property taxes on all new or newly acquired machinery used in the production process. The machinery must be of the type classified by the Internal Revenue Service as five or seven year property. Beginning in fiscal 2002, towns are eligible to receive 80% reimbursement from the state for the property taxes foregone on such machinery. Municipalities must then abate the remaining 20% of property taxes on such machinery. Public Act 06-83 significantly enhanced this program by extending property tax relief beyond the initial five year exemption period by phasing out such taxation over a five fiscal year period. By assessment years commencing on and after October 1, 2011, all such equipment will be exempt from property taxation.

TABLE 59
TOTAL CAPITAL EXPENDITURES IN CONNECTICUT
(In Millions of Dollars)

Calendar <u>Year</u>	Connecticut <u>Capital Expenditures</u>	Percent <u>Change</u>
1997	1,867.8	5.6
1998	1,900.9	1.8
1999	1,715.9	(9.7)
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

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

Total Personal Income

Total personal income, defined as current income received by persons from all sources including public and private transfer payments but excluding transfers among persons, is a good reliable measure of economic performance. Total personal income captures the

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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.

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).

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

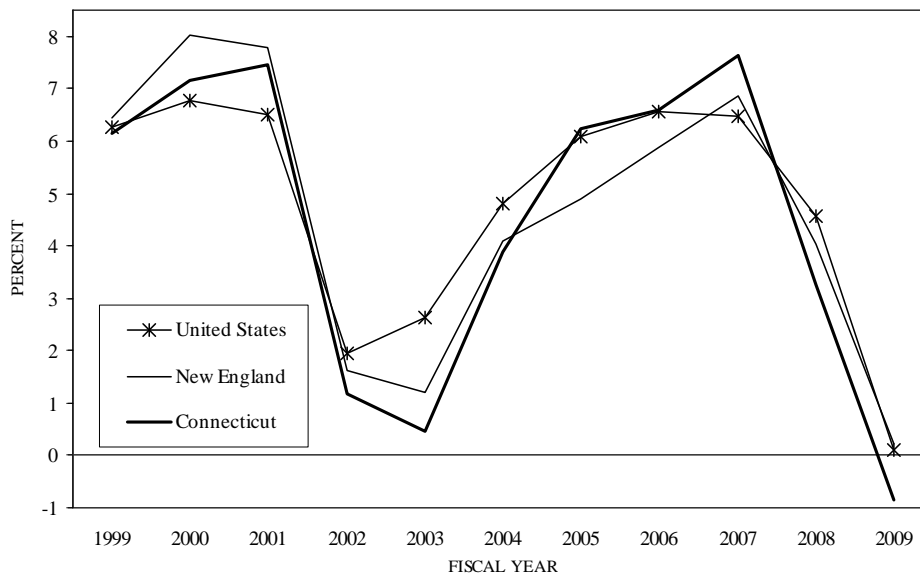
According to figures provided by the U.S. Bureau of Economic Analysis, personal income to Connecticut residents during fiscal year 2009 was \$194.23 billion, a -0.84% decrease over fiscal 2008. Total personal income in Connecticut increased 41.6% from fiscal 2000 to 2009. For the United States, total personal income increased 47.2%, and in the New England Region, the increase for the identical period was 42.8 %.

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

**TABLE 60
PERSONAL INCOME
(In Millions)**

Fiscal Year	United States		New England		Connecticut	
	Dollars	% Growth	Dollars	% Growth	Dollars	% Growth
1999-00	8,234,484	6.78	488,414	8.02	137,179	7.15
2000-01	8,770,628	6.51	526,430	7.78	147,418	7.46
2001-02	8,942,883	1.96	535,033	1.63	149,145	1.17
2002-03	9,177,978	2.63	541,461	1.20	149,826	0.46
2003-04	9,619,019	4.81	563,538	4.08	155,621	3.87
2004-05	10,205,723	6.10	591,208	4.91	165,347	6.25
2005-06	10,874,683	6.55	625,893	5.87	176,229	6.58
2006-07	11,579,795	6.48	668,899	6.87	189,698	7.64
2007-08	12,107,715	4.56	695,831	4.03	195,886	3.26
2008-09	12,118,934	0.09	697,355	0.22	194,238	(0.84)

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



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

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The State of Connecticut's sources of personal income vary slightly from those of the United States, with wages and employee salaries accounting for approximately 53.2% of total personal income compared to 53.0% for the nation in fiscal 2009. 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.

TABLE 61
SOURCES OF PERSONAL INCOME
(In Billions of Dollars)

	<u>FISCAL YEAR 1999-00</u>				<u>FISCAL YEAR 2008-09</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	730.9	8.9	13.4	9.7	703.7	5.8	13.3	6.8
Nonmanufacturing Salaries & Wages	3,914.6	47.5	67.3	49.0	5,720.9	47.2	90.6	46.4
Proprietors Income	780.5	9.5	13.1	9.6	1,065.9	8.8	18.4	9.5
Property Income	1,517.1	18.4	24.8	18.1	2,136.3	17.6	38.8	19.9
Other Labor Income	917.9	11.2	15.0	11.0	1,492.9	12.3	22.8	12.1
Transfer Payments Less Payments to Social Insurance	<u>373.5</u>	<u>4.5</u>	<u>3.6</u>	<u>2.6</u>	<u>999.2</u>	<u>8.3</u>	<u>10.3</u>	<u>5.3</u>
Total	8,234.5	100.0	137.2	100.0	12,118.9	100.0	194.2	100.0

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

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

Per Capita Personal Income

One of the more important single indicators of a state's performance is the growth in per capita personal income. This is total personal income divided by the population. On a per capita basis, personal income growth in Connecticut increased 37.2% from fiscal 2000 to 2009, compared to a national increase of 35.2% and a New England Region increase of 38.4%.

Per capita personal income in Connecticut, for the most recent fiscal year, was 13.8% higher than for the New England Region and 39.6% 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.

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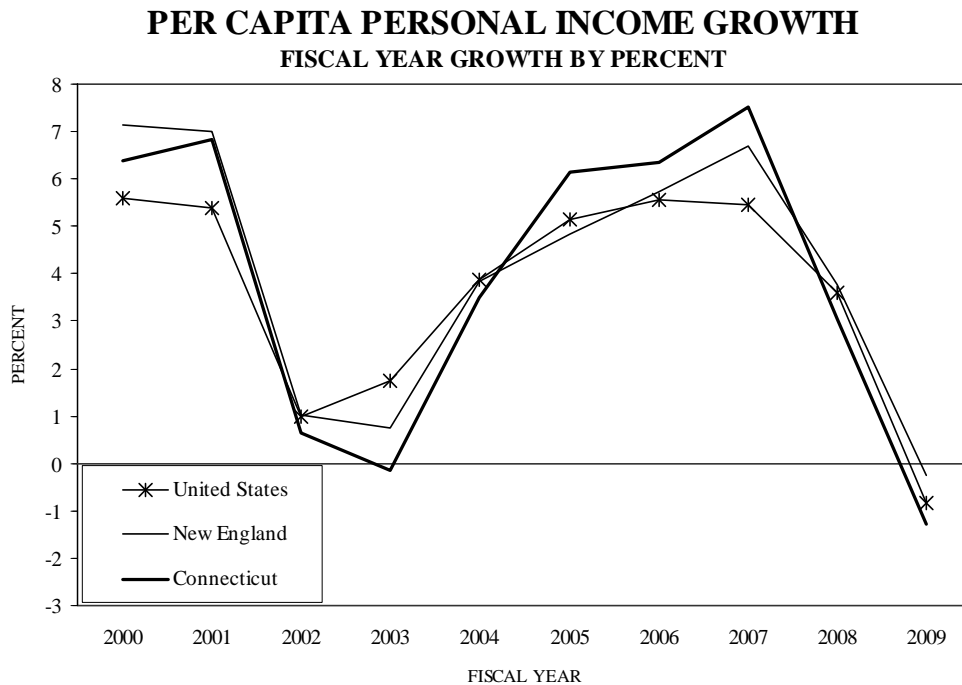
The following table shows the growth in per capita personal income for ten fiscal years for the United States, the New England Region and Connecticut. The chart provides a graphic representation of the growth rates in per capita personal income for the three entities over a ten year fiscal period.

TABLE 62
PER CAPITA PERSONAL INCOME

Fiscal Year	United States		New England		Connecticut	
	Dollars	% Growth	Dollars	% Growth	Dollars	% Growth
1999-00	29,303	5.58	35,113	7.14	40,317	6.38
2000-01	30,884	5.40	37,567	6.99	43,075	6.84
2001-02	31,188	0.98	37,951	1.02	43,352	0.64
2002-03	31,727	1.73	38,230	0.73	43,288	(0.15)
2003-04	32,956	3.87	39,695	3.83	44,803	3.50
2004-05	34,647	5.13	41,615	4.84	47,550	6.13
2005-06	36,579	5.57	44,006	5.74	50,572	6.35
2006-07	38,574	5.45	46,946	6.68	54,371	7.51
2007-08	39,957	3.59	48,712	3.76	56,028	3.05
2008-09	39,616	(0.85)	48,584	(0.26)	55,309	(1.28)

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

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



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

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The following table shows per capita income for each of the fifty states with their corresponding ranking for fiscal year 2009. In 2009, Connecticut ranked number 1 in the nation based on per capita personal income. Connecticut's figure of \$55,309 for per capita personal income remained approximately 39.6% higher than the national average.

TABLE 63
PER CAPITA PERSONAL INCOME BY STATE
(Fiscal 2009)

<u>State</u>	<u>Per Capita Income</u>	<u>Rank</u>	<u>State</u>	<u>Per Capita Income</u>	<u>Rank</u>
Connecticut	<u>\$55,309</u>	<u>1</u>	Wisconsin	\$37,292	26
Massachusetts	50,763	2	Iowa	37,222	27
New Jersey	50,618	3	Texas	37,119	28
Maryland	48,510	4	Maine	36,406	29
Wyoming	47,856	5	Missouri	36,388	30
New York	47,651	6	Louisiana	36,309	31
Virginia	43,927	7	Oregon	35,918	32
Alaska	43,449	8	Oklahoma	35,781	33
New Hampshire	42,993	9	Ohio	35,726	34
California	42,804	10	North Carolina	34,799	35
Washington	42,417	11	Tennessee	34,723	36
Minnesota	42,351	12	Michigan	34,296	37
Colorado	42,247	13	Montana	34,248	38
Hawaii	41,881	14	Indiana	34,214	39
Illinois	41,796	15	Georgia	34,199	40
Rhode Island	41,044	16	Alabama	33,454	41
Delaware	40,103	17	Arizona	33,340	42
Pennsylvania	40,071	18	New Mexico	33,254	43
North Dakota	39,769	19	South Carolina	32,262	44
Nevada	39,489	20	Idaho	32,239	45
Nebraska	38,769	21	Arkansas	32,167	46
Kansas	38,395	22	West Virginia	32,107	47
Vermont	38,386	23	Kentucky	31,581	48
Florida	38,255	24	Utah	31,410	49
South Dakota	37,885	25	Mississippi	30,163	50
U.S. Average	\$39,616				

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

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

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Per Capita Disposable Personal Income

The following table shows per capita disposable income for each of the fifty states with their corresponding ranking for fiscal year 2009. 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.

TABLE 64
PER CAPITA DISPOSABLE PERSONAL INCOME BY STATE
(Fiscal 2009)

<u>State</u>	<u>Per Capita Disposable Income</u>	<u>Rank</u>	<u>State</u>	<u>Per Capita Disposable Income</u>	<u>Rank</u>
<u>Connecticut</u>	<u>\$47,049</u>	<u>1</u>	Oklahoma	\$33,736	26
Wyoming	44,172	2	Kansas	33,674	27
New Jersey	44,065	3	Wisconsin	33,126	28
Massachusetts	43,364	4	Iowa	33,121	29
Maryland	41,759	5	Louisiana	33,022	30
Alaska	40,355	6	Maine	31,996	31
New York	40,143	7	Oregon	31,961	32
New Hampshire	38,457	8	Michigan	31,686	33
Washington	38,392	9	Ohio	31,603	34
Illinois	37,566	10	Tennessee	31,491	35
Virginia	37,518	11	Missouri	31,464	36
Minnesota	37,508	12	Montana	30,536	37
Colorado	37,485	13	Indiana	30,440	38
California	37,309	14	North Carolina	30,316	39
Rhode Island	36,480	15	Alabama	30,166	40
North Dakota	36,219	16	Georgia	30,072	41
Hawaii	36,073	17	New Mexico	29,265	42
Delaware	36,001	18	Arizona	28,962	43
Pennsylvania	35,655	19	South Carolina	28,735	44
Nevada	35,336	20	Idaho	28,703	45
Texas	35,153	21	Arkansas	28,552	46
Vermont	34,963	22	West Virginia	28,509	47
Florida	34,796	23	Kentucky	28,433	48
South Dakota	34,511	24	Mississippi	27,200	49
Nebraska	33,984	25	Utah	26,752	50
U.S. Average	\$35,452				

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

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

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Inflation and Its Effect On Personal Income

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

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

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

TABLE 65
THE U.S. CONSUMER PRICE INDEX
(1982-84=100)

<u>Fiscal Year</u>	<u>C.P.I.</u>	<u>% Growth</u>
1999-00	169.3	2.88
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	3.01
2005-06	199.0	3.79
2006-07	204.1	2.59
2007-08	211.7	3.71
2008-09	214.6	1.38

Source: U.S. Bureau of Labor Statistics

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

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Real Personal Income

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

TABLE 66
REAL PERSONAL INCOME
(In Millions)

Fiscal Year	United States		New England		Connecticut	
	Dollars	% Growth	Dollars	% Growth	Dollars	% Growth
1999-00	4,864,081	3.79	288,504	4.99	81,031	4.15
2000-01	5,009,879	3.00	300,703	4.23	84,207	3.92
2001-02	5,019,391	0.19	300,299	(0.13)	83,711	(0.59)
2002-03	5,040,306	0.42	297,356	(0.98)	82,281	(1.71)
2003-04	5,168,504	2.54	302,801	1.83	83,618	1.63
2004-05	5,323,567	3.00	308,389	1.85	86,249	3.15
2005-06	5,465,351	2.66	314,558	2.00	88,568	2.69
2006-07	5,672,885	3.80	327,690	4.17	92,932	4.93
2007-08	5,719,340	0.82	328,691	0.31	92,531	(0.43)
2008-09	5,646,581	(1.27)	324,919	(1.15)	90,501	(2.19)

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

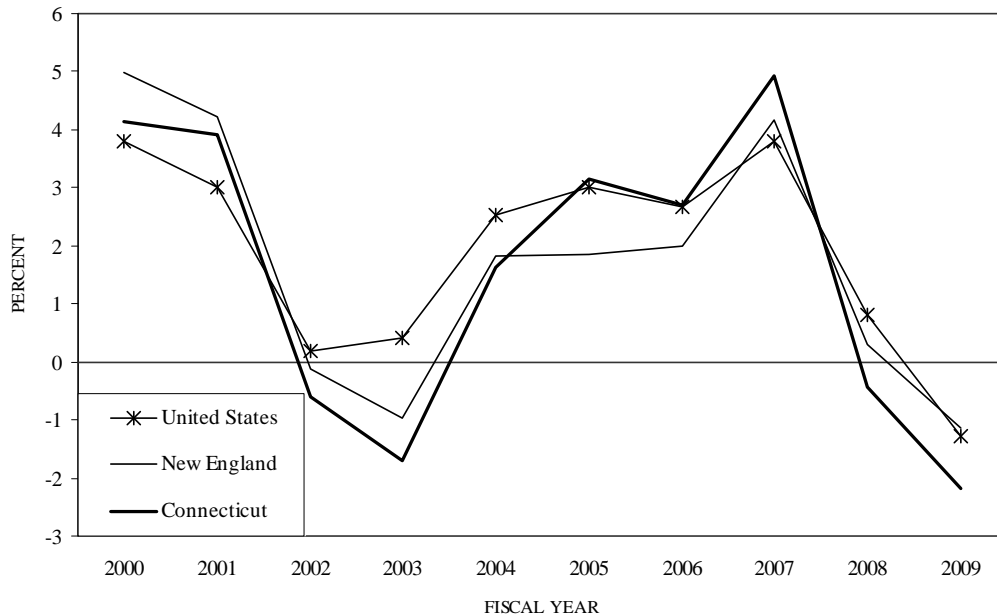
All figures derived by:
$$\frac{\text{Total Personal Income}}{\text{CPI}}$$

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

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REAL PERSONAL INCOME GROWTH FISCAL YEAR GROWTH BY PERCENT



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

Real Per Capita Personal Income

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

**TABLE 67
REAL PER CAPITA PERSONAL INCOME**

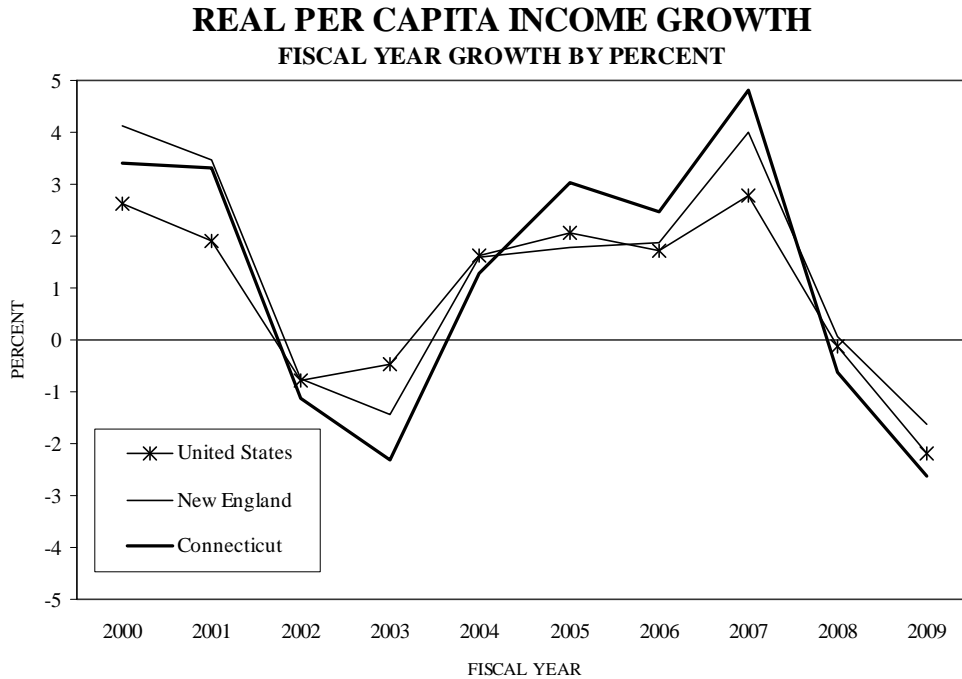
Fiscal Year	United States		New England		Connecticut	
	Dollars	% Growth	Dollars	% Growth	Dollars	% Growth
1999-00	17,309	2.62	20,741	4.14	23,815	3.40
2000-01	17,642	1.92	21,459	3.46	24,605	3.32
2001-02	17,505	(0.77)	21,301	(0.74)	24,332	(1.11)
2002-03	17,424	(0.47)	20,995	(1.44)	23,772	(2.30)
2003-04	17,708	1.63	21,329	1.59	24,074	1.27
2004-05	18,073	2.06	21,708	1.78	24,803	3.03
2005-06	18,384	1.72	22,116	1.88	25,416	2.47
2006-07	18,897	2.79	22,999	3.99	26,636	4.80
2007-08	18,874	(0.12)	23,010	0.05	26,466	(0.64)
2008-09	18,458	(2.20)	22,637	(1.62)	25,770	(2.63)

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

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

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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.



