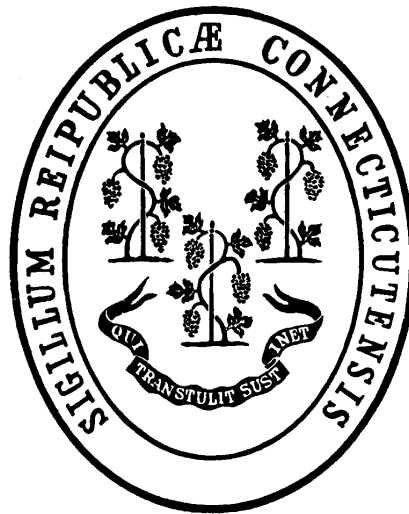

FY2006-07 MIDTERM ECONOMIC REPORT OF THE GOVERNOR



M. JODI RELL, GOVERNOR
CONNECTICUT

FEBRUARY 8, 2006

PART 4 - THE ECONOMY



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**ECONOMIC REPORT
OF THE GOVERNOR
2006 - 2007**

Economic Report of the Governor

INTRODUCTION

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

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

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

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

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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 markets. Over one-quarter of the total population of the United States and more than 50% of the Canadian population live within a 500-mile radius of Connecticut and are readily accessible by rail, truck and air, providing easy access to local and regional markets. Connecticut's Bradley International Airport is well situated for overseas airfreight operations and railroad service provides connections with the major eastern railroads, as well as direct access to Canadian markets. With operational harbors in Bridgeport and New Haven to accommodate most deep draft vessels and expansion and improvement projects recently completed in New London, proximity to the ports of New York and Boston provides favorable access to the European and Eastern South American export markets.

Connecticut is highly urbanized with a population density of 724 persons for each of its 4,845.4 square miles of land, compared with 84 persons per square mile of land for the United States (3,536,338 square miles), based on 2005 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 first, the Naugatuck Valley, extending from Bridgeport north, has a high concentration of heavy industry. The second, a belt extending from Hartford southwest to the coast in New Haven, is typified by highly skilled precision metal products manufacturing. In addition, a large submarine building firm, several chemical production facilities and two casino gaming enterprises exist in the Groton-New London area. The Southwestern portion of the state has a high concentration of financial service activity. The area also serves as headquarters to numerous Fortune 500 companies due to the talented labor pool which resides there, the amenable environment of the region and proximity to New York City.

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

Census Information

On April 1, 2000, this nation's population was 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. In 2000, the population totaled 281.4 million people in the 50 states and the District of Columbia. The Table on the following page displays the change in resident population for the U.S., New England and Connecticut with their corresponding census counts. Since 1930, the population has risen in all three data series for all decades. However, during the 1970s,

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1980s and 1990s, the population growth in Connecticut and New England was significantly lower than the prior three decades and lower than the nation for the recent periods.

TABLE 1
CENSUS POPULATION COUNTS*
(In Thousands)

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

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

Source: U.S. Bureau of the Census

In the United States, the resident population, which excludes Armed Forces Overseas, increased from 248,709,873 in 1990 to 281,421,906 in 2000, 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 relatively slower growth. Within New England, only Vermont and New Hampshire experienced growth significantly higher than the region. According to projections released by the U.S. Bureau of the Census in 2005, 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 grants such as highway planning and construction, alcohol and drug abuse programs, low income energy assistance, community assistance grants and job training 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

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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.

Population counts and growth patterns for Connecticut counties are shown in the following Table. Connecticut counties experiencing faster growth during the 1990s generally were those not dominated by large urban areas. Population counts by municipality are also available in the Appendix of this report.

**TABLE 2
COUNTY POPULATION IN CONNECTICUT**

<u>County</u>	<u>1990 Census</u>	<u>1990 Percent</u>	<u>2000 Census</u>	<u>2000 Percent</u>	<u>Percent Change</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

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.

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. The Table on the following page shows the Bureau of

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the Census estimates for mid-year population for the United States, the New England Region and Connecticut.

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

Mid Year	United States		New England		Connecticut	
	Number	% Growth	Number	% Growth	Number	% Growth
1996	269,394	1.2	13,555	0.6	3,337	0.4
1997	272,647	1.2	13,642	0.6	3,349	0.4
1998	275,854	1.2	13,734	0.7	3,365	0.5
1999	279,040	1.2	13,838	0.8	3,386	0.6
2000	282,193	1.1	13,953	0.8	3,412	0.8
2001	285,108	1.0	14,043	0.6	3,432	0.6
2002	287,985	1.0	14,126	0.6	3,458	0.8
2003	290,850	1.0	14,194	0.5	3,486	0.8
2004	293,657	1.0	14,222	0.2	3,499	0.4
2005	296,410	0.9	14,240	0.1	3,510	0.3

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

Natural Change Rates

The natural change rate is defined as the difference between birth and death rates. The birth rate in Connecticut has consistently remained below the national average, declining during the 1960s and 1970s and then slowly reversing itself, increasing gradually since the early 1980s and finally peaking in 1990. However, since reaching its peak of 15.2 births per 1,000, Connecticut's trend has followed that of the nation, declining gradually through the 1990s and beyond. In 2003, the Connecticut birth rate was approximately 12.3 per 1,000, compared to the national average of 14.1. This is a decrease from the 12.6 in 2000 and a slight increase from 12.1 in 2002. The mortality rate for Connecticut for the last several years has been fairly stable, while the national death rate may be on a slight downward trend. This has occurred despite the improvements in medicine and health care and is attributable to the aging of the population. The following Table shows the natural change rates for the United States and Connecticut.

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

	<u>1970</u>	<u>1975</u>	<u>1980</u>	<u>1985</u>	<u>1990</u>	<u>1995</u>	<u>2000</u>	<u>2003</u>
<u>Birth Rates:</u>								
United States	18.4	16.1	15.9	15.8	16.7	14.6	14.4	14.1
Connecticut	16.7	11.6	12.5	13.7	15.2	13.3	12.6	12.3
<u>Death Rates:</u>								
United States	9.5	8.8	8.8	8.8	8.6	8.7	8.7	8.4
Connecticut	8.9	8.3	8.8	8.8	8.4	8.9	9.1	8.8
<u>Natural Change Rates:</u>								

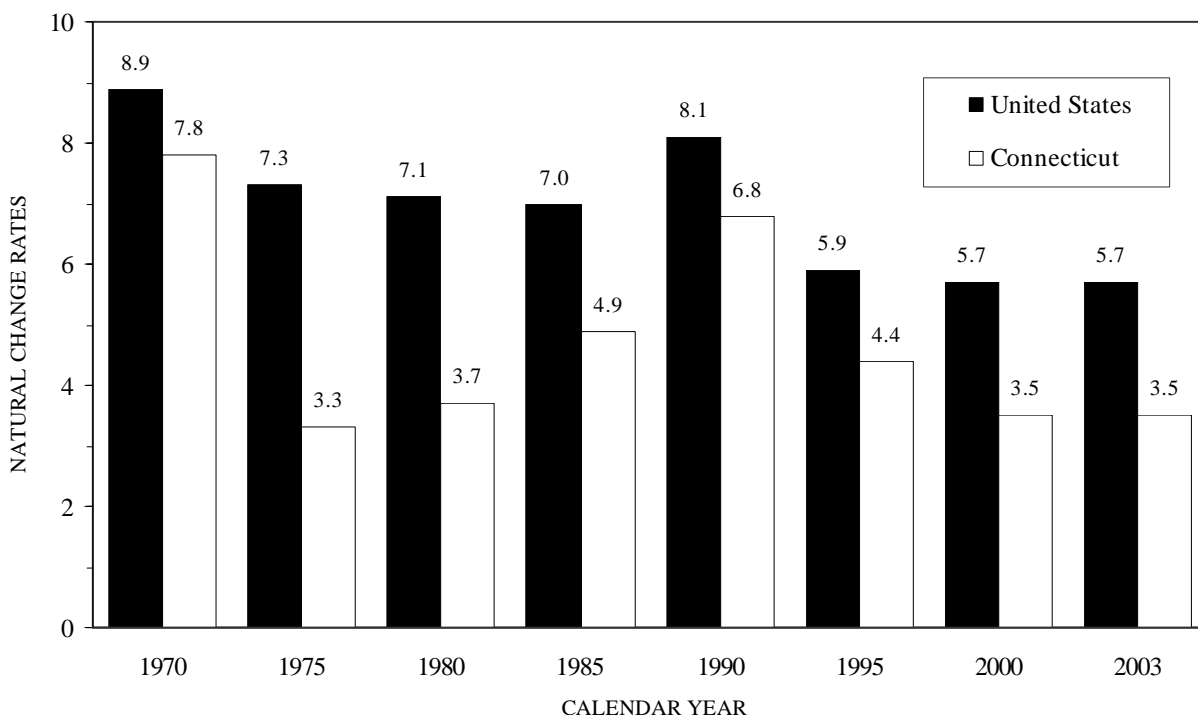
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United States	8.9	7.3	7.1	7.0	8.1	5.9	5.7	5.7
Connecticut	7.8	3.3	3.7	4.9	6.8	4.4	3.5	3.5

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

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

NATURAL CHANGE RATES PER THOUSAND



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

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 Table on the following page shows the change in household structure for the United States and Connecticut during the 1990s.

The number of households in Connecticut, according to the 2000 U.S. Census, was 1,301,670, up 5.8% from the 1990 Census, and up 6.5% from the 1995 Census estimate. This is not unusual in that it reflects the decline in Connecticut's population during the early 1990s and the slow growth in population during the second half of the decade. Family households include a householder and one or more other persons living in the same household who are related by

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

TABLE 5
HOUSEHOLD STRUCTURE
(In Thousands)

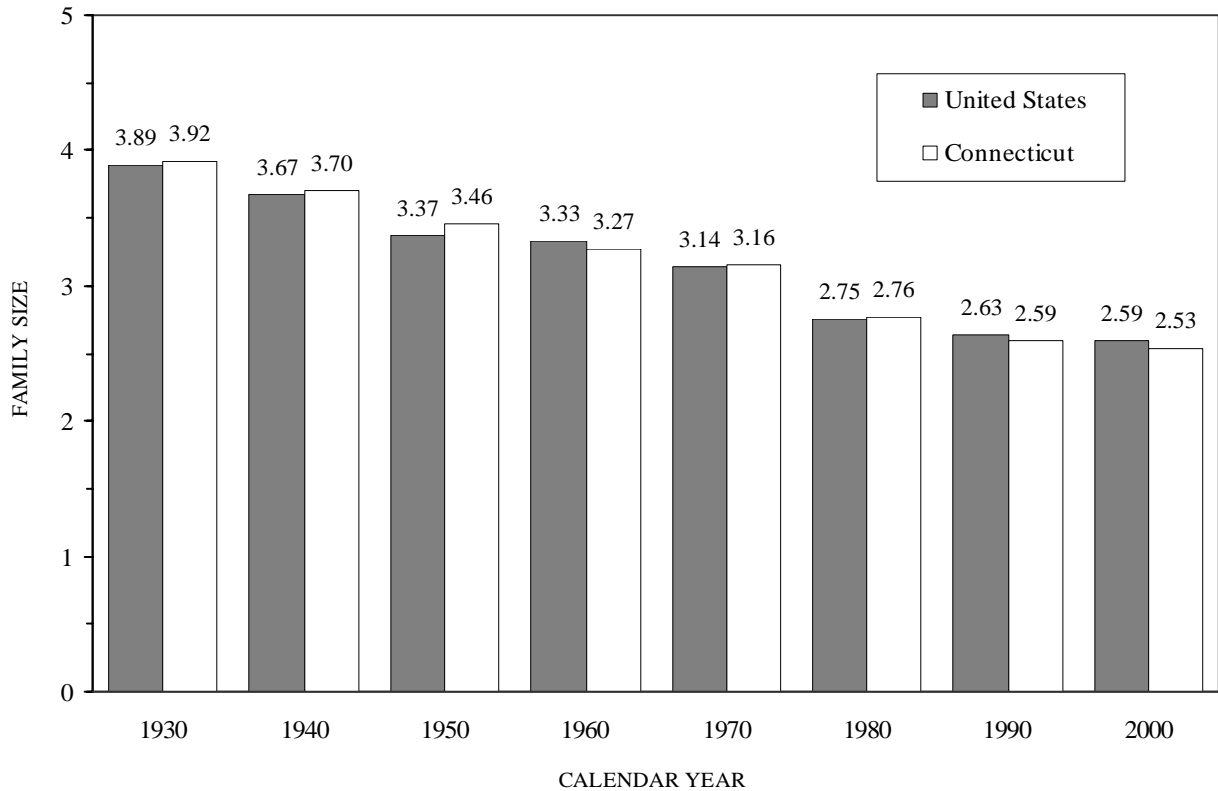
	United States			Connecticut		
	1990 Number of Households	1995 Number of Households	2000 Number of Households	1990 Number of Households	1995 Number of Households	2000 Number of Households
Family	66,091	69,305	71,787	864	857	881
• Married	52,317	53,858	54,493	685	675	676
• Male	2,884	3,227	4,394	39	39	48
• Female	10,890	12,220	12,900	140	143	157
Non-Family	27,257	29,685	33,693	366	365	421
Total	93,348	98,990	105,480	1,230	1,222	1,302
	Percent of Households	Percent of Households	Percent of Households	Percent of Households	Percent of Households	Percent of Households
Family	70.8	70.0	68.1	70.2	70.1	67.7
• Married	56.0	54.4	51.7	55.7	55.2	51.9
• Male	3.1	3.3	4.2	3.2	3.2	3.7
• Female	11.7	12.3	12.2	11.4	11.7	12.1
Non-Family	29.2	30.0	31.9	29.8	29.9	32.3
Total	100.0	100.0	100.0	100.0	100.0	100.0
	% Change 1990-1995	% Change 1995-2000	% Change 1990-2000	% Change 1990-1995	% Change 1995-2000	% Change 1990-2000
Family	4.9	3.6	8.6	(0.8)	2.8	2.0
• Married	2.9	1.2	4.2	(1.5)	0.0	(1.3)
• Male	11.9	36.2	52.4	0.0	23.1	23.1
• Female	12.2	5.6	18.5	2.1	9.8	12.1
Non-Family	8.9	13.5	23.6	(0.8)	15.3	15.0
Total	5.7	6.6	13.0	(0.7)	6.5	5.9

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

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Between 1990 and 1995, the relatively stable population, the decreasing number of households, and the changing mix in the types of households in Connecticut resulted in an increase in average population per household in the state. The Chart below shows that household size has generally been edging downward in the state and for the nation. This relationship is important in forecasting Connecticut's household size.

PERSONS PER HOUSEHOLD 1930 - 2000



Source: U.S. Bureau of the Census

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. As shown in the Table on the following page, the state has a lower concentration of persons aged 18 to 24 years and a higher concentration of persons aged 65 and over (as well as 85 and over) than either New England or the Nation as a whole. Growth in this older age cohort in Connecticut will accelerate as baby

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boomers age. The aging population will put pressure on state spending requirements, which could be exacerbated by state revenues which may not grow at the same rate as during the late 1990s. The National Center for Health Statistics estimated average life expectancy at birth to be 77.6 years in 2003, 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 is expected to impact retirement, social security, pension systems, health care, etc.

TABLE 6
POPULATION DISTRIBUTION BY AGE IN 2004
(In Thousands)

	<u>17 & Less</u>	<u>18 to 24</u>	<u>25 to 64</u>	<u>65 +</u>	<u>85 +</u>	<u>Total</u>
United States	73,278	29,245	154,838	36,294	4,860	293,655
% of Total	25.0	10.0	52.7	12.4	1.7	100.0
New England	3,269	1,330	7,734	1,906	303	14,239
% of Total	23.0	9.3	54.3	13.4	2.1	100.0
Connecticut	839	311	1,881	474	82	3,504
% of Total	23.9	8.9	53.7	13.5	2.3	100.0

Source: U.S. Bureau of the Census.

Population Projections

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

TABLE 7
PROJECTIONS OF THE POPULATION IN CONNECTICUT
(Mid-Year Resident Population In Thousands)

<u>Age Group</u>	1990	2000	Projections			% Change
	<u>Census</u>	<u>Census</u>	<u>2010</u>	<u>2020</u>	<u>2030</u>	<u>2000-2030</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%
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.

Based on these projections, the elderly population (defined as those 65 years and over) continues to grow substantially. The size of this cohort is not only growing rapidly, the average

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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, etc. The burden of caring for the elderly may become much greater as the baby boom generation begin to reach the age of sixty-five in the year 2011.

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 areas.

TABLE 8
POPULATION DENSITY BY YEAR
(Persons per Square Mile)

	1990	2000	2005	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	83.8	87.4	95.0	102.8
Northeast	313.1	330.3	336.7	343.8	352.1	355.4
Connecticut	678.4	702.8	724.5	738.3	758.6	761.3

Source: U.S. Bureau of the Census

In addition, a change is occurring in the age distribution of the population. As shown in Table 9, 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 years of age to provide social and support services for the young and the elderly, particularly for the elderly.

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

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<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
Northeast	63.9	59.0	61.6	57.7	64.9	75.4
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
Northeast	43.6	37.3	39.3	35.4	36.3	38.4
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
Northeast	20.3	21.7	22.2	22.4	28.6	37.0
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
Northeast	12.3	13.3	13.3	13.2	16.6	21.3
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

Finally, as shown in Table 10, cultural implications might be suggested by the racial distribution of the population in the state. The white population is decreasing as a percentage of the total, as both the African-American and Hispanic groups increase as a percentage of the total population, with the Hispanic growth rate outpacing the African-American growth rate. Although Asians make up a very small percentage of the total population, Asians comprise the fastest growing group, while the American Indian population remains fairly stable. These same trends are occurring in the nation and the region.

TABLE 10
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

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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

Housing

During fiscal 2005, the national housing market continued its positive performance. Overall, housing starts in the U.S. rose 3.8% with 2.0 million starts being recorded nationally during fiscal 2005.

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

TABLE 11
HOUSING STARTS
(In Thousands)

Fiscal Year	United States		New England		Connecticut	
	Number	% Growth	Number	% Growth	Number	% Growth
1995-96	1,447.3	4.5	37.0	(9.7)	8.0	(17.0)
1996-97	1,456.8	0.7	40.2	8.6	8.9	12.3
1997-98	1,530.2	5.0	43.8	8.9	9.9	11.3
1998-99	1,659.3	8.4	46.3	5.7	11.1	11.8
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	44.9	7.3	9.2	6.7
2002-03	1,729.2	5.1	43.8	(2.5)	8.5	(7.1)
2003-04	1,944.3	12.4	50.9	16.4	9.9	16.1
2004-05	2,018.7	3.8	57.1	12.1	11.9	20.7

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

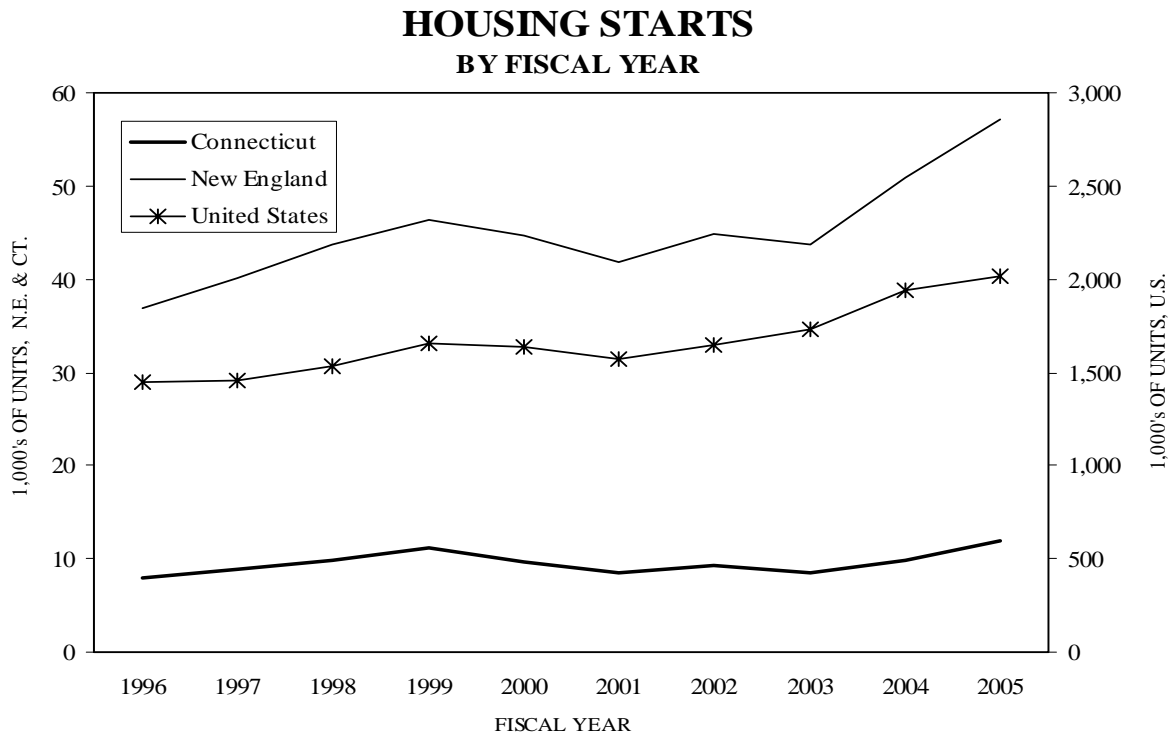
The continued strength in the housing sector has been one of the important pillars of the economy during this economic cycle. Low interest rates, strong house price gains, and the increase in homeowner equity have offset the effects of the sluggish economy and weak labor market. Potential negative factors impacting housing demand include inflationary pressures (with an expanding economy) and increasing energy costs. If inflation remains subdued, interest rates should remain low, and that bodes well for housing in general.

In Connecticut, starts for new dwelling units increased in fiscal 2005 to an annual rate of 11,914 units, well above the ten-year average of 9,568 units. While housing activity in Connecticut is expected to weaken in the near term, any decline should be limited. Low mortgage rates and

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the lack of any significant overbuilding anywhere in Connecticut place a solid floor under the market. Therefore, the severe real estate downturn of the early 1990s is unlikely to repeat itself this time.

The Chart on the following page provides a graphic presentation of the growth in housing starts for the three entities over a ten year fiscal period.



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 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 on the following page shows the Connecticut counties in which privately owned housing permits were issued in calendar 2004, indicating the geographic distribution of housing construction activity.

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According to the report, calendar 2004 registered a 13.4% increase in housing permit activity. Permit activity totaling 11,837 units, up from 10,435, was authorized and added to the state's housing unit inventory. The town of Danbury led all Connecticut communities with 435 permits issued, followed by Meriden and Norwalk.

TABLE 12
CONNECTICUT HOUSING PERMIT ACTIVITY
Calendar Year 2004

<u>County</u>	<u>Total Units Authorized</u>	<u>% of Total</u>	<u>% Growth</u>
Fairfield	2,495	21.1	27.0
Hartford	2,389	20.2	(7.6)
Litchfield	810	6.8	10.7
Middlesex	963	8.1	17.3
New Haven	2,534	21.4	38.8
New London	1,348	11.4	10.3
Tolland	706	6.0	(3.4)
Windham	<u>592</u>	<u>5.0</u>	<u>6.9</u>
State Total	11,837	100.0	13.4

Source: Connecticut State Department of Economic and Community Development

In addition, residential demolition permits issued during calendar 2004 totaled 1,729. New Haven issued the most demolition permits with 284, followed by Stamford and Greenwich. These three cities accounted for 37% of all demolition permits. As a result, the net gain to Connecticut's housing inventory totaled 10,108 units in calendar 2004. This was an increase of 10.4% from 2003's net gain of 9,160 units. At the end of 2004, an estimated 1,421,070 housing units existed in Connecticut.

The following Table shows changes in Connecticut's housing unit inventory on a calendar basis from 2003 to 2004.

TABLE 13
CONNECTICUT HOUSING INVENTORY

<u>Structure Type</u>	<u>Inventory 2003</u>	<u>% of Total</u>	<u>Inventory 2004</u>	<u>% of Total</u>	<u>Net Gain</u>	<u>Growth Rate</u>
One-Unit	910,022	64.5	918,190	64.6	8,168	0.9%
Two-Unit	119,713	8.5	119,793	8.4	80	0.1%
Three & Four-Unit	126,809	9.0	126,924	8.9	115	0.1%

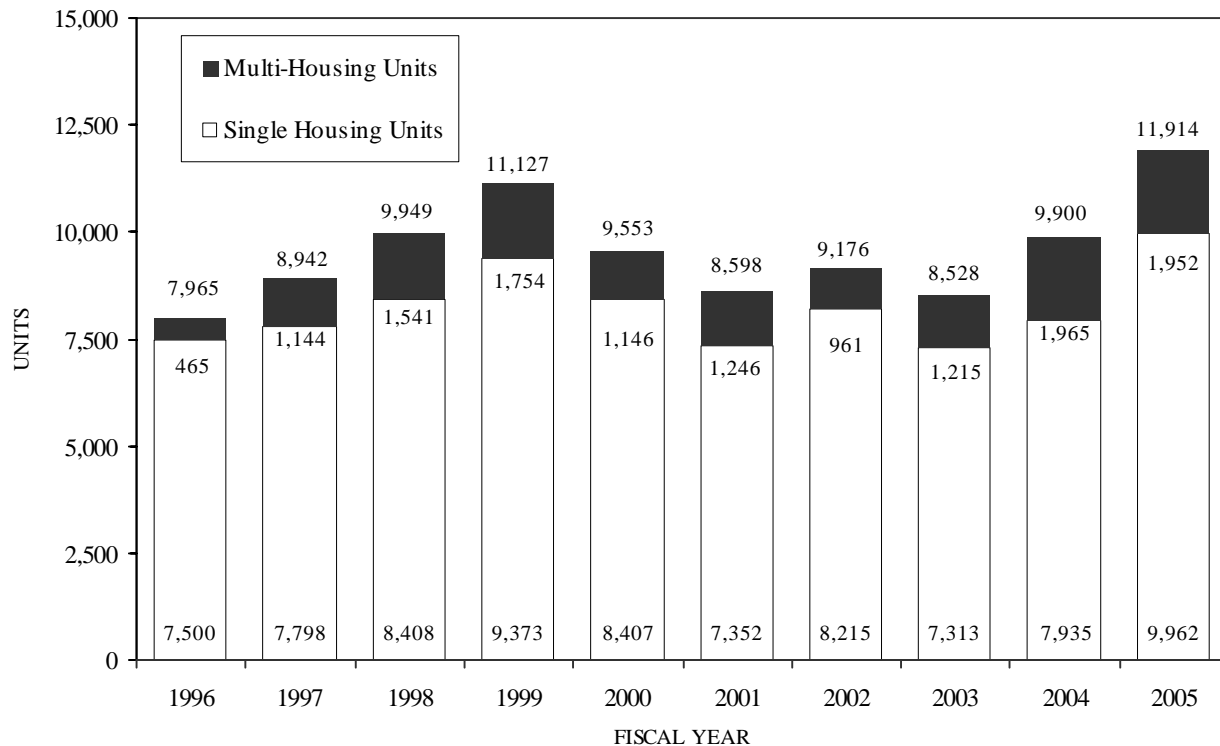
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Five Or More Unit	242,224	17.2	243,969	17.2	1,745	0.7%
Other	<u>12,194</u>	<u>0.9</u>	<u>12,194</u>	<u>0.9</u>	<u>0</u>	<u>0.0%</u>
Total Inventory	1,410,962	100.0	1,421,070	100.0	10,108	0.7%

Source: Connecticut State Department of Economic and Community Development

As shown in the following Chart, the mix of housing construction in Connecticut (i.e., single unit versus multi-unit) has varied during the last ten fiscal years. In addition to the interest rate, there are other factors that influence both the demand for and mix of housing including age of buyer or renter and changes in the mortgage market.