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

TABLE 68
GROWTH IN REAL PER CAPITA PERSONAL INCOME
(Base Year: 2008)

Fiscal Year	% Growth		% Cumulative Growth	
	United States	Connecticut	United States	Connecticut
1950-1960	27.7%	28.5%	27.7%	28.5%
1960-1970	37.1%	40.3%	75.2%	80.3%
1970-1980	17.7%	12.8%	106.2%	103.4%
1980-1990	20.9%	37.4%	149.3%	179.4%
1990-2000	15.9%	16.1%	189.1%	224.3%
2000-2008	8.9%	11.6%	214.8%	262.1%

Source: Moody's Economy.com

The above table highlights the cumulative growth in real per capita personal income over the past fifty-eight years. Overall, Connecticut has enjoyed higher cumulative growth in real per capita personal income, exceeding the United States by 47.3 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. 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.

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Cost of Living Index

Statistics regarding inflation and the cost of living for Connecticut are frequently requested by the public. The two indicators are not the same. The inflation index 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 in the second quarter of 2009.

**TABLE 69
COMPARISON OF COST OF LIVING**

2 nd Quarter 2009 MTA/MTD	Composite Index	Grocery Items	Housing	Utilities	Trans- portation	Health Care	Misc.*
Hartford, CT	119.2	121.1	132.4	124.7	107.5	108.2	110.6
Boston, MA	132.5	115.7	147.0	163.4	102.2	124.0	128.0
New York**, NY	217.5	142.8	402.5	146.7	132.4	130.4	143.3
Index Weights	100%	12.49%	29.18%	9.98%	11.10%	4.06%	33.19%

Note: * denotes miscellaneous goods and services

** Manhattan

Source: The Council for Community and Economic Research (C2ER), "*ACCRA Cost of Living Index*", Second Quarter 2009

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, for the second quarter of 2009 was 119.2 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 19.2%. Among the six categories, the cost of housing in the Hartford area was the most expensive item, a full 32.4%

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higher than the national average, followed by utilities at 24.7%, grocery items at 21.1%, miscellaneous goods and services at 10.6%, health care at 8.2%, and transportation at 7.5% higher than the national average. The index, updated quarterly, does not measure tax differentials.

In the second quarter of 2009, numerous cities had a relatively higher cost of living than the Hartford area. These include, for example, New York City (Manhattan) at 217.5; Honolulu, Hawaii at 164.9; and San Francisco, California at 162.7. Living costs in most southern states' cities are relatively low; for example, Pryor Creek, Oklahoma at 83.8; Harlingen, Texas at 85.8; and Louisville, Kentucky at 88.4. 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, 119.0, and 124.7, 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 82.5%, $(217.5-119.2)/119.2$, 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 45.2%, $(119.2-217.5)/217.5$, in order to sustain the same current life style.

The cost of living for metropolitan statistical areas within Connecticut also varies. For the second quarter of 2009, the ACCRA cost of living Index for the Stamford area was at 147.6, New Haven at 120.6, and New London at 113.7, compared to 119.2 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 70
COMPARISON OF COST OF LIVING IN CONNECTICUT
Hartford, New Haven, New London, and Stamford MTAs

2 nd Quarter 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	119.2	121.1	132.4	124.7	107.5	108.2	110.8
New Haven	120.6	123.3	129.9	125.8	105.6	109.7	116.3
New London	113.7	110.1	120.7	127.8	103.8	109.0	108.5
Stamford	147.6	110.4	225.3	128.1	115.3	113.5	114.1

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

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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 2008. The table shows overall state tax collections as a percentage of personal income. In the table, note that Connecticut ranks 25th, signifying that in 24 other states a greater percentage of an individual's income is going for state taxes than in Connecticut.

TABLE 71
STATE TAX COLLECTIONS AS A PERCENTAGE OF PERSONAL INCOME
Fiscal 2008

<u>State</u>	<u>Percentage</u>	<u>Rank</u>	<u>State</u>	<u>Percentage</u>	<u>Rank</u>
Alaska	28.92%	1	Kansas	6.72%	26
Vermont	10.71%	2	Massachusetts	6.66%	27
Hawaii	9.61%	3	Oklahoma	6.63%	28
North Dakota	9.35%	4	Pennsylvania	6.51%	29
West Virginia	8.72%	5	Washington	6.47%	30
New Mexico	8.66%	6	Rhode Island	6.43%	31
Wyoming	8.59%	7	Ohio	6.43%	32
Delaware	8.39%	8	Iowa	6.26%	33
Minnesota	8.28%	9	Arizona	6.16%	34
Arkansas	8.19%	10	Nebraska	6.13%	35
Maine	7.81%	11	Illinois	5.88%	36
Mississippi	7.64%	12	South Carolina	5.85%	37
Kentucky	7.45%	13	Maryland	5.84%	38
Montana	7.41%	14	Alabama	5.82%	39
California	7.35%	15	Nevada	5.69%	40
Idaho	7.29%	16	Virginia	5.43%	41
Wisconsin	7.17%	17	Georgia	5.42%	42
Michigan	7.13%	18	Tennessee	5.35%	43
North Carolina	7.06%	19	Oregon	5.35%	44
Louisiana	6.94%	20	Missouri	5.16%	45
New Jersey	6.94%	21	Florida	4.98%	46
New York	6.93%	22	Texas	4.94%	47
Utah	6.86%	23	Colorado	4.58%	48
Indiana	6.84%	24	South Dakota	4.35%	49
<u>Connecticut</u>	<u>6.82%</u>	<u>25</u>	New Hampshire	3.96%	50
U.S. Average	6.45%				

Source: U.S. Department of Commerce, "State Government Finances, 2008"

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 \$6,385.9 million in fiscal year 2008-09, \$7,512.7 million in fiscal year 2007-08, and \$6,749.5 million in fiscal year 2006-07. In fiscal year 2008-09, this tax accounted for 40.7% of total revenue and 54.3% of total tax collections, while in fiscal year 2007-08 it accounted for 45.8% of total revenue and 56.1% of total tax collections.

**TABLE 72
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 2008.

TABLE 73
STATE INCOME TAX COLLECTIONS AS A PERCENTAGE OF PERSONAL INCOME
Fiscal 2008

<u>State</u>	<u>Percentage</u>	<u>Rank</u>	<u>State</u>	<u>Percentage</u>	<u>Rank</u>
New York	3.87%	1	Kentucky	2.58%	23
Massachusetts	3.80%	2	Arkansas	2.55%	24
Oregon	3.65%	3	Rhode Island	2.54%	25
<u>Connecticut</u>	<u>3.57%</u>	<u>4</u>	Nebraska	2.50%	26
Minnesota	3.52%	5	Missouri	2.41%	27
California	3.49%	6	Colorado	2.41%	28
North Carolina	3.41%	7	Ohio	2.40%	29
Wisconsin	3.16%	8	South Carolina	2.31%	30
Maine	3.07%	9	Indiana	2.22%	31
Utah	2.99%	10	Oklahoma	2.18%	32
Virginia	2.98%	11	Pennsylvania	2.11%	33
Hawaii	2.88%	12	Michigan	2.07%	34
Delaware	2.88%	13	Louisiana	2.00%	35
Idaho	2.87%	14	Alabama	1.98%	36
New Jersey	2.86%	15	Illinois	1.90%	37
Kansas	2.76%	16	New Mexico	1.86%	38
West Virginia	2.71%	17	Mississippi	1.75%	39
Georgia	2.64%	18	Arizona	1.53%	40
Montana	2.62%	19	North Dakota	1.28%	41
Vermont	2.62%	20	New Hampshire	0.21%	42
Iowa	2.59%	21	Tennessee	0.13%	43
Maryland	2.58%	22			
U.S. Average	2.30%				

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, 2008"

Economic Report of the Governor

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 74
CONNECTICUT PERSONAL INCOME TAX CREDITS & EXEMPTIONS
Income Year 2010

<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

Economic Report of the Governor

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

TABLE 75
STATE AND LOCAL GOVERNMENT OBLIGATIONS EXEMPTIONS
FOR DETERMINING INDIVIDUAL'S STATE INCOME

<u>State</u>	<u>Own</u> <u>Securities</u>	<u>Other</u> <u>State's</u> <u>Securities</u>	<u>State</u>	<u>Own</u> <u>Securities</u>	<u>Other</u> <u>State's</u> <u>Securities</u>
Alabama	E	T	Montana	E	T
Alaska (no tax)			Nebraska	E	T
Arizona	E	T	Nevada (no tax)		
Arkansas	E	T	New Hampshire	E	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	E	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.

Economic Report of the Governor

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

**TABLE 76
PERSONAL INCOME TAX BY STATE**

State	<u>Low Bracket</u>		<u>High Bracket</u>		State	<u>Low Bracket</u>		<u>High Bracket</u>	
	Rate	To Net Income	Rate	From Net Income		Rate	To Net Income	Rate	From Net
Alabama (2)	2.0	1,000	5.0	6,001	Missouri (1)	1.5	1,000	6.0	9,000
Arizona (1)	2.59	20,000	4.54	300,001	Montana (1)	1.0	2,600	6.9	15,400
Arkansas (3)	1.0	3,799	7.0	31,700	Nebraska (1)	2.56	4,800	6.84	54,000
California (1)	1.25	14,120	9.55	94,110	New Hampshire	(b)			
Colorado (2)	4.63	All			New Jersey (3)	1.4	20,000	10.75	1,000,000
Connecticut (1)	3.0	20,000	6.5	1,000,000	New Mexico (1)	1.7	8,000	4.9	24,000
Delaware (1)	2.2	5,000	5.95	60,000	New York (1)	4.0	16,000	6.85	40,000
Georgia (1)	1.0	1,000	6.0	10,000	N. Carolina (2)	6.0	21,250	8.0	200,000
Hawaii (2)	1.4	4,800	8.25	96,000	N. Dakota (2)	2.1	56,750	5.54	372,950
Idaho (2)	1.6	2,642	7.8	52,836	Ohio (1)	0.59	5,000	5.92	200,000
Illinois (1)	3.0	All			Oklahoma (1)	0.5	2,000	5.25	15,000
Indiana (1)	3.4	All			Oregon (2)	5.0	4,000	9.9	250,000
Iowa (1)	0.36	1,379	8.98	62,055	Pennsylvania (3)	3.07	All		
Kansas (1)	3.5	30,000	6.45	60,000	Rhode Island (1,c)	3.75	56,700	9.9	372,950
Kentucky (1)	2.0	3,000	6.0	75,000	S. Carolina (2)	3.0	5,480	7.0	13,700
Louisiana (1)	2.0	25,000	6.0	50,000	Tennessee	(b)			
Maine (1)	2.0	10,150	8.5	40,350	Utah (2)	5.0	All		
Maryland (1)	2.0	1,000	6.25	1,000,000	Vermont (1)	3.6	54,400	9.5	357,701
Massachusetts (1)	5.3	All	(a)		Virginia (1)	2.0	3,000	5.75	17,000
Michigan (1)	4.35	All			W. Virginia (1)	3.0	10,000	6.5	60,000
Minnesota (2)	5.35	31,860	7.85	126,581	Wisconsin (1)	4.6	12,930	6.75	193,950
Mississippi (3)	3.0	5,000	5.0	10,000	Dist. of Col. (1)	4.0	10,000	8.5	40,000

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

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

Base: (1) - Modified Federal Adjusted Gross Income
 (2) - Modified Federal Taxable Income
 (3) - 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 7.0%.

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. In fiscal 2008-09, sales and use taxes accounted for 21.1% of total revenue and 28.2% of total tax collections, compared to 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 35 other states. The comparison is based on fiscal year 2008 data. From fiscal 1991 to fiscal 2008, Connecticut's sales tax collections as a percentage of personal income dropped from 3.15% with a rank of ninth to 1.62% with a rank of 36th, and compared to the national average of 1.99%. 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 78 shows the comparison for major sales tax exemptions.

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TABLE 77
SALES TAX COLLECTIONS AS A PERCENTAGE OF PERSONAL INCOME
Fiscal 2008

State	Tax Rate			State	Tax Rate		
	(%)	%	Rank		(%)	%	Rank
Hawaii	4.0*	4.89	1	Minnesota	6.875*	2.06	24
Washington	6.5*	4.09	2	Wisconsin	5.0	2.03	25
Tennessee	7.0*	3.17	4	New Jersey	7.0	2.02	26
Arkansas	6.0*	3.05	5	California	8.25	2.00	27
Florida	6.0*	2.99	6	West Virginia	6.0	1.98	28
New Mexico	5.0	2.99	7	Rhode Island	7.0	1.97	29
Wyoming	4.0*	2.95	8	Ohio	5.5*	1.92	30
Arizona	5.6*	2.89	9	Pennsylvania	6.0*	1.80	31
Nevada	6.85*	2.86	10	Georgia	4.0*	1.73	32
Idaho	6.0	2.69	11	Iowa	6.0*	1.67	33
Indiana	7.0	2.63	12	Oklahoma	4.5*	1.64	34
South Dakota	4.0*	2.41	13	North Carolina	4.5*	1.63	35
Texas	6.25*	2.40	14	<u>Connecticut</u>	<u>6.0</u>	<u>1.62</u>	<u>36</u>
Michigan	6.0	2.37	15	Missouri	4.225*	1.52	37
Maine	5.0	2.27	16	Alabama	4.0*	1.47	38
Utah	4.7*	2.27	17	Illinois	6.25*	1.46	39
Nebraska	5.5*	2.22	18	Vermont	6.0	1.43	40
Louisiana	4.0	2.18	19	Maryland	6.0	1.39	41
North Dakota	5.0*	2.14	20	Massachusetts	5.0	1.24	42
Kentucky	6.0	2.13	21	New York	4.0*	1.20	43
Kansas	5.3*	2.13	22	Colorado	2.9*	1.10	44
South Carolina	6.0*	2.11	23	Virginia	5.0*	1.08	45
U.S. Average		1.99					

Note:

* Local tax rates are additional

(a) Tax rates are as of July 1, 2009

(b) 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.;

U.S. Department of Commerce, "State Government Finances", 2008;

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

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**TABLE 78
MAJOR SALES TAX EXEMPTIONS BY STATE**

<u>State</u>	<u>Food</u>	<u>Prescription Drugs</u>	<u>Motor Fuels</u>	<u>Services</u>	<u>Clothes</u>	<u>Cig's</u>	<u>Computer Software (Canned)</u>	<u>Computer Software (Custom)</u>
Alabama	T	E	E	E	T	T	E	E
Arizona	E	E	E	T	T	T	E	E
Arkansas	T(1)	E	E	T	T	T	T	T
California	E	E	T	E	T	T	E	E
Colorado	E	E	E	E	T	T	E	E
Connecticut	E	E	E	T	E(2)	T	T	T
Florida	E	E	T	T	T	T	E	E
Georgia	E	E	T(1)	E	T	T	T	E
Hawaii	T	E	T	T	T	T	T	T
Idaho	T	E	E	E	T	T	E	E
Illinois	T(1)	T(1)	T	E	T	T	E	E
Indiana	E	E	T	E	T	T	T	E
Iowa	E	E	E	T	T	T	E	E
Kansas	T(7)	E	E	T	T	T	T	E
Kentucky	E	E	E	E	T	T	E	E
Louisiana	E	E	E	E	T	T	T	E
Maine	E	E	E	E	T	T	E	E
Maryland	E	E	E	E	T	T	E	E
Massachusetts	E	E	E	E	E(3)	T	E	E
Michigan	E	E	T	E	T	T	E	E
Minnesota	E	E	T	T	E	T	E	E
Mississippi	T	E	E	T	T	T	T	T
Missouri	T(1)	E	E	E	T	T	T	E
Nebraska	E	E	E	E	T	T	T	T
Nevada	E	E	E	E	T	T	E	E
New Jersey	E	E	E	E	E	T	E	E
New Mexico	E	E	E	T	T	T	T	T
New York	E	E	T	T	E(4)	T	E	E
North Carolina	E	E	E	E	T	T	E	E
North Dakota	E	E	E	E	T	T	E	E
Ohio	E	E	E	T	T	T	T(5)	T(5)
Oklahoma	T	E	E	T	T	T	T	E
Pennsylvania	E	E	E	T	E	T	T	E
Rhode Island	E	E	E	E	E	T	T	E
South Carolina	T	E	E	E	T	T	T	T
South Dakota	T	E	E	T	T	T	T	T
Tennessee	T(1)	E	E	E	T	T	T	T
Texas	E	E	E	T	T	T	T	T
Utah	T	E	E	T	T	T	E	E
Vermont	E	E	E	E	E(4)	T	E	E
Virginia	T(1)	E	E	E	T	T	T	E
Washington	E	E	T	T	T	T	E	E
West Virginia	T(1)	E	T	T	T	T	T(6)	T
Wisconsin	E	E	E	T	T	T	E	E
Wyoming	T	E	E	E	T	T	T	E
Total Taxable	16	1	11	20	38	45	22	12

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

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

(1) Taxed at a reduced rate. (2) Up to a sales price of \$50 per item. (3) Up to a sales price of \$175 per item. (4) Up to a sales price of \$110 per item. (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.

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. 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 2008-09, the Corporation Business Tax accounted for 3.9% of total revenue and 5.8% of total tax collections, while in fiscal 2007-08 they were 4.5% and 5.5%, 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 79
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	2.6	3,000	6.5	30,000
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	9.5	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; KY \$175; MA \$456; MT \$50; NJ \$500; NY \$100; NC \$35; OR \$10; RI \$500; UT \$100; VT \$250; District of Columbia \$100

- (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 to 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: Tax Foundation www.taxfoundation.org, As of July 1, 2009.