CONNECTICUT HOUSING STARTS



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

Age of Buyer or Renter

As Table 7 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

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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 7 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 2005 began with averages for the thirty-year fixed and one-year adjustable rates of 6.2% and 4.2% respectively. Throughout fiscal year 2005, thirty-year fixed rates fell modestly, with a slight uptick between March 2005 and April 2005. By fiscal year end, rates averaged 5.7%. On the other hand, one-year adjustable rate mortgages (ARM's) have slowly risen throughout the year, ending fiscal year 2005 at 4.7%. With the increase in ARM interest rates, more potential buyers are being priced out of the market, thus overall housing affordability weakens.

Higher interest rates also negatively impact homeowners' discretionary spending. Homeowners face higher monthly mortgage costs and a drop in cash-out and general rate reduction refinancing opportunities. Refinancing as a percentage of total mortgage applications has dropped from a high of 82.5% in March of 2003 to 42.1% in November 2005. The reduction in the number of refinancing applications suggests that consumers who could benefit from the record low interest rates have already refinanced, and thus no additional consumer savings in this area is anticipated in the near future.

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EMPLOYMENT PROFILE

Employment Estimates

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

In an effort to provide a broader employment picture, the following Table, based on residential employment, was developed. Total residential employment is estimated based on household surveys which include individuals excluded from establishment employment figures such as self employed and workers in the agricultural sector. By that measure, residential employment in fiscal 2005 increased by 900 jobs. Likewise, the level of establishment employment based on the survey response increased by 18,600 jobs in fiscal 2005.

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

TABLE 14
CONNECTICUT SURVEY EMPLOYMENT COMPARISONS
(In Thousands)

<u>Fiscal Year</u>	<u>Residential Employment</u>	<u>% Growth</u>	<u>Establishment Employment</u>	<u>% Growth</u>
1995-96	1,656.4	(0.41)	1,568.5	0.81
1996-97	1,667.0	0.64	1,599.6	1.99
1997-98	1,680.3	0.80	1,627.6	1.75
1998-99	1,690.3	0.60	1,657.2	1.82
1999-00	1,697.4	0.42	1,682.1	1.50
2000-01	1,697.2	(0.01)	1,690.4	0.49
2001-02	1,702.2	0.29	1,675.3	(0.89)
2002-03	1,706.6	0.26	1,652.4	(1.37)
2003-04	1,707.5	0.05	1,643.7	(0.53)
2004-05	1,708.4	0.05	1,662.3	1.14

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 15
NONAGRICULTURAL EMPLOYMENT
(In Thousands)

Fiscal Year	United States		New England		Connecticut	
	Number	% Growth	Number	% Growth	Number	% Growth
1995-96	118,379	2.01	6,371.1	1.57	1,568.5	0.81
1996-97	121,199	2.38	6,505.1	2.10	1,599.6	1.99
1997-98	124,380	2.62	6,650.2	2.23	1,627.6	1.75
1998-99	127,427	2.45	6,786.8	2.05	1,657.2	1.82
1999-00	130,598	2.49	6,937.2	2.22	1,682.1	1.50
2000-01	132,250	1.27	7,058.1	1.74	1,690.4	0.49
2001-02	130,882	(1.03)	6,959.4	(1.40)	1,675.3	(0.89)
2002-03	130,118	(0.58)	6,867.7	(1.32)	1,652.4	(1.37)
2003-04	130,481	0.28	6,840.2	(0.40)	1,643.7	(0.53)
2004-05	132,569	1.60	6,899.0	0.86	1,662.3	1.14

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

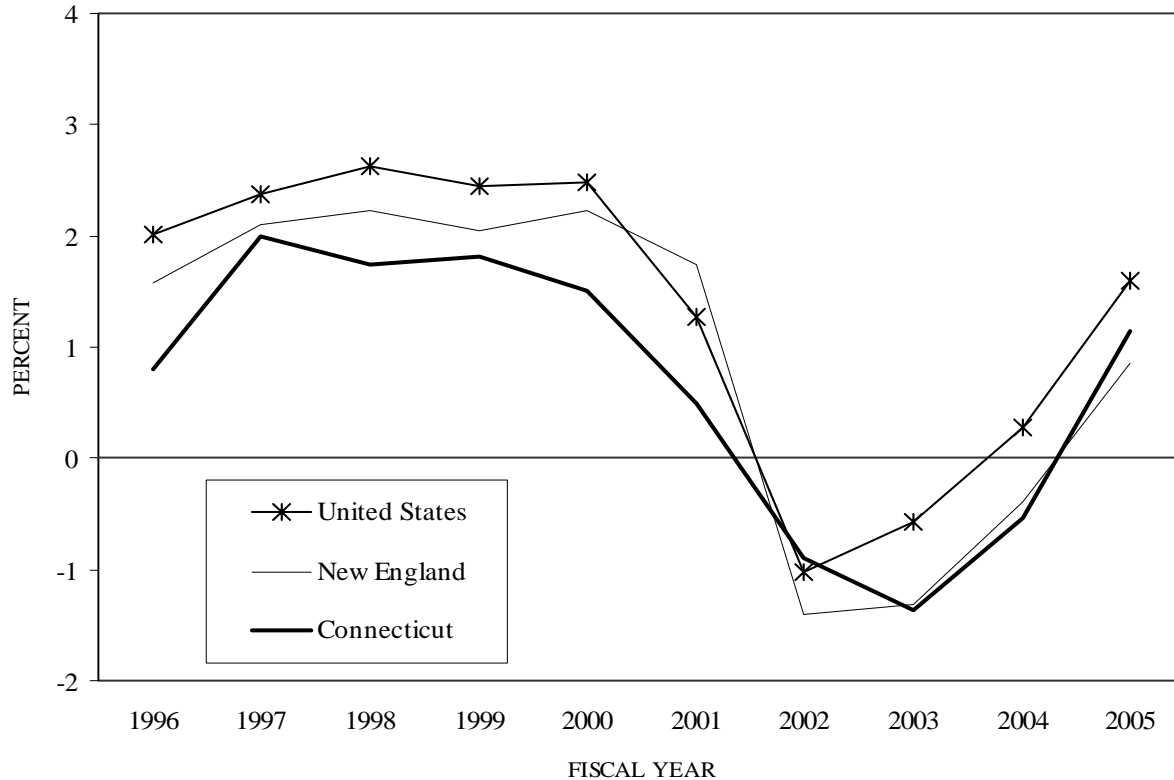
In Connecticut, approximately 56% of total personal income is derived from wages earned by workers classified in the nonagricultural employment sector. Thus, increases in employment in this sector lead to increases in personal income growth and consumer demand. In addition, nonagricultural employment 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.

Throughout the 1990s Connecticut's employment figures slowly recovered from the job losses experienced during the late 1980s – early 1990s recession. Beginning in fiscal 1994 the state began adding jobs and employment levels steadily improved in each successive year through fiscal 2001, establishing a new high point for nonagricultural employment in Connecticut. Unfortunately, the economic expansion that officially earned the distinction as the longest in U.S. history came to an abrupt end. From 2001 to 2004, nonagricultural employment experienced negative growth rates. In fiscal 2005, Connecticut reversed the three year trend and experienced its largest growth in nonagricultural employment since fiscal 2000 with an increase of 18,600 jobs.

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

NONAGRICULTURAL EMPLOYMENT FISCAL YEAR GROWTH BY PERCENT



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

Throughout the last two decades, while manufacturing employment in Connecticut has been steadily declining, employment growth in nonmanufacturing industries has surged. Relatively rapid growth in the nonmanufacturing sector is a trend that is in evidence nationwide and reflects the increased importance of the service industry. This shift in employment provides for relatively more stable economic growth in the long run through the moderation of the peaks and troughs of economic cycles. In calendar 2004, approximately 88% of the state's workforce was employed in nonmanufacturing jobs, up from roughly 50% in the early 1950s.

Despite the fact that manufacturing is an economic base industry in Connecticut, the state still possesses a diversified economy. It is one of the few states whose service sector exports a product-insurance. For example, total premium and annuity income from policyholders of all lines of insurance to Connecticut based companies was \$123.0 billion in calendar 2004. Of the \$123.0 billion, \$18.0 billion or approximately 14.7% is derived from Connecticut residents. The other 85.3% is derived from sales outside of the state. This provides an additional source of incoming funds to bolster the economy of the state.

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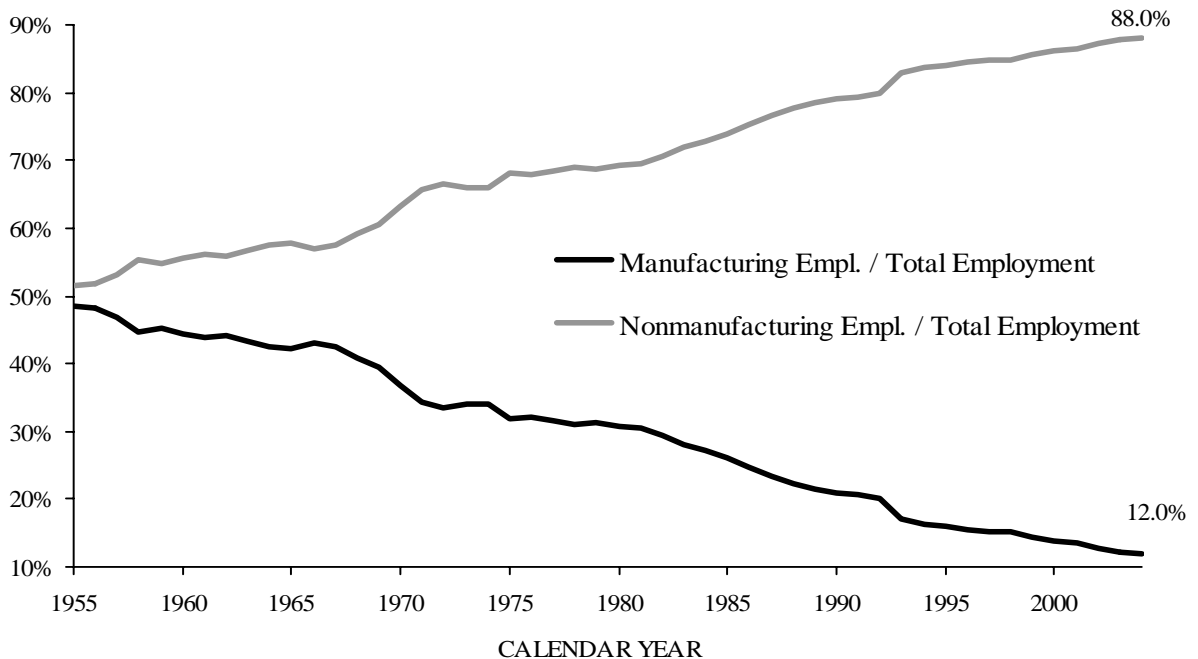
Table 16 depicts the decrease in the ratio of manufacturing employment to total employment in Connecticut over the last five decades.

**TABLE 16
CONNECTICUT RATIO OF MANUFACTURING EMPLOYMENT
TO TOTAL EMPLOYMENT
(In Thousands)**

Calendar 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	1,693.2	235.7	1,457.5	13.9
2004	1,651.7	197.5	1,454.2	12.0

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

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



Source: Connecticut State Labor Department

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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 twenty-first in the nation for its dependency on manufacturing. Within this broad definition, the manufacturing sector can be further broken down into the major components of the sector. One important component of this sector in Connecticut is defense-related business. The largest employers in these industries are United Technologies Corporation, including its Pratt & Whitney Aircraft Division in East Hartford, and General Dynamics Corporation's Electric Boat Division in Groton. These businesses fall under the transportation equipment classification.

In federal fiscal year 2004, Connecticut ranked fifth in total defense dollars awarded and second in per capita dollars awarded. The state is one of the leading producers of military and civilian helicopters. The industry is well diversified, with transportation equipment (primarily aircraft engines, helicopters and submarines) the dominant industry. The transportation equipment sector is followed, in order of the total number employed, by metals manufacturing, electronic & electrical manufacturing and chemicals, plastics & rubber manufacturing. The following Table provides a ten year historical picture of the state's level of employment in these sectors.

TABLE 17
CONNECTICUT MANUFACTURING EMPLOYMENT
(In Thousands)

<u>Fiscal Year</u>	<u>Transportation Equipment</u>	<u>Metals Manufacturing</u>	<u>Electronic & Electrical Manufacturing</u>	<u>Chemical, Plastics & Rubber Mfg.</u>
1995-96	54.3	50.1	35.9	26.7
1996-97	52.4	52.0	36.2	27.0
1997-98	51.7	51.8	38.0	27.3
1998-99	51.7	51.6	36.4	28.1
1999-00	47.9	50.0	35.1	28.7
2000-01	47.0	49.1	35.4	29.5
2001-02	46.3	44.8	31.3	28.0
2002-03	44.2	41.9	27.6	26.7
2003-04	43.1	40.7	25.9	25.5
2004-05	43.4	41.6	25.8	25.1

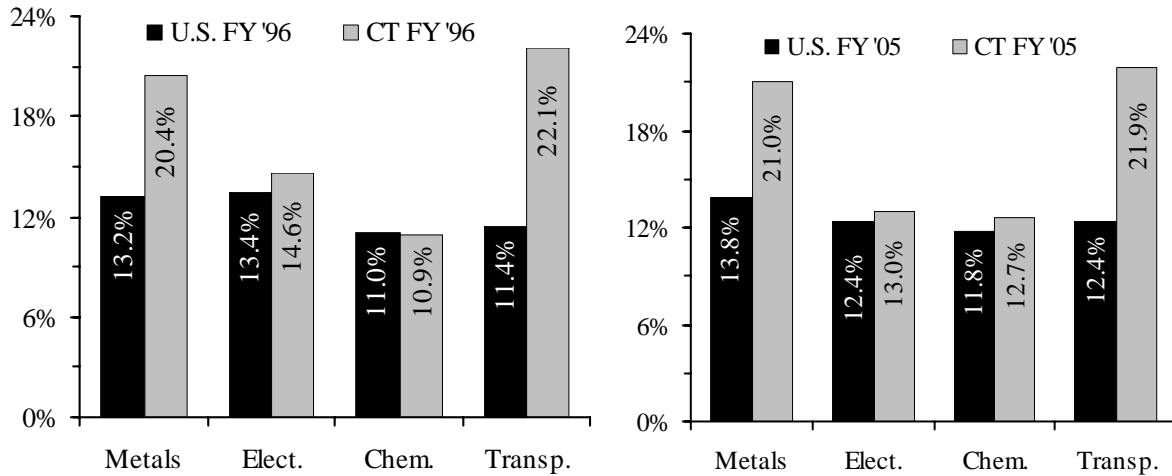
Source: U.S. Bureau of Labor Statistics, Connecticut State Labor Department

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 its level percentage of total state manufacturing employment at 22.1% in fiscal 1996 and 21.9% in fiscal 2005. Similarly, the Metals Manufacturing sector employment figures have remained approximately level at 20.4% of total state manufacturing employment in fiscal 1996 and 21.0% of total employment in fiscal 2005. The other major manufacturing sectors, Electronic and Electrical Manufacturing and Chemical, Plastics, and Rubber have only

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increased or decreased their percentage of total state manufacturing by less than two percentage points. 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

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

TABLE 18
MANUFACTURING EMPLOYMENT
(In Thousands)

Fiscal Year	United States		New England		Connecticut	
	Number	% Growth	Number	% Growth	Number	% Growth
1995-96	17,220	0.14	963.9	(0.83)	245.9	(2.34)
1996-97	17,301	0.49	960.9	(0.31)	245.4	(0.22)
1997-98	17,559	1.49	972.5	1.20	247.1	0.72
1998-99	17,427	(0.76)	956.1	(1.69)	244.7	(1.01)
1999-00	17,289	(0.81)	941.2	(1.56)	236.7	(3.24)
2000-01	17,040	(1.44)	936.2	(0.54)	233.7	(1.30)
2001-02	15,735	(7.64)	851.6	(9.03)	218.3	(6.56)
2002-03	14,879	(5.44)	788.3	(7.44)	204.9	(6.13)
2003-04	14,328	(3.70)	751.5	(4.68)	197.7	(3.55)
2004-05	14,324	(0.04)	748.4	(0.40)	198.0	0.12

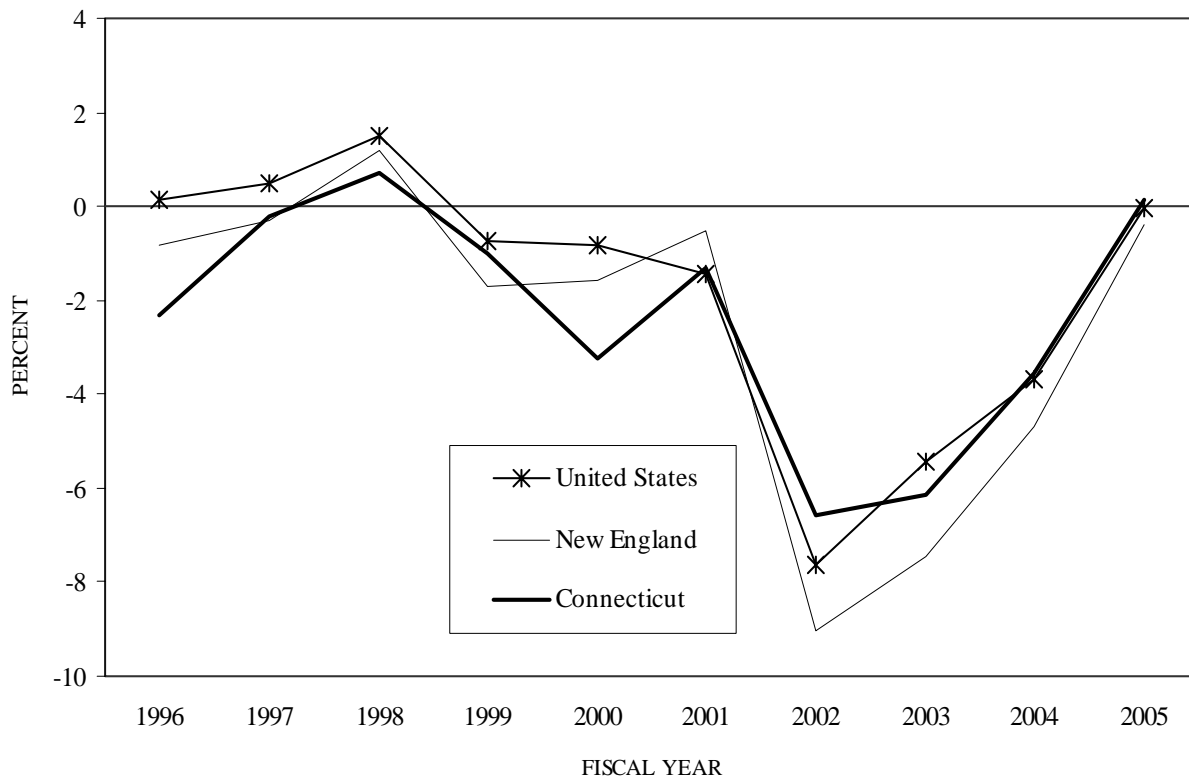
Source: U.S. Bureau of Labor Statistics, Connecticut State Labor Department

Historically, manufacturing employment closely parallels the business cycle, typically expanding when the economy is healthy and contracting during recessionary periods, as it did

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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. Consequently, during the past decade, the state's manufacturing sector diminished considerably. The sector shed approximately 20% of its employment from fiscal 1996 through fiscal 2005, a loss of approximately 48,000 jobs. The manufacturing sector has suffered in large part because of the ramp down in defense and aerospace spending over the last decade. Faced with leaner times, the state's manufacturers confronted the turbulent market conditions head-on and subsequently have restructured in response to global market forces: rapidly changing technologies, mounting competition from overseas markets, and shrinking defense spending. More recent expansions in the federal defense budget should improve the employment picture for this sector. The following Chart provides growth rates in manufacturing employment in the United States, the New England Region and Connecticut over a ten year period.

MANUFACTURING EMPLOYMENT FISCAL YEAR GROWTH BY PERCENT



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

Unfortunately, the sharp downturn in industrial activity that began at the end of fiscal 2001 and a subsequent economic recovery that failed to generate a substantial number of new jobs dimmed any prospect for employment stability in the manufacturing sector. Within Connecticut, the manufacturing sector remained stable from fiscal year 2004. The sector's

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workforce grew by 0.15% in fiscal year 2005 which marked the first year that Connecticut experienced positive growth in manufacturing employment since fiscal year 1998.

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 11.9% of all nonfarm payroll jobs, compared to 10.8% in the U.S. through fiscal 2005. The sector still matters. 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.

TABLE 19
CONNECTICUT MANUFACTURING EMPLOYMENT BY INDUSTRY
(In Thousands)

<u>Industry</u>	<u>F.Y.</u> <u>1995-96</u>	<u>F.Y.</u> <u>2003-04</u>	<u>F.Y.</u> <u>2004-05</u>	<u>Percent Change</u>	
				<u>FY 2004 to</u> <u>FY 2005</u>	<u>FY 1996 to</u> <u>FY 2005</u>
Transportation Equipment	54.34	43.06	43.37	0.7	(20.2)
Metal Manufacturing	50.72	40.70	41.60	2.2	(18.0)
Electronic & Electrical	35.85	25.92	25.75	(0.6)	(28.2)
Chemical, Plastics & Rubber	26.72	25.46	25.10	(1.4)	(6.1)
Printing, Publishing & Textile	27.11	19.43	18.81	(3.2)	(30.6)
Industrial Machinery	24.80	18.68	18.70	0.1	(24.6)
Food, Beverage & Tobacco	9.44	8.40	8.57	2.0	(9.2)
Miscellaneous	16.93	16.04	16.09	0.3	(5.0)
Total Mfg. Employment	245.90	197.69	197.99	0.2	(19.5)

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

In fiscal 2005, total manufacturing employment in Connecticut remained level with fiscal 2004. In every major sector, the percent change from fiscal 2004 to fiscal 2005 highlights the relative stability Connecticut manufacturing employment experienced through fiscal 2005. The percent change from fiscal 1996 to 2005, however, demonstrates the overall decline in manufacturing employment over the last ten years. The following Table ranks the 50 states in terms of their relative dependence on manufacturing wages as a percentage of total personal income.

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TABLE 20
MANUFACTURING WAGES AS A PERCENT OF PERSONAL INCOME BY STATE
(In Millions of Dollars)

<u>State</u>	<u>Personal</u> <u>Income</u>	<u>Mfg.</u> <u>Wages</u>	<u>%</u>	<u>FY 05</u> <u>Rank</u>	<u>State</u>	<u>Personal</u> <u>Income</u>	<u>Mfg.</u> <u>Wages</u>	<u>%</u>	<u>FY 05</u> <u>Rank</u>
Indiana	\$191,577	\$28,201	14.72	1	California	\$1,302,385	\$89,333	6.86	26
Wisconsin	181,793	23,230	12.78	2	Texas	715,979	48,231	6.74	27
Michigan	329,301	39,983	12.14	3	Washington	223,757	14,689	6.56	28
Ohio	366,062	40,506	11.07	4	Maine	40,535	2,656	6.55	29
Iowa	93,283	9,941	10.60	5	Nebraska	57,784	3,739	6.47	30
Kentucky	115,568	11,819	10.23	6	Rhode Island	37,997	2,409	6.34	31
Tennessee	181,275	17,929	9.89	7	Louisiana	126,785	7,579	5.98	32
North Carolina	259,388	25,104	9.68	8	West Virginia	48,061	2,803	5.83	33
South Carolina	117,577	11,372	9.67	9	Delaware	30,444	1,755	5.77	34
Arkansas	72,928	7,041	9.65	10	Arizona	171,337	9,817	5.73	35
Alabama	129,208	12,188	9.43	11	South Dakota	24,134	1,379	5.71	36
Minnesota	189,735	17,517	9.23	12	Oklahoma	101,202	5,699	5.63	37
Kansas	87,466	7,994	9.14	13	New Jersey	373,359	20,307	5.44	38
Oregon	113,251	9,859	8.71	14	Colorado	171,818	8,442	4.91	39
N. Hampshire	49,184	4,271	8.68	15	North Dakota	19,219	934	4.86	40
Vermont	20,327	1,751	8.61	16	Virginia	280,409	13,021	4.64	41
Mississippi	72,957	6,282	8.61	17	New York	761,634	30,788	4.04	42
Illinois	450,664	35,455	7.87	18	Maryland	227,358	7,951	3.50	43
Pennsylvania	425,203	32,965	7.75	19	Florida	568,808	17,184	3.02	44
Missouri	180,535	13,833	7.66	20	New Mexico	51,644	1,503	2.91	45
<u>Connecticut</u>	<u>164,809</u>	<u>12,511</u>	<u>7.59</u>	<u>21</u>	Montana	26,598	720	2.71	46
Georgia	274,347	19,646	7.16	22	Nevada	83,010	2,077	2.50	47
Massachusetts	277,420	19,654	7.08	23	Wyoming	17,992	386	2.15	48
Idaho	38,783	2,713	7.00	24	Alaska	23,078	437	1.89	49
Utah	66,761	4,617	6.92	25	Hawaii	42,835	527	1.23	50

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

Nonmanufacturing Employment

The nonmanufacturing sector is comprised of industries that provide a service. Services differ significantly from manufactured goods in that the output is generally intangible, it is produced and consumed concurrently, and it cannot be inventoried. Connecticut's nonmanufacturing sector consists of the industries listed in the following Table. Over the last three decades,

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nonmanufacturing employment has risen in importance to the Connecticut economy, reflecting the overall national trend away from manufacturing (See Table 16). The following Table provides a breakdown of Connecticut's nonmanufacturing employment by industry and indicates percentage changes for the year and over a ten year period for each of the sectors.