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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, 2009, the Special Fuels and Motor Carrier Taxes were raised from 43.4 cents per gallon to 45.1 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 80 MOTOR FUEL TAXES BY STATE

State	Excise Tax	Sales		State	Excise Tax	Sales	
		Tax Rate	Total Tax*			Tax Rate	Total Tax*
Alabama	16.0¢	-	16.0¢	Montana	27.0¢	-	27.0¢
Alaska	8.0	-	8.0	Nebraska	26.4	-	26.4
Arizona	18.0	-	18.0	Nevada	24.0	-	24.0
Arkansas	21.5	-	21.5	New Hampshire	18.0	-	18.0
California	18.0	7.25	32.5	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	4.00	16.0
Delaware	23.0	-	23.0	North Carolina (e)	29.9	-	29.9
Florida	16.1	-	16.1	North Dakota	23.0	-	23.0
Georgia (b)	15.3	-	15.3	Ohio	28.0	-	28.0
Hawaii (c)	29.7	-	29.7	Oklahoma	16.0	-	16.0
Idaho	25.0	-	25.0	Oregon	24.0	-	24.0
Illinois	19.0	6.25	31.5	Pennsylvania	31.2	-	31.2
Indiana (b)	26.9	-	26.9	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)	22.5	-	22.5	Tennessee (f)	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	6.00	31.0	Washington	37.5	-	37.5
Minnesota	25.5	-	25.5	West Virginia (g)	32.2	-	32.2
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% effective 7/1/09, which equates to approximately 14.0¢ per gallon assuming an average wholesale price of \$2.00 per gallon.
- (b) Includes a pre-paid sales tax- converted to a cents per gallon rate of 7.8¢ in Georgia and 8.9¢ in Indiana
- (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) Tax is 9% of the average wholesale price plus a highway user tax.
- (e) Includes an additional tax based on the average wholesale price of motor fuel.
- (f) Plus an optional 1 cent per gallon special tax imposed by certain counties on petroleum products and an environmental assurance fee at the rate of 0.4¢ per gallon.
- (g) Includes sales tax of 11.7¢ per gallon

Source: Commerce Clearing House, Inc. Gasoline Rates effective July 1, 2009

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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 81
CIGARETTE TAXES BY STATE**

<u>State</u>	<u>Rate</u>	<u>State</u>	<u>Rate</u>
Alabama	42.5 ¢	Montana	\$1.70
Alaska	\$2.00	Nebraska	64.0 ¢
Arizona	\$2.00	Nevada	80.0 ¢
Arkansas	59.0 ¢	New Hampshire	\$1.78
California	87.0 ¢	New Jersey	\$2.70
Colorado	84.0 ¢	New Mexico	91.0 ¢
Connecticut	\$3.00	New York	\$2.75
Delaware	\$1.60	North Carolina	45.0 ¢
Florida	33.9 ¢	North Dakota	44.0 ¢
Georgia	37.0 ¢	Ohio	\$1.25
Hawaii	\$2.60	Oklahoma	\$1.03
Idaho	57.0 ¢	Oregon	\$1.18
Illinois	98.0 ¢	Pennsylvania	\$1.35
Indiana	99.5 ¢	Rhode Island	\$3.46
Iowa	\$1.36	South Carolina	7.0 ¢
Kansas	79.0 ¢	South Dakota	\$1.53
Kentucky (1)	60.0 ¢	Tennessee	62.0 ¢
Louisiana	36.0 ¢	Texas	\$1.41
Maine	\$2.00	Utah (2)	69.5 ¢
Maryland	\$2.00	Vermont	\$2.24
Massachusetts	\$2.51	Virginia	30.0 ¢
Michigan	\$2.00	Washington	\$2.025
Minnesota	\$1.23	West Virginia	55.0 ¢
Mississippi (2)	68.0 ¢	Wisconsin	\$1.77
Missouri	17.0 ¢	Wyoming	60.0 ¢

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

(1) Plus a 0.001¢ enforcement tax on each package of cigarettes.

(2) The tax rate is increased by the same amount of any reduction in the federal excise tax.

Source: Commerce Clearing House, Inc.

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**TABLE 82
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)	0.75-2.50	0.75-2.50	New Hampshire (7)	1.00-4.00	1.00-4.00
California (1)	0.50-5.00	0.50-5.00	New Jersey (1)	1.50-5.00	1.50-5.00
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)	2.25-4.00	2.25-4.00	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	1.25-5.00	1.25-5.00
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	0.45-5.50	0.45-5.50
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 83
ALCOHOLIC BEVERAGE TAXES BY STATE
(Dollars Per Gallon)

<u>State</u>	<u>Distilled</u> <u>Spirits</u>	<u>Wines</u> <u>14%</u> <u>or Less</u>	<u>Wines</u> <u>14%</u> <u>to 21%</u>	<u>Beer</u>	<u>State</u>	<u>Distilled</u> <u>Spirits</u>	<u>Wines</u> <u>14%</u> <u>or Less</u>	<u>Wines</u> <u>14%</u> <u>to 21%</u>	<u>Beer</u>
Alabama (1,2)	58%	1.7	58%	.53	Montana (1,2)	16%	1.06	1.06	.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	4.40	.70	.70	.12
Colorado	2.28	.32	.32	.08	New Mexico	6.06	1.70	5.68	.41
Connecticut	4.50	.60	.60	.20	New York	6.44	.19	.19	.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	5.56	.72	1.40	.38
Idaho (1,2)	2%	.45	.45	.15	Oregon (1)		.67	.77	.08
Illinois	4.50	.73	.73	.19	Pennsylvania (1,2)	1.00	.07	.11	.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	.27
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	.20
Maine (1)	1.25	.60	.60	.35	Utah (1,2)	0.41	13%	13%	.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)	9.24	.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)	1.14	.95	.95	.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 5% 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 84 GENERAL FUND REVENUES

<u>TAXES (\$K)</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009*</u>
Personal Income	\$5,570,724	\$6,156,373	\$6,749,462	\$7,512,688	\$6,385,856
Sales and Use	3,290,366	3,401,966	3,496,110	3,582,317	3,318,752
Corporation	678,969	787,702	890,730	733,942	615,921
Public Service Corporation	196,819	225,263	235,502	237,113	268,495
Insurance Companies	257,152	269,902	253,016	227,221	202,217
Inheritance & Estate	253,907	196,258	179,922	170,618	238,337
Cigarettes	273,979	272,230	269,525	335,197	317,775
Oil Companies	143,548	212,091	144,404	205,483	104,413
Real Estate Conveyance	207,631	207,458	211,222	158,544	90,802
Alcoholic Beverages	44,236	45,998	46,006	47,077	47,064
Admissions, Dues, Cabaret	31,699	35,367	33,439	37,277	36,040
Miscellaneous	39,028	142,180	144,517	139,980	143,305
Total - Taxes	10,988,058	11,952,788	12,653,855	13,387,458	11,768,977
Less Refunds of Taxes	(681,279)	(730,850)	(746,539)	(852,184)	(1,052,286)
Less Refunds of R&D Credit	(8,850)	(6,694)	(5,982)	(11,362)	(8,428)
Total - Taxes Less Refunds	10,297,929	11,215,244	11,901,334	12,523,911	10,708,263
<u>OTHER REVENUE</u>					
Transfer-Special Revenue	273,894	289,946	283,808	287,604	287,195
Indian Gaming Payments	417,838	427,527	430,476	411,410	377,805
Licenses, Permits & Fees	143,250	157,400	151,738	171,739	162,474
Sales of Commodities & Services	35,148	34,612	35,528	30,066	32,558
Investment Income	15,293	53,702	83,610	63,943	18,806
Rents, Fines & Escheats	170,732	91,456	51,782	59,922	64,018
Miscellaneous	153,982	176,596	188,324	140,089	163,023
Less Refunds of Payments	(374)	(438)	(513)	(501)	(662)
Total - Other Revenue	1,209,764	1,230,801	1,224,753	1,164,272	1,105,217
<u>OTHER SOURCES</u>					
Federal Grants	2,497,670	2,549,577	2,602,774	2,701,603	3,619,490
Transfer from Special Funds	142,500	89,400	100,000	115,300	115,800
Transfer From/ (To) Other Funds	(85,000)	(86,300)	(45,300)	(102,300)	152,031
Total - Other Sources	2,555,170	2,552,677	2,657,474	2,714,603	3,887,321
GRAND TOTAL	\$14,062,863	\$14,998,721	\$15,783,561	\$16,402,786	\$15,700,801
<u>TAXES</u>	<u>% of Total</u>	<u>% of Total</u>	<u>% of Total</u>	<u>% of Total</u>	<u>% of Total</u>
Personal Income	39.61%	41.05%	42.76%	45.80%	40.67%
Sales and Use	23.40	22.68	22.15	21.84	21.14
Corporation	4.83	5.25	5.64	4.47	3.92
Public Service Corporation	1.40	1.50	1.49	1.45	1.71
Insurance Companies	1.83	1.80	1.60	1.39	1.29
Inheritance & Estate	1.81	1.31	1.14	1.04	1.52
Cigarettes	1.95	1.82	1.71	2.04	2.02
Oil Companies	1.02	1.41	0.91	1.25	0.66
Real Estate Conveyance	1.48	1.38	1.34	0.97	0.58
Alcoholic Beverages	0.31	0.31	0.29	0.29	0.30
Admissions, Dues, Cabaret	0.23	0.24	0.21	0.23	0.23
Miscellaneous	0.28	0.95	0.92	0.85	0.91
Total - Taxes	78.14	79.69	80.17	81.62	74.95
Less Refunds of Taxes	(4.84)	(4.87)	(4.73)	(5.20)	(6.70)
Less Refunds of R&D Credit	(0.06)	(0.04)	(0.04)	(0.07)	(0.05)
Total - Taxes Less Refunds	73.23	74.78	75.40	76.35	68.20
<u>OTHER REVENUE</u>					
Transfer-Special Revenue	1.95	1.93	1.80	1.75	1.83
Indian Gaming Payments	2.97	2.85	2.73	2.51	2.40
Licenses, Permits & Fees	1.02	1.05	0.96	1.05	1.03
Sales of Commodities & Services	0.25	0.23	0.23	0.18	0.21
Investment Income	0.11	0.36	0.53	0.39	0.12
Rents, Fines & Escheats	1.21	0.61	0.33	0.37	0.41
Miscellaneous	1.09	1.18	1.19	0.85	1.04
Less Refunds of Payments	-	-	-	-	-
Total - Other Revenue	8.60	8.20	7.76	7.10	7.04
<u>OTHER SOURCES</u>					
Federal Grants	17.76	17.00	16.49	16.47	23.05
Transfer from Special Funds	1.01	0.60	0.63	0.70	0.74
Transfer to Other Funds	(0.60)	(0.58)	(0.29)	(0.62)	0.97
Total - Other Sources	18.17	17.02	16.84	16.55	24.76
GRAND TOTAL	100.00%	100.00%	100.00%	100.00%	100.00%

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TABLE 85 SPECIAL TRANSPORTATION FUND REVENUES

	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009*</u>
<u>TAXES (\$K)</u>					
Motor Fuels	\$483,797	\$480,868	\$478,250	\$495,123	\$495,025
Oil Companies	13,000	43,500	141,000	127,800	141,900
DMV Sales	69,720	68,419	67,889	64,863	57,134
Less Refunds of Taxes	<u>(8,329)</u>	<u>(8,853)</u>	<u>(7,916)</u>	<u>(6,999)</u>	<u>(6,085)</u>
Total - Taxes Less Refunds	558,188	583,934	679,223	680,787	687,974
<u>OTHER REVENUE</u>					
Motor Vehicle Receipts	233,852	227,261	224,678	225,524	220,780
Licenses, Permits & Fees	155,083	160,442	170,460	153,762	142,431
Interest Income	32,681	40,125	45,999	36,555	15,583
Transfer from Other Funds	-	-	8,000	16,700	9,400
Transfer to Other Funds	(8,500)	(4,600)	(7,000)	(9,500)	(15,992)
Transfer to TSB	(28,727)	(25,300)	(20,300)	(20,800)	(15,300)
Less Refunds of Payments	<u>(2,779)</u>	<u>(2,666)</u>	<u>(2,716)</u>	<u>(2,719)</u>	<u>(2,772)</u>
Total - Other Revenue	381,610	395,262	419,121	399,517	344,730
GRAND TOTAL	\$939,798	\$979,196	\$1,098,344	\$1,080,304	\$1,042,104
	<u>% of Total</u>	<u>% of Total</u>	<u>% of Total</u>	<u>% of Total</u>	<u>% of Total</u>
<u>TAXES</u>					
Motor Fuels	51.48%	49.11%	43.54%	45.83%	47.93%
Oil Companies	1.38	4.44	12.84	11.83	13.74
DMV Sales	7.42	6.99	6.18	6.00	5.53
Less Refunds of Taxes	<u>(0.89)</u>	<u>(0.90)</u>	<u>(0.72)</u>	<u>(0.65)</u>	<u>(0.59)</u>
Total - Taxes Less Refunds	59.39	59.63	61.84	63.02	66.62
<u>OTHER REVENUE</u>					
Motor Vehicle Receipts	24.88	23.21	20.46	20.88	21.38
Licenses, Permits & Fees	16.50	16.39	15.52	14.23	13.79
Interest Income	3.48	4.10	4.19	3.38	1.51
Transfer from Other Funds	-	-	0.73	1.55	-
Transfer to Other Funds	(0.90)	(0.47)	(0.64)	(0.88)	(1.55)
Transfer to TSB	(3.06)	(2.58)	(1.85)	(1.93)	(1.48)
Less Refunds of Payments	<u>(0.30)</u>	<u>(0.27)</u>	<u>(0.25)</u>	<u>(0.25)</u>	<u>(0.27)</u>
Total - Other Revenue	40.61	40.37	38.16	36.98	33.38
GRAND TOTAL	100.00%	100.00%	100.00%	100.00%	100.00%

* Per the Comptroller's Report dated September 1, 2009

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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 \$673.1 billion in 1990 to \$2,572.3 billion in 2008, an increase of 215.5% versus only a 65.7% 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. The U.S.'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.

As the world and the U.S. economy declined in 2009, so did U.S. exports of goods and services. U.S. total exports for the first three quarters of 2009 registered \$733.7 billion, declining 22.9% from the same period in 2008. Connecticut's total export also declined, down 12.5% from \$11.5 billion to \$10.1 billion during the same period. U.S. real exports are anticipated to grow faster than the overall U.S. economy, expanding 7.3% in 2010 and 10.0% in 2011 versus only 2.3% and 3.8%, 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 the overall world economy. Most developed countries are currently in recession or on the verge of a recovery. World GDP growth declined 2.4% in 2009 as the financial and credit crises as well as slower international trade and capital flows spread to developing countries. Negative economic growth in 2009 in our major trade partners forced Connecticut's weighted growth index to decline by 2.1%. As the world economy improves and global financial conditions become more favorable, the world economy is projected to grow by 2.5% in 2010 and pick up speed in 2011 to 3.6%, Connecticut's export index is anticipated to rebound with growth of 2.9% in 2010 and 4.0% in 2011. Collectively, the G-7 nations, Mexico and the countries in the Pacific Basin area account for 67.2% of Connecticut's total exports in 2008, down from 77.2% in 2003. This reflects that, while relying less on the G-7 countries and the Pacific Basin area, Connecticut also has been diversifying its exports into other regions such as Eastern Europe and South America.

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TABLE 86
ECONOMIC GROWTH OF MAJOR TRADING PARTNERS
(GNP/GDP % Growth)

Calendar Year	Germany							Pacific	World	CT Export	
	U.S.	Canada	Japan	(a)	U.K.	France	Italy	Mexico	Basin(b)	(c)	Weighted Growth(d)
2001	1.1	1.8	0.2	1.4	2.5	1.8	1.7	(0.2)	4.2	1.5	1.9
2002	1.8	2.9	0.3	0.0	2.1	1.1	0.3	0.8	6.5	2.0	2.4
2003	2.5	1.9	1.5	(0.2)	2.8	1.1	0.2	1.4	6.4	2.5	2.4
2004	3.6	3.1	2.7	0.7	3.0	2.9	1.4	4.0	7.6	3.8	3.7
2005	3.1	3.0	1.9	0.9	2.2	1.9	0.8	3.2	7.1	3.3	3.1
2006	2.7	2.9	2.0	3.4	2.9	2.4	2.1	5.1	8.1	3.8	4.1
2007	2.1	2.5	2.3	2.6	2.6	2.3	1.5	3.3	8.8	3.6	4.0
2008	0.4	0.4	(0.7)	1.0	0.6	0.3	(1.0)	1.3	5.9	1.5	1.8
2009 (E)	(2.5)	(2.7)	(5.4)	(5.0)	(4.7)	(2.1)	(4.8)	(7.0)	3.8	(2.4)	(2.1)
2010 (P)	2.3	2.0	1.0	1.2	0.8	1.4	0.9	3.3	7.1	2.5	2.9
2011 (P)	3.8	3.8	1.1	3.5	2.2	2.3	1.3	4.0	7.5	3.6	4.0
<u>% of CT's Exports *</u>											
2003		16.6	7.9	9.3	6.3	13.5	1.8	5.9	15.9		77.2
2004		17.2	5.9	8.9	6.4	13.8	1.4	6.4	14.2		74.2
2005		17.3	4.5	8.6	7.2	16.5	1.5	5.8	12.7		74.1
2006		15.9	5.7	9.9	7.0	9.9	1.3	5.8	18.2		73.7
2007		13.6	4.5	10.5	6.2	10.2	1.0	5.7	18.4		70.1
2008		12.0	4.4	9.5	5.7	11.3	1.0	6.8	16.5		67.2

* For 2009 to 2011, assumes the same percentage as in 2008.

(a) The data reflects a united Germany.

(b) Includes China, Hong Kong, Indonesia, Macao, Malaysia, Philippines, Singapore, South Korea, Thailand, Taiwan and Vietnam.

(c) World growth rate weighted by the size of economies and measured in Purchasing Power Parity terms.

(d) Economic growth rate weighted by Connecticut's share of exports to trade partners.

(E) Estimated

(P) Projected

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

The outlook for the U.S., as well as Connecticut, for 2010 and 2011 is optimistic especially with those countries that will have economic growth exceeding or on par with the U.S. These include Mexico, Brazil, China, India, Singapore, Hong Kong, Taiwan, and South Korea. Collectively, these countries account for about a quarter of Connecticut's exports.

Despite a promising outlook for trade in 2010, actual economic growth and trade performance rely more upon a smooth and orderly financial market and social conditions. Numerous risk factors may profoundly affect the world economy and hamper Connecticut exports, affecting the outcome in

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either direction. Local financial or equity market shocks such as Dubai World's debt shock and Iceland's bank collapse or even a bubble in certain individual stock markets may unexpectedly disturb the gradually improved but still weak world financial landscape. World recovery is not assured as uneven economic growth among the major industrialized countries may hinder progress. Boosted by domestic stimulus plans, the U.S., Germany, and France are on the way to recovery. However, other countries with serious housing problems or heavy national budget debt such as the U.K., Japan, and Spain are still struggling to climb out of recession. In addition, huge funding needs in worldwide capital markets may lead to higher interest rates and negatively affect economic growth. About 80% of the 43 countries compiled by *The Economist* had budget deficits more than negative 3% of their GDP in 2009 with industrialized countries being much worse than that level (e.g., U.K., -14.5%; U.S., -11.9%; Spain, -10.8%; France, -8.2%; and Japan, -7.7%, with the Euro area at -6.5 %). Saddled with heavy household debts and unemployment rates as high as 10% (Spain at 19%), consumer confidence in developed countries is still weak, albeit improving. Stagnant consumption due to a tempering in government spending and inventory replenishments may halt world economic expansion. 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 5.5% of U.S. exports in 2008 and ranked third among our trading partners next to Canada and Mexico. China is also one of U.S.'s biggest creditors. The Chinese government's role in investment and industrial expansion is deemed to be speculative. The U.S.-like sub-prime housing market may shake China's banking industry and financial market, which would be disastrously critical to itself and the rest of world if its fiscal or monetary policy is changed dramatically.

An unexpected geopolitical or natural disturbance, either domestically or elsewhere, has the potential to disturb the international economic landscape, sending the world economy into a tailspin. Unstable energy prices are also a damaging factor. With U.S. domestic production less than 50% of total demand and the expansion of just-in-time inventory strategies, the stability of world oil prices will remain vital to the U.S. economy. Significant and abrupt increases in oil prices or cuts in new productivity investment can create inflationary pressure and erode consumers' purchasing power, thereby contributing to a possible severe setback in the economy.