TABLE 21
CONNECTICUT NONMANUFACTURING EMPLOYMENT BY INDUSTRY
(In Thousands)

<u>Industry</u>	<u>F.Y.</u> <u>1995-96</u>	<u>F.Y.</u> <u>2003-04</u>	<u>F.Y.</u> <u>2004-05</u>	<u>Percent Change</u>	
				<u>FY 2004 to</u> <u>FY 2005</u>	<u>FY 1996 to</u> <u>FY 2005</u>
Construction & Mining	51.27	64.42	68.97	7.1	34.5
Information	42.10	39.23	39.22	0.0	(6.9)
Transp., Trade & Utilities	296.81	306.01	311.51	1.8	5.0
Transp., & Warehousing	39.75	40.33	41.33	2.5	4.0
Utilities	9.87	8.71	8.73	0.3	(11.5)
Wholesale	64.18	65.54	65.84	0.5	2.6
Retail	183.00	191.42	195.72	2.3	7.0
Finance (FIRE)	131.13	141.38	140.89	(0.4)	7.4
Finance & Insurance	111.60	121.17	120.69	(0.4)	(8.2)
Real Estate	19.53	20.21	20.20	0.0	3.4
Services	579.59	651.49	660.83	1.4	14.0
Professional & Business	181.39	196.47	198.33	1.0	9.3
Education & Health	226.85	266.08	270.32	1.6	19.2
Leisure & Hospitality	111.71	126.63	129.02	1.9	15.5
All Other Services	59.64	62.31	63.16	1.4	5.9
Government	221.65	243.50	242.23	(0.5)	9.3
Federal	23.78	20.38	20.02	(1.8)	(15.8)
State	68.23	64.78	63.44	(2.1)	(7.0)
Local	129.65	158.36	158.80	0.3	22.5
Total Nonmanufacturing Employment	1,322.61	1,445.98	1,463.79	1.2	10.7

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

Source: Connecticut State Labor Department

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

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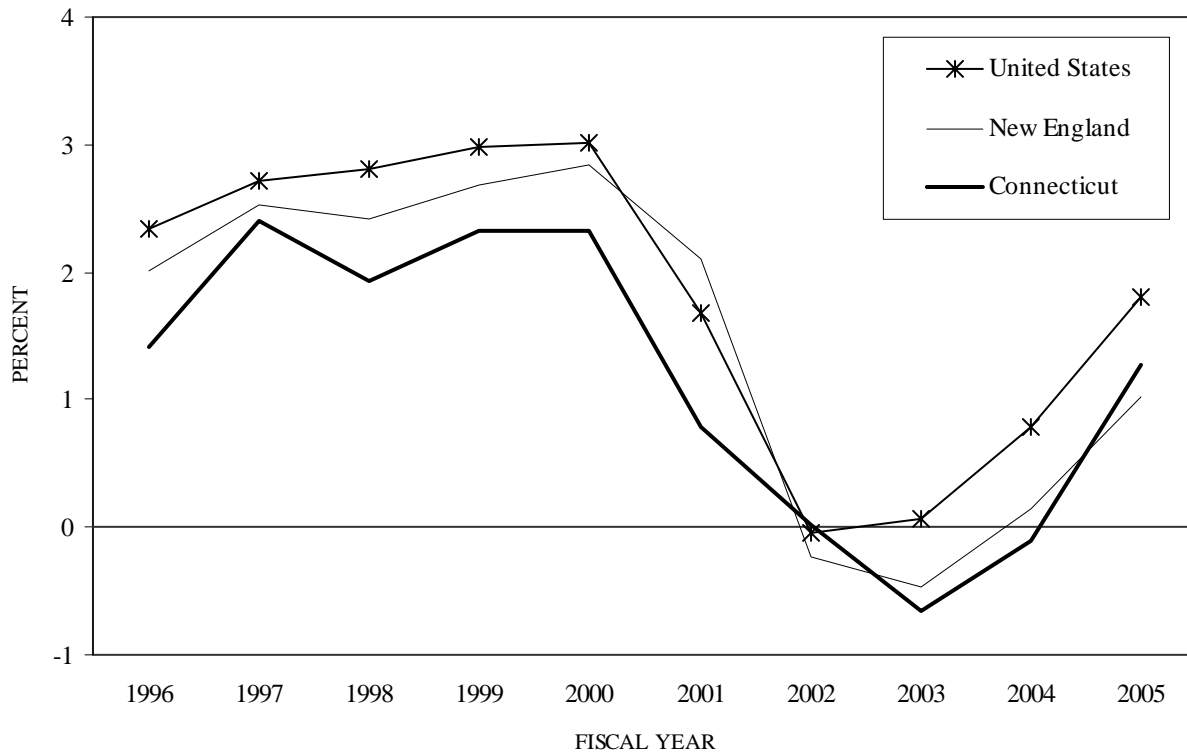
**TABLE 22
NONMANUFACTURING EMPLOYMENT
(In Thousands)**

Fiscal Year	United States		New England		Connecticut	
	Number	% Growth	Number	% Growth	Number	% Growth
1995-96	101,160	2.34	5,407.2	2.01	1,322.6	1.42
1996-97	103,898	2.71	5,544.2	2.53	1,354.3	2.40
1997-98	106,821	2.81	5,677.7	2.41	1,380.4	1.93
1998-99	109,999	2.98	5,830.6	2.69	1,412.5	2.32
1999-00	113,309	3.01	5,996.1	2.84	1,445.4	2.33
2000-01	115,210	1.68	6,121.9	2.10	1,456.6	0.77
2001-02	115,147	(0.05)	6,107.7	(0.23)	1,457.0	0.03
2002-03	115,239	0.08	6,079.4	(0.46)	1,447.4	(0.66)
2003-04	116,153	0.79	6,088.7	0.15	1,446.0	(0.10)
2004-05	118,244	1.80	6,150.7	1.02	1,463.8	1.23

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

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

**NONMANUFACTURING EMPLOYMENT
FISCAL YEAR GROWTH BY PERCENT**



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

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Unlike manufacturing employment, nonmanufacturing employment grew at a moderate pace from fiscal 2004. Overall, nonmanufacturing employment grew by 1.2% in fiscal 2005, as approximately 18,000 jobs were added through the end of the fiscal year. All major sectors, excluding the finance and government industries generated sufficient opportunities to offer job growth. The construction and mining industry experienced growth of 7.1% which can be attributable to the robust residential housing market. Connecticut's top nonmanufacturing employers for fiscal 2004 includes; Stop and Shop, Foxwoods Resort Casino, The Hartford Financial Services, Yale University, Mohegan Sun Casino, SBC Communications, General Electric Company, and Aetna.

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

TABLE 23
CONNECTICUT NONMANUFACTURING ANNUAL SALARIES

<u>Industry</u>	F.Y.	F.Y.	F.Y.	Percent Change	
	<u>1995-96</u>	<u>2003-04</u>	<u>2004-05</u>	<u>FY '04 to</u>	<u>FY '05</u>
Construction	\$38,830	\$49,993	\$51,623	3.3%	32.9%
Information	44,249	59,127	62,410	5.6%	41.0%
Transp., Trade & Utilities	28,910	40,243	42,106	4.6%	45.6%
Wholesale Trade	49,822	67,797	72,221	6.5%	45.0%
Retail Trade	18,973	29,207	29,586	1.3%	55.9%
Finance, Ins. & Real Estate	60,145	102,121	116,286	13.9%	93.3%
Professional & Business Services	42,558	62,360	65,099	4.4%	53.0%
Education & Health Services	32,921	40,884	42,874	4.9%	30.2%
Leisure & Hospitality Services	13,701	19,319	19,930	3.2%	45.5%
Government	37,260	46,932	49,067	4.5%	31.7%
Federal	56,758	77,158	82,559	7.0%	45.5%
State and Local	34,737	44,111	46,266	4.9%	33.2%

Source: U.S. Bureau of Economic Analysis

Unemployment Rate

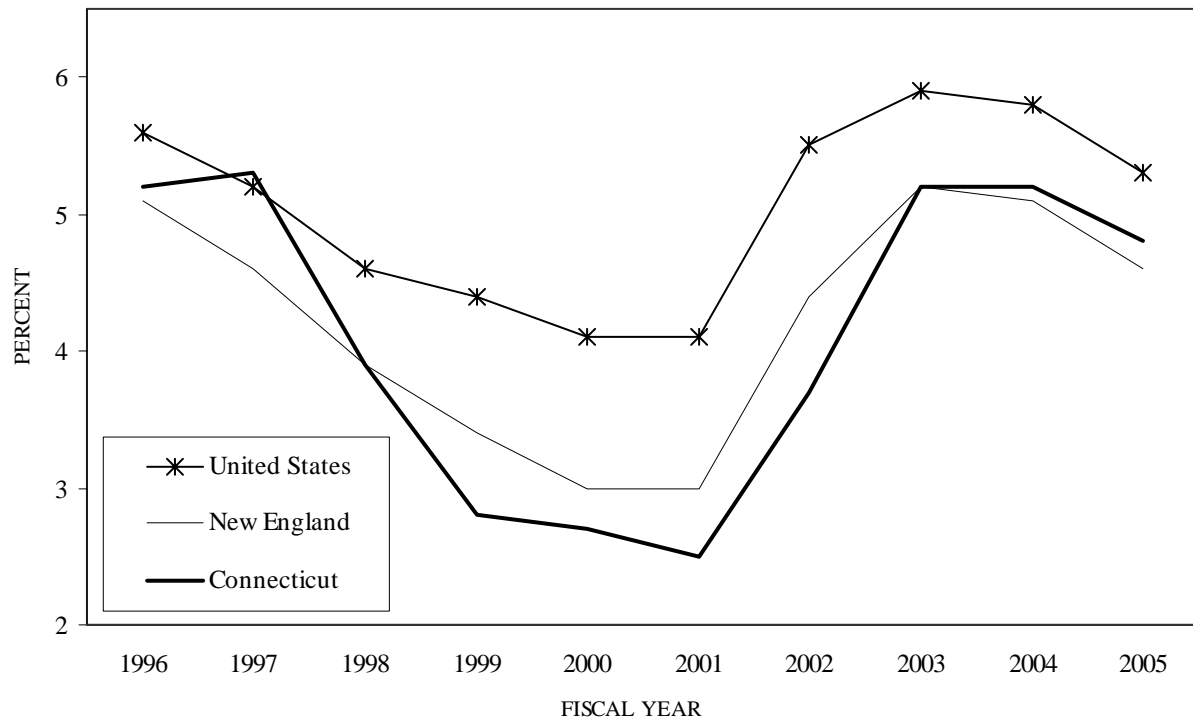
The unemployment rate is the proportion of persons in the civilian labor force who do not have jobs but are actively looking for work. The rate is based upon a monthly survey in which household members are asked a series of questions, one of which determines if a jobless person has looked for work at some time during the preceding four weeks. Those looking for work are considered in the labor force but unemployed. The following Table and Chart shows the unemployment rate for the U.S., the New England Region, and the state over a ten year period.

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**TABLE 24
UNEMPLOYMENT RATES**

<u>Fiscal Year</u>	<u>United States</u>	<u>New England</u>	<u>Connecticut</u>
1995-96	5.6	5.0	5.2
1996-97	5.2	4.6	5.3
1997-98	4.6	3.9	3.9
1998-99	4.4	3.3	2.8
1999-00	4.1	3.0	2.7
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	4.6	4.8

**UNEMPLOYMENT RATES
BY FISCAL YEAR**



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

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SECTOR ANALYSIS

Energy

Over the past two hundred years, the history of energy supplies and the mode of energy use in the United States reflected the country's industrialization, economic development, and social transformation. As the U.S. becomes more dependent on imported energy, economic activity hinges more upon the availability and stability of its supply in the world market. In the past 30 years, all of the nation's four recessions were concurrent with the energy disruptions that occurred worldwide in 1991 (Iraq invaded Kuwait), in 1981 (Iran/Iraq war), in 1979 (Iranian Revolution), and in 1973 (Arab Oil Embargo). The most recent recession, which began in March 2001, also follows an energy supply disturbance that occurred in late 2000 when petroleum inventories remained relatively low and the price reached a then record high of \$37.80 per barrel, the highest since the Gulf War of 1991. Oil prices reached a fresh high of \$70.85 per barrel in late August of 2005 due primarily to the hurricane in the Gulf of Mexico. Although higher energy prices are taking their toll on consumer and investment spending and have negatively affected economic growth, no recession has been perceived due to this disruption.

The United States, like the rest of the industrialized world, relies heavily on three fossil fuels: crude oil, coal, and natural gas. In 2004, they accounted for 86% of total energy consumption. 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 32.92 million barrels per day (MBPD) in 2004 and consumed roughly 6.80 MBPD, leaving a 26.12 MBPD surplus. The Organization for Economic Cooperation and Development (OECD), on the contrary, consumed more than it supplied. In 2004, the OECD consumed 49.50 MBPD, while supplying only 22.76 MBPD, registering a 26.74 MBPD deficit.

The United States consumed 20.73 MBPD in 2004, representing 25.1% of total world demand, compared to a production of 8.70 MBPD, or 10.5% of world supply. The deficit between supply and demand also exists in larger economies such as Japan, France, and Germany. China, which switched from a net exporter of oil as recently as 1993, began running an increasing oil deficit as its economy continued to grow at a fast pace. In 2004, China consumed 6.52 MBPD while supplying 3.63 MBPD, leaving a 2.89 MBPD deficit, up from a 1.99 MBPD deficit in 2003. Demand for petroleum in China, one of the world's fastest growing economies, is the world's second largest oil consumer. China's transportation demand for oil is the major factor as the highway network expands and personal wealth increases. Industrial demand is also increasing as the manufacturing sector prospers. To secure sources of energy, China has been aggressively seeking contracts with energy abundant countries such as Russia, Indonesia, and Iran. The countries making up the former USSR supplied more oil than they required. In 2004, the former USSR consumed 4.18 MBPD while supplying 11.31 MBPD, registering a 7.13 MBPD surplus, up from 6.13 MBPD in 2003.

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TABLE 25
WORLD OIL SUPPLY AND DEMAND
Calendar 2004

	<u>Supply</u>			<u>Demand</u>	
	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)	22.76	27.4	Total OECD	49.50	60.0
United States	8.70	10.5	United States	20.73	25.1
Canada	3.14	3.8	Canada	2.30	2.8
North Sea (b)	5.60	6.7	Japan	5.35	6.5
Other OECD	5.32	6.4	Germany	2.65	3.2
			France	1.98	2.4
Total OPEC (c)	32.92	39.6	Italy	1.88	2.3
Saudi Arabia	9.10	11.0	United Kingdom	1.82	2.2
Iran	4.00	4.8	Other OECD	12.79	15.5
Iraq	2.01	2.4			
Other OPEC	17.81	21.4	Total Non-OECD	32.97	40.0
			China	6.52	7.9
Total Non-OECD	27.37	33.0	Former USSR	4.18	5.1
Former USSR	11.31	13.6	OPEC	6.80	8.2
China	3.63	4.4	Other	<u>15.47</u>	<u>18.8</u>
Other	<u>12.43</u>	<u>15.0</u>			
Total Supply	83.05	100.0	Total Demand	82.47	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, "Annual Energy Review", August 2005

World energy reserves also mirror the same pattern of disparity as the oil supply market. The following Table shows world oil and natural gas reserves by country. The share of world oil reserves held by all OPEC countries is 75%. Among the total, the Middle East controls approximately 65% of world oil reserves with Saudi Arabia alone controlling more than one-quarter of the total, followed by Iraq's 10.9%. While the Middle East countries dominate crude oil reserves, they hold only 37.3% of natural gas reserves.

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As the economy grows, the United States continues to deplete its energy reserves. U.S. crude oil and natural gas reserves in 2004 were estimated at 21.9 billion barrels and 189.0 trillion cubic feet, or 2.1% and 2.8%, 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. Oil or natural gas reserves are the estimated quantities that are recoverable in the future from known reservoirs under existing economic and operating conditions. Given certain market prices, oil and natural gas now can be produced more economically due to improved technology that helps identify potential reserve sites and assists in production from marginal fields.

TABLE 26
WORLD OIL & NATURAL GAS RESERVES
January 1, 2004

	Oil		Gas	
	Billions of Barrels	% of Total	Trillions of Cubic Feet	% of Total
North America	41.5	3.9	268.9	4.0
United States	21.9	2.1	189.0	2.8
Mexico	14.6	1.4	20.7	0.3
Canada	5.0	0.5	59.1	0.9
Central & South America	75.2	7.2	240.9	3.5
Venezuela	52.5	5.0	149.2	2.2
Western Europe	16.4	1.6	170.1	2.5
E. Europe & Former USSR	89.0	8.5	2,693.2	39.6
Middle East	686.4	65.3	2,539.7	37.3
Saudi Arabia	261.8	24.9	238.5	3.5
Iraq	115.0	10.9	112.6	1.7
Iran	105.0	10.0	935.0	13.7
Kuwait	99.4	9.5	56.6	0.8
Other Mid. East	105.2	10.0	1,197.0	17.6
Africa	104.6	10.0	443.2	6.5
Far East & Others	37.7	3.6	449.9	6.6
Total	1,050.7	100.0	6,805.8	100.0

Note: Totals may not add due to rounding.

Source: U.S. Department of Energy, Energy Information Administration, "Annual Energy Review", August 2005

United States

The nation has long been a net energy importer. According to the *Annual Energy Review 2004*, the U.S. consumed 99.73 quadrillion British Thermal Units (QBTU's) of energy, 2.2 times the 1960 level. Whereas the U.S. produced only 70.37 QBTU's and exported 4.43 QBTU's, it required net imports of 28.57 QBTU's, which represented 28.6% of total national consumption, up from 16.6% in 1990 and 6.0% in 1960. Although U.S. energy production comes from many

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sources, fossil fuels that include coal, natural gas, crude oil, and natural gas plant liquids far exceed all other forms such as nuclear electric power, wood and waste, and hydroelectric power, etc. In 2004, fossil fuels accounted for about 80% of total energy production with coal accounting for 32.2%; natural gas, 27.5%; crude oil, 16.3%; and natural gas plant liquids, 3.5%.

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 2004 by fuel type and by economic sector. As can be seen, petroleum products are the most important energy source for the U.S. economy. In 2004, the U.S. consumed 99.73 QBTU's of energy. The 40.13 quadrillion petroleum generated BTU's accounted for 40.9% of U.S. fuel consumption, followed by natural gas of 22.98 QBTU's and coal of 22.53 QBTU's. These three fuel sources together accounted for about 87% of U.S. fuel consumption. Nuclear and hydroelectric powers were distant followers.

TABLE 27
U.S. ENERGY CONSUMPTION IN 2004
(Quadrillion BTU's)

<u>Fuels</u>	<u>Residential</u>	<u>Commercial</u>	<u>Industrial</u>	<u>Trans- portation</u>	<u>Electric Generation</u>	<u>Total</u>	<u>% of Total</u>
Natural Gas	5.03	3.09	8.67	0.71	5.49	22.98	23.4
Petroleum	1.57	0.79	9.57	27.00	1.20	40.13	40.9
Coal	0.01	0.09	2.16	0.00	20.27	22.53	23.0
Nuclear	0.00	0.00	0.00	0.00	8.23	8.23	8.4
Hydroelectric	0.00	0.00	0.05	0.00	2.67	2.72	2.8
Other	0.41	0.11	1.63	0.00	0.96	3.10	3.2
Electricity	4.41	4.19	3.48	0.03	0.04	12.15	12.4
Electric Losses	<u>9.74</u>	<u>9.25</u>	<u>7.69</u>	<u>0.06</u>	<u>(38.85)</u>	<u>(12.11)</u>	<u>(12.3)</u>
Total Demand	21.18	17.52	33.25	27.79	0.00	99.73	100.0
<i>% of Total</i>	<i>21.6%</i>	<i>17.8%</i>	<i>33.9%</i>	<i>28.3%</i>	<i>0.0%</i>	<i>100.0%</i>	

Note: Totals may not add due to rounding.

Source: U.S. Department of Energy, Energy Information Administration, "Annual Energy Review 2004", August 2005

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 33.25 QBTU's in 2004, followed by transportation of 27.79 QBTU's, residential of 21.18 QBTU's, and commercial of 17.52 QBTU's. In contrast to the relatively smooth trends in the other sectors, industrial consumption, which used the biggest share of total energy, has showed the greatest fluctuation, dropping sharply in 1975 and 1980-83 in

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response to high oil prices. 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.

The increasing disparity between oil demand and supply along with the increasing dependency on imported oil creates the potential for instability in both petroleum's price and availability in the U.S. The following Table illustrates refiners' crude oil prices and the U.S. dependence on imported oil.

**TABLE 28
CRUDE OIL PRICES AND U.S. DEPENDENCE ON IMPORTED OIL**

Year	Refiners' Crude Oil Acquisition Costs		Year	Import as a % Share of U.S. Oil Consumption				
	(\$/Barrel)	(\$/Barrel)		Persian Gulf	Other OPEC	Non-OPEC	Total Imports	Total Demand
	Current \$	Chained 2000\$		(%)	(%)	(%)	(%)	(MBPD)
1970	3.40	12.35	1970	0.8	8.3	14.1	23.2	14,697
1975	10.38	27.31	1975	7.1	14.9	15.1	37.1	16,302
1980	28.07	51.94	1980	8.9	16.3	15.3	40.5	17,056
1985	26.75	38.37	1985	2.0	9.7	20.6	32.3	15,726
1990	22.22	27.23	1990	11.6	13.7	21.9	47.2	16,988
1995	17.23	18.71	1995	8.9	13.7	27.3	49.9	17,725
2000	28.26	28.26	2000	12.6	13.8	31.8	58.2	19,701
2001	22.95	22.42	2001	14.1	14.1	32.3	60.5	19,649
2002	24.10	23.15	2002	11.5	11.8	35.0	58.3	19,762
2003	28.53	26.92	2003	12.5	13.3	35.5	61.2	20,034
2004	36.97	34.16	2004	12.1	15.3	35.5	62.9	20,518

Note: Refiner's crude oil acquisition costs peaked at \$35.24 per barrel in 1981. Its inflation-adjusted cost of \$59.61 (chained 2000 dollars) per barrel was also a record high.

Source: U.S. Department of Energy, Energy Information Administration, "Annual Energy Review 2004", August 2005

Crude Oil Prices

Crude oil prices have a long history of large fluctuations that affect the world and U.S. economies as well as inflation levels. In 1973, the year of the Arab Oil Embargo, crude oil prices in the U.S. measured by the composite Refiners' Acquisition Cost averaged \$4.15 per barrel. Oil prices reached their peak in 1981 at \$35.24 per barrel after two consecutive supply disturbances brought on by the Iranian Revolution in 1979 and the Iran-Iraq war in 1980. Since then, long-term prices have trended down to a low of \$12.52 per barrel in 1998 and then

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stayed in mid-\$20 range until mid-2003. Crude oil prices started to creep up above \$30 per barrel in late 2003 and continued to soar to above \$36 in early 2004 as world oil demand picked up, Iraqi oil flow bogged down, and crude stocks in the U.S. were below comfortable levels. The rising trend in prices was exacerbated in summer of 2005 as world demand for energy increased steeply while supply became constrained along with considerable uncertainty in the outlook. While demand for oil continues to grow as the world economy expands, the supply of oil has become limited due to sabotage of pipelines and related facilities in the Middle East and civil unrest in Nigeria and Venezuela, and by detrimental hurricane damage in the Gulf of Mexico. Prices of crude oil in late August jumped to an all-time high of \$70.85 per barrel. This price, however, was still below the all-time peak set in 1980, which reached \$80 per barrel when adjusted for inflation in current dollars.

Crude Oil Consumption

Petroleum consumption in the United States has steadily grown from 15.2 MBPD in 1983 to 20.73 MBPD in 2004. As shown in the Table on U.S. Energy Consumption, in 2004 petroleum consumption accounted for approximately 40% of total U.S. energy, while the transportation sector alone used two-thirds of all petroleum. Despite the fact that oil efficiency continues to improve, an increase in both population and the number of cars per household along with the shift in driving tastes from traditional vehicles to light utility trucks added to the demand for oil. Per capita oil consumption, however, has remained relatively steady at 25.5 barrels in 2004; gradually up from 24.0 barrels in 1983.

Oil Imports Share

The share of imported oil to total U.S. consumption in the late 1970s and early 1980s declined notably, down from a high of 47.8% in 1977 to a low of 32.2% in 1985. High oil prices prompted consumers to conserve energy and to seek energy substitutes. However, the downward trend in the percentage of consumption met by imports reversed itself as oil prices dropped from \$51.94 in real dollars per barrel in 1980 to \$12.52 per barrel in 1998. The share of total U.S. consumption attributable to imported oil has consistently risen over the years reaching 62.9% in 2004, compared to approximately 50% a decade ago.

Efficiency

Increasing efficiency has spearheaded the nation's energy conservation policy. Energy regulatory agencies have been aggressively promoting energy-efficient products over the past two decades. 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 first labeled products were computers and monitors. The *Energy Star* label now covers 40 product categories applicable to appliances, heating and cooling equipment, home electronics, office equipment, lighting, and commercial food services, totaling thousands of models. The label is granted for qualified commercial products. Manufacturers having commercial products with scores higher than energy efficiency standards can apply and display this label on their product to convey excellent performance. These certified products carry out the same or better functions and use less energy as compared to older models. For example, a refrigerator

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labeled with an *Energy Star* can save 50% of the energy of a 10-year old model. Technologies and inventions that significantly improve efficiency continue to be adopted. To name a few, motion sensors that are used to turn off lights and copiers while rooms are empty save energy by 25%; nighttime water chillers reduce air-cooling system expenses by 30%; upgrading air-conditioning systems can cut annual costs by one dollar per square foot of space; and high-efficiency fluorescent fixtures trim lighting bills by 50%.

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

TABLE 29
U.S. PRIMARY ENERGY CONSUMPTION & ENERGY EFFICIENCY

Calendar Year	U.S. Energy Consumption		Million BTU per 2000\$ GDP		
	Total Quadrillion BTU's	Percent Change	GDP Billion (96\$)	Million BTU Per 2000\$	Percent Change
1975	72.0		4,311	16.70	
1980	78.3	8.74	5,162	15.17	(9.18)
1985	76.5	(2.32)	6,054	12.63	(16.72)
1990	84.7	10.77	7,113	11.91	(5.72)
1995	91.3	7.73	8,032	11.36	(4.60)
2000	99.0	2.19	9,817	10.08	(11.27)
2001	96.5	(2.52)	9,891	9.75	(3.24)
2002	97.9	1.46	10,049	9.74	(0.14)
2003	98.3	0.44	10,321	9.53	(2.20)
2004	99.7	1.45	10,756	9.27	(2.65)

Source: U.S. Department of Energy, Energy Information Administration
U.S. Department of Labor, Bureau of Labor Statistics

In 1980, it required 15.17 million BTU's of energy to produce \$1 of GDP measured in 2000 dollars, gradually falling to 9.27 million BTU's in 2004. This reflects that energy efficiency has increased at an average annual rate of 1.64% over the past decades. The number of BTU's used per constant dollar of GDP declined 15.3% between 1990 and 2000, compared to a 21.6% reduction between 1980 and 1990. The slowdown in energy efficiency reflects that improvements tend to stagnate when fuel prices decline. As oil prices fell, the incentive to conserve energy diminished. A continuing shift in car purchases from the smaller sized models to the sought-after, less-efficient sports utility and larger models dramatically reduced the pace of improvement in energy efficiency.

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Oil Stability Program

To protect against supply disruptions, the United States began to create a Strategic Petroleum Reserve (SPR) under the Energy Policy and Conservation Act of 1975 (EPCA). The SPR program was established as a 750 million barrel capacity crude oil reserve with the objective to achieve a maximum draw down rate within 15 days of the notice to proceed. As of mid-November 2005, the reserve held 680 million barrels of crude oil.

In early 2000, a shortage of home heating oil sent prices to a high of \$2.45 a gallon from \$1.00 a gallon a year earlier. To reduce the risk, 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 2001 as a part of America's energy readiness effort, separating it from the Strategic Petroleum Reserve. Heating oil is the dominant fuel used for home heating in Connecticut with 52% of all homes in Connecticut using heating oil as the primary heating fuel.

Connecticut

Connecticut is ranked as the most efficient state in the nation in energy usage. Connecticut consumed 5,217 MBTU's per dollar of Gross State Product in 2001, the latest available data, 46% less than the national average of 9,765 MBTU's. When compared to the national per person consumption, Connecticut residents are moderate energy users. Connecticut consumed 248.5 MBTU's of energy per person in 2001, ranking it 46th among the 50 states and 27% less than the national average of 337.7 MBTU's. These figures were far less than Alaska's consumption of 1,164.3 MBTU's, the largest consumers in the nation. Because the State lacks indigenous energy sources, it must import nearly all the energy that it consumes. This situation affects Connecticut consumers' energy choices and results in prices that are approximately 25% higher than the national average. Connecticut residents in 2001 spent \$13.30 per million BTU, compared to \$10.72 for the Nation.

The Table below shows a breakdown of the amount and percentage share of total energy consumed in Connecticut by fuel in 2001, 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.

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. There were originally four nuclear plants located in the state. In 1997, two plants were decommissioned. In 2002, the latest available data, the state generated 31,311 gigawatt hours of electricity mostly using gas, petroleum, and nuclear, and sold 30,906 gigawatt hours of electricity. This implies that, in 2002, the state was 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.

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

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TABLE 30
CONNECTICUT ENERGY CONSUMPTION IN 2001
(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	41.5	45.4	26.6	3.2	32.6	149.3	17.5	23.4
Petroleum	85.2	24.6	41.6	234.8	52.5	438.7	51.4	40.9
Coal	0.0	0.1	0.0	0.0	39.9	40.0	4.7	23.0
Nuclear	0.0	0.0	0.0	0.0	161.2	161.2	18.9	8.4
Hydroelectric	0.0	0.0	0.0	0.0	2.9	2.9	0.3	2.8
Other	7.1	0.9	2.8	0.0	29.1	39.8	4.7	3.2
Deliv. Elec.	40.8	44.3	19.8	0.0	0.0	104.9	12.3	12.4
Deliv. Losses	<u>91.9</u>	<u>99.8</u>	<u>42.8</u>	<u>0.0</u>	<u>(318.2)</u>	<u>(83.7)</u>	<u>(9.8)</u>	<u>(12.3)</u>
Total Demand	266.5	215.0	133.6	238.0	0.0	863.0	100.0	100.0
<i>% of Total</i>	<i>31.2%</i>	<i>25.2%</i>	<i>15.7%</i>	<i>27.9%</i>	<i>0.0%</i>	<i>100.0%</i>		

Note: Totals may not add due to rounding.

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

Connecticut to meet large or unexpected electric load requirements from resources located outside of Connecticut's boundaries. All electric utilities in the State are members of the New England Power Pool and operate as part of the regional bulk power system. An independent system operator, ISO New England Inc., operates this regional system.

In 2002, the latest available data, there were 1,554,990 electricity consumers in Connecticut, including 1,402,609 residential units, 141,298 in commercial units, 5,802 industrial units, and 5,281 for others. Approximately 95% of the electricity was sold by two investor-owned companies: Connecticut Light & Power Company and United Illuminating Company.

Not all energy prices in the state are higher than the national average. Some types of energy are high while others are lower. The following Table shows various prices to the national average for natural gas, motor gasoline, residential heating oil, residential electricity, and total average energy that included taxes paid by consumers. As can be seen, the price of electricity in 2001 was 31% higher than the national norm while the price of residential heating oil was 14% below the national average. Overall energy prices in Connecticut as mentioned before, however, have been higher than the national average by 24%.

The high price of electricity in Connecticut is partially the result of a lack of low cost indigenous fuel sources. It also reflects higher overall costs of operating in the Northeast and the employment of less polluting electric generating processes. The aging nuclear generators and the distribution system in Connecticut are more than 30 years old, requiring higher maintenance and operation costs. Due to an inefficient transmission system and inadequate power supplies, southwest Connecticut is particularly vulnerable to supply deficiencies and voltage instability problems. Public Act 98-28 authorized the restructuring of the electric industry in Connecticut. The Act allows consumers to choose their electric suppliers from

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TABLE 31
CONSUMER ENERGY PRICES IN THE UNITED STATES AND CONNECTICUT
Nominal Dollars Per Million BTU in 2001

	Natural <u>Gas</u>	Motor <u>Gasoline</u>	Residential <u>Fuel</u>	All * <u>Petroleum</u>	Retail <u>Electricity</u>	Total <u>Energy</u>
Connecticut	\$7.68	\$12.45	\$3.42	\$9.81	\$28.19	\$13.30
United States	\$6.87	\$11.35	\$3.99	\$9.33	\$21.51	\$10.72
CT as a % of the U.S.	112%	110%	86%	105%	131%	124%

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

among suppliers licensed by the Department of Public Utility Control (DPUC), and requires electric utilities to separate their electric generation function from their transmission and distribution functions

Connecticut is situated far from sources of natural gas supply and it must rely on pipelines that have capacity limitations during periods of peak demand. 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. The natural gas is delivered to consumers using the local distribution company's mains and pipelines.

The lack of energy resources and its relatively higher price have a negative impact on the State's economy. As energy prices increase, the use of energy declines and so does the state's output. The University of Connecticut estimates that a 10% increase in energy prices will cut real Gross State Product by 2.5%.

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, industrial, commercial, construction and boating. During 2003, the latest available data year, gasoline consumption in the U.S. totaled 139.1 billion gallons, the equivalent of 9.07 million barrels per day. The following Table shows gasoline consumption during the past ten years for the U.S. and Connecticut.

In Connecticut, gasoline consumption totaled 1.65 billion gallons or 39.2 million barrels during 2003. Consumption jumped by 9.8%, compared to 6.4% for the nation. This converts to consumption of 429 gallons per Connecticut resident versus 461 gallons for the nation. The lower per capita consumption may be attributable to several factors. As one of the smallest states in size in the nation, generally residents commute shorter distances to work and shop.

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TABLE 32
GASOLINE CONSUMPTION IN THE UNITED STATES & CONNECTICUT

Calendar Year	U.S. Consumption Gallons (000's)	Percent Change	Connecticut Gallons (000's)	Percent Change
1993	113,704,395	2.5	1,321,880	0.8
1994	115,007,612	1.1	1,328,585	0.5
1995	120,875,789	5.1	1,292,233	(2.7)
1996	123,326,745	2.0	1,390,385	7.6
1997	125,399,139	1.7	1,400,016	0.7
1998	127,977,505	2.1	1,425,178	1.8
1999	132,260,590	3.3	1,551,446	8.9
2000	132,279,950	0.0	1,476,340	(4.8)
2001	134,110,264	1.4	1,496,469	1.4
2002	130,718,501	(2.5)	1,498,140	0.1
2003	139,065,057	6.4	1,645,268	9.8

Source: U. S. Department of Transportation, Office of Highway Information Management, "Highway Statistics 2003"

In addition, gasoline prices in Connecticut are relatively higher than the national average, which tends to encourage conservation by the state's residents. Connecticut's small size also increases the likelihood that gasoline may be purchased outside our borders, particularly if there is incentive to do so due to price differentials. There is no gasoline refinery located in Connecticut. In 2005, Connecticut had 1,524 gasoline stations, accounting for some 0.9% of U.S. total.

In 1975, the U.S. Congress authorized the Department of Transportation to set automobile efficiency standards, known as Corporate Average Fuel Economy (CAFE). These regulations mandate that automobile makers achieve a fleet wide minimum for fuel efficiency. After the enactment of the law, the average miles per gallon (MPG) for automobiles and light trucks increased from 20.1 MPG in model year (MY) 1979 to 25.0 MPG in MY 2003, a 25% improvement in CAFE. The increase in fuel efficiency varied over the past three decades: accelerating during the 1970s and 1980s, but remaining relatively constant in the 1990s. This reflects the change in driver's tastes and reduced consciousness of energy conservation. During the 1970s and 1980s, more efficient engines and smaller cars were produced. During the 1990s and into the 2000s, light trucks gained market share 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 2003, with light trucks making up 50.1% of market sales, fuel economy fell to 25.0 MPG. Despite recently introduced high mileage vehicles powered by hybrid-electricity, they only accounted for a fraction of the improvement in the whole auto-industry. There was no improvement in MPG for domestic cars in MY 2003. The following Table details the CAFE standards along with fleet wide average miles per gallon by model year. Light trucks include, minivans, sport utility vehicles (SUVs), and small pick-up trucks that are generally less efficient than cars. With the real price

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TABLE 33
AUTOMOTIVE FUEL ECONOMY
Domestic vs. Imported Passenger Cars & Trucks
 (Model Year, Average Miles Per Gallon)

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
CAFE Standards										
Passenger Cars	27.5	27.5	27.5	27.5	27.5	27.5	27.5	27.5	27.5	27.5
Light Trucks	20.5	20.6	20.7	20.7	20.7	20.7	20.7	20.7	20.7	20.7
Cars Produced										
Domestic Cars	27.5	27.7	28.1	27.8	28.6	28.0	28.7	28.7	29.1	29.1
Import Cars	29.6	30.3	29.6	30.1	29.2	29.0	28.3	29.0	28.8	29.9
Light Trucks Produced										
(Up to 8,500 lbs.)	20.8	20.5	20.8	20.6	21.1	20.9	21.3	20.9	21.4	21.7
Share of Fleet	40.2%	37.4%	39.7%	42.1%	44.5%	44.0%	44.2%	46.7%	49.1%	50.1%
Total Fleet										
	24.7	24.9	24.9	24.6	24.7	24.5	24.8	24.5	24.7	25.0

Source: U.S. Dept. of Transportation, National Highway Traffic Safety Administration, "Automotive Fuel Economy Program, Annual Update Calendar Year 2003"

of gasoline still low by historical standards, and market demand for heavier, larger, more powerful, and high performance passenger cars expanding, car manufacturers continued to provide less fuel-efficient models. The minivan emerged in the early 1980s and the SUVs popularity rose in the 1990s.

The Table above also shows the fluctuation in the gap in average MPG between foreign imports and American cars. While the fuel economy performance of domestic passenger cars continued to improve at a slow, steady rate, imported cars oscillated. It declined to a recent low of 28.3 MPG in MY 2000 from 30.3 MPG in MY 1995 and then recovered to 29.9 MPG in MY 2003. Foreign cars with higher performance features that reduce fuel economy continued to be imported as demand increased.

Fuel economy for passenger cars varies depending upon the car size, type of transmission, or variation in travel. For MY 2006, the two-seater Honda Insight, for example, using a hybrid electric system with 5-speed manual transmission gets 66 MPG on the highway and 60 MPG in the city, while Honda Odyssey minivan using gasoline gets only 28 MPG on the highway and 20 MPG in the city. CAFE standards for passenger cars have remained at 27.5 MPG since 1990 and light trucks at 20.7 MPG since 1996. In April of 2003, the National Highway Traffic Safety Administration promulgated a final rule establishing the average fuel economy standards for light trucks that will be manufactured in the 2005-2007 model years. The standard for all light trucks manufactured is set at 21.0 MPG for MY 2005, 21.6 MPG for MY 2006, and 22.2 MPG for MY 2007. As the economy continues to rely on foreign oil and seeks to increase energy efficiency, tougher auto fuel-economy standards have been fiercely debated for both energy security and environmental concerns. 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

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standard, multiplied by the total number of passenger automobiles or light truck produced by the manufacturer in that model year.

To date, hybrid-electric vehicles, which combine the best features of internal combustion engines and electric motors, attain the highest fuel economy. Recently, fuel cell technology has been developing in the auto industry as an alternative energy source. A fuel cell is a device that directly and indirectly produces electricity from hydrogen or hydrocarbon fuel through a non-combustive electro-chemical process. To encourage the development of this new technology, the State's Public Act 01-6 provides for a sales tax exemption on materials, tools, fuel, machinery and equipment used in a fuel cell manufacturing facility in Connecticut. In 2004, the State Public Act 04-2 further exempts from the sales tax any passenger cars utilizing hybrid technology that runs more than 40 miles per gallon.

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 3.934% relative weight to this single component to calculate the CPI-U index, the consumer price index for all urban consumers in December 2004. Due to their more volatile price fluctuations, energy and food prices are excluded from the CPI-U index to measure the "core inflation" rate in order to understand underlying price changes.

Short-term gasoline prices have long been known for their drastic volatility, often rising and dropping markedly during short periods of time. Average retail gasoline prices for all grades in the U.S. in October 2005, for example, was \$2.77 per gallon, up from \$2.04 the same month a year ago and \$1.88 in January 2005, but down from its all time high of \$2.95 in September 2005. Monthly prices fluctuated 56.9% within 9 months of 2005. The daily price reached a record high of \$3.06 on Labor Day of 2005. Gasoline prices vary from region to region with the West Coast higher than the national average due to its higher taxes and refining costs that are associated with environmental requirements. Gasoline price fluctuations are caused by many factors, but are basically determined 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. The 2003 retail price of gasoline of \$1.56 per gallon, for example, according to the Energy Information Administration, can be broken down into four categories as follows: crude oil (\$0.69, 44%), federal & state taxes (\$0.42, 27%), refining costs & profits (\$0.23, 15%), and distribution and marketing (\$0.22, 14%) when crude oil registered \$24.10 per barrel. The crude oil component may account for more than 60% of the gasoline retail price at \$3 a gallon as they reached \$70 a barrel in late August of 2005.

The long run nominal price, however, shows a relatively stable upward trend except for a 3-year sharp uptick in the early 1980s. Gasoline prices averaged approximately 30 cents a gallon during the 1950s through the early 1970s. After the Arab oil embargo in 1973, gasoline prices gradually increased to hover around \$1.50 a gallon. To remove the effects of inflation, the use of inflation-adjusted prices for comparison can better reflect the real price changes. The Table below shows that the average real gasoline price for the past five decades was \$1.45 per gallon, with the 1980s much higher and the 1990s much lower than the norm. The real gasoline price of \$1.74 in 2004 was 29 cents over the norm.

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TABLE 34
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</u> (for the Decade of)
1950	\$0.27	\$1.62	\$1.54
1960	0.31	1.48	1.40
1970	0.36	1.30	1.40
1980	1.25	2.20	1.63
1990	1.16	1.43	1.41
1999	1.17	1.19	-
2000	1.51	1.51	1.50
2001	1.46	1.43	-
2002	1.36	1.31	-
2003	1.59	1.50	-
2004	1.88	1.74	-
Average			\$1.45

Note: Prices for 1950 thru 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 Admin. "Annual Energy Review," August 2005

Gasoline Prices In Developed Countries

The retail price of gasoline in the U.S. averaged \$2.84 per gallon in September 2005, compared to \$6.46 in the United Kingdom and \$6.30 in Germany. Gasoline prices in the U.S. are about 48% that of European countries. Gasoline prices in the U.S. may rank among the lowest in the world for oil-importing countries. The following Table shows the retail price of gasoline among selected countries.

International gasoline prices are determined by global supply and demand, technological levels, differing consumer tastes, and non-economic factors such as heightened consciousness of energy conservation and the environment. In Europe, these non-economic factors play the primary role in driving up gasoline prices. To conserve energy and prevent environmental damage, large gas taxes, in addition to steep taxes on car purchases and ownership, are levied to discourage car use and hence gasoline consumption. The tax portion of the price of gasoline in the U.S. accounted for only 13.8% of the retail price, compared to 65.1% in the U.K. and 62.5% in France. Of the 39-cent excise tax in the U.S., 18.4 cents per gallon was the federal fuel tax with the remainder attributable to state taxes. The 13.8% of excise tax in the U.S retail gasoline price was down from 18% from a year ago. The Federal and most states' fuel taxes are levied on a volume basis, rather than a price basis. As gasoline prices increase, the share

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TABLE 35
END-USER GASOLINE PRICES AMONG DEVELOPED COUNTRIES
 Unleaded Premium Gasoline, September 2005

<u>Country</u>	<u>Before</u> Tax (\$)	<u>Tax</u> *(\$)	<u>End-User</u> Price (\$)	<u>Tax</u> As a % of Price	<u>U.S. End-User</u> Price as a % of Other Country	<u>% Change</u> Of Price From September 2004
France	2.24	3.72	5.96	62.5%	48%	54.9%
Germany	2.38	3.92	6.30	62.2%	45%	44.5%
Italy	2.42	3.64	6.06	60.0%	47%	29.3%
Spain	2.45	2.53	4.97	50.8%	57%	40.2%
United Kingdom	2.25	4.21	6.46	65.1%	44%	49.5%
Average of Above	2.35	3.60	5.95	60.6%	48%	
Japan	2.64	2.07	4.71	43.9%	60%	18.0%
Canada	2.50	1.04	3.54	29.3%	80%	60.7%
USA	2.45	0.39	2.84	13.8%		65.5%

* excise tax only

Source: U.S. Department of Energy, Information Administration, International Energy Agency, October 2005

related to taxes declines. Facing an increasing operating deficit in the Federal Highway Trust Fund and the need to encourage fuel efficiency, the federal gasoline tax is expected to increase in next few years and some states may abandon their per-gallon levy system and base the tax on mileage traveled or institute other taxing measures.

Export Sector

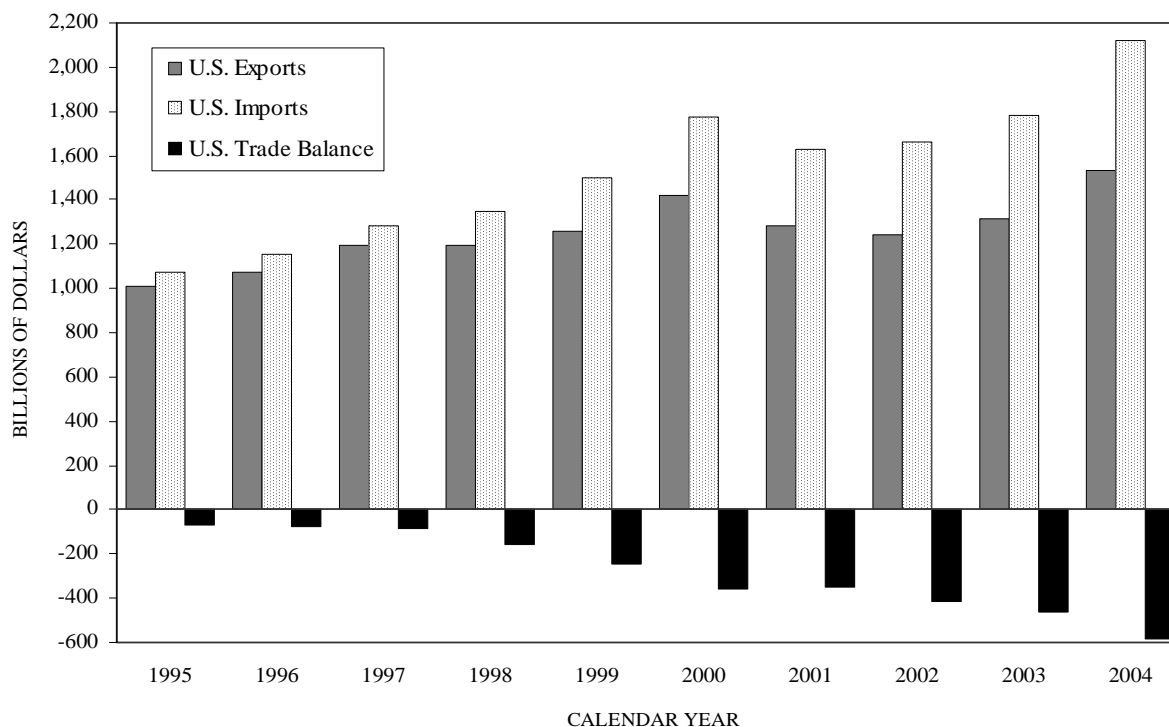
The United States is increasingly becoming a world trade-oriented economy. U.S. real exports and imports accounted for 26.4% of Gross Domestic Product (GDP) in 2004, up from the peak of 26.2% in 2000, 16.3% in 1990, 12.3% in 1980, 9.9% in 1970, and 7.8% in 1960. The increase in 2004 is attributed to 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 accounting for 10.4% of real GDP in 2004, down from 11.2% in 2000, but up from 7.8% in 1990, 6.3% in 1980 and 4.3% in 1970.

The Chart below illustrates the United States' trade balance for the past ten years. The trade deficit, the difference between exports and imports, from merchandise, services and investment income reached its prior peak in 1987 at \$137.4 billion caused primarily by the relatively high value of the dollar between 1983 and 1986. In 1990, the trade deficit fell to \$52.3 billion and further dropped to \$7.0 billion by 1991. However, it turned up and grew rapidly to a then record high of \$357.8 billion by 2000 due to rapid growth in imports over exports. In 2004, the

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deficit grew further to \$587.1 billion, brought about by an increase in the deficit on goods combined with a decline in the surplus in services and investment income.

U.S. TRADE BALANCE BY CALENDAR YEAR



The United States trade balances in the past decade generally improved during recession years and deteriorated during recovery and expansionary periods. Trade deficits narrowed in 1991 and 2001 when the U.S. experienced an economic slowdown, whereas deficits widened during the boom years that were experienced during most of the 1990s. The U.S. 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.

According to the U.S. Department of Commerce, international trade is classified into three categories: merchandise trade, service transactions, and investment income. The decline in the international trade deficit in the late 1980s resulted from an improvement in merchandise trade, enhanced balances in service transactions and a continued surplus in investment income. However, the favorable trade situation turned around in 1991 with widening deficits in merchandise and narrowing surpluses in services. In 2004, the surplus in services fell to \$47.8 billion from \$53.1 billion in 2003 and \$61.2 billion in 2002. The surplus in investment income fell to \$30.4 billion from \$46.3 billion in 2003. The deficit in merchandise expanded from \$547.3 billion in 2003 to \$665.4 billion in 2004 from a low of \$76.9 billion in 1991. The total trade deficit registered \$587.2 billion in 2004, up from \$447.9 billion in 2003. A two-year detailed listing of these three categories is broken down in the Table below.

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TABLE 36
U.S. TRADE DEFICIT BY CATEGORY
(In Billions of Dollars)

	2003			2004		
	Exports	Imports	Balance	Exports	Imports	Balance
<u>Total Trade</u>	1,333.0	1,780.9	(447.9)	1,530.9	2,118.0	(587.1)
Merchandise	713.4	1,260.7	(547.3)	807.5	1,472.9	(665.4)
Foods/Beverages	55.0	55.8	(0.8)	56.6	62.1	(5.5)
Industrial Supplies & Materials	173.1	314.5	(141.4)	204.0	413.0	(209.0)
Capital Goods, Excluding Autos	293.6	295.8	(2.2)	331.5	343.5	(12.0)
Autos	80.7	210.2	(129.5)	89.3	228.2	(138.9)
Consumer Goods	89.9	334.0	(244.1)	103.0	373.1	(270.1)
Others	21.1	50.4	(29.3)	23.2	53.0	(29.8)
Services	309.8	256.7	53.1	343.9	296.1	47.8
Travel & Transportation	111.4	123.1	(11.7)	130.2	143.5	(13.3)
Royalties, License fees, etc.	184.1	105.7	78.4	198.1	119.6	78.5
Other Services	14.3	27.9	(13.6)	15.6	33.0	(17.4)
Investment Income	309.8	263.5	46.3	379.5	349.1	30.4
Direct Investment	193.3	71.4	121.9	233.1	105.1	128.0
Other Private Investment	108.8	110.1	(1.3)	140.4	145.4	(5.0)
U.S. Gov't Receipts/Payments	4.7	73.5	(68.8)	3.0	89.7	(86.7)
Compensation of Employees	3.0	8.5	(5.5)	3.0	8.9	(5.9)
	<u>Percent Change From Previous Year</u>					
<u>Total Trade</u>	6.8	7.3	9.0	14.8	18.9	31.1
Merchandise	4.5	8.2	13.5	13.2	16.8	21.6
Foods/Beverages	10.9	12.3	0.8	2.8	11.3	592.5
Industrial Supplies & Materials	10.4	17.3	27.1	17.8	31.3	47.8
Capital Goods, Excluding Autos	1.1	4.4	(35.5)	12.9	16.1	445.5
Autos	2.2	3.2	3.8	10.7	8.6	7.3
Consumer Goods	6.6	8.4	9.2	14.6	11.7	10.7
Others	(5.3)	(3.0)	(1.2)	9.9	5.2	1.8
Services	5.1	9.8	(13.2)	11.0	15.3	(10.0)
Travel & Transportation	(1.2)	5.1	169.5	16.9	16.6	13.7
Royalties, License fees, etc.	8.7	11.7	5.0	7.6	13.2	0.1
Other Services	11.4	26.8	48.5	9.1	18.3	27.9
Investment Income	14.4	1.0	363.0	22.5	32.5	(34.3)
Direct Investment	32.8	55.9	22.1	20.6	47.2	5.0
Other Private Investment	(8.6)	(15.3)	(88.2)	29.0	32.1	284.6
U.S. Gov't Receipts/Payments	42.3	(4.0)	(6.1)	(36.2)	22.0	26.0
Compensation of Employees	3.4	1.2	0.0	0.0	4.7	7.3

Note: Percent changes were derived before rounding to billions.