The United States Economy

The December 2009 updated estimate for the fiscal 2009-10 economy, the table below, shows that the U.S. will come out of recession earlier than previously anticipated with scant real GDP growth and continued but slow increases in new vehicle sales. Inflation rates are expected to remain low for both years, but with a climb in unemployment rates. The current economic downturn, which started in December 2007 as identified by the National Bureau of Economic Research, is anticipated to have ended sometime in the middle of 2009. Past experience had it that in general faster recovery rates followed deeper recessions; but, that is not the case for this current recession. Rather than being brought about by business over-investment or the Federal Reserve's aggressiveness in interest rate policy, the current recession was brought about by the crippled housing market, the shattered financial system, and almost frozen credit, creating far-reaching consequences. However, no double recession is anticipated. The anemic rebound in GDP at 0.4% in the current fiscal year is a result of limited credit availability, heavy household debt, and limited state and local government spending. Deficit spending is not an option for generally cash-strapped state governments as all states, except Vermont, are required to balance their budgets. The winding down of the Federal Reserve's

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mortgage-backed purchase program and Treasury's fiscal incentive programs followed by possible tighter monetary policy anticipated to begin in the second half of 2010 will target economic growth within the natural long-run rate of 3.5% in fiscal 2010-11. The impact of the sub-prime loan crisis has been enormous, lingering, and profound. Financial turmoil has severely constrained the flow of credit, resulting in the curtailment of economic activity. House foreclosures continue to be a drag on the recovery of the economy.

Fiscal Year Forecasted by Month/Year	2008-09	2009-10			2010-2011		
	Actual	12/2008	12/2009	Difference	12/2008	12/2009	Difference
Gross Domestic Product	(0.3%)	1.9%	1.0%	(0.9%)	5.2%	3.3%	(1.9%)
Real Gross Domestic Product	(2.3%)	(0.8%)	0.4%	1.2%	3.6%	2.7%	(0.9%)
G.D.P. Deflator	2.0%	2.8%	0.6%	(2.2%)	1.5%	0.5%	(1.0%)
Consumer Price Index	1.4%	2.7%	0.9%	(1.8%)	2.3%	1.5%	(0.8%)
Unemployment Rate	7.6%	6.9%	10.1%	3.2%	8.4%	10.3%	1.9%
Housing Starts (Million)	0.65	0.79	0.64	(0.15)	1.15	0.89	(0.26)
New Vehicle Sales (Million)	10.61	10.93	10.98	0.05	14.09	12.68	(1.41)

The unemployment rate has increased by about 5.5 percentage points from its recent low, reaching 10.0% as of December 2009. It is expected to rise another 0.5 percentage points to approximately 10.5% in mid 2010, despite the federal fiscal stimulus plan and an accommodative monetary policy. The unemployment rate is expected to remain high as employers stay cautious in hiring and as the discouraged workers, anticipating a recovery, attempt to re-enter the labor market; the unemployment rate will remain high. Some of the jobs created during the housing and credit market booms will most likely be eliminated and those in the technology industries will be replaced by more effective software and equipment. Free mobility of labor used to play a conducive role for a rapid recovery of employment. However, trapped by the sluggish housing market, employment growth will be less promising. The current recession to date has cost the U.S. economy 7.2 million jobs, or 5.2% of total non-manufacturing jobs, with another 0.5 million jobs projected to be cut, at best.

Inflation for FY 2009-2010 and FY 2010-2011 is much lower than what was expected in late 2008 as the slow-recovery in housing and labor markets continue to suppress shelter costs, which are partially offset by a faster price increase in health care. Shelter and health care expenses account for 32% and 6%, respectively, in forming the consumer price index. The price of crude oil is expected to hover around \$80 per barrel and reach \$90 when the economy fully recovers. Iraq plans to develop its oil fields and increase production from the current 2.5 million barrels a day (MBD) to over 11 MBD (about 13% of world crude oil supply) over the next six to seven years. Increased prices in electricity and natural gas are expected to be in line with the over-all inflation rate. Credit availability from banks and financial entities may be far from ample as loan losses from the financial crisis linger and the foreclosure problem remains unrelieved. Worse still, foreclosures in commercial real estate will continue to deteriorate before improving. While the labor market has no clear sign of recovery and employers remain in a strong bargaining position, consumers will continue to reconstruct their balance sheets by saving or paying off debt. Consumption of durable goods is expected to fare better than non-durables as the economy and the flow of credit continue to improve with interest rates still at a favorable low. As the economy regains traction and consumer confidence is gradually rebuilt, spending on vehicles and housing should rise in fiscal 2009-10 and fiscal 2010-11, respectively. The motor vehicle industry will recover after being beleaguered by

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problems of bankruptcy as well as plant and dealership closures. More efficient and new foreign entrants will enter into the ever more competitive U.S. market.

Business investment in software and equipment, inventory, and residential 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. After two consecutive years of inventory depletion, businesses plan to replenish their stock to meet increasing demand 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. Non-residential investment will take a longer time to recover as vacancy rates are high and continue to increase.

Forecast Caveats

The projection of a modest increase in real output growth in fiscal 2009-10 and a better rebound in fiscal 2010-11 with modest inflation assumes that there is an improvement in the financial and credit markets. The Federal government's massive efforts such as American Recovery and Reinvestment Act (ARRA) and the Federal Reserve System's zero interest rate policy (ZIRP) have helped shore up the troubled housing market and boost consumer, business, and investor confidence. Therefore, the economy should enter a recovery path. The Federal government's stimulus plans involve trillions of dollars and include foreclosure mitigation, industry bailouts, tax cuts, infrastructure and local government spending, an \$8,000 tax credit for first-time homebuyers, and the now expired cash for clunkers for new vehicles. A dollar of federal spending is estimated to create approximately \$1.60 of additional output over the course of the following year through the multiplier effect. Given the anticipated effectiveness of the federal plans and barring any unexpected dampening factors, output is expected to grow at a mere 0.4% rate in fiscal 2009-10. The fading of those short-term stimulus plans without continued support measures such as funding to state and local governments may delay or even push the economy into a "W" shaped recovery should any unexpected damaging factors emerge.

Consumption has been supported by government transfer payments through the social welfare system. An unexpectedly deeper slowdown in consumer spending would exacerbate the weak economy. A further 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 turn 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 that impacts two-thirds of the national economy. Persistent devaluation of the dollar with increasing world commodity prices could result in a rising inflation rate and affect consumption as real disposable income declines.

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, 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 2005-06 through 2008-09 and the current forecast for fiscal 2009-10 is presented in the following table.

TABLE 87
HISTORICAL COMPARISON OF CONNECTICUT ECONOMIC INDICATORS

<u>Fiscal Year</u>		<u>Personal Income</u>	<u>Nonagricultural Employment</u>	<u>Unemployment Rate</u>
2005-06	12/04 Forecast	\$168.7 Billion	1,665.6 Thousand	4.5%
	Actual	\$176.2 Billion	1,670.1 Thousand	4.6%
	Difference	\$7.5 Billion	4.5 Thousand	0.1%
2006-07	12/05 Forecast	\$184.5 Billion	1,691.5 Thousand	5.2%
	Actual	\$189.7 Billion	1,689.0 Thousand	4.4%
	Difference	\$5.2 Billion	(2.5) Thousand	(0.8%)
2007-08	12/06 Forecast	\$191.2 Billion	1,692.1 Thousand	4.4%
	Actual	\$195.9 Billion	1,705.6 Thousand	5.0%
	Difference	\$4.7 Billion	13.5 Thousand	0.6%
2008-09	12/07 Forecast	\$199.2 Billion	1,708.5 Thousand	4.8%
	Actual	\$194.2 Billion	1,671.1 Thousand	6.9%
	Difference	(\$5.0) Billion	(37.4) Thousand	2.1%
2009-10	12/08 Forecast	\$201.3 Billion	1,634.1 Thousand	8.0%
	Latest Forecast	\$195.2 Billion	1,619.5 Thousand	8.7%
	Difference	(\$6.1) Billion	(14.6) Thousand	0.7%

After employment bottomed out in July of 2003 in Connecticut, the nation's economic engine continued its positive growth, and Connecticut's growth also continued. Employment, per-capita gross state product and personal income, and labor productivity all saw healthy growth for the next several years, and the unemployment rate remained below the national rate. Approximately three years ago, however, 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 finally reached the last pre-recession peak of July, 2000, in August of 2007, but the unemployment rate has generally been rising since reaching a low point in April of 2006. As a final indication of the severity of the situation, the average duration of unemployment in the nation hit 29.1 weeks in December of 2009, 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 last recession, showing the peak at the beginning of the recession and the most current peak after coming out of the 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 current recession.

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In the twenty-one months since employment peaked in March of 2008, the state has lost approximately 94,500 jobs, or 5.5% of the total number of jobs existing at the peak. In comparison, at the low point of the last recession, the state lost a total of 61,000 jobs, or 3.6% of the July, 2000, peak, but lost 29,100 jobs, or only 1.7% in the first twenty-one months. However, 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 88
UNITED STATES & CONNECTICUT CHANGE IN EMPLOYMENT
(In Thousands, Seasonally Adjusted)

	Early 2000s Recession							
	<u>United States</u>				<u>Connecticut</u>			
	<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	13,777	(3,252)	(19.1%)	237	188	(49)	(20.7%)
NonMfg. Empl.	<u>115,501</u>	<u>124,375</u>	<u>8,874</u>	7.7%	<u>1,464</u>	<u>1,521</u>	<u>57</u>	3.9%
NonAgr. Empl.	132,530	138,152	5,622	4.2%	1,701	1,709	8	0.5%
	Recovery achieved February of 2005				Recovery achieved August of 2007			
	Current Recession							
	<u>United States</u>				<u>Connecticut</u>			
	<u>12/07</u>	<u>12/09</u>	<u>Change</u>	<u>% Chg.</u>	<u>3/08</u>	<u>12/09</u>	<u>Change</u>	<u>% Chg.</u>
Mfg. Empl.	13,777	11,630	(2,147)	(15.6%)	188	169	(19)	(10.1%)
NonMfg. Empl.	<u>124,375</u>	<u>119,280</u>	<u>(5,095)</u>	(4.1%)	<u>1,521</u>	<u>1,446</u>	<u>(75)</u>	(4.9%)
NonAgr. Empl.	138,152	130,910	(7,242)	(5.2%)	1,709	1,615	(94)	(5.5%)

The table and chart on the following page 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.

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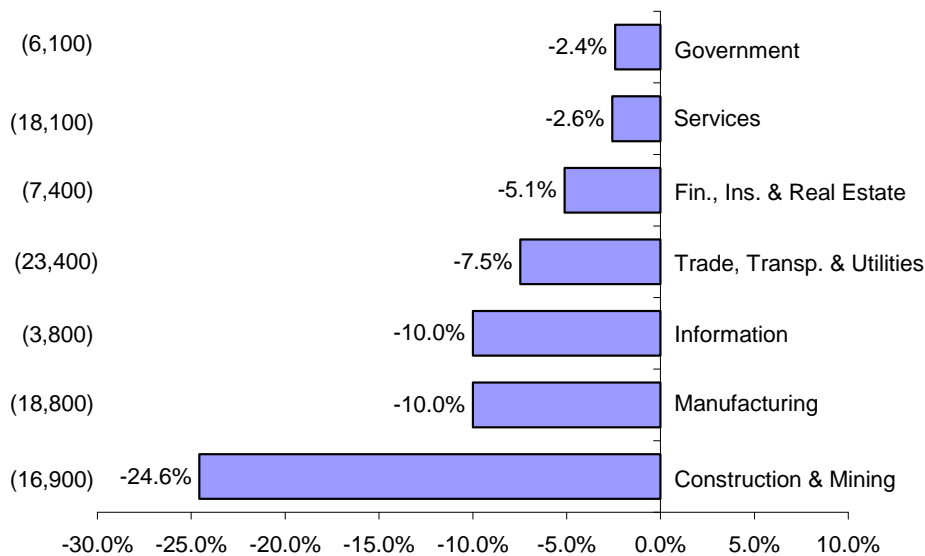
Connecticut Employment (Seasonally Adjusted)

Selected LMA Unemployment Rates (Not Seasonally Adjusted)

Sectors	Mar. '08	Dec. '09	Chg.	LMA	Mar. '08	Nov. '09	Chg.
Trade, Transp. & Utilities	312.8	289.4	(23.4)	Waterbury	7.3%	11.7%	4.4%
Manufacturing	188.1	169.3	(18.8)	Brdgprt/Stmfrd	4.7%	7.8%	3.1%
Construction & Mining	68.8	51.9	(16.9)	Hartford	5.4%	8.6%	3.2%
Fin., Ins. & Real Estate	144.8	137.4	(7.4)	Danielson	6.3%	9.8%	3.5%
Information	38.0	34.2	(3.8)	Torrington	5.5%	8.5%	3.0%
Services	704.4	686.3	(18.1)	New London	5.1%	8.0%	2.9%
Government *	<u>252.5</u>	<u>246.4</u>	<u>(6.1)</u>	New Haven	5.4%	8.3%	2.9%
Total	1,709.4	1,614.9	(94.5)	Danbury	4.2%	7.1%	2.9%
				Enfield	5.2%	8.7%	3.5%

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

CONNECTICUT EMPLOYMENT Percent Change In Employment By Sector And Jobs Gained/(Lost) (From March 2008 to December 2009)



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

Personal income in Connecticut fell by 0.8% in fiscal 2009, while the rate for the nation was a growth of 0.1%. After adjusting for inflation, Connecticut's real per capita personal income fell by 2.6%. However, Connecticut per capita personal income still remains well above the U.S. average by 39.6%.

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 2008 was down 32.6% compared to the year before, with each of the counties experiencing declines between 20% and 50%. The number of housing

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starts in fiscal year 2009 was down 43.1% over fiscal 2008, following a drop of 25.7% in fiscal 2008. The median price of homes in the state fell 9.0% in calendar year 2008, the first decrease in recent memory. Moreover, for the second 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 this decade, 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.

Finally, Connecticut's personal income tax revenues, after growing 9.6% the previous year, fell 15.0% in fiscal 2009, as estimated and final payments, which include capital gains, fell 28.9% compared to last year. When combined with changes in all the other taxes, total tax receipts fell year-over year by 12.1%.

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, while still being debated by politicians and economists alike, probably did bring financial help to consumers and workers, businesses, and state and local governments. The federal recovery funds directed at the states, however, will leave a large hole in state budgets in fiscal year 2012 after those programs cease. On the other hand, Connecticut's job mix is more heavily weighted towards the financial services industry than the nation as a whole. The state economy is significantly influenced by the fortunes of Wall Street which performed poorly all through 2008 and into early 2009, and state tax revenues depend heavily on capital gains and bonuses from those markets. Since March of 2009, however, the markets have performed much better and may help boost state revenues in fiscal year 2011 and beyond.

Fiscal year 2009 was very disappointing for the state's economy, with signs of weakness emerging late in fiscal 2008. Moving forward, the state is expected to continue to experience difficult economic times, like the rest of the nation, which has been in recession since December of 2007. Although Connecticut's economy has become more diversified, thus tempering the impact, employment, housing, and state revenues are still at grave risk as the biennium continues.

Employment in the state is expected to continue falling. Total nonagricultural employment is projected to decrease 3.1% and 0.1%, respectively, during fiscal years 2010 and 2011, having already fallen by 2.0% in fiscal year 2009. Employment is projected to reach a low point in the third quarter of calendar 2010. Not surprisingly, manufacturing employment, where the vast majority of job losses were concentrated during the last recession and subsequent weak recovery, is expected to continue its drag on employment growth which has prevailed since 1998, through fiscal year 2010 and into 2011, with some weak growth starting late in fiscal year 2011. In fact, employment is not expected to see substantial improvement before the end of fiscal year 2011 in any sectors except health and education services, with expected growth of 4.5%, and dramatic losses in professional and business services of 3.6%.

While forecasts of productivity gains are respectable, corporate earnings are expected to be lackluster for another year or so, until industrial production begins to rise. Housing values have

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declined, and household net worth has been reduced. While federal taxes have remained lower since being cut in 2001, stagnant disposable income growth and tight credit are some of the factors that will prevent consumers from continuing their spending pace, although consumer confidence is seen improving over the coming months as they pay down existing debt and save. Personal income will grow by only 0.5% and 1.9%, respectively, in fiscal years 2010 and 2011. After adjusting for inflation, personal income will be stagnant into fiscal year 2012. The unemployment rate in the state, which stood at 4.4% in fiscal year 2007, is expected to rise to 8.7% in fiscal year 2010 and 9.3% in fiscal year 2011.

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 should 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 economic growth resumes, the lack of skilled workers represents one of the biggest challenges the state will face in the future because many lack the skills to take the jobs that are or will be available. If the situation persists, this could impact economic growth in the long term.

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

<u>12/09 Forecast</u>	<u>Fiscal Year 2009-10</u>	<u>Fiscal Year 2010-11</u>
Personal Income	\$195.2 Billion	\$198.9 Billion
Nonagricultural Employment	1,619.5 Thousand	1,617.6 Thousand
Unemployment Rate	8.7%	9.3%

Many of the trends discussed last year have continued. Personal income will continue anemic growth, and housing sales and prices will continue to drop. Also, major risks facing the state and the nation discussed two years ago have also come to fruition: (1) The state has been in recession; (2) The stock market has experienced a catastrophic downturn and has yet to re-attain its previous high; (3) Job growth has been halted and job losses are mounting.

The following table shows the impact of prior recessionary periods on the state. This shows that the two most recent recoveries took longer than might have been expected.

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	5.5%	*	*

* Assumes that the latest peak of the labor market was reached in March of 2008, and the impact of the current recession is yet to be determined.

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Based on all the cited risks, there are reasons to be concerned about the continued decline in employment. The state passed a new employment peak in March of 2008 and it will likely be some time before real recovery is in sight, with projections showing employment not regaining previous peak levels through 2012. Fortunately, the bulk of the projected job losses during this recession are probably behind us. Putting the current situation into perspective, job losses are forecast to reach more than 100,000 jobs, while approximately 160,000 jobs were lost between 1989 and 1992. On the other hand, the unemployment rate is projected to rise to 9.4% by the end of calendar 2010, a level not seen since 1976.