Source: U.S. Department of Commerce, "Survey of Current Business", July 2005

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Merchandise Trade

There are six subcategories within merchandise trade including: foods and beverages; industrial supplies and materials; capital goods excluding autos; consumer goods and others. The deficit in merchandise trade registered \$665.4 billion in 2004, up from \$547.3 billion in 2003 and much higher than the recent low of \$76.9 billion in 1991. Before 1991, the merchandise trade deficit had declined as exports grew faster than imports. After 1991, however, the situation reversed itself, imports climbed faster than exports, resulting in a continued increase in the trade deficit. The increase in the 2004 deficit in merchandise trade was due to a higher growth rate in imports than that of exports. U.S. commodity imports registered an increase of 16.8% in 2004 compared to an increase of 13.2% in exports.

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. The broad penetration of foreign imports indicates the difficulty the U.S. would have in improving its trade position.

Of the total deficit of \$665.4 billion, consumer goods accounted for the largest portion of the deficit, reaching \$270.1 billion in 2004. This category registered a 10.7% increase after growth of 9.2% in 2003 and 14.0% in 2002. Consumer goods consist of durables and nondurables. Durable goods including household and kitchen appliances such as radio and stereo equipment, televisions and video receivers, bicycles, watches, toys and sporting goods. Nondurables include footwear, apparel, medical, dental and pharmaceutical preparations.

The second largest portion of the deficit occurred in the industrial supplies and materials category at \$209.0 billion, a 47.8% increase from 2003's deficit of \$141.4 billion. Industrial supplies and materials include energy products, iron and steel, metal products, lumber and paper and chemicals excluding medicinals. The large increase in the deficit is attributable to many factors including a large rise in both price and volume of petroleum and petroleum products imported to the U.S. Increases in building materials from Canada and in steelmaking materials from Latin American also contributed.

The third largest portion of the merchandise trade deficit occurred in the auto category at \$138.9 billion, a 7.3% increase from 2003's deficit of \$129.5 billion. Exports increased 10.7% while imports increased 8.6% resulting in the overall growth of 7.3% from 2003. This growth is modest compared to the 9.1% increase from 2001. An increase in exports of passenger cars, mainly to Canada, the Middle East, and South Africa, was partially offset by a decrease in "other" parts and accessories, mainly to Canada and Mexico. Increased imports of engines and "other" parts and accessories were mostly offset by a decrease in trucks, buses, and special purpose vehicles.

For the second year, capital goods posted a deficit of \$12.0 billion compared to the first deficit of \$2.2 billion in 2003 and a surplus of \$7.2 billion in 2002. This sector, which excludes autos, includes machine tools, telecommunications equipment, hospital and scientific instruments,

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industrial engines, and oil drilling and mining equipment. Exports increased 12.9% to \$331.5 billion in 2004, compared to a 16.1% increase in imports to \$343.5 billion. The largest import increases were in telecommunications equipment, in scientific, hospital, and medical equipment, and in electric generating machinery, electric apparatus, and parts.

Service Transactions

The United States is highly competitive in the delivery of services. It is estimated that the U.S. is 20% more productive than our major foreign competitors in this area. The surplus has been generated from royalties and license fees. Despite the falling surplus, service transactions continued to play a vital role in the balance of trade. The surplus in service transactions declined to \$47.8 billion in 2004. This was a gradual decline from a peak of \$90.4 billion in 1997. Faster increases in imports than exports led to the decline in the surplus. Imports increased 15.3% to \$296.1 billion while exports of services increased 11.0% to \$343.9 billion. The increase was attributable to a larger increase in services receipts than in services payments. Of the \$47.8 billion total surplus in 2004, \$78.5 billion was attributable to royalty and license fees, which more than offset the deficits in travel and other services. This reflects that the U.S. continues to lead in technology worldwide.

Investment Income

The balance in investment income registered a surplus of \$30.4 billion, a 34.3% decrease from 2003. Investment income contains two components: 1) receipts generated from U.S.-owned assets abroad including direct investments, other private securities such as the U.S. government-owned securities as well as corporate bonds and stocks, and 2) compensation receipts of workers employed abroad in international organizations and foreign embassies stationed in the U.S., including wages, salaries, and benefits. Payments are the counterpart of U.S. receipts; they are in contrast paid on foreign-owned assets invested in the U.S.

The surplus in investment income declined as the deficits on “other” private income and payments by the U.S. government both increased. These increases were partly offset by an increase in the surplus on direct investment. Both receipts and payments for direct investment reflected substantially larger increases in earnings than in 2003. Receipts were boosted by the appreciation of foreign currencies against the dollar.

As described above and listed in the Table below, 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 2004 foreign assets in the U.S., measured at current cost increased by \$1,739.3 billion, or 17.8%, to \$11,537.0 billion, compared to an increase of \$1,411.8 billion, or 18.5%, to \$9,052.8 billion for U.S. assets abroad. This placed U.S. international investment at a net negative of \$2,484.2 billion. U.S. direct investment in assets abroad continues to exceed foreign direct investment in the U.S. In 2004, the U.S.’s direct investment abroad was \$2,367.4 billion and foreign direct investment in the U.S. was \$1,708.9 billion, registering \$658.5 billion in net investment, up from \$476.7 billion in 2003. Foreign assets in the United States are mostly in securities such as bonds and stocks issued by the

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Treasury and corporations. Net foreign purchases of U.S. stocks and bonds in 2004 posted a 21.3% increase to \$551.1 billion, up from \$454.3 billion in 2003.

TABLE 37
INTERNATIONAL INVESTMENT
(Millions of Dollars At Current Cost)

	<u>2003</u>	<u>2004</u>	<u>Change</u>	<u>Percent Change</u>
A. U.S.-owned assets abroad	7,640,986	9,052,796	1,411,810	18.5%
U.S. official reserve assets	183,577	189,591	6,014	3.3%
U.S. government assets	84,772	83,556	(1,216)	(1.4%)
U.S. credit & long-term assets	81,980	80,803	(1,177)	(1.4%)
Currency holdings & short-term assets	2,792	2,753	(39)	(1.4%)
U.S. private assets	7,372,637	8,779,649	1,407,012	19.1%
Direct investment abroad	2,062,551	2,367,386	304,835	14.8%
Foreign securities	2,953,778	3,436,718	482,940	16.3%
Bonds	874,356	916,655	42,299	4.8%
Stocks	2,079,422	2,520,063	440,641	21.2%
Financial instruments	2,356,308	2,975,545	619,237	26.3%
B. Foreign-owned assets in the U.S.	9,797,689	11,537,015	1,739,326	17.8%
Foreign official assets	1,567,124	1,981,992	414,868	26.5%
U.S. Government securities	1,192,242	1,499,577	307,335	25.8%
Others	201,831	239,075	37,244	18.5%
Foreign private assets	8,230,565	9,555,023	1,324,458	16.1%
Direct investment	1,585,898	1,708,877	122,979	7.8%
Foreign securities	3,408,113	3,987,797	579,684	17.0%
Treasury securities & currency	543,209	639,716	96,507	17.8%
Corporate & Municipal Bonds	1,707,206	2,059,250	352,044	20.6%
Stocks	1,700,907	1,928,547	227,640	13.4%
Financial instruments	3,236,554	3,858,349	621,795	19.2%
C. Net U.S. Total Investment Position (A-B)	(2,156,703)	(2,484,219)	(327,516)	15.2%
Net U.S. private investment position	(857,928)	(775,374)	82,554	(9.6%)
Direct Investment	476,653	658,509	181,856	38.2%
Other Indirect investment	(454,335)	(551,079)	(96,744)	21.3%
Net Bond and Stock Investment	(1,298,775)	(1,708,845)	(410,070)	31.6%
Net Government liabilities and Others	(454,335)	(551,079)	(96,744)	21.3%

Source: U.S. Department of Commerce, "Survey of Current Business", July 2005

The Table below shows U.S. trade transactions by area. The deficit on goods and services in 2004 was \$587.2 billion, an increase of \$139.3 billion. The United States continues to import more from Europe, Canada, Japan, Latin America, Asia and Africa than it exports to those countries. The 2004 trade deficit with Canada, Mexico and the European Union were records. The trade deficit with the European Union also increased despite increased economic growth in the region. Real GDP growth in the euro area was 2.2%, up from 0.5% in 2003. However,

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European Union growth remained well below that in the United States, and unemployment remained high.

In 2004, the United States imported \$196.7 billion worth of goods from China. This figure is up from \$152.4 billion in 2003 and \$125.2 billion in 2002. While the export of goods to China has also been increasing, the figure is drastically lower resulting in a large negative trade balance. In 2004, the United States exported \$34.6 billion of goods to China. This figure increased from \$28.3 billion in 2003 and \$22.0 billion in 2002. The resulting negative trade balance with China continues to grow at alarming rates. In 2004 the trade balance was negative \$162.1 billion up from negative \$124.1 billion in 2003 and \$103.2 billion in 2002.

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

	2002			2003			2004		
	Exports	Import	Bal.	Exports	Imports	Bal.	Exports	Imports	Bal.
Total Trade	1,248.1	1,659.2	(411.1)	1,333.0	1,780.9	(447.9)	1,530.9	2,118.0	(587.1)
Europe	400.1	497.5	(97.4)	436.3	534.7	(98.4)	496.9	619.7	(122.8)
Canada	208.6	234.9	(26.3)	223.3	253.5	(30.2)	252.5	294.0	(41.5)
Japan	93.6	176.7	(83.1)	95.5	170.7	(75.2)	107.5	200.1	(92.6)
Australia	22.4	11.8	10.6	24.8	11.8	13.0	29.2	17.1	12.1
Latin America (1)	246.8	289.6	(42.8)	253.0	307.0	(54.0)	296.3	368.0	(71.7)
Asia & Africa (2)	239.1	432.2	(193.1)	261.0	485.7	(224.7)	305.8	597.5	(291.7)
Others (3)	37.5	16.5	21.0	39.1	17.5	21.6	42.7	21.6	21.1
European Union (4)	343.6	426.6	(83.0)	375.1	459.2	(84.1)	432.0	539.0	(107.0)

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

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

(3) Includes figures for International Organizations and unallocated areas

(4) Includes 25 member states: Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, The Netherlands, & United Kingdom

Source: U.S. Department of Commerce, "Survey of Current Business", July 2005

Connecticut Exports

In Connecticut, the export sector has assumed an important role in overall economic growth. State exports of goods abroad for the past five years averaged 5.01% of the Gross State Product (GSP).

According to figures published by the United States Department of Commerce, which were adjusted and enhanced by the University of Massachusetts (MISER) to capture a greater percent of indirect exports, Connecticut exports of commodities totaled \$8,559.2 million in 2004. The

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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 \$3.7 billion and income receipts of approximately \$3.5 billion on Connecticut direct investment abroad also play a vital role in Connecticut. These bring Connecticut's total export related receipts to approximately \$15.8 billion, or approximately 8.8% 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.

Exports of educational services also play an important role in the state's economy. There were 7,138 foreign students attending Connecticut colleges in the 2004-05 school year, accounting for 1.3% of the national total, down 6.8% from the 2003-04 school year and compared to the national decrease of 1.3%, according to the *Institute of International Education*. It is estimated that foreign students and their dependents spend \$165 million on tuition, room and board and the other incidentals of everyday life. Tourism receipts had also steadily increased up until the attack of September 11, 2001. It is estimated that as many as 200,000 people from other countries visit Connecticut and spend \$300 million annually, partially as a result of casino related businesses.

Connecticut industries that rely most heavily on exports are Transportation Equipment (NAICS 336), 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 account for 83.9% of Connecticut's foreign sales. The table below shows the breakdown of major products by NAICS code for the past five years. In 2004, transportation equipment, which includes aircraft engines and spare parts, gas turbines, and helicopters, spacecraft, etc. accounted for 37.1% of total exports down from 40.5% of exports in 2003. Transportation equipment is followed by nonelectrical machinery at 12.9%, computer & electronic at 9.4%, chemicals at 7.1%, miscellaneous manufacturing at 7.1%, electrical equipment and appliances at 5.5%, and fabricated metal at 4.8%. The industrial machinery and equipment related sector, which includes NAICS 332, 333, 334 and 335, accounts for 32.6% of total. In terms of average annual growth from 2000 to 2004, electrical equipment and appliances posted the strongest growth at 14.1%, followed by miscellaneous manufacturing at 12.2%, 6.5% in plastics, 5.5% in non-electrical machinery, and 5.4% in primary metal manufacturing.

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Overall growth in exports of commodities for the past five years averaged 1.7%. Exports of \$8.6 billion is estimated to account for 4.61% of Connecticut Gross State Product (GSP), gradually expanding from 4.2% of Gross State Product in 1987 to a high of 5.9% in 1993, then edging down to hover between 4.6% and 5.2% for the past five years. Commodities or goods, exports which include products in the manufacturing, agricultural, and mining industries in Connecticut have improved since the late 1980s. However, exports of commodities grew more or less proportionately with overall goods production as measured by the GSP, resulting in a fairly stable percentage of exported goods relative to GSP.

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

<u>NAIC</u>	<u>Industry</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>% of</u> <u>2004</u> <u>Total</u>	<u>Average</u> <u>Growth</u> <u>00-04</u>
322	Paper	150.8	139.5	174.9	188.6	165.8	1.9%	3.4%
325	Chemicals	612.8	567.3	499.9	749.0	608.2	7.1%	2.9%
326	Plastics & Rubber	144.6	152.0	141.2	137.6	179.6	2.1%	6.5%
331	Primary Metal	247.0	210.1	167.6	203.1	275.7	3.2%	5.4%
332	Fabricated Metal	369.8	391.5	427.4	440.5	406.5	4.8%	2.6%
333	Machinery, exc. Elec.	1,005.2	898.0	669.8	784.4	1,106.8	12.9%	5.5%
334	Computer & Electronic	904.5	804.4	760.0	789.5	803.6	9.4%	(2.7%)
335	Electrical Equipment	292.9	259.8	316.3	336.1	469.7	5.5%	14.1%
336	Transportation Equip.	3,168.5	3,988.3	4,098.7	3,298.1	3,177.8	37.1%	1.4%
339	Miscellaneous MFG	395.1	430.3	393.6	486.4	606.2	7.1%	12.2%
	Others	<u>755.7</u>	<u>769.1</u>	<u>664.0</u>	<u>723.0</u>	<u>759.3</u>	<u>8.9%</u>	<u>0.5%</u>
	Total Commodity Exports	8,046.8	8,610.4	8,313.4	8,136.4	8,559.2	100%	1.7%
	% Growth	11.3%	7.0%	(3.4%)	(2.1%)	5.2%		
	Gross State Product (\$M)	160,685	165,434	167,235	174,085	185,802		3.7%
	% Growth	6.62%	2.96%	1.09%	4.10%	6.73%		
	Exports as a % of GSP	5.01%	5.20%	4.97%	4.67%	4.61%		(2.0%)

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

Individual Connecticut firms with the highest export sales include General Electric, United Technologies, International Paper, Premcor, Xerox, Pitney Bowes, and the Stanley Works.

The bulk of Connecticut's exports are shipped by air from Bradley International Airport and by sea from the port of New Haven. In 2004, exports originating from Connecticut totaled \$8.6 billion, with 61.5% of the total being shipped by air, 15.7% being delivered by sea, and the remaining 22.8% 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

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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 2004, Canada remained the largest destination country at 17.2%, followed by France, Germany, Mexico and the United Kingdom. These five countries accounted for 53.2% of total state exports in 2004. Exports to Canada increased 8.9% to \$1.47 billion in 2004. Exports to Canada benefited from proximity and the similar cultural backgrounds of consumers, but seemingly not from the North American Free Trade Agreement (NAFTA). Exports to Canada accounted for 17.9% of Connecticut's total exports in 1988, the year before NAFTA. The extension of NAFTA to include Mexico in 1994 also seems not to have yielded a noticeable benefit to the State due in part to the geographical distance. Exports to Mexico increased 22.7% to \$586 million in 2004. The share of the State's exports to Mexico accounted for 6.9% in 2004, compared to 9.0% for the United States. A new major partner, Belgium, experienced a 28.8% growth from 2000-2004 purchasing \$227.9 million of the State's exports.

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

<u>Destination</u>	<u>2004 Rank</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	Percent of 2004 <u>Total</u>	2000-04 Average Growth <u>Rate</u>
Canada	1	1,831.2	1,728.8	1,492.4	1,352.3	1,472.5	17.2%	(4.9%)
France	2	1,112.3	1,416.3	1,178.4	1,095.7	1,181.7	13.8%	2.8%
Germany	3	561.2	675.4	654.1	760.1	762.2	8.9%	8.4%
Mexico	4	404.9	326.6	402.0	478.0	586.3	6.9%	11.3%
United Kingdom	5	471.2	462.4	499.9	512.8	547.8	6.4%	3.9%
Japan	6	508.3	616.6	606.5	639.0	501.5	5.9%	0.8%
Singapore	7	198.5	413.5	407.3	436.9	340.9	3.9%	23.0%
Netherlands	8	292.7	75.2	229.8	198.6	270.1	3.2%	18.5%
Belgium	9	96.6	159.2	212.8	162.6	227.9	2.7%	28.8%
Switzerland	10	191.2	180.6	175.1	149.2	227.3	2.4%	7.2%
Other Areas		<u>2,411.5</u>	<u>2,545.7</u>	<u>2,330.1</u>	<u>2,217.4</u>	<u>2,441.0</u>	<u>28.7%</u>	<u>(0.8%)</u>
TOTAL		8,046.8	8,610.4	8,313.4	8,136.4	8,559.2	100.0%	1.7%

Source: Connecticut Department of Economic Development

Connecticut's exports have also experienced geographical diversification. Connecticut's trade area has expanded from traditional big partners such as Canada, the United Kingdom and Japan to emerging markets in Southern and Central America, Eastern Europe, Asia and the Middle East. Connecticut's firms exported to approximately 190 countries worldwide in 2004. A breakdown of Connecticut's exports by region shows that while trade volume and the share of exports to Europe and Latin America continued to increase over the past five years, both trade volume and the share to Africa have declined, with volume dropping from \$168.6 million

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in 1998 to \$81.3 million in 2004 when the share declined from 2.3% in 1998 to 0.9% in 2004. Africa may represent a potential market where Connecticut's manufacturers can expand their exporting efforts.

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 stimulant for Connecticut's economic growth and future productivity. As of the latest available data (2003), manufacturing and non-manufacturing foreign affiliates in Connecticut employed 104,900 workers with \$12.68 billion of investment, down from 111,000 workers with \$12.79 billion of investment in 2002. A foreign affiliate is defined as a single foreign person owning or controlling, directly or indirectly, 10% or more of the voting securities.

In 2003, Germany comprised 21.6% of total foreign investment at \$2.74 billion, followed by the United Kingdom at \$1.76 billion, the Netherlands at \$1.70 billion, France at \$0.89 billion, and Australia at \$0.70 billion. Canadian firms have been taking advantage of the integrating markets established by the NAFTA agreement. The Canadian firms, through economies of scale or comparative advantage, increased Canadian production of goods to be sold in the U.S. As a result, two-way trade continued to expand while investment slowed. Canadian investment in Connecticut registered \$813 million in 2003, a decrease from \$982 million in 2002 and \$884 million in 2001 and well below the peak of \$1,270 million in 1992.

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. 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

Or visit their website, <http://www.state.ct.us/ecd/> for more details.

Connecticut's Defense Industry

The defense industry is an integral part of Connecticut's manufacturing sector, and has been since the inception of the United States as a nation. The state's economy is still affected by the volume of defense contracts awarded or subcontracted to Connecticut firms. The state almost experienced a major economic blow, however, as the New London Submarine Base in Groton was put on the Base Realignment and Closure (BRAC) base closure list by the U.S. Department of Defense in May of 2005. Throughout the summer, a coalition of local leaders and businesses, state agencies and officials, and the state's congressional delegation, led by Governor Rell,

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worked to save the base and was successful in getting the base removed from the closure list. The next step is to prepare the base for the challenges that will be faced in the future.

In FFY 2004, according to information supplied by the U.S. Department of Defense, Connecticut-based companies received \$8.96 billion in defense-related prime contract awards. This was up 11.1% from the \$8.06 billion received in awards in FFY 2003. The Table on the following page shows the breakdown by type and value of contracts since FFY 1995. Connecticut's total defense awards, based on a three year moving average, have increased at an average annual rate of 12.2% during this time, compared to an average growth of 7.2% for the nation. Most of this growth has come in the last few years because Connecticut has been much more dependent on supply contracts, which includes procurement of aircraft, ships, weapons, and equipment, etc., than is the nation as a whole, and they declined through most of the 1990s, and are only recently rebounding. 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.

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

In FFY 2004, contractors in the state were awarded \$9.0 billion worth of defense-related prime contracts, with the heaviest concentration in the state's transportation equipment sector. Of the total awarded, \$8.2 billion, or 91.4%, went to the following five Connecticut companies listed below primarily for the described areas of work:

1. United Technologies Corp.	\$4,757,804,000	Aircraft Rotary Wing
2. General Dynamics Corp.	\$3,245,815,000	Submarines
3. The Purdy Corporation	\$72,420,000	Aircraft/Helicopter Components, Turbines
4. Engineered Support Systems, Inc	\$65,882,000	Military Support Equipment
5. Dynamic Gunver Technologies	\$46,862,000	Metal Fabrication, Engines, Turbines

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TABLE 41
CONNECTICUT PRIME CONTRACT AWARDS
(In Thousands of Dollars)

Type of Contract	<u>Supply</u>	<u>R&D*</u>	<u>Service</u>	<u>Construction</u>	<u>Civil Function</u>	<u>Total</u>
FFY 1995 (% of Total)	2,049,584 75.4	203,244 7.5	442,984 16.3	2,931 0.1	19,278 0.7	2,718,021 100.0
FFY 1996 (% of Total)	1,736,339 65.8	457,348 17.3	390,336 14.8	1,009 0.0	53,228 2.0	2,638,260 100.0
FFY 1997 (% of Total)	1,547,402 61.0	551,643 21.8	380,827 15.0	25,629 1.0	30,480 1.2	2,535,981 100.0
FFY 1998 (% of Total)	2,320,505 68.1	753,632 22.1	310,177 9.1	17,824 0.5	6,582 0.2	3,408,719 100.0
FFY 1999 (% of Total)	2,581,519 81.4	245,473 7.7	328,573 10.4	8,137 0.3	5,692 0.2	3,169,394 100.0
FFY 2000 (% of Total)	1,636,417 75.2	223,364 10.2	303,910 14.0	7,012 0.3	6,762 0.3	2,177,465 100.0
FFY 2001 (% of Total)	3,468,084 81.2	376,018 8.8	390,812 9.2	30,075 0.7	4,555 0.1	4,269,544 100.0
FFY 2002 (% of Total)	4,085,824 72.5	979,756 17.4	547,279 9.7	17,482 0.3	8,244 0.1	5,638,585 100.0
FFY 2003 (% of Total)	6,533,608 81.0	901,370 11.2	600,004 7.4	23,508 0.3	6,319 0.1	8,064,809 100.0
FFY 2004 (% of Total)	6,582,395 73.5	986,569 11.0	1,376,802 15.4	7,902 0.1	5,756 0.1	8,959,424 100.0
Average % of Total	73.5	13.5	12.1	0.4	0.5	100.0
Average Growth** (FFY 1995-04)	12.4	18.6	7.1	6.5	-5.6	12.2
U.S. FFY 2004 (% of Total)	94,971,360 46.7	32,062,066 15.8	67,655,246 33.3	5,438,343 2.7	3,261,691 1.6	203,388,706 100.0

Note: * Denotes Research & Development.

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

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

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

To compare the relative volatility of contract awards with employment, the coefficient of variation is used: the larger the number, the greater the volatility. It is derived by dividing the standard deviation of a variable by its mean. The Table also shows that the coefficient of variation for the state's real defense contract awards, over the past decade, was 0.482 compared with 0.098 for transportation equipment employment. This implies that, in general, 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.

TABLE 42
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 '96 Dollars (000's)	% Growth
1994-95	2,718,021	10.9	55.50	(7.4)	2,798,278	7.9
1995-96	2,638,260	(2.9)	53.66	(3.3)	2,638,260	(5.7)
1996-97	2,535,981	(3.9)	51.49	(4.0)	2,478,806	(6.0)
1997-98	3,408,719	34.4	52.27	1.5	3,281,153	32.4
1998-99	3,169,394	(7.0)	49.86	(4.6)	2,984,861	(9.0)
1999-00	2,177,465	(31.3)	46.92	(5.9)	1,983,997	(33.5)
2000-01	4,269,544	96.1	46.87	(0.1)	3,782,560	90.7
2001-02	5,638,585	32.1	45.33	(3.3)	4,917,699	30.0
2002-03	8,064,809	43.0	43.35	(4.4)	6,877,003	39.8
2002-04	8,959,424	11.1	43.19	(0.4)	7,441,681	8.2
Coefficient of Variation	0.555		0.089		0.482	

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

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The prior Table also shows real contract awards for the past decade by taking into account the erosion of the dollar by adjusting contracts for inflation. From \$2.8 billion in FFY 1995, real defense contract awards increased to \$7.4 billion in FFY 2004. This represents an average growth of 11.5% per year from FFY 1995 to FFY 2004, with virtually all of the growth occurring in the last four years, most likely spurred by the war on terrorism.

Connecticut's defense contract awards have become extremely volatile since the late 1980s and are much less stable when compared with other states or the nation as a whole. The following Table shows the coefficient of variation for Connecticut, over the past decade, was 0.555, compared to 0.265 for the U.S., reflecting the fluctuations in the state's annual levels of defense contract awards.

TABLE 43
COMPARISON OF U.S. AND CONNECTICUT DEFENSE CONTRACT AWARDS

Federal Fiscal Year	Connecticut			U.S.					
	Defense Contract Awards (Millions \$)	% Growth	3-year Moving Average (Millions \$)	% Growth	Defense Contract Awards (Millions \$)	% Growth	3-year Moving Average (Millions \$)	% Growth	
1994-95	2,718	10.9	2,688	(4.5)	109,005	(1.2)	111,155	(1.0)	
1995-96	2,638	(2.9)	2,602	(3.2)	109,408	0.4	109,576	(1.4)	
1996-97	2,536	(3.9)	2,631	1.1	106,561	(2.6)	108,325	(1.1)	
1997-98	3,409	34.4	2,861	8.8	109,386	2.7	108,452	0.1	
1998-99	3,169	(7.0)	3,038	6.2	114,875	5.0	110,274	1.7	
1999-00	2,177	(31.3)	2,918	(3.9)	123,295	7.3	115,852	5.1	
2000-01	4,270	96.1	3,205	9.8	135,225	9.7	124,465	7.4	
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	
Coefficient of Variation		0.555			0.265				

Source: United States Department of Defense

As defense contract awards normally take several years to complete, one can use the 3-year moving average method to better reflect actual production activities. The prior Table shows that overall defense changes in Connecticut have 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. In addition, a severe loss in market share could result in the deterioration of the fundamental industrial base and erosion of the competitive edge established in the past. The loss of defense jobs also has a profound implication on both the state's income and employment mix. Based on

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a three-year moving average, awards reached a low point in 1996, and have displayed a dramatic increase in the last few years.

During the 1990s, defense contract projects had become fewer in number, larger in size and the market became much more competitive than it had been historically. The lack of continuity in full funding for new submarine awards, coupled with prior year defense reductions, dramatically increased the volatility of Connecticut's awards during this period.

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), drifted down from 2.2% in FFY 1995 to 1.8% in FFY 2000, and came back up to 4.1% in FFY 2004. (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.

**TABLE 44
CONNECTICUT DEFENSE CONTRACT AWARDS AND GSP**

Federal Fiscal Year	Connecticut Defense Contract Awards (Millions)	U.S. Defense Contract Awards (Millions)	% of CT to U.S.	Cal. Year CT GSP Current Dollars (Millions)	3-year Average CT Awards (Millions)	CT Awards as % of CT GSP
1994-95	2,718	109,005	2.5	120,800	2,688	2.2
1995-96	2,638	109,408	2.4	126,744	2,602	2.1
1996-97	2,536	106,561	2.4	137,698	2,631	1.9
1997-98	3,409	109,386	3.1	145,318	2,861	2.0
1998-99	3,169	114,875	2.8	150,713	3,038	2.0
1999-00	2,177	123,295	1.8	160,685	2,918	1.8
2000-01	4,270	135,225	3.2	165,434	3,205	1.9
2001-02	5,639	158,737	3.6	167,235	4,029	2.4
2002-03	8,065	191,221	4.2	174,085	5,991	3.4
2003-04	8,959	203,389	4.4	185,802	7,554	4.1
Coefficient of Variation	0.555	0.265				

Note: GSP beginning in 1997 is updated based on the North American Industry Classification System (NAICS).

Source: United States Department of Defense and Department of Commerce

In federal fiscal 2004, while Connecticut ranked fifth in total defense contracts awarded, it ranked second in per capita defense dollars awarded with a figure of \$2,557. This figure was more than 3.5 times the national average of \$693. In 2003, Connecticut also ranked fifth in total defense contracts awarded and second in per capita defense dollars awarded with a figure of \$2,315. This was 3.5 times the national average of \$658 for that year.

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The Table on the following page shows, by state, federal fiscal year 2004 total awards, per capita awards and their corresponding rank.

TABLE 45
COMPARISON OF STATE PRIME CONTRACT AWARDS
Federal Fiscal Year 2004

State	Prime Contract Awards	Rank	Per Capita Prime Contract Awards	Rank	State	Prime Contract Awards	Rank	Per Capita Prime Contract Awards	Rank
	\$ (000)		Awards			\$ (000)		Awards	
Virginia	23,542,542	2	3,156	1	New Jersey	4,196,285	14	482	26
<u>Connecticut</u>	<u>8,959,424</u>	<u>5</u>	<u>2,557</u>	<u>2</u>	Florida	8,385,549	7	482	27
Alaska	1,262,101	34	1,926	3	Georgia	3,905,216	16	442	28
Maryland	9,206,239	4	1,656	4	Oklahoma	1,524,233	31	433	29
Arizona	8,430,013	6	1,468	5	Ohio	4,636,572	13	405	30
Hawaii	1,713,912	28	1,357	6	Rhode Island	417,903	42	387	31
Alabama	5,849,355	11	1,291	7	South Carolina	1,598,654	29	381	32
Maine	1,555,537	30	1,181	8	Tennessee	2,115,771	24	359	33
Missouri	6,502,128	9	1,130	9	Wisconsin	1,745,612	27	317	34
Massachusetts	6,961,412	8	1,085	10	South Dakota	236,234	46	306	35
Kentucky	4,118,662	15	993	11	New York	5,243,889	12	273	36
Texas	21,044,024	3	936	12	Minnesota	1,337,114	33	262	37
Utah	1,877,914	25	786	13	North Carolina	2,213,409	23	259	38
California	27,875,260	1	777	14	Michigan	2,611,682	21	258	39
Vermont	452,321	40	728	15	Iowa	733,736	36	248	40
Colorado	3,151,274	19	685	16	Illinois	3,003,807	20	236	41
Mississippi	1,866,809	26	643	17	Delaware	194,248	48	234	42
Louisiana	2,544,016	22	563	18	Nebraska	401,296	43	230	43
New Mexico	1,070,808	35	563	19	Wyoming	115,113	50	227	44
New Hampsh.	715,773	37	551	20	Montana	206,850	47	223	45
Washington	3,324,956	17	536	21	Nevada	439,062	41	188	46
Kansas	1,411,862	32	516	22	Arkansas	493,589	39	179	47
Indiana	3,173,322	18	509	23	West Virginia	279,585	45	154	48
Pennsylvania	6,202,797	10	500	24	Oregon	529,559	38	147	49
North Dakota	309,564	44	488	25	Idaho	186,612	49	134	50
U.S. Total	203,388,706		\$693						

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

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The following Table summarizes some programs of particular interest to the State of Connecticut contained in the Department of Defense requested Budget for 2006.

TABLE 46
SAMPLES OF U.S. DEFENSE PROGRAMS OF INTEREST TO CONNECTICUT

<u>Item</u>	<u>Contractor</u>	<u>Component</u>	<u>Budget FFY 2005 (\$M)</u>	<u>Proposed 2006 by DoD (\$M)</u>	<u>Quantity</u>	
UH-60 Blackhawk Hel.	Sikorsky Aircraft	Prime Contractor for production	\$639.8	\$733.1	38 in 2005 & 41 in 2006	(a)
MH-60R Helicopter	Sikorsky Aircraft	Prime Contractor for airframe dev. and production	\$444.6	\$602.6	6 in 2005 & 12 in 2006	(a)
MH-60S- Helicopter	Sikorsky Aircraft	Prime Contractor for production	\$480.4	\$629.9	15 in 2005 & 26 in 2006	(a)
C-17 Airlift Aircraft	Pratt & Whitney	Engine production	\$4,258.5	\$3,662.9	15 in 2005 & 15 in 2006	(a) (b)
F-15E Eagle Fighter	Pratt & Whitney	Prime Contractor for engine	\$447.4	\$276.1	N/A	(a)
F-16 Falcon Fighter	Pratt & Whitney	Prime Contractor for engine	\$453.2	\$536.7	N/A	(c)
F/A-22 Raptor Fighter	Pratt & Whitney	Engine production	\$4,682.4	\$4,297.2	24 in 2005 & 25 in 2006	(d)
SSGN Submarine Conversions	Electric Boat Div. of General Dynamics	Conversion Mgr., Design, Build Conversion Kits	\$534.9	\$310.5	1 in 2005	(a) (e)
Virginia Class Submarine	Electric Boat Div. of General Dynamics	Prime Contractor, design, joint production	\$2,691.6	\$2,557.3	1 in 2005 & 1 in 2006	(a) (f)
Family of Medium Tactical Vehicles (FMTV)	Engineered Electric Co. (dba Fermont)	Diesel engine production	\$593.6	\$449.6	N/A	

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

(b) Replacement for C-141.

(c) Joint venture with General Electric.

(d) To replace F-15 aircraft.

(e) Conversion of 4 SSBG Trident submarines to SSGN cruise missile submarines.

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(f) Will replace retiring submarines. At this time, five are planned between 2004 and 2008.

Source: U.S. Department of Defense

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

TABLE 47
SAMPLES OF RECENT DEFENSE CONTRACTS AWARDED TO STATE FIRMS
NOT RELATED TO TRANSPORTATION EQUIPMENT MANUFACTURING

<u>Contractor</u>	<u>Work Location</u>	<u>Date of Award</u>	<u>Amount (\$Mill.)</u>	<u>Type of Work</u>	<u>Completion</u>
Arch Chemicals, Norwalk	Norwalk, CT Lake Charles, LA	3/29	\$148.8	Produce, store, distribute and handle hydrazine	3/2025
Select Energy, Berlin	Various	6/29	\$56.8	Supply natural gas	9/2008
Colt Defense, LLP, Hartford	West Hartford, CT	8/4	\$52.5	Supply 50,881 M4 carbines	9/2006
Select Energy, Berlin	Various	11/8	\$44.4	Supply electricity	12/2006
Nufern, East Granby	East Granby, CT	5/27	\$25.0	R & D for high power/high energy fiber laser applic's	8/2011
Connecticut Center for Advanced Technology, East Hartford	East Hartford, CT	5/17	\$20.4	Generation of national leadership in technology and defense supply chain	12/2007
Kongsberg Maritime Simulations, Inc., West Mystic	West Mystic, CT	9/26	\$12.1	Supply training and support systems	9/2011
Ensign Bickford Company, Simsbury	Graham, KY	9/28	\$9.4	Supply Pyrotechnic components	9/2010
Ensign Bickford Company, Simsbury	Simsbury, CT, Graham, KY	9/21	\$8.6	Supply anti-personnel obstacle breaching systems	12/2006
On Site Gas Systems, Inc., Newington	Various	8/18	\$7.6	Supply medical oxygen generation	8/2006

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Source: U.S. Department of Defense

While defense budgets for the foreseeable future had been expected to be leaner than ten years ago, the Bush Administration has reversed the declining trend seen over most of the 1990s, especially given the wars in Afghanistan and Iraq and the war on terrorism. These conflicts can be expected to create a need for replacements for lost equipment and systems, spare parts, and new features on existing systems as new needs are identified in the ever-changing environment. Additionally, with previously awarded contracts and ongoing construction contracts for aircraft engines, helicopters and submarines, production activity in Connecticut will extend into the future.

During the 1990s, the defense industry reacted to defense cutbacks in various ways. With fewer contracts to compete for, companies consolidated, leaving fewer companies to compete for the shrinking pie. As the federal budget experienced slower growth and the defense industry consolidated through mergers, acquisitions and joint ventures, Connecticut continued to experience additional job losses, similar to other states in the northeast region. However, the pace of job reductions has slowed down as the largest defense cuts are in the past and the industry diversified into commercial markets. Former prime contractors have now become subcontractors. Companies also engaged in aggressive cost cutting measures. These moves led to severe downward pressure on employment in these industries.

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

Retail Trade in Connecticut

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

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

The Table on the following page shows the major group in each SIC code as well as the state's retail trade history for the past five fiscal years. (Retail Trade was redefined by the new North

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American Industry Classification System (NAICS) in 1997. The state is in the process of converting from the SIC system to the NAIC system).

Retail sales reflect the pulse of economic conditions: they perform strongly as the economy expands whereas they perform poorly during a recession. The following Table demonstrates the fluctuating pattern of retail sales in the state. Connecticut retail trade in fiscal 2003 totaled \$45.2 billion, a 2.8% increase.

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

<u>SIC</u>	<u>FY</u> <u>1999</u>	<u>% of</u> <u>Total</u>	<u>FY</u> <u>2000</u>	<u>FY</u> <u>2001</u>	<u>FY</u> <u>2002</u>	<u>FY</u> <u>2003</u>	<u>% of</u> <u>Total</u>
<u>A. Amounts of Retail Trade</u>							
52 Hardware Stores	2,320	5.8%	2,418	2,376	2,751	2,736	6.0%
53 General Merchandise	3,742	9.4%	3,744	3,024	4,002	4,191	9.3%
54 Food Products	6,922	17.4%	7,139	7,521	8,127	8,142	18.0%
55 Automotive Products	7,963	20.0%	8,712	8,531	8,605	8,688	19.2%
56 Apparel & Accessory	2,047	5.1%	2,195	2,237	2,274	2,105	4.7%
57 Furniture & Appliances	4,011	10.1%	4,299	3,971	3,629	3,518	7.8%
58 Eating & Drinking	2,966	7.4%	3,148	3,327	3,374	3,460	7.7%
59 Misc. Shopping Stores	<u>9,865</u>	<u>24.8%</u>	<u>10,975</u>	<u>11,247</u>	<u>11,161</u>	<u>12,329</u>	<u>27.3%</u>
Total	39,836	100.0%	42,630	42,234	43,924	45,169	100.0%
Durables (SIC 52,55,57)	14,294	35.9%	15,429	14,878	14,986	14,942	33.1%
Nondurables (All Other SIC)	25,542	64.1%	27,201	27,356	28,939	30,227	66.9%
<u>B. Change From Previous Year</u>							
							<u>FY 99-03</u> <u>Average</u> <u>Growth</u>
52 Hardware Stores	53.4%		4.2%	(1.7%)	15.8%	(0.5%)	14.2%
55 Automotive Products	4.0%		9.4%	(2.1%)	0.9%	1.0%	2.6%
57 Furniture & Appliances	(7.4%)		7.2%	(7.6%)	(8.6%)	(3.1%)	(3.9%)
Durables (SIC 52,55,57)	5.9%		7.9%	(3.6%)	0.7%	(0.3%)	2.1%
53 General Merchandise	(1.3%)		0.0%	(19.2%)	32.3%	4.7%	3.3%
54 Food Products	6.8%		3.1%	5.3%	8.1%	0.2%	4.7%
56 Apparel & Accessory	7.9%		7.2%	1.9%	1.6%	(7.4%)	2.3%
58 Eating & Drinking	6.0%		6.1%	5.7%	1.4%	2.6%	4.4%
59 Misc. Shopping Stores	4.7%		11.3%	2.5%	(0.8%)	10.5%	5.6%
Nondurables (All Other SICs)	4.7%		6.5%	0.6%	5.8%	4.5%	4.4%
Total	5.1%		7.0%	(0.9%)	4.0%	2.8%	3.6%

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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 slowdown in income growth or become concerned about future employment and income stream prospects.

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 durable goods had a minimal 0.3% decline in fiscal 2003, after a 0.7% increase in 2002.

Sales by hardware stores (SIC 52), which include establishments selling lumber and building materials, paint, wallpaper, and hardware registered \$2.74 billion in fiscal 2003, a 0.5% decrease from fiscal 2002, with sales of lumber and building materials increasing 1.8% to \$2.17 billion. Although the State's non-agricultural employment started falling in July 2000 and continued through the end of fiscal year 2003, a historically low inflation rate coupled with favorable mortgage interest rates and the shift of investment dollars from equities into the housing market created a strong demand for new and existing housing.

Sales in the general merchandise category (SIC 53) were \$4.19 billion, an increase of 4.7% from \$4.00 billion in fiscal 2002. General merchandise includes three types of department stores. These are national chain stores such as Sears, conventional stores such as Filenes, and discount stores such as Wal-Mart and Target. These merchandise stores carry a diverse range of commodities, including items such as appliances, radios, TVs, home furnishings, household linens, dry goods, and a general line of apparel. A sharp increase in sales at general merchandise stores reflects the ferocious competition in pricing and the continued evolution of product sources in this industry. While consumers have become more value-conscious, the industry has strived to restructure itself by establishing more attractive discount stores and “super stores” with products that are mainly produced in countries with lower labor costs. Super stores such as Sam’s Club and Costco combine a traditional discount store with a supermarket. In addition, the emergence of large discount retail companies carrying a full product line in a focused category of goods has also increased competition with local stores.

Sales by food product stores (SIC 54), which include establishments selling meat, fish, fruit, dairy products, as well as candy and confectionary products for home preparation and consumption, registered \$8.14 billion in fiscal 2003, up 0.2% from \$8.13 billion in fiscal 2002. Sales in dairy products stores increased 34.7% to \$0.02 billion, followed by increases of 19.8% in cannery & confectionary stores to \$1.41 billion, and 9.3% in miscellaneous food stores to \$0.3

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billion. Fruit and vegetable stores as well as retail bakeries also had minimal increases in sales of 3.7% and 0.5% respectively. In contrast, sales by meat and fish market stores fell 17.7% to \$0.07 billion in fiscal 2003, followed by a decline of 3.7% at grocery stores that registered \$6.2 billion. Sales at retail bakeries continued to lose ground to the super-grocery stores. Food products are necessary goods; therefore, consumption is less affected by economic conditions.

Sales of automotive products (SIC 55) were \$8.69 billion, a scant 1.0% increase from the \$8.60 billion in fiscal 2002. Automotive product stores play an important role in the retail industry, generating approximately 20% of total retail trade. Auto dealers include new and used passenger cars, light trucks, and other vehicles such as boats and motorcycles, as well as recreational trailers and campers. The increase in fiscal 2003 sales mostly reflected activity at dealers of new and used cars, recreation and utility trailers, and motorcycles.

Increased demand for minivans and light trucks, which offer both recreational and utility features with increased capacities for passengers, load-carrying, towing, and four-wheel drive functions, continued to help boost new car sales. In addition the introduction of crossover vehicles that feature an SUV on car platforms have started to create another wave of buyer interest. Minivans and light trucks, which have gained popularity at the expense of station wagons and sedans, are estimated to account for 52.4% of 2002 model sales, up from 49.1% in 2001.

Sales by apparel and accessory stores (SIC 56) were \$2.11 billion in fiscal 2003, down 7.4% from fiscal 2002. Apparel and accessory stores include establishments for men's & boys' clothing, women's clothing, women's accessory & specialty goods, children's & infants' wear, family clothing and shoes. Sales in men's & boys' stores, women's accessory & specialty, and miscellaneous stores showed growth in fiscal 2003, up 0.5%, 3.2%, and 11.4% respectively. On the other hand, sales in women's stores, children & infants, family clothing stores and shoe stores dropped, falling 1.6%, 9.4%, 18.5% and 8.3% respectively.

Sales by home furniture and appliance stores (SIC 57) registered \$3.5 billion in fiscal 2003, down 3.1% from \$3.6 billion in fiscal 2002. These establishments are comprised of computer and software stores, furniture stores, and home furnishing stores. Sales by home improvement related stores increased, while sales of computer related items fell significantly, reflecting mixed business conditions in a sagging economy. Sales at computer and software stores fell 27.2% to \$0.41 billion, caused by poor sales, deep price cuts, and the ability to custom order computers through the Internet. Sales also declined at record stores (17.8%) and household appliance stores (14.1%). Sales increases were registered in drapery (16.2%), radio, TV & electronics (10.4%) furniture stores (5.0%), and at floor covering stores (2.8%).

Sales by eating and drinking establishments (SIC 58) were \$3.5 billion in fiscal 2003 up 2.6% from fiscal 2002. Of the total, sales in eating places were \$3.3 billion, up 2.6% from \$3.2 billion in fiscal 2002. Sales in drinking places rose by 1.6% to \$0.15 billion.

Sales by miscellaneous shopping stores (SIC 59) were \$12.3 billion in fiscal 2003, up 10.5% from fiscal 2002. Miscellaneous shopping stores include a wide range of stores such as drugs, liquor & cigar, sporting goods, books and stationery, jewelry, gifts and souvenirs, catalog and mail order, direct selling organizations, optical goods, and other miscellaneous retail in arts, pet foods, and telephones, etc. Sales at jewelry stores increased a dramatic 53.6%. Sales also

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increased at fuel dealers (32.4%), luggage stores (8.4%), and liquor stores (5.2%). In contrast, sales at gift novelty & souvenir stores declined 47.0%, followed by decreases at news dealers (16.8%), cigar shops (16.7%), florists (12.7%), and specialty stores (6.3%).

As people become more conscientious about their health and the population ages, demand for nutritional supplements (such as vitamins or herbal drugs and medicines for preventive purposes) and fitness & exercise equipment has increased. Sales by drug stores reflected this trend, growing 44.3% in fiscal 2003. Although the need for health care drugs and supplements grows with an aging population, drug stores at the same time face fierce competition. Traditional and chain drug stores have been yielding market share to supermarkets and discount stores. Sales by direct selling organizations such as Amway and Tupperware continued to grow, up 28.9% to \$1.3 billion in fiscal 2003 while sales by mail order houses fell 14.9% to \$0.73 billion.

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

U.S. Supreme Court rulings forbid states from forcing retailers to collect sales tax unless the seller 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 2005 national retail e-commerce sales are estimated at \$77.1 billion, accounting for 2.1% of total retail sales of \$3,645.0 billion. Retail transactions through the Internet have increased much faster than traditional brick and mortar sales. E-commerce retail sales rose 23.3% in fiscal 2005 compared to a 3.4% increase for traditional retail sales. The estimate of e-commerce sales does not include travel agencies, financial services, manufacturers, and wholesalers.

Sales via the Internet continue to grow at a brisk pace. According to the Bureau of Census, national e-commerce retail sales in the third quarter of 2005 were up 26.7% from the same period a year ago. Retail e-commerce sales in Connecticut were estimated at \$1.45 billion in fiscal 2005. 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, it was estimated that Connecticut lost between \$227 and \$236 million in state and local revenue in 2003 due to e-commerce. With most residents failing to file use taxes for the purchase of goods and services made over the Internet, along with the increase in on-line businesses, future sales tax losses are inevitable.

Currently, a joint effort by state and local governments as well as the private sector on the Streamlined Sales Tax Project (SSTP) has been undertaken, aimed at fundamentally restructuring the national sales tax system by creating a uniform taxable base and simplifying

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tax administration among the states. As of February 2005, 21 of the 44 states who have authorized the participation in SSTP have enacted legislation to fully comply with the Streamlined Sales Tax Implementing States Agreement. Connecticut is currently a participant state. If enough states make the required changes to their tax codes to bring about national uniformity, it will be one less legal obstacle for states to face in collecting revenue from Internet transactions. Momentum for the project is likely to grow as many states confront the erosion in their sales tax base over the next several years. The likelihood of Congressional action on the issue also increases as more states adopt the streamlined approach.

Retail trade as a percentage of disposable income in Connecticut decreased to 35.7% in 2003, down from 36.6% in 2002. 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 \$36,313 in 2003 was 30% above the national average of \$27,391. In 2003, Connecticut per capita retail trade was estimated at \$12,968. With the highest per capita disposable income in the nation, continued overall 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 5 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 Table on the following page shows 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. As mega-sized discount and chain stores continued to grow and on-line order accessibility increased, markets became more competitive, forcing average sized retailers out of business. Aside from the expansion of catalog marketing, electronic retailing has exploded, shifting sales away from in-state retailers and putting smaller family-run operations out of business. The greater availability of electronic devices that provide more efficient market information and offer convenient shopping alternatives only exerts mounting pressure on the local "main street" businesses.

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

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TABLE 49
RETAIL SALES IN CONNECTICUT BY COUNTY

	Sales (\$M)	% of Total	Number of Employees	Per Employee Sales (\$ 000's)	Employees Per Establish.	Number of Establish.	Annual Payroll (\$M)	% of Total
A. 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	

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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"

Table 50 uses the most recently collected data from 2002 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 50
RETAIL SALES, INCOME AND POPULATION BY COUNTY**

	Retail Sales	Personal Income (\$B)			Population (000's)		
	% Change '97 to '02	1997	2002	% Change '97 to '02	1997	2002	% Change '97 to '02
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 business tends mostly to be sole proprietorships and partnerships, and, to a lesser extent, corporations. These organizations range from "mom & pop" stores to high-tech

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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 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 2001, the latest year for which complete, consistent and comparable data is available, among the total 92,105 establishments employing 1,555,214 persons in Connecticut, small businesses with fewer than 100 employees accounted for 82.5% of total establishments and 35.7% 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 through the 1990s.

The Table also shows that, in 2001, small business firms played almost an equally important role in the nonmanufacturing sector as in manufacturing. Businesses with more than 500 employees accounted for 49.1% of total employment in nonmanufacturing, compared to 54.3% 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. During this period, the employment increase was solely in the nonmanufacturing sector which continually absorbed the outflow from the manufacturing sector, further shifting the economic activity of the state toward services. During this time, the percentage of all manufacturing firms which had 500 or more employees fell from 63.7% in 1992 to 54.3% in 2001, while the percentage of all nonmanufacturing firms which had 500 or more employees rose from 45.5% in 1992 to 49.1% in 2001. This more pronounced decrease in the employment in larger manufacturing firms could be explained by

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a move to permanent downsizing and outsourcing, thus becoming more productive. It is cheaper for larger firms to outsource more work to smaller firms and reduce their costs of sudden and drastic changes in labor requirements. The relatively larger increases in employment seen in the larger nonmanufacturing firms could be the result of a maturing of the service industries and the resulting consolidation of some services into larger firms.

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

Calendar Year	<u>1-4</u>	<u>5-9</u>	<u>10-19</u>	<u>20-99</u>	<u>100-499</u>	<u>500&up</u>	<u>Total</u>
A. Employment							
	Manufacturing Employment						
1992	4.0	6.7	12.4	45.1	49.8	207.5	325.6
2000	3.5	6.1	12.1	44.3	40.8	125.9	232.8
2001	3.5	6.0	12.1	44.2	40.8	126.7	233.2
(# Change, 92-01)	(0.6)	(0.8)	(0.3)	(0.9)	(9.1)	(80.8)	(92.4)
(% Growth, 92-01)	(13.9%)	(11.4%)	(2.5%)	(2.0%)	(18.2%)	(38.9%)	(28.4%)
(% Growth, 92-00)	(12.5%)	(8.6%)	(1.8%)	(1.9%)	(18.1%)	(39.3%)	(28.5%)
(% Growth, 00-01)	(1.6%)	(3.0%)	(0.7%)	(0.2%)	(0.1%)	0.7%	0.2%
	Nonmanufacturing Employment						
1992	73.9	82.7	93.1	195.2	146.8	494.9	1,086.6
2000	72.9	85.5	101.9	227.2	181.2	644.8	1,313.5
2001	72.0	84.7	100.9	231.2	184.5	648.8	1,322.0
(# Change, 92-01)	(1.9)	2.0	7.7	36.0	37.7	153.9	235.4
(% Growth, 92-01)	(2.6%)	2.4%	8.3%	18.5%	25.7%	31.1%	21.7%
(% Growth, 92-00)	(1.3%)	3.3%	9.4%	16.4%	23.4%	30.3%	20.9%
(% Growth, 00-01)	(1.3%)	(0.9%)	(1.0%)	1.8%	1.8%	0.6%	0.7%
	Total Employment						
1992	77.9	89.5	105.5	240.3	196.6	702.5	1,412.2
2000	76.4	91.6	114.1	271.4	222.0	770.6	1,546.3
2001	75.4	90.7	112.9	275.4	225.2	775.5	1,555.2
(# Change, 92-01)	(2.5)	1.2	7.4	35.1	28.6	73.0	143.0
(% Growth, 92-01)	(3.2%)	1.4%	7.1%	14.6%	14.5%	10.4%	10.1%
(% Growth, 92-00)	(1.9%)	2.4%	8.1%	13.0%	12.9%	9.7%	9.5%
(% Growth, 00-01)	(1.3%)	(1.0%)	(1.0%)	1.5%	1.4%	0.6%	0.6%
B. Total Establishments							
2001	44.2	14.0	8.9	8.9	3.9	12.2	92.1
C. Distribution of Establishments & Employment, 2001							
Establishments	48.0%	15.2%	9.6%	9.7%	4.2%	13.3%	100.0%
Cumulative	48.0%	63.2%	72.8%	82.5%	86.7%	100.0%	

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Total Employment	4.9%	5.8%	7.3%	17.7%	14.5%	49.9%	100.0%
Cumulative	4.9%	10.7%	17.9%	35.7%	50.1%	100.0%	
Nonmfg Employ.	5.4%	6.4%	7.6%	17.5%	14.0%	49.1%	100.0%
Cumulative	5.4%	11.9%	19.5%	37.0%	50.9%	100.0%	

Note: Totals may not add due to rounding.