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

TABLE 89
UNEMPLOYMENT RATES
Seasonally Adjusted

<u>Fiscal Year</u>	<u>Quarters</u>	<u>United States</u>	<u>Connecticut</u>	
2007-08	1	4.6%	4.6%	
	2	4.8%	4.9%	
	3	5.0%	5.2%	
	4	5.3%	5.4%	
2008-09	1	6.0%	6.0%	
	2	7.0%	6.3%	
	3	8.2%	7.4%	
	4	9.3%	7.9%	
2009-10	1	9.6%	8.1%	
	2	10.0%	8.6%	
	3	10.2%	8.9%	Start of Forecast
	4	10.4%	9.1%	
2010-11	1	10.5%	9.3%	
	2	10.5%	9.4%	
	3	10.3%	9.3%	
	4	9.9%	9.0%	

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

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TABLE 90
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>
2000-01	147.418	7.5	8,770.6	6.5	10,153.4	5.0
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	155.621	3.9	9,619.0	4.8	11,512.0	6.2
2004-05	165.347	6.2	10,205.7	6.1	12,247.9	6.4
2005-06	176.229	6.6	10,874.7	6.6	13,047.1	6.5
2006-07	189.698	7.6	11,579.8	6.5	13,714.3	5.1
2007-08	195.886	3.3	12,107.7	4.6	14,347.4	4.6
2008-09	194.238	-0.8	12,118.9	0.1	14,305.8	-0.3
2009-10 (E)	195.213	0.5	12,175.7	0.5	14,473.7	1.2
2010-11 (P)	198.900	1.9	12,565.7	3.2	14,962.6	3.4

(E) = Estimated / (P) = Projected

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

TABLE 91
STATE OF CONNECTICUT
Annualized Personal Income & Nonagricultural Employment
 (In Millions)

<u>Fiscal Year</u>		<u>Personal Income</u>	<u>% Change Year Ago</u>	<u>Nonagricultural Employment</u>	<u>% Change Year Ago</u>
2007-08	1	195,041	5.4	1,702.3	1.1
	2	195,851	4.0	1,705.4	1.0
	3	195,502	1.7	1,708.8	1.1
	4	197,150	2.0	1,705.9	0.6
	Average	195,886	3.3	1,705.6	1.0
2008-09	1	198,437	1.7	1,700.1	-0.1
	2	197,006	0.6	1,684.1	-1.2
	3	188,729	-3.5	1,660.5	-2.8
	4	192,778	-2.2	1,640.2	-3.9
	Average	194,238	-0.8	1,671.2	-2.0
2009-10	1	193,563	-2.5	1,628.7	-4.2
	2	195,164	-0.1	1,619.5	-3.8
	3	195,802	3.7	1,616.8	-2.6
	4	196,324	1.8	1,613.1	-1.7
	Average	195,213	0.5	1,619.5	-3.1
2010-11	1	197,221	1.9	1,612.8	-1.0
	2	198,233	1.6	1,613.9	-0.3
	3	199,462	1.9	1,618.4	0.1
	4	200,684	2.2	1,625.3	0.8
	Average	198,900	1.9	1,617.6	-0.1

Start of Forecast

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TABLE 92
U.S. CONSUMER PRICE INDEX, SEASONALLY ADJUSTED
 (1982-84 = 100)

<u>Fiscal Year</u>		<u>Consumer Price Index</u>	<u>% Change Year Ago</u>	
2007-08	1	208.0	2.4	
	2	210.6	4.0	
	3	212.8	4.2	
	4	215.4	4.3	
	Average	211.7	3.7	
2008-09	1	218.6	5.2	
	2	213.9	1.5	
	3	212.6	(0.2)	
	4	213.3	(0.9)	
	Average	214.6	1.4	
2009-10	1	215.3	(1.5)	
	2	217.1	1.5	
	3	218.1	2.6	Start of Forecast
	4	218.5	2.4	
	Average	217.2	1.2	
2010-11	1	219.3	1.9	
	2	220.0	1.3	
	3	221.0	1.3	
	4	222.1	1.6	
	Average	220.6	1.6	

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

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REVENUE FORECAST

The following table shows the actual General Fund revenue collections for fiscal 2008-09, and estimated revenue collections for fiscal 2009-10 and projected revenue collections for fiscal 2010-11 by major sources.

TABLE 94
STATE OF CONNECTICUT - GENERAL FUND REVENUES
(In Millions of Dollars)

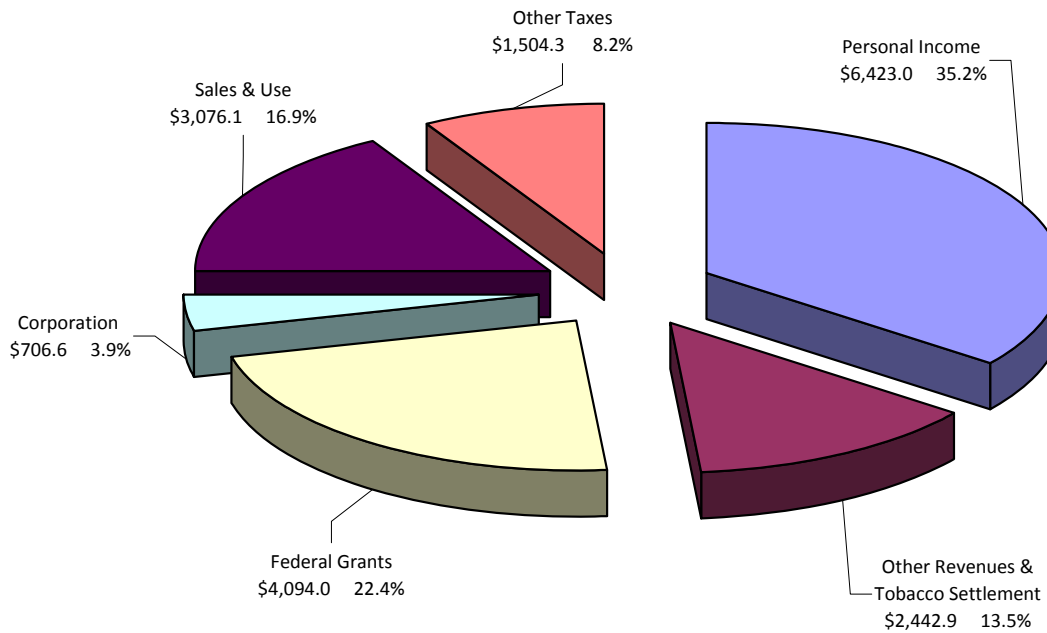
	Actual Revenue <u>2008-09</u>	Projected Revenue At Current Rates <u>2009-10</u>	Proposed Revenue Changes <u>2009-10</u>	Net Projected Revenue <u>2009-10</u>
Taxes				
Personal Income Tax	\$ 6,385.9	\$ 6,423.0	\$ -	\$ 6,423.0
Sales & Use Tax	3,318.8	3,076.1	-	3,076.1
Corporation Tax	615.9	706.6	-	706.6
Public Service Tax	268.5	271.2	-	271.2
Inheritance & Estate Tax	238.3	196.2	-	196.2
Insurance Companies Tax	202.2	200.2	-	200.2
Cigarette Tax	317.8	387.6	-	387.6
Real Estate Conveyance Tax	90.8	94.5	-	94.5
Oil Companies Tax	104.4	124.4	-	124.4
Alcoholic Beverages	47.1	47.6	-	47.6
Admissions and Dues	36.0	37.1	-	37.1
Miscellaneous	143.3	145.5	-	145.5
Total Taxes	\$ 11,769.0	\$ 11,710.0	\$ -	\$ 11,710.0
Less Refunds of Taxes	(1,052.3)	(1,145.5)	-	(1,145.5)
Less R&D Credit Exchange	(8.4)	(9.4)	-	(9.4)
TOTAL - Taxes Less Refunds	\$ 10,708.3	\$ 10,555.1	\$ -	\$ 10,555.1
Other Revenues				
Transfers Special Revenue	\$ 287.2	\$ 293.4	\$ -	\$ 293.4
Indian Gaming Payments	377.8	371.0	-	371.0
License, Permits, Fees	162.5	264.9	-	264.9
Sales of Commodities & Services	32.6	33.2	-	33.2
Rents, Fines & Escheats	64.0	170.0	-	170.0
Investment Income	18.8	10.0	-	10.0
Miscellaneous	163.0	177.6	-	177.6
Less Refunds of Payments	(0.7)	(0.7)	-	(0.7)
TOTAL - Other Revenues	\$ 1,105.2	\$ 1,319.4	\$ -	\$ 1,319.4
Other Sources				
Federal Grants	\$ 3,619.5	\$ 4,094.0	\$ -	\$ 4,094.0
Transfer From Tobacco	115.8	107.3	-	107.3
Transfers From/ (To) Other	152.0	953.7	-	953.7
TOTAL - Other Sources	\$ 3,887.3	\$ 5,155.0	\$ -	\$ 5,155.0
TOTAL - General Fund	\$ 15,700.8	\$ 17,029.5	\$ -	\$ 17,029.5

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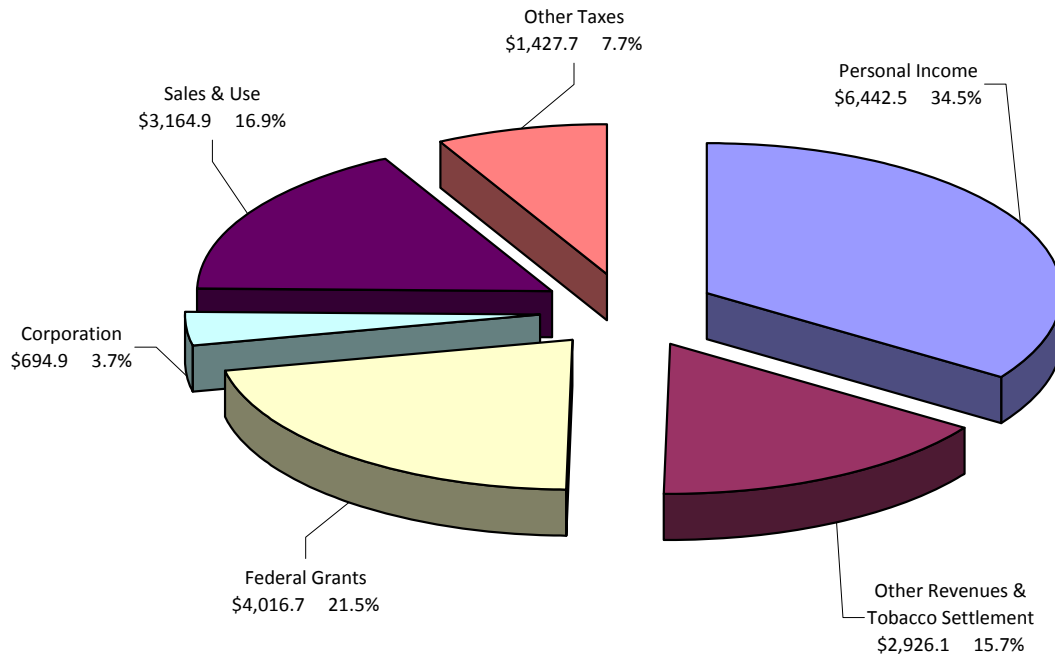
Projected Revenue At Current Rates <u>2010-11</u>	Proposed Revenue Changes <u>2010-11</u>	Net Projected Revenue <u>2010-11</u>	<u>Explanation of Changes</u>
\$ 6,442.5	\$ -	\$ 6,442.5	<u>Sales Tax</u>
3,165.8	(0.9)	3,164.9	Green Energy Exemption.
694.9	-	694.9	<u>Corporation Tax</u>
277.2	-	277.2	Enhance the Jobs Creation Tax Credit.
99.0	-	99.0	<u>Transfers- Special Revenue</u>
214.3	-	214.3	Implement Keno in the state.
386.5	-	386.5	<u>License, Permits, and Fees</u>
117.5	-	117.5	Redirect Boating Account revenue to the General Fund.
101.0	-	101.0	<u>Federal Grants</u>
48.1	-	48.1	Impact of Federal Stimulus monies for Medicaid and Education and recommended expenditure changes.
37.6	-	37.6	<u>Transfers-Other</u>
146.5	-	146.5	Reduce transfer to the Special Transportation Fund by \$10.0 million. Transfer \$5.0 million from Stem Cell account to General Fund.
\$ 11,730.9	\$ (0.9)	\$ 11,730.0	
(1,033.3)	-	(1,033.3)	
(10.5)	-	(10.5)	
\$ 10,687.1	\$ (0.9)	\$ 10,686.2	
\$ 295.1	\$ 20.0	\$ 315.1	
353.3	-	353.3	
261.3	5.6	266.9	
34.3	-	34.3	
101.9	-	101.9	
10.0	-	10.0	
171.5	-	171.5	
(0.7)	-	(0.7)	
\$ 1,226.7	\$ 25.6	\$ 1,252.3	
\$ 3,634.1	\$ 382.6	\$ 4,016.7	
106.1	-	106.1	
1,490.2	15.0	1,505.2	
\$ 5,230.4	\$ 397.6	\$ 5,628.0	
\$ 17,144.2	\$ 422.3	\$ 17,566.5	

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GENERAL FUND FISCAL YEAR 2009-10 - TOTAL \$17,029.5 MILLION*



GENERAL FUND FISCAL YEAR 2010-11 - TOTAL \$17,566.5 MILLION*



* Refunds of Taxes are estimated at \$1,145.5M for FY 2009-10 and \$1,033.3M for FY 2010-11, R&D Credit Exchange are estimated at \$9.4M for FY 2009-10 and \$10.5 M for FY 2010-11, Refunds of Payments are estimated at \$0.7M for both FY 2009-10 and FY 2010-11, Transfers to the Mashantucket-Pequot and Mohegan Fund are \$61.8M for both FY 2009-10 and FY 2010-11.

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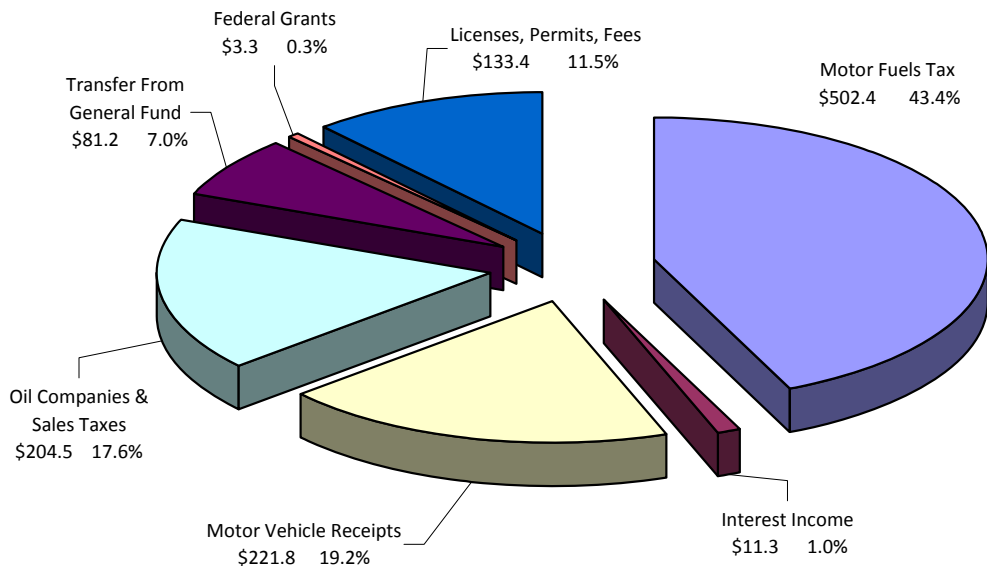
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**TABLE 95
STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND REVENUES
(In Millions of Dollars)**

	Actual Revenue 2008-09	Projected Revenue Current Rates 2009-10	Proposed Revenue Changes 2009-10	Net Projected Revenue 2009-10
Taxes				
Motor Fuels Tax	\$ 495.0	\$ 502.4	\$ -	\$ 502.4
Oil Companies Tax	141.9	141.9	-	141.9
Sales Tax DMV	57.1	62.6	-	62.6
Less Refunds of Taxes	(6.1)	(6.5)	-	(6.5)
TOTAL - Taxes Less Refunds	\$ 687.9	\$ 700.4	\$ -	\$ 700.4
Other Sources				
Motor Vehicle Receipts	\$ 220.8	\$ 221.8	\$ -	\$ 221.8
Licenses, Permits & Fees	142.4	133.4	-	133.4
Interest Income	15.6	11.3	-	11.3
Federal Grants	-	3.3	-	3.3
Transfers From (To) Other Funds	(6.6)	74.7	-	74.7
Transfer To TSB	(15.3)	(15.3)	-	(15.3)
Less Refunds of Payments	(2.8)	(2.5)	-	(2.5)
TOTAL - Other Sources	\$ 354.1	\$ 426.7	\$ -	\$ 426.7
TOTAL - S.T.F.	\$ 1,042.1	\$ 1,127.1	\$ -	\$ 1,127.1

FISCAL YEAR 2009-10 - TOTAL \$ 1,127.1 MILLION*



* Refunds of Taxes are estimated at \$6.5M, Transfers to the Emissions Fund is estimated at \$6.5M, Refunds of Payments are estimated at \$2.5M and Transfers to Transportation Strategy Board are estimated at \$15.3M in fiscal 2009-10.

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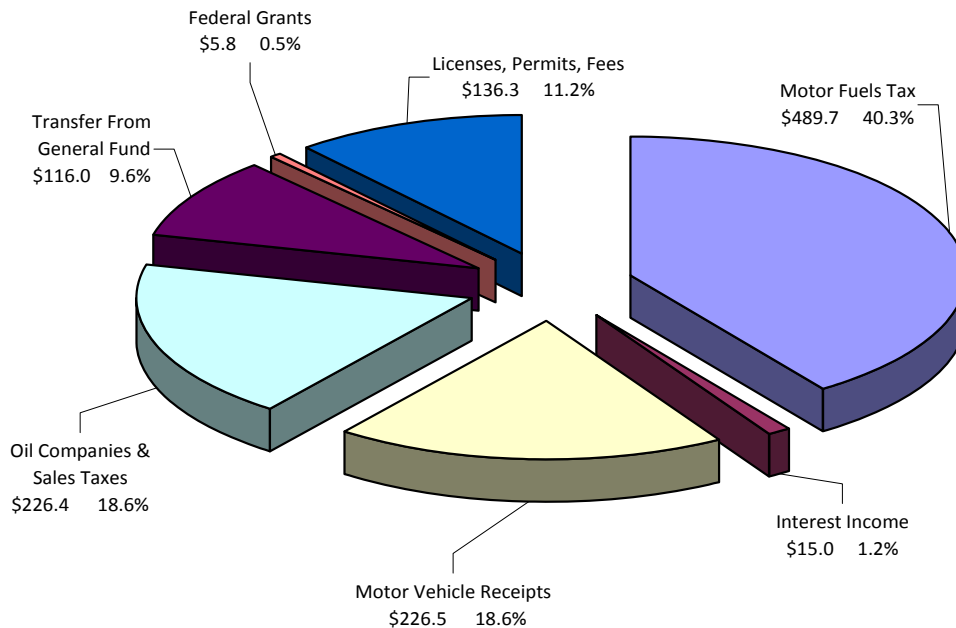
Projected Revenue Current Rates 2010-11	Proposed Revenue Changes 2010-11	Net Projected Revenue 2010-11
\$ 489.7	\$ -	\$ 489.7
165.3	-	165.3
61.1	-	61.1
(6.8)	-	(6.8)
<u>\$ 709.3</u>	<u>\$ -</u>	<u>\$ 709.3</u>
\$ 226.5	\$ -	\$ 226.5
136.3	-	136.3
15.0	-	15.0
5.8	-	5.8
119.5	(10.0)	109.5
(15.3)	-	(15.3)
(2.5)	-	(2.5)
<u>\$ 485.3</u>	<u>\$ (10.0)</u>	<u>\$ 475.3</u>
\$ 1,194.6	\$ (10.0)	\$ 1,184.6

Explanation of Changes

Transfers-From/(To) Other Funds

Reduce transfer from General Fund by \$10.0 million.

FISCAL YEAR 2010-11 - TOTAL \$ 1,184.6 MILLION*



* Refunds of Taxes are estimated at \$6.8M, Transfers to the Emissions Fund is estimated at \$6.5M, Refunds of Payments are estimated at \$2.5M and Transfers to Transportation Strategy Board are estimated at \$15.3M in fiscal 2010-11.