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

Manufacturing employment in Connecticut has continued on a downward trend through the 1990s since its peak in 1984. The loss of manufacturing employment occurred across the board with the smallest decrease in smaller firms which are not as susceptible to the vagaries of the economy. They are generally less capitalized and managed by family owners or by a joint venture operated by closely related members. These businesses are more self-sustaining and are willing to bear greater cost pressures, making them relatively recession proof and less mobile geographically. Large manufacturing businesses have been more responsive to economic conditions by adjusting their workforce size or moving. The downward trend is a common phenomenon for states in the Northeast because of unique regional economic factors. The decline has been more rapid until recently, spurred by globalization, deregulation, technology improvements, and budget cuts. These factors create more competition in the already fiercely competitive marketplace, resulting in lower employment in the manufacturing sector.

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

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

For more information, please write or contact the following:

Connecticut Economic Resource Center, Inc.
805 Brook Street

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Rocky Hill, CT 06067
1-(800)-392-2122

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

Nonfinancial Debt

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

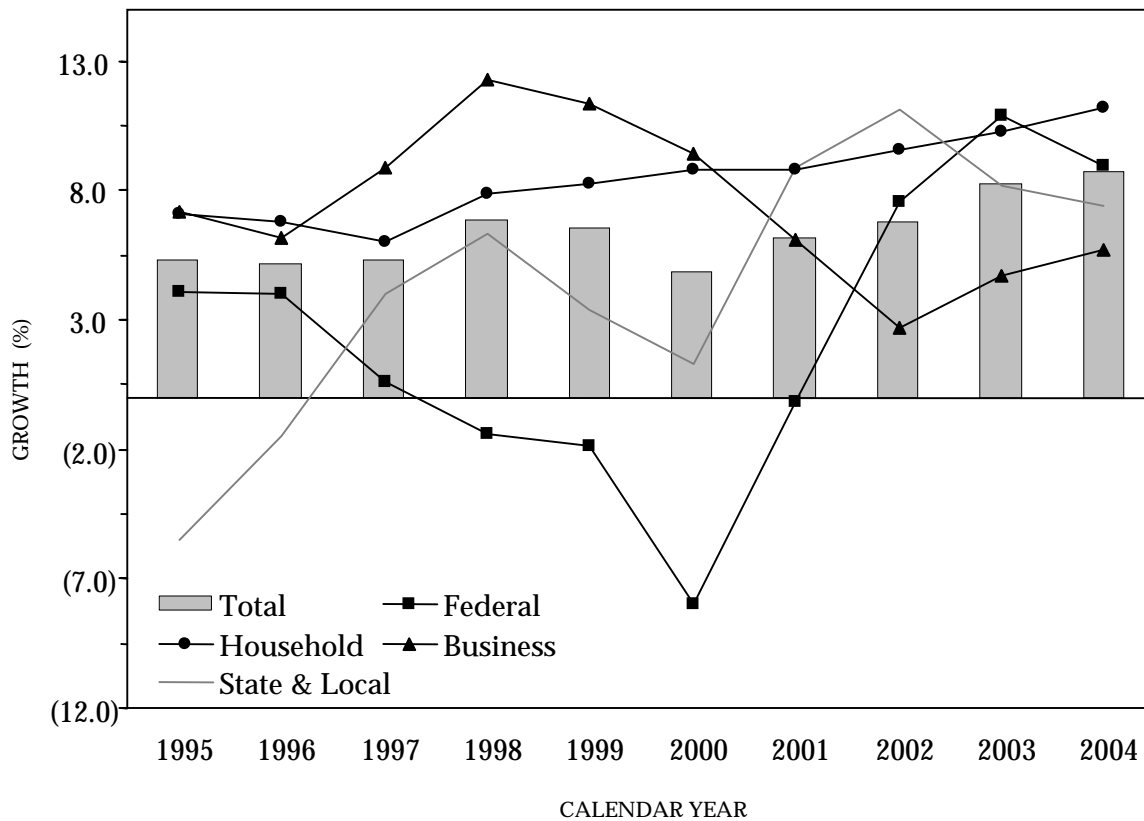
The Chart on the following page depicts the 10-year growth history for total DNFD and each of its components. Growth in total DNFD, which registered double-digit growth rates in the mid 1980s, slowed to an average of 6.4% in the past 10 years. It grew 8.7% in 2004, compared to 8.3% in 2003. Among the four components, the growth in public debt, including federal government as well as state and local government, slowed, while the private sector, including household and nonfinancial businesses, accelerated in 2004. Growth in household debt continued at a brisk pace, growing 11.2% after climbing 10.3% in 2003 as households kept on taking advantage of favorable interest rates. The 4-decade low in mortgage rates spurred strong demand for housing. Growth in the business sector continued for the second year after declining for four years, reflecting a sharp increase in commercial mortgages and corporate bonds. The slow growth of debt outstanding in the public sector for both at the federal as well as the state and local levels was due to an improvement in financial conditions. Details for each sector are described below.

In 2004, according to the Federal Reserve, the seasonally adjusted year-end total domestic nonfinancial debt outstanding was \$24,180.4 billion, with households accounting for 42.4% of the total, nonfinancial businesses at 32.4%, the federal government at 18.2%, and state and local governments at 6.9%. 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 outstanding in the household and nonfinancial business sectors accounted for 74.9% of the total in 2004, up from 65.8% for 1995. Among the four categories, the household sector grew 110.6% in the past decade, followed by nonfinancial business at 90.6%; state and local governments at 60.3%; and the federal government at 20.9%, compared to an increase of 76.9% for total debt balances.

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The DNFD-to-GDP ratio stood at 206.1% in 2004, up from 181.9% in 2000, 185.6% in 1990 and 140.9% in 1980, implying a faster growth in nonfinancial debt than GDP in the past two decades. 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 late 1990s as federal debt fell, which was accompanied by more robust GDP growth. However, the ratio increased lately, resulting from an economic recovery and an accommodative monetary policy.

GROWTH OF INDEBTEDNESS



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

Household Borrowing

Household borrowings, which accounted for 42.4% of total non-financial debt, include home mortgages, consumer credit, and other miscellaneous items. Growth in household borrowings has been accelerating after reaching a recent low of 6.0% in 1997, climbing to 10.3% in 2003 and to 11.2% in 2004.

Growth in household borrowings is closely related to economic and household wealth conditions. When income and wealth expand, it nurtures consumer spending and confidence,

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and then sustains consumer spending and borrowings. During the second half of the 1980s, when borrowing growth averaged 9.0%, a buildup of wealth, generated by increases in income and appreciation of real estate and stocks, as well as innovations in the financial market and remarkably low interest rates created a borrowing binge. In the first half of the 1990s, when growth averaged 6.3%, sluggish income growth, the depressed value of real estate, an uncertain economy, and increased health insurance and educational costs made consumers more cautious. In the second half of the 1990s, household borrowings climbed to 7.7% on average as a result of the continued strong economy, a healthy growth in income from wages, capital gains, and an appreciation in home values.

Household borrowings expanded at a 9.0% rate in the beginning of the 2000s and picked up speed well into 2003 and 2004 with a double-digit growth as the economy continued to recover. The value of stocks dropped 21% by the end of 2004 to \$10.1 trillion from their peak in the first quarter of 2000. However, due to the continued favorable mortgage rates, home values increased almost 70% to \$17.2 trillion during the same period, according to the Board of Governors of the Federal Reserve System. Continued appreciation in home values and favorable interest rates have created a vibrant housing market, helping dilute the negative wealth impact brought about by a sharp decline in the stock market. The economy continues to grow as families use home equity to finance personal spending, trade up, or invest in new construction. The ratio of net home equity to disposable personal income, one of the measures of the wealth effect, consistently increased to 1.93 in the year end of 2004, up from a ratio of 1.80 in 2003, 1.73 in 2002, and 1.49 in the first quarter of 2000. The share of net home equity, which is the value of one's home less a home mortgage, in total family net assets has become more important, increasing from 30% to 49% during the same period. In addition, as the equity markets improved from their late 2002 lows, so did the household balance sheets, greatly supporting consumer spending.

Among total household borrowings of \$10.26 trillion in 2004, home mortgage loans accounted for \$7.54 trillion, or 73.5%, followed by consumer credit at \$2.15 trillion, or 21.0%, with the remainder in other miscellaneous items. The resurgence of household borrowings primarily reflects strength in the housing market. Total outstanding home mortgages in late 2004 were up 13.5% from a year ago, following increases of 12.4% in 2003 and 11.8% in 2002 and compared to only 4.9% in 1995. Brisk demand for homes and refinancings were mainly supported by extraordinarily favorable mortgage rates and aggressive mortgage lending. Conventional 30-year fixed mortgage rates averaged 5.84% in 2004, up slightly from 5.82% in 2003, but down from the average of 7.49% between 1993 and 2002. As mortgage rates remained favorable from the historical standards, refinancing activities stayed strong. Of the total mortgage applications originated in 2004, the refinancing portion accounted for 46% of total originations, down from 65% in 2003 and up from 21% in 2000. 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 second or even third homes. In addition, the Tax Payer Relief Act of 1997, signed by President Clinton, allows tax exemption up to \$500,000 of gain for joint filers or \$250,000 for single filers. Although mortgage financings continued to rise in the U.S., the

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credit quality on residential real estate loans improved. Delinquency rates decreased to 1.56% in 2004, down from 1.83% in 2003 and 2.12% in 2002. However, a potential market correction due to a growing amount of speculative investment may result in economic instability.

Consumer credit not secured by real estate, including automobile loans, personal loans, and revolving credit (which includes credit card debt and store charges) registered \$2,151.4 billion in late 2004, an increase of 4.9% from a year ago. Consumer credit helped finance a large expansion in spending for consumer non-durables. Credit card debt continues to increase at a rapid pace as convenience and security continue to improve, and more consumers rely on credit cards for making purchases online or by telephone. Credit cards have been making inroads in the purchases of other goods and services. Use of credit cards for college expenses, medical and dental expenses, and government taxes and fees have risen sharply. The frequent flyer mileage and hotel discount programs, free car and travel insurance, as well as credits or reimbursements toward the purchase of commodities, also contributed to the rise in credit card debt. Business use of credit cards has also increased rapidly. Due to simplicity, speed and the convenience of credit cards, more small businesses use them as one of the ways to finance their operations, including leasing of items such as vehicles and computer equipment. Small-business suppliers, wholesalers, and distributors are also increasingly accepting credit cards. It is estimated that half of all small businesses used credit cards as a financing source. Credit card usage has even gained widespread penetration at the college level. Research in 2004 shows that 76% percent of college students have an average of four credit cards and carry an average balance of \$2,169. The credit quality for the household sector overall improved. Delinquency rates decreased to 4.11% in 2004, down from 4.47% in 2003 and 4.87% in 2002.

Business Borrowing

Business borrowings include debts owed by corporations, nonfarm noncorporations and farms. Total borrowings grew by 5.7% to \$7.85 trillion at the end of 2004. The bulk of the debts are owed by corporations that account for approximately 70% of the total. Corporate borrowings grew by 4.8% to \$5.19 trillion at the end of 2004. Borrowing instruments include corporate bonds, commercial paper, municipal securities, bank loans, mortgages, and others. Corporate bonds comprised the major portion of the total, accounting for 42.5%, followed by mortgages at 38.8%, and bank loans at 15.3%. Mortgages grew substantially as interest rates remained low, up 10.8% to \$2.69 trillion. Growth in corporate bonds slowed, up a scant 1.7% to \$2.95 trillion at the end of 2004.

Thanks to favorable interest rates in the past few years, corporations have replaced high cost long-term debt with shorter-maturity debt. With strong revenue growth and the rally in equity markets, corporate balance sheets have drastically improved. Growth in industrial production has surpassed that of capacity utilization in 2003. As healthy financial conditions along with elevated profit margins led to ample pent-up demand for new technologies and equipment, capital spending expanded. The corporate financing gap turned positive to \$133 billion in late 2004, the highest quarterly reading since the second quarter of 2001. The financing gap, defined as capital expenditures less the cash flow generated by firms, reflects the demand for credit in the economy. A positive financing gap will increase demand for credit and exert pressure on long-term interest rates.

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Government Borrowing

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

In fiscal 1992, the federal deficit, based on a unified budget that includes Social Security and Medicare reached its zenith at \$290.4 billion as a result of the recession that occurred between July 1990 and March 1991. It fell to \$22.0 billion in fiscal 1997. The situation continued to improve, resulting in a surplus of \$69.3 billion in fiscal 1998, the first surplus since 1969, a surplus of \$236.5 billion in fiscal 2000 and \$127.3 billion in fiscal 2001. However, deficits returned in fiscal 2002 registering \$157.8 billion, deteriorating to \$374.8 billion in fiscal 2003 and worsening to \$412.6 billion in fiscal 2004, but improved to \$318.6 billion in 2005. The turn from a consecutive 4-year surplus to deficits was due to the combination of a decline in revenue accompanied by an increase in outlays. However, receipts in 2005 increased 14.6% to \$2,154.3 billion, while outlays grew 7.9% to \$2,472.9 billion. As the federal operating budget continued to post a deficit, the national debt also increased. By the end of federal fiscal year 2005, gross debt outstanding registered \$7,932.7 billion, up 7.5% from fiscal 2004, compared to an increase of 2.3% and 0.3% in fiscal 2001 and 2000, respectively.

Of the 2005 total federal gross debt of \$7,932.7 billion, \$4,601.2 billion was held by the public and \$3,331.5 billion by intra-governmental agencies. Public holders include individuals, corporations, state or local governments, foreign governments, and other entities outside of the United States while 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 Treasury securities.

Total state and local government's debt outstanding slowed after spiking in 2002 when they experienced a fiscal hardship. It totaled \$1.68 trillion at the end of 2004, a 7.4% growth after increases of 8.2% in 2003, 11.1% in 2002, and 8.9% in 2001. This compares with its peak increase of 32.0% in 1985 and recent low of negative 5.5% in 1986. State and local government includes states, counties, municipalities and other local entities. The most recent recession caused state coffers to shrink as the increase in current expenditures exceeded the increase in current receipts. Current receipts were up 6.3% from 2003 to \$1,581.7 billion versus an increase of 5.0% to \$1,587.5 billion for current expenditures, yielding an operating deficit of \$5.8 billion, which was an improvement from a deficit of \$23.8 billion for 2003. State and local government receipts continued to improve with upturns in taxes on personal income, sales and corporate income while expenditures accelerated in social benefit payments, mainly in Medicaid.

According to the U.S. Department of Commerce's "State Government Finances," state government debt outstanding in Connecticut, from all obligations at the end of fiscal 2003, the latest available year, was \$22.50 billion, up from \$20.78 billion in 2002 and \$19.01 billion in 2001. Per capita state government debt was \$6,450, up from \$6,009 in 2002 and \$5,539 in 2001 and compared with \$2,405 for the nation, which was up from 2,234 in 2002.

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Connecticut's overall credit rating is determined by three major investment houses: Moody's Investors Service, Standard & Poor's Corporation, and Fitch Investors Service, Inc. As of the end of 2004, Connecticut's General Obligation bonds are rated Aa3 by Moody's and AA by Standard & Poor's Corporation and Fitch Investors Service, Inc.

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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 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 2004, the State of Connecticut produced \$185.8 billion worth of goods and services and \$171.5 billion worth of goods and services in 2000 chained type dollars. The Table on the following page provides a five-year comparison of nominal and real gross products for Connecticut, the New England Region and the Nation as a whole.

The output contribution of manufacturing, however, has been declining over time as the contributions of finance, insurance and real estate and services have been rapidly increasing. The share of production from the manufacturing sector decreased, caused by increased competition with foreign countries and other states as well as generally declining and only recently rising defense expenditures during this period. The broadly defined services in the private sector, which includes industries in information, professional and technical services, health care and education, FIRE and other services have increased to 62.3% of total GSP in 2004 from 61.6% in 2000. During this period, the shift toward services in Connecticut has been occurring at a slower rate than the rate for the nation as a whole. The share of service production increased 0.7 percentage points (1.1%) in Connecticut versus 1.6 percentage points

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(3.3%) for the nation. The increasing share of service production may 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 capital requirements, and somewhat less vulnerable to foreign competition. Therefore, this shift to the service sectors should smooth output fluctuations.

**TABLE 52
GROSS PRODUCT**

Calendar Year	United States *		New England *		Connecticut	
	Dollars	% Growth	Dollars	% Growth	Dollars	% Growth
A. Millions of Current Dollars						
2000	9,749,104	6.0	568,212	8.0	160,685	6.6
2001	10,058,156	3.2	584,487	2.9	165,434	3.0
2002	10,412,244	3.5	596,017	2.0	167,235	1.1
2003	10,923,849	4.9	620,136	4.0	174,085	4.1
2004	11,665,595	6.8	662,408	6.8	185,802	6.7
% Increase ('00 to '04)		19.7			16.6	27.9
B. Constant Dollars**						
2000	9,749,104	3.7	568,212	6.4	160,685	4.5
2001	9,836,571	0.9	573,703	1.0	161,595	0.6
2002	10,009,433	1.8	573,700	(0.0)	160,115	(0.9)
2003	10,289,220	2.8	588,536	2.6	164,137	2.5
2004	10,734,763	4.3	615,736	4.6	171,479	4.5
% Increase ('00 to '04)		10.1			8.4	6.7

* 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 for years 1998 and later.

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

The Table on the following page, which displays gross state product by source in 2004, shows Connecticut's production 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 42.0% of total production in Connecticut compared to 33.6% for the nation and was a decrease from 42.7% in 2000. 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.

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TABLE 53
GROSS PRODUCT BY SOURCE
(In Billions of Current Dollars)

<u>Industry</u>	----- Calendar 2000 -----				----- Calendar 2004 -----			
	<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	98.0	1.0	0.358	0.2	116.6	1.0	0.303	0.2
Construction & Mining	557.2	5.7	5.113	3.2	688.9	5.9	6.513	3.5
Manufacturing	1,426.2	14.6	20.782	12.9	1,494.0	12.8	22.652	12.2
Wholesale Trade	591.7	6.1	8.716	5.4	688.1	5.9	9.842	5.3
Retail Trade	662.4	6.8	10.379	6.5	797.6	6.8	11.507	6.2
Transportation & Utilities	490.9	5.0	2.581	1.6	579.9	5.0	3.007	1.6
Information	458.3	4.7	6.293	3.9	547.2	4.7	7.360	4.0
Finance, Insurance, Real Estate	1,931.0	19.8	47.843	29.8	2,423.7	20.8	55.286	29.8
Professional, Technical Services	675.1	6.9	12.753	7.9	792.1	6.8	13.896	7.5
Health Care & Education	678.4	7.0	13.005	8.1	903.9	7.7	16.374	8.8
Other Services	1,045.1	10.7	19.162	11.9	1,244.6	10.7	22.714	12.2
Government	1,134.8	11.6	13.700	8.5	1,389.0	11.9	16.348	8.8
Total	9,749.1	100.0	160.685	100.0	11,665.6	100.0	185.802	100.0
Broadly Defined Services		49.1		61.6		50.7		62.3
CT as a % of U.S. Total GSP			1.65			1.59		

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. The Table on the following page provides a comparison of annual nominal per capita and annual real per capita output for the United States, the New England Region and Connecticut.

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 unsteady between 2000 and 2004, suggesting that the recession in Connecticut was deeper than most of the rest of the nation and, overall, productivity in the state may not have increased as fast as earlier thought. The latest data shows that, between 2000 and 2004, Connecticut's real per capita output increased 4.1% compared to 5.8% nationally for the same period, but has remained one third higher than that of the nation.

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**TABLE 54
PER CAPITA GROSS PRODUCT**

A. In Current Dollars

Calendar Year	United States		New England		Connecticut		
	Dollars	% Growth	Dollars	% Growth	Dollars	% Growth	% of U.S.
2000	34,548	4.8	40,723	7.1	47,090	5.8	136
2001	35,279	2.1	41,612	2.2	48,186	2.3	137
2002	36,161	2.5	42,180	1.4	48,348	0.3	134
2003	37,566	3.9	43,670	3.5	49,925	3.3	133
2004	39,725	5.7	46,576	6.7	53,101	6.4	134
% Increase ('00 to '04)		15.0		14.4		12.8	

B. In 2000 Chained Dollars

Calendar Year	United States		New England		Connecticut		
	Dollars	% Growth	Dollars	% Growth	Dollars	% Growth	% of U.S.
2000	34,548	2.5	40,723	5.5	47,090	3.8	136
2001	34,502	(0.1)	40,844	0.3	47,068	(0.0)	136
2002	34,762	0.8	40,601	(0.6)	46,289	(1.7)	133
2003	35,384	1.8	41,444	2.1	47,072	1.7	133
2004	36,555	3.3	43,295	4.5	49,008	4.1	134
% Increase ('00 to '04)		5.8		6.3		4.1	

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 \$66.8 in 1998 to \$87.5 in 2003, a 31.3% increase in output per hour over the period compared to only a 12.9% 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 productivity is factored in. Per \$1 of output costs, the unit labor cost has declined from 23.7 cents in 1998 to 21.0 cents in 2003, an 11.4% reduction over the period, even while production workers have enjoyed a 16.1% increase in average hourly wages.

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

**TABLE 55
CONNECTICUT'S MANUFACTURING LABOR PRODUCTIVITY**

Cal. Year	GSP (Million)	Production Workhours (Million)	Hourly Production (Output Per Hour)	Total Wages (Million)	Average Hourly Wages	Unit Labor Cost (¢ Per \$1 Output)
1998	\$21,360	320.0	\$66.8	\$5,064.6	\$15.8	23.7¢
1999	\$20,312	298.2	\$68.1	\$4,946.5	\$16.6	24.4¢
2000	\$20,782	295.1	\$70.4	\$5,093.9	\$17.3	24.5¢
2001	\$21,313	271.3	\$78.6	\$4,807.1	\$17.7	22.6¢
2002	\$21,003	251.2	\$83.6	\$4,529.6	\$18.0	21.6¢
2003	\$21,325	243.7	\$87.5	\$4,478.2	\$18.4	21.0¢
% Increase ('98-'03)			31.3		16.1	(11.4)

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

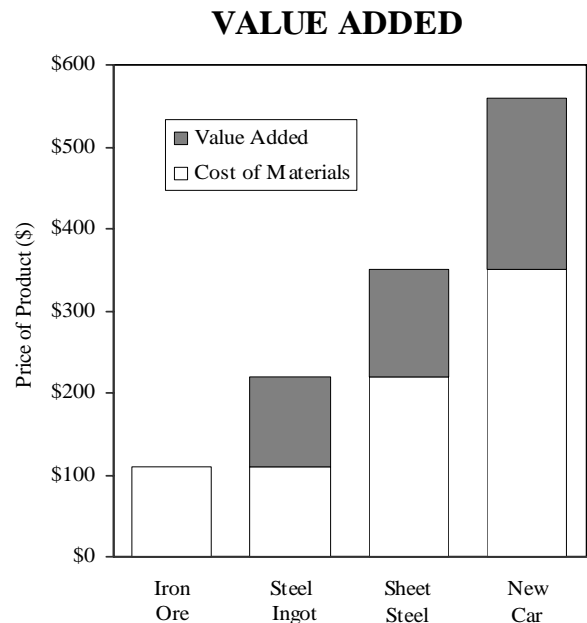
Value Added

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 206,680 manufacturing jobs between calendar year 1977 and 2003, 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 Chart illustrates the value added concept as raw materials are transformed into a new automobile.

The Table on the following page 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 2003, Connecticut's value added per production worker was 113% of the national average, up from 100% in 1977.



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TABLE 56
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 1997		Ratio of CT Value Added to U.S.
			<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
2000	189,191	165,245	5.4	9.2	5.4	9.2	1.145
2001	201,127	165,012	6.3	(0.1)	12.0	9.1	1.219
2002	219,805	182,512	9.3	10.6	22.4	20.6	1.204
2003	220,268	194,966	0.2	6.8	22.6	28.8	1.130

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

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

The following Table lists value added after removing the effects of inflation for both the United States and Connecticut. In 2003, Connecticut's value added per production worker failed to keep pace with the rate of growth in inflation as measured by the GDP deflator.

TABLE 57
VALUE ADDED PER PRODUCTION WORKER
(In Constant Dollars, 2000 = 100)

Cal. <u>Year</u>	<u>Conn.</u>	United <u>States</u>	% Change From Prior Period		Cumulative % Change From 1997		Ratio of CT Value Added to U.S.
			<u>Conn.</u>	<u>U.S.</u>	<u>Conn.</u>	<u>U.S.</u>	
1977	100,205	100,002					1.002
1982	106,536	105,943	6.3	5.6			1.006
1987	141,041	129,699	32.4	22.0			1.087
1992	165,634	141,685	17.4	8.9			1.169
1997	188,235	158,597	13.6	11.4			1.187
2000	189,191	165,245	0.5	4.2	0.5	4.2	1.145
2001	196,413	161,145	3.8	(2.5)	4.3	1.6	1.219
2002	210,966	175,172	7.4	8.7	12.1	10.5	1.204
2003	207,214	183,411	(1.8)	4.7	10.1	15.6	1.130

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

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

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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 2002 and 2003.

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

<u>Industry</u>	<u>2002</u>	<u>2003</u>	<u>% Change</u>
Manufacturing	219,805	220,268	0.2
Food	245,129	231,131	(5.7)
Printing	117,822	125,594	6.6
Paper	208,214	223,324	7.3
Chemical	1,045,239	786,976	(24.7)
Plastics & Rubber	116,389	121,375	4.3
Primary Metals	152,200	85,750	(43.7)
Fabricated Metals	127,398	125,420	(1.6)
Machinery	259,495	232,777	(10.3)
Computer & Electronic	223,670	239,588	7.1
Electrical Equipment	163,111	170,492	4.5
Transportation Equipment	296,972	357,644	20.4

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

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

Capital Expenditures

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

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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.