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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 the 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. The government sector including federal, state and local governments is an important dimension of the national economy, accounting for 12.3% 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 7.9% of the Gross State Product, it is inevitable that state government's expenditure and revenue actions influence the State's economy.

The national economy has been in a severe recession since December of 2007, although there are now subtle hints of weak recovery beginning to appear. The impact is expected to last many more months and claim more jobs in the state. 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. Governor Rell believes this budget will preserve the most important aspects of our quality of life, and help the state live within its means.

Expenditure Actions

Education and Workforce

In the state's application for federal *Race to the Top (RTTT)* funding, Governor Rell articulated a vision for Connecticut's economic future, which is inexorably linked to the quality of its education system. If the application is successful, the RTTT program would provide \$192.7 million over four years to convert Connecticut's education system; students would be taught 21st century skills so they could successfully compete in an increasingly globally competitive economy.

Connecticut's education system is at a critical stage; the education achievement gap is wide and it could impact our economic future. As Governor Rell said in the RTTT application, Connecticut has "the greatest K-12 achievement gap of any state, a gap that is predictable by race, ethnicity, income and special learning status; a gap that begins early and continues into high school." Clearly, if Connecticut is to compete in a global economy, this achievement gap, which will widen if the education system is not fixed, must be eliminated. Connecticut's RTTT plan, which includes modernizing teacher credentialing, remodeling high school curricula and upgrading assistance for failing schools, will transform the state's education system.

In combination with her transformative RTTT plan, Governor Rell's roadmap for educational success is clear. By maintaining, and in some cases expanding financial resources for education programs, Governor Rell confirms the vital role education plays in Connecticut's current and

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future economic growth. Using state resources strategically, Governor Rell makes these investments:

1. Maintains School Readiness funding to ensure 10,000 poor children arrive in kindergarten ready to learn. As compared to FY 2006, this FY 2011 estimate represents an increase of almost 2,800 slots, or about a 40% increase.
2. Preserves financial aid funding for needy students. Nothing predicts future economic success more than a college education. In the current recession, for instance, the number of unemployed persons with a college degree is half of the number for those without a college degree. Governor Rell's recommendations for the three major financial aid programs total \$62.5 million, a \$23.7 million increase since FY 2006, or 61%.
3. Sustains Education Cost Sharing (ECS) funding. Using federal stimulus funding, Governor Rell was able to fund ECS at a high level, even with the historic loss in state revenue. From FY 2006 through FY 2011, ECS will have grown by \$269 million, or 17%.
4. Expands school choice options. From FY 2010 to FY 2011, the number of magnet and charter school seats will increase by over 2,200; funding will increase by \$24.9 million, or about 12%.

As Governor Rell said so eloquently in the RTTT application, those education funds, totaling \$192.7 million over four years, are for Connecticut's future; her budget, with its key strategic education investments, ensures that the transformation of the education system begins now, and is not dependent upon the receipt of future federal dollars.

Health and Human Services

Despite the difficult economic climate, this budget does not sacrifice the most critical supports that have been so carefully crafted over the years to assist Connecticut's neediest residents. While there are proposals in the budget to scale back health and human services programs, many of those changes are in keeping with the Governor's focus on streamlining state government and reorienting agency efforts toward core missions.

The commitment to maintaining the safety net is especially important during an economic downturn, when many residents are more likely to need services such as health care, income supports, and other social services. The Governor is maintaining recent expansions in Medicaid eligibility: HUSKY A eligibility remains at 185% of the federal poverty level (FPL), and eligibility for pregnant women remains at 250% FPL. The Governor is also not proposing across-the-board reductions to private provider funding.

This budget reflects a commitment to serving those in greatest need. The budget includes funding for caseload growth in many programs under the Department of Social Services (DSS), such as Medicaid, including HUSKY A, the Charter Oak Health Plan, State Administered General Assistance (SAGA), and community programming under the Money Follows the Person initiative. Funding is preserved for caseload growth in the Department of Developmental Services (DDS) for persons with developmental disabilities who are graduating from high school or aging out of services provided by the Department of Children and Families (DCF) or local education agencies and into residential or day services provided under DDS' adult service system; for forensic (court-involved) cases, and for the Birth to Three early intervention program. Funding is also maintained for additional persons to be served through the General Assistance Behavioral Health program, the young adult services program, and the program for those with traumatic or acquired brain injuries under the Department of Mental

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Health and Addiction Services (DMHAS). Furthermore, funding for additional services to children and youth requiring foster care and adoption services is provided under the Department of Children and Families. This demonstrates an extraordinary commitment to increasing services to those in need, despite the challenges facing Connecticut's economy.

Some adjustments are proposed where necessary to reflect either new programs or funding available at the federal level. The availability and maturation of the Medicare Part D pharmacy benefit has allowed Connecticut to eliminate funding for the state's Medicare Part D Supplemental Needs Fund, as prescription drug plans are required to cover those drugs that are medically necessary. Other program reductions or eliminations are necessary to deal with the fiscal crisis. Co-payments and premiums are introduced or increased under Medicaid, including HUSKY A and B, as an alternative to reducing or eliminating eligibility. A number of grant-based programs in various agencies are scaled back or suspended, particularly where they may not represent activities that are part of an agency's core mission.

General Government

The Department of Motor Vehicles has made great strides in enhancing security with regard to issuance of state Driver's Licenses and Non-License Identification Cards. The Department's efforts also have worked toward compliance with the REAL ID Act (RIA) of 2005. The RIA is a federal law passed in response to the terrorist attacks of 9/11 in which fraudulent identification documents were utilized. The law standardizes certain security, authentication, and issuance measures for state driver's licenses (DL) and identification cards (ID). The current compliance date for RIA is May 10, 2011.

Based on compliance criteria, all license renewals after May 1, 2011 must be treated as new applications. DMV will need to be more stringent with its background check and the applicant will need to provide proof of identity regardless of how long the applicant might have been a licensed driver. The DMV will require more staffing in order to adequately handle the increase in transaction time due to verification. As a result, the Governor's Midterm Adjustments include funding in the amount of \$250,000 in order to fill 20 Motor Vehicle License Examiner positions on April 1, 2011. This start date allows for hiring and training of new staff in order to achieve compliance by May 10, 2011.

Also, Governor Rell has recommended new funding in the amount of \$1.6 million for expanded rail service on Shore Line East. The expanded service will be between Old Saybrook and New London. As Governor Rell has stated, "If we want Connecticut to stay competitive and provide for the quality of life we enjoy, an effective and efficient transportation system will be key." It is projected that weekday service on the expanded line will be implemented this spring. Weekend service is expected to start after the summer boating season.

In addition, per the 2009 State Employees Bargaining Agent Coalition (SEBAC) agreement, the Governor's midterm budget adjustment assumes a reduction in the state's contribution to the State Employees' Retirement Fund of \$100 million in FY 2011.

Finally, as part of her efforts to streamline state government, Governor Rell has once again proposed the elimination of six legislative commissions: the Commission on Aging, the Permanent Commission on the Status of Women, the Commission on Children, the Latino and

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Puerto Rican Affairs Commission, the African-American Affairs Commission and the Asian Pacific American Affairs Commission. These commissions are advisory in nature and represent the layers of bureaucracy that have built up over the years.

Capital Actions

The Governor's recommended midterm capital budget adjustments for FY2011 reflect continued weak general fund tax receipts and their impact on the state's debt limit. The Governor has recommended significant cancellations of prior year authorizations that are either no longer necessary or are for projects that are not essential, in order to bring bond authorizations below statutory limits. This allows the state to maintain significant bond authorizations for important capital projects and programs that help retain and create jobs.

Revenue Actions

Approximately three years ago, subtle signs of softness began to appear in the economy, which grew worse with each passing month, culminating in dramatic job losses for the state's economy. Fiscal year 2009 was very disappointing for the state's economy and, moving forward, the state is expected to continue to experience difficult economic times. While there are subtle signs of a weak economic recovery, the state and the nation are in a situation described as the worst economic downturn since the Great Depression of the 1930s. Some have described this time as the Great Recession. As state revenues have fallen, Governor Rell has put forward a number of deficit mitigation plans over the past year and a half. Within this economic environment, the Governor developed her revenue proposals for the second year of the biennium. The Governor is proposing a revenue structure that avoids raising taxes while conserving the state's resources as long as possible, as the economic ill winds begin to subside. The residents of this state can not afford higher taxes.

Within this framework, and in recognition of the importance of jobs to state residents and families, state businesses, and state government, an expansion of the Jobs Creation tax credit program is being proposed in this budget. Small businesses engaged in certain sectors of the economy such as alternative energy, certain types of high-tech manufacturing, and other fields expected to play a significant role in the future of the state, will be eligible for the expanded credit. The credit may be used for three years, beginning in income year 2010, and will be worth \$2,500 per new job created. To further bolster job creation, the Governor is proposing an enhanced sales tax exemption for green energy type industries in order to encourage the research and production of such equipment here in the state.

Also, the Governor is proposing to introduce Keno into the state and a small number of modest transfers of funds to the General Fund. The introduction of Keno will generate \$20.0 million in fiscal year 2011 and approximately \$60.0 million annually thereafter. A total of \$5.6 million in revenue annually, beginning in fiscal year 2011, will be redirected from the Boating Account to the General Fund and associated expenditures will be appropriated from the General Fund similar to the fund consolidations that took place last year. Also, for fiscal year 2011 only, the transfer from the General Fund to the Special Transportation Fund will be reduced by \$10.0 million, and \$5.0 million of the regular transfer of \$10.0 million from the Tobacco Settlement Fund to the Stem Cell Research Account will be redirected to the General Fund.

Economic Report of the Governor

Finally, it is expected that an extension of the federal economic recovery program will be implemented over the next few months. While the extension is not yet well defined, there are indications of what that initiative will probably look like. Based on the information available, it is anticipated that the state will receive an additional \$266.5 million as enhanced federal matching funds for Medicaid and Title IV-E programs, and \$99.1 million for education aid during fiscal year 2011. This would be a welcome increase in federal aid. In addition, the Governor has directed the state to pursue funds owed to the state by the Social Security Administration due to misclassification of a number of disabled Medicaid recipients. With the Budget Reserve Fund drained, the Governor's plan calls for fully utilizing resources to help prevent draconian cuts to services, while attempting to preserve the state's cash position, which should help the state weather the effects of this continuing economic tsunami.

Conclusion

These proposals, taken all together, demonstrate Governor Rell'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

Economic Report of the Governor

Connecticut Resident Population Census Counts

	Population		Population		1990-2000	%	2008
	<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	3,501,252
Andover	2,540	149	3,036	147	496	19.5	3,183
Ansonia	18,403	52	18,554	57	151	0.8	18,503
Ashford	3,765	138	4,098	135	333	8.8	4,467
Avon	13,937	72	15,832	68	1,895	13.6	17,328
Barkhamsted	3,369	140	3,494	143	125	3.7	3,662
Beacon Falls	5,083	124	5,246	125	163	3.2	5,807
Berlin	16,787	60	18,215	59	1,428	8.5	20,364
Bethany	4,608	128	5,040	126	432	9.4	5,575
Bethel	17,541	56	18,067	61	526	3.0	18,438
Bethlehem	3,071	144	3,422	144	351	11.4	3,560
Bloomfield	19,483	51	19,587	52	104	0.5	20,727
Bolton	4,575	129	5,017	127	442	9.7	5,117
Bozrah	2,297	152	2,357	153	60	2.6	2,452
Branford	27,603	35	28,683	32	1,080	3.9	28,969
Bridgeport	141,686	1	139,529	1	-2,157	-1.5	136,405
Bridgewater	1,654	161	1,824	160	170	10.3	1,873
Bristol	60,640	9	60,062	11	-578	-1.0	60,927
Brookfield	14,113	71	15,664	69	1,551	11.0	16,657
Brooklyn	6,681	110	7,173	113	492	7.4	7,949
Burlington	7,026	107	8,190	108	1,164	16.6	9,150
Canaan	1,057	168	1,081	168	24	2.3	1,095
Canterbury	4,467	131	4,692	130	225	5.0	5,118
Canton	8,268	101	8,840	101	572	6.9	10,104
Chaplin	2,048	155	2,250	156	202	9.9	2,556
Cheshire	25,684	37	28,543	33	2,859	11.1	29,066
Chester	3,417	139	3,743	141	326	9.5	3,811
Clinton	12,767	77	13,094	81	327	2.6	13,554
Colchester	10,980	87	14,551	74	3,571	32.5	15,578
Colebrook	1,365	164	1,471	165	106	7.8	1,520
Columbia	4,510	130	4,971	129	461	10.2	5,315
Cornwall	1,414	163	1,434	166	20	1.4	1,481
Coventry	10,063	91	11,504	87	1,441	14.3	12,207
Cromwell	12,286	79	12,871	83	585	4.8	13,600
Danbury	65,585	8	74,848	7	9,263	14.1	79,256
Darien	18,196	53	19,607	51	1,411	7.8	20,177
Deep River	4,332	132	4,610	133	278	6.4	4,668
Derby	12,199	80	12,391	84	192	1.6	12,393
Durham	5,732	120	6,627	116	895	15.6	7,456
East Granby	4,302	133	4,745	132	443	10.3	5,155
East Haddam	6,676	111	8,333	105	1,657	24.8	8,896
East Hampton	10,428	88	13,352	78	2,924	28.0	12,685
East Hartford	50,452	17	49,575	19	-877	-1.7	48,571
East Haven	26,144	36	28,189	35	2,045	7.8	28,590
East Lyme	15,340	67	18,118	60	2,778	18.1	19,022

Economic Report of the Governor

Connecticut Resident Population Census Counts

	Population		Population		1990-2000	%	2008
	<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	10,822
Eastford	1,314	165	1,618	163	304	23.1	1,798
Easton	6,303	113	7,272	111	969	15.4	7,340
Ellington	11,197	84	12,921	82	1,724	15.4	14,568
Enfield	45,532	20	45,212	20	-320	-0.7	44,895
Essex	5,904	118	6,505	117	601	10.2	6,784
Fairfield	53,418	14	57,340	13	3,922	7.3	57,345
Farmington	20,608	48	23,641	45	3,033	14.7	25,116
Franklin	1,810	160	1,835	159	25	1.4	1,893
Glastonbury	27,901	33	31,876	29	3,975	14.2	33,263
Goshen	2,329	151	2,697	151	368	15.8	3,203
Granby	9,369	93	10,347	93	978	10.4	11,219
Greenwich	58,441	12	61,101	9	2,660	4.6	61,937
Griswold	10,384	89	10,807	89	423	4.1	11,398
Groton	45,144	21	39,907	23	-5,237	-11.6	39,167
Guilford	19,848	50	21,398	49	1,550	7.8	22,398
Haddam	6,769	109	7,157	114	388	5.7	7,885
Hamden	52,434	15	56,913	14	4,479	8.5	57,862
Hampton	1,578	162	1,758	161	180	11.4	2,149
Hartford	139,739	2	124,121	2	-15,618	-11.2	124,062
Hartland	1,866	158	2,012	158	146	7.8	2,079
Harwinton	5,228	123	5,283	124	55	1.1	5,560
Hebron	7,079	106	8,610	104	1,531	21.6	9,228
Kent	2,918	147	2,858	150	-60	-2.1	2,944
Killingly	15,889	64	16,472	67	583	3.7	17,826
Killingworth	4,814	127	6,018	121	1,204	25.0	6,463
Lebanon	6,041	115	6,907	115	866	14.3	7,358
Ledyard	14,913	68	14,687	72	-226	-1.5	15,078
Lisbon	3,790	137	4,069	136	279	7.4	4,210
Litchfield	8,365	100	8,316	106	-49	-0.6	8,625
Lyme	1,949	157	2,016	157	67	3.4	2,077
Madison	15,485	66	17,858	64	2,373	15.3	18,803
Manchester	51,618	16	54,740	15	3,122	6.0	56,385
Mansfield	21,103	45	20,720	50	-383	-1.8	24,622
Marlborough	5,535	121	5,709	123	174	3.1	6,360
Meriden	59,479	11	58,244	12	-1,235	-2.1	59,186
Middlebury	6,145	114	6,451	118	306	5.0	7,343
Middlefield	3,925	135	4,203	134	278	7.1	4,249
Middletown	42,762	22	43,167	21	405	0.9	48,030
Milford	49,938	18	52,305	17	2,367	4.7	55,907
Monroe	16,896	59	19,247	54	2,351	13.9	19,359
Montville	16,673	61	18,546	58	1,873	11.2	19,612
Morris	2,039	156	2,301	155	262	12.8	2,329
Naugatuck	30,625	29	30,989	30	364	1.2	31,931
New Britain	75,491	7	71,538	8	-3,953	-5.2	70,486
New Canaan	17,864	55	19,395	53	1,531	8.6	19,912

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Connecticut Resident Population Census Counts

	Population		Population		1990-2000	%	2008
	<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	14,059
New Hartford	5,769	119	6,088	120	319	5.5	6,728
New Haven	130,474	3	123,626	3	-6,848	-5.2	123,669
New London	28,540	32	25,671	41	-2,869	-10.1	25,891
New Milford	23,629	40	27,121	37	3,492	14.8	28,338
Newington	29,208	31	29,306	31	98	0.3	29,699
Newtown	20,779	47	25,031	42	4,252	20.5	26,737
Norfolk	2,060	154	1,660	162	-400	-19.4	1,647
North Branford	12,996	74	13,906	76	910	7.0	14,374
North Canaan	3,284	142	3,350	145	66	2.0	3,347
North Haven	22,247	41	23,035	39	788	3.5	23,961
North Stonington	4,884	126	4,991	128	107	2.2	5,233
Norwalk	78,331	6	82,951	6	4,620	5.9	83,185
Norwich	37,391	25	36,117	26	-1,274	-3.4	36,388
Old Lyme	6,535	112	7,406	110	871	13.3	7,357
Old Saybrook	9,552	92	10,367	92	815	8.5	10,521
Orange	12,830	76	13,233	79	403	3.1	13,781
Oxford	8,685	96	9,821	96	1,136	13.1	12,734
Plainfield	14,363	69	14,619	73	256	1.8	15,430
Plainville	17,392	57	17,328	66	-64	-0.4	17,221
Plymouth	11,822	81	11,634	86	-188	-1.6	11,969
Pomfret	3,102	143	3,798	140	696	22.4	4,168
Portland	8,418	99	8,732	102	314	3.7	9,551
Preston	5,006	125	4,688	131	-318	-6.4	4,931
Prospect	7,775	105	8,707	103	932	12.0	9,353
Putnam	9,031	95	9,002	98	-29	-0.3	9,307
Redding	7,927	103	8,270	107	343	4.3	8,798
Ridgefield	20,919	46	23,643	44	2,724	13.0	24,011
Rocky Hill	16,554	62	17,966	62	1,412	8.5	18,852
Roxbury	1,825	159	2,136	154	311	17.0	2,311
Salem	3,310	141	3,858	138	548	16.6	4,110
Salisbury	4,090	134	3,977	137	-113	-2.8	3,958
Scotland	1,215	167	1,556	164	341	28.1	1,722
Seymour	14,288	70	15,454	70	1,166	8.2	16,251
Sharon	2,928	146	2,968	149	40	1.4	3,014
Shelton	35,418	26	38,101	25	2,683	7.6	39,991
Sherman	2,809	148	3,827	139	1,018	36.2	4,106
Simsbury	22,023	44	23,234	47	1,211	5.5	23,615
Somers	9,108	94	10,417	91	1,309	14.4	10,984
South Windsor	22,090	42	24,412	43	2,322	10.5	25,966
Southbury	15,818	65	18,567	56	2,749	17.4	19,702
Southington	38,518	24	39,728	24	1,210	3.1	42,250
Sprague	3,008	145	2,971	148	-37	-1.2	2,980
Stafford	11,091	85	11,307	88	216	1.9	11,773
Stamford	108,056	5	117,083	4	9,027	8.4	119,303
Sterling	2,357	150	3,099	146	742	31.5	3,748

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Connecticut Resident Population Census Counts

	Population		Population		1990-2000	%	2008
	<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	18,371
Stratford	49,389	19	49,976	18	587	1.2	48,853
Suffield	11,427	83	13,552	77	2,125	18.6	15,136
Thomaston	6,947	108	7,503	109	556	8.0	7,766
Thompson	8,668	97	8,878	100	210	2.4	9,269
Tolland	11,001	86	13,146	80	2,145	19.5	14,705
Torrington	33,687	27	35,202	27	1,515	4.5	35,312
Trumbull	32,016	28	34,243	28	2,227	7.0	34,688
Union	612	169	693	169	81	13.2	751
Vernon	29,841	30	28,063	36	-1,778	-6.0	29,839
Voluntown	2,113	153	2,528	152	415	19.6	2,619
Wallingford	40,822	23	43,026	22	2,204	5.4	44,859
Warren	1,226	166	1,254	167	28	2.3	1,385
Washington	3,905	136	3,596	142	-309	-7.9	3,657
Waterbury	108,961	4	107,271	5	-1,690	-1.6	107,037
Waterford	17,930	54	19,152	55	1,222	6.8	18,794
Watertown	20,456	49	21,661	48	1,205	5.9	22,095
West Hartford	60,110	10	61,046	10	936	1.6	60,495
West Haven	54,021	13	52,360	16	-1,661	-3.1	52,420
Westbrook	5,414	122	6,292	119	878	16.2	6,641
Weston	8,648	98	10,037	95	1,389	16.1	10,183
Westport	24,410	39	25,749	40	1,339	5.5	26,592
Wethersfield	25,651	38	26,271	38	620	2.4	25,719
Willington	5,979	117	5,959	122	-20	-0.3	6,114
Wilton	15,989	63	17,633	65	1,644	10.3	17,698
Winchester	11,524	82	10,664	90	-860	-7.5	10,716
Windham	22,039	43	22,857	46	818	3.7	23,609
Windsor	27,817	34	28,237	34	420	1.5	28,851
Windsor Locks	12,358	78	12,043	85	-315	-2.5	12,495
Wolcott	13,700	73	15,215	71	1,515	11.1	16,434
Woodbridge	7,924	104	8,983	99	1,059	13.4	9,193
Woodbury	8,131	102	9,198	97	1,067	13.1	9,650
Woodstock	6,008	116	7,221	112	1,213	20.2	8,229

* 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, 2008"

Economic Report of the Governor

MAJOR U.S. ECONOMIC INDICATORS - FISCAL YEAR BASIS

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

	<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>
Gross Domestic Product (\$B)	9,667.8	10,153.4	10,444.7	10,841.3	11,512.0	12,247.9	13,047.1	13,714.3	14,347.4	14,305.8
Percent Change	6.6%	5.0%	2.9%	3.8%	6.2%	6.4%	6.5%	5.1%	4.6%	-0.3%
Real GDP	11,033.9	11,317.7	11,434.2	11,644.9	12,079.9	12,458.9	12,827.6	13,082.6	13,373.6	13,073.4
Percent Change	4.8%	2.6%	1.0%	1.8%	3.7%	3.1%	3.0%	2.0%	2.2%	-2.2%
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	1.7%	2.4%	1.8%	1.9%	2.4%	3.2%	3.5%	3.1%	2.3%	2.0%
Housing Starts (K)	1,637.8	1,570.7	1,645.9	1,729.2	1,945.3	2,016.3	2,036.0	1,546.2	1,132.6	648.4
Percent Change	-1.3%	-4.1%	4.8%	5.1%	12.5%	3.7%	1.0%	-24.1%	-26.7%	-42.7%
Unemployment Rate	4.1%	4.1%	5.5%	5.9%	5.8%	5.3%	4.8%	4.5%	5.0%	7.6%
New Vehicle Sales (M)	17.54	16.89	16.96	16.64	16.81	17.04	16.76	16.31	15.34	10.61
Percent Change	9.2%	-3.7%	0.4%	-1.9%	1.0%	1.3%	-1.7%	-2.7%	-5.9%	-30.8%
Consumer Price Index ('82-'84=100)	169.3	175.1	178.2	182.1	186.1	191.7	199.0	204.1	211.7	214.6
Percent Change	2.9%	3.4%	1.8%	2.2%	2.2%	3.0%	3.8%	2.6%	3.7%	1.4%
Industrial Production Index ('02=100)	102.1	102.7	99.1	100.7	102.4	105.7	108.4	110.4	111.6	102.0
Percent Change	5.0%	0.6%	-3.5%	1.7%	1.6%	3.3%	2.5%	1.9%	1.1%	-8.6%
Personal Income (\$B)	8,234.5	8,770.6	8,942.9	9,178.0	9,619.0	10,205.7	10,874.7	11,579.8	12,107.7	12,118.9
Percent Change	6.8%	6.5%	2.0%	2.6%	4.8%	6.1%	6.6%	6.5%	4.6%	0.1%
Real Personal Income (\$B in 82-84=100)	4,864.1	5,009.9	5,019.4	5,040.3	5,168.5	5,323.6	5,465.4	5,672.9	5,719.3	5,646.6
Percent Change	3.8%	3.0%	0.2%	0.4%	2.5%	3.0%	2.7%	3.8%	0.8%	-1.3%
Disposable Personal Income (\$B)	7,060.1	7,497.9	7,845.3	8,147.4	8,631.6	9,083.8	9,602.4	10,170.7	10,650.1	10,845.0
Percent Change	6.2%	6.2%	4.6%	3.9%	5.9%	5.2%	5.7%	5.9%	4.7%	1.8%
Disposable Personal Income (\$B in 1996\$)	7,960.7	8,256.8	8,535.1	8,693.1	9,015.7	9,230.5	9,454.4	9,781.1	9,914.0	9,940.7
Percent Change	3.9%	3.7%	3.4%	1.9%	3.7%	2.4%	2.4%	3.5%	1.4%	0.3%

Economic Report of the Governor

MAJOR U.S. ECONOMIC INDICATORS - FISCAL YEAR BASIS

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

	<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	8,234.5	8,770.6	8,942.9	9,178.0	9,619.0	10,205.7	10,874.7	11,579.8	12,107.7	12,118.9
Percent Change	6.8%	6.5%	2.0%	2.6%	4.8%	6.1%	6.6%	6.5%	4.6%	0.1%
Wages & Salaries	4,645.4	4,927.4	4,951.3	5,041.1	5,259.5	5,562.5	5,884.2	6,239.6	6,490.3	6,424.6
Percent Change	7.6%	6.1%	0.5%	1.8%	4.3%	5.8%	5.8%	6.0%	4.0%	-1.0%
Manufacturing Income	730.9	737.0	689.5	672.4	679.2	705.4	726.1	746.7	750.6	703.7
Percent Change	5.8%	0.8%	-6.4%	-2.5%	1.0%	3.8%	2.9%	2.8%	0.5%	-6.3%
Nonmanufacturing Inc.	3,914.6	4,190.5	4,261.7	4,368.7	4,580.3	4,857.1	5,158.1	5,493.0	5,739.6	5,720.9
Percent Change	7.9%	7.0%	1.7%	2.5%	4.8%	6.0%	6.2%	6.5%	4.5%	-0.3%
Other Labor Income	917.9	990.7	1,058.9	1,168.2	1,250.3	1,312.4	1,377.1	1,420.7	1,467.7	1,492.9
Percent Change	6.7%	7.9%	6.9%	10.3%	7.0%	5.0%	4.9%	3.2%	3.3%	1.7%
Proprietor's Income	780.5	851.5	877.2	901.3	986.4	1,051.0	1,109.6	1,115.5	1,105.6	1,065.9
Percent Change	8.5%	9.1%	3.0%	2.8%	9.4%	6.5%	5.6%	0.5%	-0.9%	-3.6%
Farm Income	27.1	31.0	21.8	28.3	46.2	45.7	35.6	33.3	48.0	36.1
Percent Change	-12.3%	14.6%	-29.8%	30.1%	63.2%	-1.2%	-22.1%	-6.5%	44.4%	-24.7%
Nonfarm Income	753.4	820.4	855.4	873.0	940.2	1,005.4	1,074.1	1,082.3	1,057.6	1,029.8
Percent Change	9.4%	8.9%	4.3%	2.1%	7.7%	6.9%	6.8%	0.8%	-2.3%	-2.6%
Rental Income	212.4	222.6	233.6	207.0	201.0	191.1	163.8	133.2	175.2	241.7
Percent Change	5.6%	4.8%	5.0%	-11.4%	-2.9%	-4.9%	-14.3%	-18.7%	31.5%	37.9%
Personal Dividend Inc.	355.9	374.7	381.8	403.7	475.1	561.1	621.0	755.5	730.5	618.3
Percent Change	4.7%	5.3%	1.9%	5.7%	17.7%	18.1%	10.7%	21.7%	-3.3%	-15.4%
Personal Interest Income	948.8	988.8	945.6	898.6	867.2	908.3	1,061.4	1,189.7	1,308.0	1,276.3
Percent Change	3.7%	4.2%	-4.4%	-5.0%	-3.5%	4.7%	16.8%	12.1%	9.9%	-2.4%
Transfer Payments	1,048.7	1,133.2	1,239.5	1,310.6	1,379.7	1,461.6	1,553.4	1,661.5	1,802.6	1,975.0
Percent Change	5.1%	8.1%	9.4%	5.7%	5.3%	5.9%	6.3%	7.0%	8.5%	9.6%

Economic Report of the Governor

MAJOR U.S. ECONOMIC INDICATORS - FISCAL YEAR BASIS

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

	<u>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>
Less:										
Contributions to										
Social Insurance	683.2	724.1	740.5	762.1	802.0	850.5	899.2	940.2	976.3	982.2
Percent Change	6.1%	6.0%	2.3%	2.9%	5.2%	6.1%	5.7%	4.6%	3.8%	0.6%
Equals:										
Personal Income	8,234.5	8,770.6	8,942.9	9,178.0	9,619.0	10,205.7	10,874.7	11,579.8	12,107.7	12,118.9
Percent Change	6.8%	6.5%	2.0%	2.6%	4.8%	6.1%	6.6%	6.5%	4.6%	0.1%
Less:										
Personal Taxes	1,174.2	1,275.1	1,112.7	1,031.9	999.4	1,128.0	1,284.9	1,422.3	1,470.2	1,285.4
Percent Change	10.2%	8.6%	-12.7%	-7.3%	-3.1%	12.9%	13.9%	10.7%	3.4%	-12.6%
Equals:										
Disposable Personal Inc.	7,060.1	7,497.9	7,845.3	8,147.4	8,631.6	9,083.8	9,602.4	10,170.7	10,650.1	10,845.0
Percent Change	6.2%	6.2%	4.6%	3.9%	5.9%	5.2%	5.7%	5.9%	4.7%	1.8%
Less:										
Personal Outlays	6,862.3	7,303.8	7,574.1	7,887.9	8,330.2	8,863.1	9,425.0	9,952.0	10,444.2	10,434.1
Percent Change	7.7%	6.4%	3.7%	4.1%	5.6%	6.4%	6.3%	5.6%	4.9%	-0.1%
Equals:										
Personal Savings	197.8	194.0	271.2	259.5	301.4	220.7	177.3	218.8	205.9	410.9
Percent Change	-29.8%	-1.9%	39.8%	-4.3%	16.1%	-26.8%	-19.7%	23.4%	-5.9%	99.6%
Personal Savings Rate	2.8%	2.6%	3.4%	3.2%	3.5%	2.4%	1.9%	2.2%	1.9%	3.8%

Economic Report of the Governor

MAJOR U.S. ECONOMIC INDICATORS - FISCAL YEAR BASIS

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

	<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>
Establishment Employ.	130.6	132.3	130.9	130.1	130.5	132.5	135.0	137.0	137.8	134.6
Percent Change	2.5%	1.3%	-1.0%	-0.6%	0.3%	1.5%	1.9%	1.4%	0.6%	-2.3%
Manufacturing	17.3	17.0	15.7	14.9	14.3	14.3	14.2	14.0	13.7	12.7
Percent Change	-0.8%	-1.4%	-7.7%	-5.5%	-3.7%	-0.3%	-0.6%	-1.2%	-2.3%	-7.2%
Nonmanufacturing	113.3	115.2	115.1	115.2	116.1	118.2	120.8	122.9	124.0	121.9
Percent Change	3.0%	1.7%	-0.1%	0.1%	0.8%	1.8%	2.2%	1.8%	0.9%	-1.7%
Construction & Mining	7.3	7.4	7.4	7.3	7.4	7.7	8.2	8.4	8.2	7.5
Percent Change	4.6%	1.8%	-0.8%	-1.3%	2.0%	4.3%	6.2%	2.2%	-2.2%	-8.4%
Information	3.5	3.7	3.5	3.3	3.1	3.1	3.1	3.0	3.0	2.9
Percent Change	7.1%	3.9%	-4.6%	-6.5%	-4.0%	-2.2%	-0.9%	-0.7%	-0.2%	-3.0%
Public Utility, Trade & Transportation	26.1	26.2	25.7	25.4	25.4	25.7	26.1	26.5	26.6	25.8
Percent Change	2.3%	0.6%	-2.0%	-1.2%	-0.1%	1.5%	1.6%	1.2%	0.6%	-3.1%
Finance, Insurance & Real Estate	7.7	7.7	7.8	7.9	8.0	8.1	8.3	8.3	8.2	8.0
Percent Change	1.2%	1.0%	1.0%	1.1%	1.2%	0.9%	2.2%	1.0%	-1.2%	-3.2%
Services	48.1	49.3	49.4	49.8	50.7	51.8	53.3	54.6	55.6	55.1
Percent Change	3.3%	2.3%	0.3%	0.8%	1.7%	2.4%	2.7%	2.5%	1.8%	-0.9%
Professional & Business	16.4	16.7	16.1	15.9	16.2	16.6	17.3	17.8	18.0	17.2
Percent Change	5.3%	2.3%	-3.6%	-1.3%	1.4%	3.0%	3.9%	3.0%	1.0%	-4.0%
Education & Health	14.9	15.3	15.9	16.4	16.8	17.1	17.6	18.1	18.6	19.1
Percent Change	2.1%	2.7%	3.8%	3.0%	2.0%	2.3%	2.7%	2.6%	3.0%	2.6%
Leisure & Hospitality	11.7	12.0	12.0	12.1	12.3	12.7	12.9	13.3	13.5	13.3
Percent Change	2.8%	2.3%	0.1%	0.6%	2.1%	2.6%	2.3%	2.6%	1.6%	-1.5%
Other Services	5.1	5.2	5.3	5.4	5.4	5.4	5.4	5.5	5.5	5.5
Percent Change	2.0%	1.3%	2.5%	1.2%	0.3%	-0.2%	0.3%	1.0%	0.9%	-0.8%
Government	20.6	20.9	21.4	21.6	21.6	21.7	21.9	22.1	22.4	22.6
Percent Change	2.6%	1.3%	2.3%	1.1%	-0.1%	0.6%	0.8%	1.0%	1.2%	0.9%
Civilian Labor Force	141.1	143.2	144.3	145.7	146.8	148.2	150.4	152.4	153.7	154.6
Percent Change	1.8%	1.4%	0.8%	1.0%	0.7%	1.0%	1.4%	1.4%	0.8%	0.6%
Unemployment Rate	4.1%	4.1%	5.5%	5.9%	5.8%	5.3%	4.8%	4.5%	5.0%	7.6%

Economic Report of the Governor

MAJOR U.S. ECONOMIC INDICATORS - FISCAL YEAR BASIS

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

	<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>
All Items – Urban Consumers	169.3	175.1	178.2	182.1	186.1	191.7	199.0	204.1	211.7	214.6
Percent Change	2.9%	3.4%	1.8%	2.2%	2.2%	3.0%	3.8%	2.6%	3.7%	1.4%
Food & Beverages	166.2	170.9	175.6	178.1	183.6	189.1	193.4	199.0	208.1	218.2
Percent Change	2.0%	2.8%	2.8%	1.4%	3.1%	3.0%	2.3%	2.9%	4.6%	4.8%
Housing	166.4	173.4	178.2	182.6	186.9	192.4	199.6	206.5	212.8	217.6
Percent Change	2.6%	4.2%	2.8%	2.5%	2.3%	3.0%	3.7%	3.5%	3.1%	2.2%
Energy	115.9	131.5	121.0	130.3	142.0	159.7	194.3	198.7	226.8	208.0
Percent Change	13.7%	13.4%	-8.0%	7.7%	8.9%	12.5%	21.7%	2.3%	14.1%	-8.3%
Commodities	147.0	150.6	149.6	150.7	152.4	156.9	163.1	165.0	172.0	170.9
Percent Change	3.0%	2.4%	-0.6%	0.7%	1.1%	3.0%	3.9%	1.2%	4.2%	-0.7%
Apparel	130.6	128.9	125.3	122.1	120.7	120.2	119.2	119.5	118.6	119.4
Percent Change	-1.2%	-1.4%	-2.8%	-2.5%	-1.2%	-0.4%	-0.8%	0.3%	-0.8%	0.6%
Transportation	149.4	155.2	151.9	156.2	159.3	167.1	179.9	181.2	192.8	182.5
Percent Change	5.5%	3.9%	-2.1%	2.8%	2.0%	4.9%	7.7%	0.7%	6.4%	-5.4%
Services	191.7	199.6	206.5	213.2	219.5	226.2	234.6	242.9	251.0	258.1
Percent Change	2.8%	4.1%	3.5%	3.3%	3.0%	3.0%	3.7%	3.6%	3.3%	2.8%
Medical Care	255.4	266.7	278.9	291.6	303.5	316.7	329.7	343.0	358.7	369.4
Percent Change	3.7%	4.4%	4.6%	4.5%	4.1%	4.3%	4.1%	4.0%	4.6%	3.0%
Other Goods & Services	264.9	276.3	288.6	296.6	301.4	308.9	317.6	327.5	338.9	355.3
Percent Change	6.7%	4.3%	4.5%	2.8%	1.6%	2.5%	2.8%	3.1%	3.5%	4.8%

Economic Report of the Governor

MAJOR CONNECTICUT ECONOMIC INDICATORS - FISCAL YEAR BASIS

TABLE 6
PERSONAL INCOME
(BILLIONS OF DOLLARS)

	<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	137.18	147.42	149.15	149.83	155.62	165.35	176.23	189.70	195.89	194.24
Percent Change	7.2%	7.5%	1.2%	0.5%	3.9%	6.2%	6.6%	7.6%	3.3%	-0.8%
Disposable										
Personal Income	109.75	116.64	121.57	124.47	130.96	137.74	145.15	153.56	161.25	165.23
Percent Change	6.3%	6.3%	4.2%	2.4%	5.2%	5.2%	5.4%	5.8%	5.0%	2.5%
Total Wages	80.67	85.36	84.23	84.00	87.24	92.32	96.84	102.41	105.97	103.88
Percent Change	6.5%	5.8%	-1.3%	-0.3%	3.9%	5.8%	4.9%	5.7%	3.5%	-2.0%
Manufacturing Wages	13.38	13.91	12.77	12.24	12.45	12.88	13.11	13.58	13.98	13.26
Percent Change	1.0%	3.9%	-8.2%	-4.2%	1.7%	3.5%	1.8%	3.6%	3.0%	-5.2%
Nonmanufacturing										
Wages	67.28	71.45	71.46	71.76	74.79	79.43	83.73	88.83	91.99	90.62
Percent Change	7.6%	6.2%	0.0%	0.4%	4.2%	6.2%	5.4%	6.1%	3.6%	-1.5%
Other Labor Income	15.02	16.11	17.21	18.79	19.61	20.86	21.70	22.05	22.59	22.77
Percent Change	6.8%	7.3%	6.8%	9.2%	4.4%	6.4%	4.0%	1.6%	2.4%	0.8%
Proprietor's Income	13.12	15.65	16.55	16.79	17.50	18.52	19.71	20.09	19.32	18.45
Percent Change	16.9%	19.3%	5.7%	1.4%	4.3%	5.8%	6.4%	1.9%	-3.8%	-4.5%
Property Income	24.81	26.35	26.34	25.15	25.95	27.94	32.02	38.30	40.23	38.79
Percent Change	5.9%	6.2%	0.0%	-4.5%	3.2%	7.6%	14.6%	19.6%	5.0%	-3.6%
Transfer Payments										
Less Social Insurance	3.56	3.94	4.81	5.11	5.32	5.72	5.95	6.84	7.77	10.35
Percent Change	1.3%	10.7%	21.9%	6.3%	4.1%	7.5%	4.1%	14.9%	13.6%	33.1%
Transfer Payments	14.48	15.36	16.40	17.13	17.72	18.76	19.46	20.81	22.24	24.99
Percent Change	4.0%	6.1%	6.8%	4.4%	3.5%	5.9%	3.8%	6.9%	6.8%	12.4%
Social Insurance	10.91	11.41	11.59	12.02	12.40	13.04	13.51	13.97	14.46	14.64
Percent Change	5.0%	4.6%	1.6%	3.7%	3.2%	5.2%	3.6%	3.4%	3.5%	1.2%

Economic Report of the Governor

MAJOR CONNECTICUT ECONOMIC INDICATORS - FISCAL YEAR BASIS

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

	<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	156.58	164.33	163.28	160.94	163.31	168.21	173.28	180.97	182.59	177.50
Percent Change	5.3%	5.0%	-0.6%	-1.4%	1.5%	3.0%	3.0%	4.4%	0.9%	-2.8%
Disposable										
Personal Income	125.27	130.02	133.09	133.70	137.43	140.13	142.72	146.49	150.31	150.99
Percent Change	4.4%	3.8%	2.4%	0.5%	2.8%	2.0%	1.9%	2.6%	2.6%	0.5%
Total Wages	92.07	95.15	92.22	90.23	91.55	93.91	95.22	97.70	98.78	94.93
Percent Change	4.6%	3.3%	-3.1%	-2.2%	1.5%	2.6%	1.4%	2.6%	1.1%	-3.9%
Manufacturing Wages	15.28	15.51	13.98	13.15	13.06	13.11	12.89	12.95	13.03	12.11
Percent Change	0.3%	0.3%	0.3%	-6.0%	-0.7%	0.3%	-1.6%	0.5%	0.6%	-7.1%
Nonmanufacturing Wages	76.80	79.65	78.24	77.08	78.49	80.81	82.33	84.74	85.75	82.81
Percent Change	5.8%	3.7%	-1.8%	-1.5%	1.8%	3.0%	1.9%	2.9%	1.2%	-3.4%
Other Labor Income	17.14	17.96	18.84	20.18	20.58	21.22	21.34	21.04	21.06	20.80
Percent Change	4.9%	4.8%	4.9%	7.1%	2.0%	3.1%	0.5%	-1.4%	0.1%	-1.2%
Proprietor's Income	14.98	17.45	18.12	18.03	18.37	18.84	19.38	19.17	18.01	16.86
Percent Change	14.9%	16.5%	3.9%	-0.5%	1.9%	2.6%	2.9%	-1.1%	-6.0%	-6.4%
Property Income	28.32	29.37	28.84	27.01	27.23	28.42	31.48	36.54	37.50	35.44
Percent Change	4.1%	3.7%	-1.8%	-6.3%	0.8%	4.3%	10.8%	16.1%	2.6%	-5.5%
Transfer Payments										
Less Social Insurance	4.07	4.40	5.26	5.49	5.58	5.82	5.85	6.53	7.25	9.46
Percent Change	-0.4%	8.1%	19.7%	4.3%	1.7%	4.2%	0.6%	11.5%	11.0%	30.5%
Transfer Payments	16.52	17.12	17.96	18.40	18.59	19.08	19.14	19.85	20.73	22.83
Percent Change	2.3%	3.6%	4.9%	2.5%	1.1%	2.6%	0.3%	3.8%	4.4%	10.2%
Social Insurance	12.45	12.72	12.69	12.91	13.01	13.27	13.28	13.33	13.48	13.38
Percent Change	3.2%	2.1%	-0.2%	1.7%	0.8%	1.9%	0.1%	0.3%	1.2%	-0.8%

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>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>
Manufacturing	236.72	233.64	218.32	204.93	197.60	196.65	194.00	192.32	189.25	181.78
Percent Change	-3.2%	-1.3%	-6.6%	-6.1%	-3.6%	-0.5%	-1.3%	-0.9%	-1.6%	-3.9%
Electronic & Electrical	35.10	35.46	31.40	27.79	26.00	25.80	25.09	25.05	25.25	24.61
Percent Change	-3.7%	1.0%	-11.5%	-11.5%	-6.4%	-0.8%	-2.7%	-0.2%	0.8%	-2.6%
Metals Manufacturing	50.06	49.14	44.80	41.91	40.74	41.30	41.05	40.80	40.38	39.18
Percent Change	-3.0%	-1.8%	-8.8%	-6.5%	-2.8%	1.4%	-0.6%	-0.6%	-1.0%	-3.0%
Industrial Machinery	23.70	23.32	21.23	19.51	18.65	18.35	17.99	18.15	18.00	17.52
Percent Change	-4.0%	-1.6%	-9.0%	-8.1%	-4.4%	-1.7%	-1.9%	0.9%	-0.8%	-2.7%
Transportation Equip.	47.93	46.95	46.34	44.18	43.06	43.31	43.60	43.51	43.93	43.59
Percent Change	-7.3%	-2.1%	-1.3%	-4.7%	-2.5%	0.6%	0.7%	-0.2%	1.0%	-0.8%
Chemical, Plast. & Rub.	28.67	29.48	27.89	26.53	25.52	25.21	24.56	23.57	22.14	20.40
Percent Change	2.0%	2.8%	-5.4%	-4.9%	-3.8%	-1.2%	-2.6%	-4.0%	-6.1%	-7.8%
Printing, Publ. & Textile	24.96	23.87	21.74	19.88	19.24	18.50	17.58	17.25	16.66	14.75
Percent Change	-3.1%	-4.4%	-8.9%	-8.6%	-3.2%	-3.9%	-5.0%	-1.9%	-3.4%	-11.5%
Food, Bev. & Tobacco	8.93	8.52	8.61	8.80	8.45	8.44	8.58	8.49	8.01	7.55
Percent Change	1.4%	-4.7%	1.1%	2.2%	-4.0%	-0.1%	1.7%	-1.1%	-5.6%	-5.8%
Miscellaneous	17.35	16.89	16.31	16.34	15.94	15.75	15.54	15.49	14.88	14.18
Percent Change	-0.7%	-2.7%	-3.4%	0.2%	-2.5%	-1.2%	-1.3%	-0.3%	-4.0%	-4.7%

Economic Report of the Governor

MAJOR CONNECTICUT ECONOMIC INDICATORS - FISCAL YEAR BASIS

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

	<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>
Nonmanufacturing	1,445.3	1,456.7	1,456.8	1,447.5	1,446.0	1,460.3	1,476.1	1,496.7	1,516.4	1,489.4
Percent Change	2.3%	0.8%	0.0%	-0.6%	-0.1%	1.0%	1.1%	1.4%	1.3%	-1.8%
Construction & Mining	63.60	65.90	65.77	62.39	64.42	67.23	67.07	68.47	68.97	59.00
Percent Change	5.2%	3.6%	-0.2%	-5.1%	3.2%	4.4%	-0.2%	2.1%	0.7%	-14.5%
Information	45.36	46.43	42.64	40.09	39.13	38.66	37.82	38.03	38.47	36.32
Percent Change	2.5%	2.4%	-8.2%	-6.0%	-2.4%	-1.2%	-2.2%	0.6%	1.2%	-5.6%
Utilities	9.72	9.48	9.07	8.91	8.70	8.65	8.31	8.14	8.34	8.82
Percent Change	-0.8%	-2.4%	-4.3%	-1.8%	-2.4%	-0.6%	-4.0%	-2.0%	2.4%	5.8%
Transportation	41.73	41.98	40.31	39.84	40.41	42.77	43.98	44.06	44.10	43.23
Percent Change	1.1%	0.6%	-4.0%	-1.2%	1.4%	5.9%	2.8%	0.2%	0.1%	-2.0%
Wholesale Trade	67.04	68.10	66.57	65.73	65.57	65.90	67.18	67.73	69.14	68.91
Percent Change	1.0%	1.6%	-2.2%	-1.3%	-0.3%	0.5%	1.9%	0.8%	2.1%	-0.3%
Retail Trade	196.59	195.63	195.12	192.43	191.28	192.74	191.28	190.93	190.85	182.68
Percent Change	1.9%	-0.5%	-0.3%	-1.4%	-0.6%	0.8%	-0.8%	-0.2%	0.0%	-4.3%
Finance & Insurance	120.48	121.68	122.21	122.54	121.15	120.75	122.31	123.81	123.23	121.42
Percent Change	1.1%	1.0%	0.4%	0.3%	-1.1%	-0.3%	1.3%	1.2%	-0.5%	-1.5%
Real Estate	21.34	21.57	20.68	20.28	20.22	20.48	20.99	21.14	20.86	19.97
Percent Change	3.1%	1.1%	-4.1%	-2.0%	-0.3%	1.3%	2.5%	0.7%	-1.3%	-4.3%
Professional & Business	214.33	214.08	205.81	199.02	196.49	197.91	202.53	205.38	207.37	197.82
Percent Change	3.3%	-0.1%	-3.9%	-3.3%	-1.3%	0.7%	2.3%	1.4%	1.0%	-4.6%
Education & Health	244.47	247.76	256.59	262.14	266.23	270.93	276.01	283.75	292.18	298.96
Percent Change	1.8%	1.3%	3.6%	2.2%	1.6%	1.8%	1.9%	2.8%	3.0%	2.3%
Leisure & Hospitality	120.48	120.49	121.08	123.55	126.62	128.71	130.76	133.95	137.37	137.81
Percent Change	2.0%	0.0%	0.5%	2.0%	2.5%	1.7%	1.6%	2.4%	2.6%	0.3%
Other Services	60.68	61.52	62.84	62.35	62.29	62.68	63.03	64.19	63.83	63.24
Percent Change	0.4%	1.4%	2.1%	-0.8%	-0.1%	0.6%	0.6%	1.8%	-0.6%	-0.9%
Federal Government	23.38	22.07	21.37	21.14	20.39	19.96	19.78	19.61	19.57	19.53
Percent Change	4.0%	-5.6%	-3.2%	-1.1%	-3.5%	-2.1%	-0.9%	-0.9%	-0.2%	-0.2%
State & Local Gov't.	216.14	220.01	226.74	227.04	223.13	222.89	225.11	227.54	232.07	231.73
Percent Change	3.3%	1.8%	3.1%	0.1%	-1.7%	-0.1%	1.0%	1.1%	2.0%	-0.1%

Economic Report of the Governor

MAJOR CONNECTICUT ECONOMIC INDICATORS - FISCAL YEAR BASIS

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

	<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>
Labor Force	1,739.9	1,742.2	1,764.9	1,792.2	1,793.1	1,798.4	1,817.6	1,840.5	1,861.6	1,885.3
Percent Change	-0.1%	0.1%	1.3%	1.5%	0.0%	0.3%	1.1%	1.3%	1.1%	1.3%
Nonagricultural Employment	1,682.0	1,690.4	1,675.1	1,652.4	1,643.6	1,656.9	1,670.1	1,689.0	1,705.6	1,671.2
Percent Change	1.5%	0.5%	-0.9%	-1.4%	-0.5%	0.8%	0.8%	1.1%	1.0%	-2.0%
Residential Employment	1,697.4	1,698.4	1,700.5	1,699.0	1,699.4	1,710.5	1,734.2	1,759.2	1,768.7	1,755.5
Percent Change	0.4%	0.1%	0.1%	-0.1%	0.0%	0.7%	1.4%	1.4%	0.5%	-0.7%
Unemployed	42.5	43.7	64.4	93.2	93.7	87.9	83.4	81.4	92.9	129.7
Percent Change	-15.8%	3.0%	47.2%	44.8%	0.5%	-6.2%	-5.0%	-2.5%	14.2%	39.6%
Unemployment Rate	2.4%	2.5%	3.7%	5.2%	5.2%	4.9%	4.6%	4.4%	5.0%	6.9%
Households	1,299.6	1,308.2	1,314.9	1,322.9	1,327.6	1,329.1	1,331.9	1,333.6	1,336.1	1,340.2
Percent Change	1.0%	0.7%	0.5%	0.6%	0.4%	0.1%	0.2%	0.1%	0.2%	0.3%
Housing Starts	9,552.7	8,597.7	9,215.4	8,547.8	9,800.6	11,636.0	11,068.4	8,514.4	6,328.9	3,601.8
Percent Change	-14.2%	-10.0%	7.2%	-7.2%	14.7%	18.7%	-4.9%	-23.1%	-25.7%	-43.1%
Single Family Percent Change	8,406.3	7,352.2	8,268.3	7,326.5	7,880.1	9,665.7	9,124.1	6,943.5	4,630.2	2,283.0
	-10.3%	-12.5%	12.5%	-11.4%	7.6%	22.7%	-5.6%	-23.9%	-33.3%	-50.7%
Multi Family Percent Change	1,146.4	1,245.5	947.1	1,221.4	1,920.5	1,970.4	1,944.3	1,570.8	1,698.7	1,318.8
	-34.6%	8.6%	-24.0%	29.0%	57.2%	2.6%	-1.3%	-19.2%	8.1%	-22.4%
New Car Registrations	233.8	245.0	231.8	227.4	254.8	228.1	230.5	212.8	212.4	155.5
Percent Change	4.1%	4.8%	-5.4%	-1.9%	12.0%	-10.5%	1.1%	-7.7%	-0.2%	-26.8%

Note: Connecticut housing starts are already in thousands.

Economic Report of the Governor

MAJOR CONNECTICUT ECONOMIC INDICATORS - FISCAL YEAR BASIS

**TABLE 11
ANALYTICS**

	<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>
Wages/Total Income	58.80%	57.90%	56.48%	56.06%	56.06%	55.83%	54.95%	53.99%	54.10%	53.48%
Other Labor Income /Total Income	10.95%	10.93%	11.54%	12.54%	12.60%	12.62%	12.31%	11.62%	11.53%	11.72%
Social Insurance /Total Income	7.95%	7.74%	7.77%	8.02%	7.97%	7.89%	7.67%	7.36%	7.38%	7.54%
Transfer Payments /Total Income	10.55%	10.42%	11.00%	11.43%	11.39%	11.34%	11.04%	10.97%	11.35%	12.86%
Proprietor's Income /Total Income	9.57%	10.62%	11.10%	11.20%	11.25%	11.20%	11.18%	10.59%	9.86%	9.50%
Property Income /Total Income	18.08%	17.87%	17.66%	16.78%	16.68%	16.89%	18.17%	20.19%	20.54%	19.97%
Average Wages (Thousands in 2000 \$)	54.43	54.63	56.54	57.33	57.74	57.71	57.72	57.64	57.03	57.33
Average Mfg. Wages (Thousands in 2000 \$)	64.53	66.36	64.04	64.16	66.10	66.64	66.47	67.36	68.87	66.64
Average Nonmfg. Wages (Thousands in 2000 \$)	52.79	52.81	55.38	56.31	56.55	56.49	56.55	56.40	55.57	56.18
Manufacturing Share of Employment	13.99%	13.41%	13.39%	13.02%	12.46%	12.09%	11.76%	11.35%	10.93%	10.98%
Residential Employment /Total Nonagricultural	1.003	0.975	1.043	1.080	1.072	1.051	1.051	1.038	1.021	1.060

Economic Report of the Governor

MAJOR CONNECTICUT REGIONAL ECONOMIC INDICATORS - CALENDAR YEAR BASIS

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

BRIDGEPORT-STAMFORD-NORWALK

	<u>1999</u>	<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>
Personal Income	47,458.5	52,183.1	54,988.0	53,476.7	53,283.7	58,113.0	61,563.3	67,481.5	72,642.3	73,633.0
Percent Change	5.5%	10.0%	5.4%	-2.7%	-0.4%	9.1%	5.9%	9.6%	7.6%	1.4%
Total Wages	25,465.5	27,636.7	28,277.7	26,958.8	27,647.2	29,406.4	31,139.9	33,315.3	36,082.3	35,712.9
Percent Change	7.6%	8.5%	2.3%	-4.7%	2.6%	6.4%	5.9%	7.0%	8.3%	-1.0%

HARTFORD-WEST HARTFORD-EAST HARTFORD

	<u>1999</u>	<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>
Personal Income	38,896.5	42,563.3	43,991.5	44,296.7	45,181.2	48,152.0	50,443.3	53,881.4	57,336.4	58,489.4
Percent Change	4.3%	9.4%	3.4%	0.7%	2.0%	6.6%	4.8%	6.8%	6.4%	2.0%
Total Wages	25,425.9	27,088.5	28,167.4	28,152.0	28,524.5	30,294.6	31,733.1	33,190.8	35,409.4	35,825.1
Percent Change	6.0%	6.5%	4.0%	-0.1%	1.3%	6.2%	4.7%	4.6%	6.7%	1.2%

NEW LONDON-NORWICH, CT-RI

	<u>1999</u>	<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>
Personal Income	8,010.8	8,512.8	8,921.3	9,215.7	9,542.3	10,120.2	10,387.0	10,957.6	11,476.5	11,839.2
Percent Change	3.8%	6.3%	4.8%	3.3%	3.5%	6.1%	2.6%	5.5%	4.7%	3.2%
Total Wages	4,786.0	5,018.4	5,274.4	5,465.5	5,629.2	5,863.3	6,057.8	6,300.5	6,613.1	6,864.6
Percent Change	3.3%	4.9%	5.1%	3.6%	3.0%	4.2%	3.3%	4.0%	5.0%	3.8%