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

<u>Calendar</u> <u>Year</u>	<u>Connecticut</u> <u>Capital Expenditures</u>	<u>Percent</u> <u>Change</u>
1994	1,586.6	(3.5)
1995	1,517.1	(4.4)
1996	1,768.9	16.6
1997	1,867.8	5.6
1998	1,900.9	1.8
1999	1,715.9	(9.7)
2000	1,861.6	8.5
2001	1,783.2	(4.2)
2002	1,448.5	(18.8)
2003	1,242.7	(14.2)

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

Total Personal Income

Total personal income, defined as current income received by persons from all sources including public and private transfer payments but excluding transfers among persons, is a good reliable measure of economic performance. Total personal income captures the manufacturing sector through manufacturing wages; the nonmanufacturing sector through wages in government, wholesale/retail trade, utilities, transportation, mining, personal services, etc.; the private sector through proprietor's income, etc.; and a part of agricultural activity via farm properties' income. Personal income is approximately 83% 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.

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Property Income - income from Dividends, Interest and Rents.

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

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

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

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

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

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

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

According to figures provided by the U.S. Bureau of Economic Analysis, personal income to Connecticut residents during fiscal year 2005 was \$164.8 billion, a 7.3% increase over fiscal 2004. Total personal income in Connecticut increased 56.3% from fiscal 1996 to 2005. For the United States, total personal income increased 58.3%, and in the New England Region, the increase for the identical period was 59.1 %.

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

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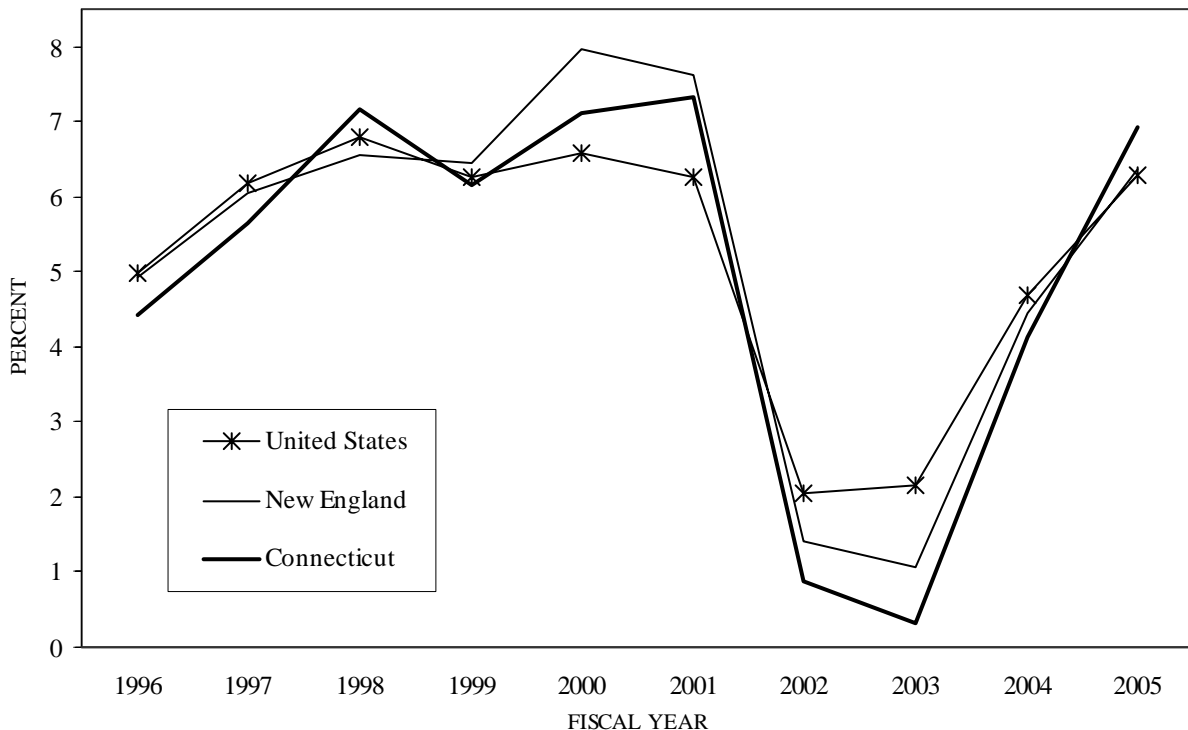
**TABLE 60
PERSONAL INCOME
(In Millions)**

Fiscal Year	United States		New England		Connecticut	
	Dollars	% Growth	Dollars	% Growth	Dollars	% Growth
1995-96	6,319,825	4.98	370,930	4.92	105,479	4.43
1996-97	6,710,217	6.18	393,404	6.06	111,444	5.65
1997-98	7,165,883	6.79	419,179	6.55	119,426	7.16
1998-99	7,614,017	6.25	446,176	6.44	126,769	6.15
1999-00	8,115,258	6.58	481,751	7.97	135,783	7.11
2000-01	8,622,191	6.24	518,388	7.61	145,744	7.34
2001-02	8,798,667	2.04	525,668	1.40	147,035	0.89
2002-03	8,988,292	2.16	531,260	1.06	147,486	0.31
2003-04	9,410,783	4.70	554,893	4.45	153,594	4.14
2004-05	10,003,283	6.30	590,272	6.38	164,243	6.93

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

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

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



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

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 57.2% of total personal income compared to 55.7% for the nation. The following Table shows a comparative study of the sources of personal income for the United States and Connecticut for a two fiscal year period.

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

	<u>FISCAL YEAR 2003-04</u>				<u>FISCAL YEAR 2004-05</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	672.0	7.1	12.3	8.0	708.7	7.1	13.0	7.9
Nonmanufacturing Salaries & Wages	4,553.0	48.4	75.5	49.2	4,863.1	48.6	80.7	49.1
Proprietors Income	857.4	9.1	16.1	10.5	911.2	9.1	17.4	10.6
Property Income	1,485.9	15.8	24.6	16.0	1,548.2	15.5	25.8	15.7
Other Labor Income	1,254.4	13.3	19.8	12.9	1,348.7	13.5	21.6	13.2
Transfer Payments Less Payments to Social Insurance	<u>588.1</u>	<u>6.3</u>	<u>5.3</u>	<u>3.5</u>	<u>623.4</u>	<u>6.2</u>	<u>5.7</u>	<u>3.5</u>
Total	9,410.8	100.0	153.6	100.0	10,003.3	100.0	164.2	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 47.6% from fiscal 1996 to 2005, compared to a national increase of 43.7% and a New England Region increase of 50.6%.

Per capita personal income in Connecticut, for the most recent fiscal year, was 13.1% higher than for the New England Region and 38.0% higher than for the United States. Connecticut's per capita personal income continues to be at a higher level than that of the nation and New England due to the concentration of manufacturing in relatively high paying manufacturing industries and major corporate headquarters within the state.

The Table on the following page shows the growth in per capita personal income for ten fiscal years for the United States, the New England Region and Connecticut. The Chart following the

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Table provides a graphic representation of the growth rates in per capita personal income for the three entities over a ten year fiscal period.

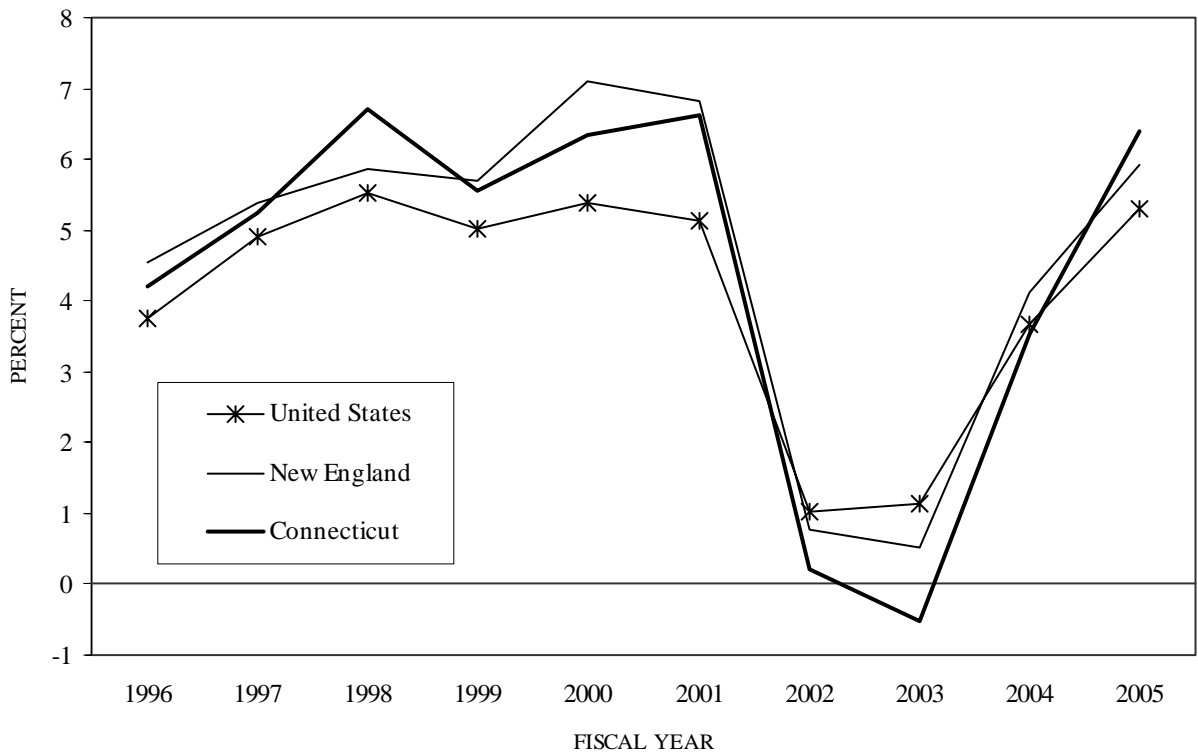
TABLE 62
PER CAPITA PERSONAL INCOME

Fiscal Year	United States		New England		Connecticut	
	Dollars	% Growth	Dollars	% Growth	Dollars	% Growth
1995-96	23,562	3.76	27,428	4.53	31,658	4.19
1996-97	24,722	4.92	28,907	5.39	33,321	5.25
1997-98	26,090	5.53	30,599	5.85	35,554	6.70
1998-99	27,404	5.03	32,338	5.68	37,528	5.55
1999-00	28,878	5.38	34,633	7.10	39,905	6.33
2000-01	30,357	5.12	36,994	6.82	42,547	6.62
2001-02	30,671	1.03	37,284	0.78	42,634	0.21
2002-03	31,024	1.15	37,473	0.51	42,417	(0.51)
2003-04	32,164	3.67	39,011	4.11	43,911	3.52
2004-05	33,868	5.30	41,315	5.91	46,734	6.40

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

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

PER CAPITA PERSONAL INCOME
FISCAL YEAR GROWTH BY PERCENT



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

The following Table shows per capita income for each of the fifty states with their corresponding ranking for fiscal year 2005. In 2005, the \$46,734 figure for Connecticut per capita personal income remained more than 38.0% higher than the national average.

TABLE 63
PER CAPITA PERSONAL INCOME BY STATE
(Fiscal 2005)

<u>State</u>	<u>Per Capita Income</u>	<u>Rank</u>	<u>State</u>	<u>Per Capita Income</u>	<u>Rank</u>
Connecticut	<u>\$46,734</u>	<u>1</u>	Ohio	\$31,856	26
Massachusetts	42,983	2	Iowa	31,643	27
New Jersey	42,689	3	Texas	31,518	28
Maryland	40,618	4	Oregon	31,315	29
New York	39,421	5	Missouri	31,253	30
New Hampshire	37,582	6	South Dakota	30,832	31
Virginia	37,341	7	Georgia	30,765	32
Colorado	37,117	8	Maine	30,673	33
Minnesota	36,765	9	Indiana	30,642	34
Delaware	36,333	10	Tennessee	30,552	35
California	35,993	11	North Dakota	30,274	36
Washington	35,837	12	North Carolina	30,033	37
Wyoming	35,463	13	Arizona	29,368	38
Illinois	35,325	14	Oklahoma	28,617	39
Nevada	35,032	15	Alabama	28,511	40
Rhode Island	35,016	16	Montana	28,488	41
Alaska	34,945	17	Louisiana	27,952	42
Pennsylvania	34,153	18	South Carolina	27,859	43
Hawaii	33,637	19	Kentucky	27,818	44
Nebraska	32,908	20	Utah	27,688	45
Wisconsin	32,807	21	Idaho	27,618	46
Michigan	32,498	22	New Mexico	26,923	47
Vermont	32,495	23	West Virginia	26,432	48
Florida	32,350	24	Arkansas	26,319	49
Kansas	31,865	25	Mississippi	25,044	50
U.S. Average	\$33,868				

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 2005.

TABLE 64
PER CAPITA DISPOSABLE PERSONAL INCOME BY STATE
(Fiscal 2005)

<u>State</u>	Per Capita Disposable <u>Income</u>	<u>Rank</u>	<u>State</u>	Per Capita Disposable <u>Income</u>	<u>Rank</u>
Connecticut	\$39,393	1	Nebraska	\$28,902	26
New Jersey	36,929	2	Iowa	28,489	27
Massachusetts	36,905	3	Ohio	28,455	28
Maryland	34,789	4	Kansas	28,414	29
New Hampshire	34,077	5	Tennessee	28,293	30
New York	33,426	6	Texas	28,194	31
Colorado	32,699	7	Missouri	28,131	32
Washington	32,635	8	Maine	27,943	33
Delaware	32,366	9	Indiana	27,547	34
Minnesota	32,155	10	Georgia	27,274	35
Alaska	31,938	11	Oregon	26,949	36
Wyoming	31,902	12	North Carolina	26,778	37
Virginia	31,841	13	Arizona	26,153	38
California	31,446	14	Oklahoma	26,069	39
Illinois	31,130	15	Alabama	25,979	40
Nevada	30,631	16	Louisiana	25,806	41
Rhode Island	30,607	17	Kentucky	25,380	42
Vermont	30,447	18	Idaho	25,255	43
Pennsylvania	30,395	19	South Carolina	25,124	44
North Dakota	29,846	20	Montana	24,873	45
South Dakota	29,647	21	Utah	24,598	46
Hawaii	29,442	22	New Mexico	24,467	47
Wisconsin	29,229	23	West Virginia	24,263	48
Michigan	29,160	24	Arkansas	24,055	49
Florida	28,970	25	Mississippi	23,369	50
U.S. Average	\$30,034				

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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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 for certain services such as education and hospitals.

Inflation and Its Effect On Personal Income

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

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

The following Table shows the Consumer Price Index for All Urban Consumers and its growth over a ten 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>
1995-96	154.5	2.73
1996-97	158.9	2.84
1997-98	161.8	1.79
1998-99	164.5	1.73
1999-00	169.3	2.88
2000-01	175.1	3.43
2001-02	178.2	1.75
2002-03	182.1	2.21
2003-04	186.1	2.19
2004-05	191.7	3.00

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

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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.

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
1995-96	4,090,285	2.24	240,071	2.14	68,268	1.66
1996-97	4,222,907	3.24	247,580	3.13	70,135	2.73
1997-98	4,430,163	4.88	259,153	4.67	73,834	5.27
1998-99	4,627,171	4.44	271,149	4.63	77,040	4.34
1999-00	4,793,744	3.56	284,582	4.95	80,206	4.11
2000-01	4,924,158	2.73	296,052	4.04	83,234	3.78
2001-02	4,938,442	0.27	295,043	(0.34)	82,527	(0.85)
2002-03	4,935,714	(0.05)	291,728	(1.12)	80,988	(1.86)
2003-04	5,057,051	2.45	298,183	2.21	82,536	1.91
2004-05	5,218,906	3.19	307,955	3.28	85,667	3.81

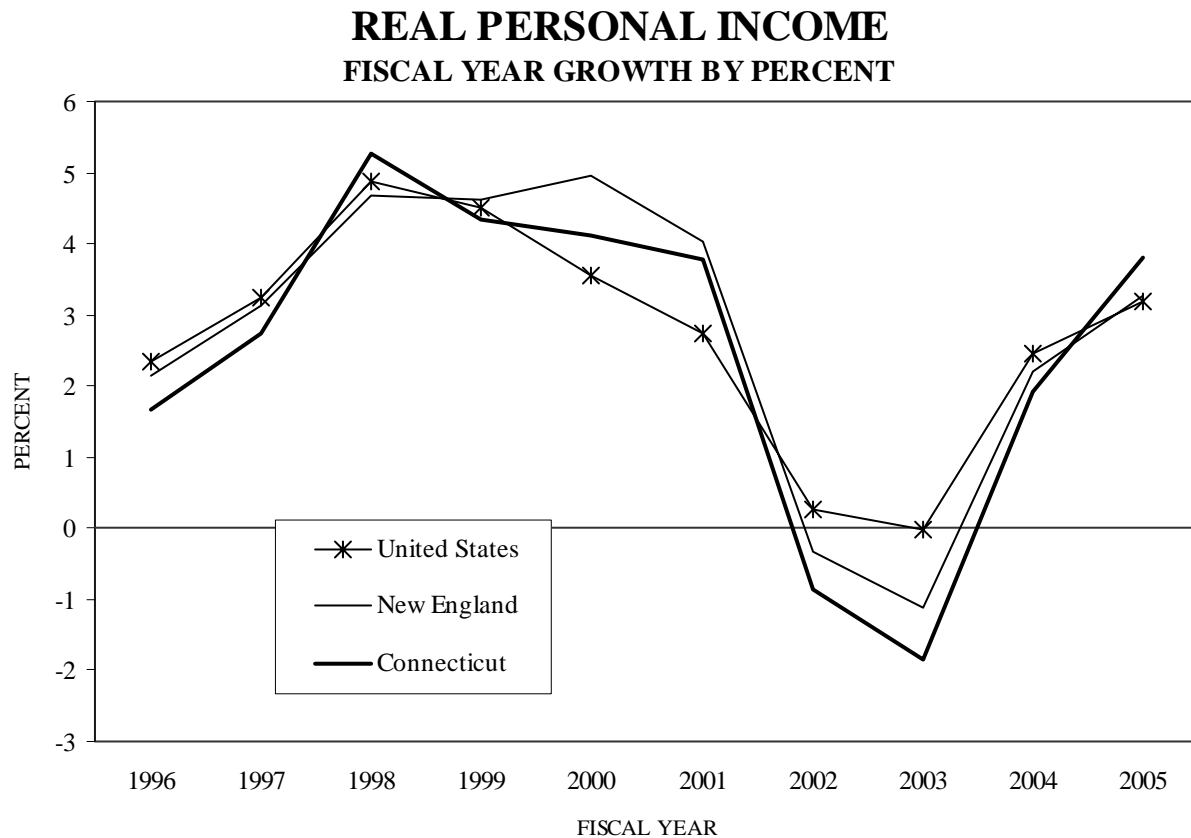
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

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.

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



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

Real Per Capita Personal Income

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

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

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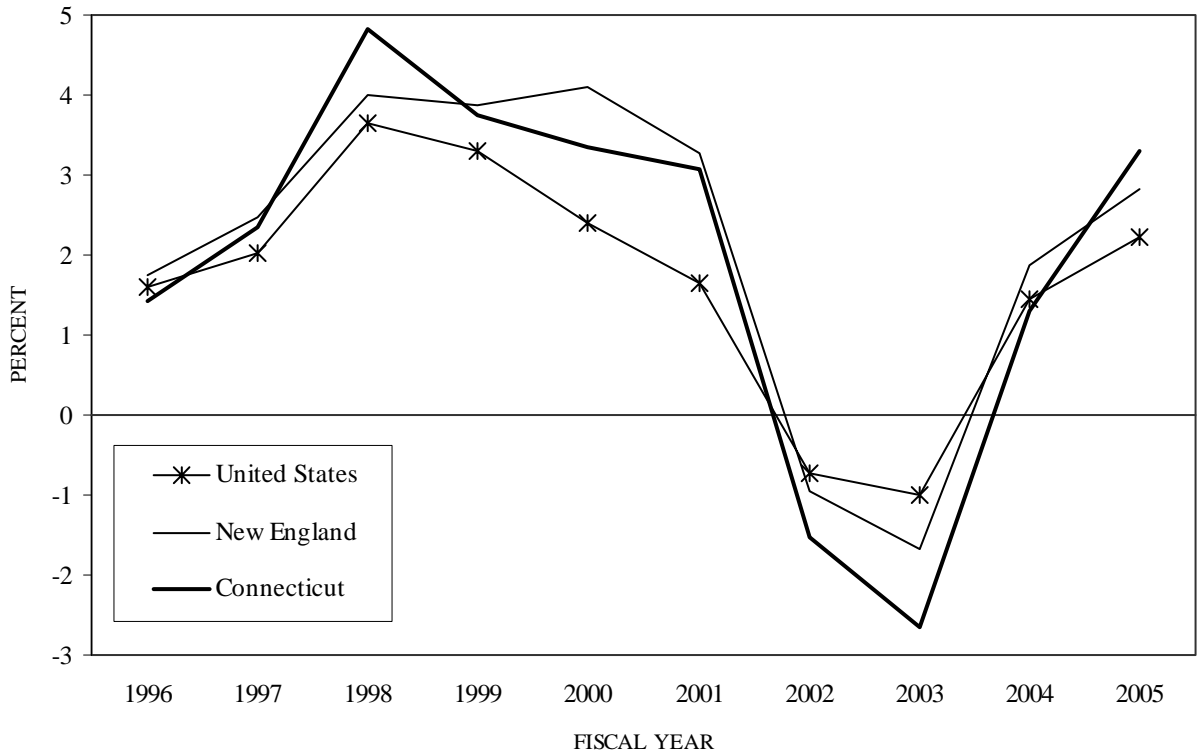
**TABLE 67
REAL PER CAPITA PERSONAL INCOME**

Fiscal Year	United States		New England		Connecticut	
	Dollars	% Growth	Dollars	% Growth	Dollars	% Growth
1995-96	15,250	1.60	17,752	1.75	20,490	1.42
1996-97	15,558	2.02	18,192	2.48	20,970	2.34
1997-98	16,125	3.64	18,918	3.99	21,981	4.82
1998-99	16,659	3.31	19,652	3.88	22,806	3.76
1999-00	17,057	2.39	20,457	4.10	23,572	3.36
2000-01	17,337	1.64	21,127	3.28	24,299	3.08
2001-02	17,214	(0.72)	20,927	(0.95)	23,929	(1.52)
2002-03	17,034	(1.01)	20,577	(1.67)	23,292	(2.66)
2003-04	17,283	1.45	20,964	1.88	23,596	1.30
2004-05	17,667	2.22	21,555	2.82	24,379	3.31

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

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

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



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

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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 Cost of Living Index, produced by the American Chamber of Commerce Research Association (ACCRA), is available for approximately 300 Metropolitan Statistical Areas (MTSAs), Metropolitan Divisions (MDs), and Micropolitan Statistical Areas (MPSAs). In addition to the original MTSA, four new statistical areas (MD, MPSA, Combined Statistical Area, and Metropolitan New England City and Town Area) were defined and published on December 27, 2000 by the U.S. Office of Management and Budget (OMB). Pursuant to U.S. laws, the OMB is required to conduct reviews of statistical area standards and definitions once a decade. On June 6, 2003, OMB announced lists of statistical areas based on 2000 Census Bureau Data. In Connecticut, the ACCRA survey includes the four urban areas from the following MTSAs: Stamford in the Bridgeport-Stamford-Norwalk MTSA, Hartford in the Hartford-West Hartford-East Hartford MTSA, New Haven in the New Haven-Milford MTSA, and New London in the Norwich-New London MTSA.

The following Table shows the cost of living comparison for three neighboring cities: Boston in the Boston-Quincy MD, Hartford in the Hartford-West Hartford-East Hartford MTSA, and New York (Manhattan) in the New York-White Plains-Wayne NY-NJ MD in the second quarter of 2005.

TABLE 68
COMPARISON OF COST OF LIVING

<u>2nd Quarter 2005</u> <u>MTSA/MD</u>	<u>Composite</u> <u>Index</u>	<u>Grocery</u> <u>Items</u>	<u>Housing</u>	<u>Utilities</u>	<u>Transportation</u>	<u>Health</u> <u>Care</u>	<u>Misc.</u>
Hartford, CT	120.9	117.0	143.1	127.2	106.1	119.3	106.1
Boston, MA	137.4	115.2	176.6	131.4	107.9	129.8	123.2
New York, NY	202.1	130.7	369.4	151.3	108.9	130.6	136.7
Index Weights	100%	13%	29%	10%	9%	4%	35%

Source: The American Chamber of Commerce Research Association, "ACCRA Cost of Living Index", Second Quarter 2005

The Cost of Living Composite Index is weighed by a "market basket" of approximately 60 goods and services for the typical mid-management household. It is further broken down into six categories including grocery items, housing, utilities, transportation, health care, and other. The index for the Hartford area, for example, for the second quarter of 2005 was 120.9

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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 20.9%. Among the six categories, the cost of housing in the Hartford area was the most expensive item, a full 43.1% higher than the national average, while the transportation and miscellaneous goods and services is approximately 6% higher than the national average. The index, updated quarterly, does not measure tax differentials.

In the second quarter of 2005, numerous cities had a relatively higher cost of living than the Hartford area. These include, for example, New York City (Manhattan) at 202.1; San Francisco, California at 179.5; and Boston, Massachusetts at 137.4. The cost of living in the Hartford area was collectively on par with Providence, Rhode Island and Philadelphia, Pennsylvania, which both registered at 125.4. 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 current mid-management lifestyle, other things being equal, his or her after-tax income level has to increase by 67.2%, $(202.1-120.9)/120.9$, 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 40.2%, $(120.9-202.1)/202.1$, 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 2005, ACCRA recorded the cost of living for the Stamford area at 145.6, New Haven at 123.8, and New London at 119.3, compared to 120.9 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 69
COMPARISON OF COST OF LIVING IN CONNECTICUT
Hartford, New Haven, New London, and Stamford MTSAs

2 nd Quarter 2005 <u>MTSA</u>	Composite <u>Index</u>	Grocery <u>Items</u>	<u>Housing</u>	<u>Utilities</u>	<u>Transportation</u>	Health <u>Care</u>	<u>Misc.</u>
Hartford	120.9	117.0	143.1	127.2	106.1	119.3	106.1
New Haven	123.8	124.2	148.3	109.7	98.3	123.1	106.5
New-London	119.3	110.0	137.7	117.9	107.2	111.7	108.8
Stamford	145.6	110.1	218.9	123.5	118.2	113.2	115.3

Source: The American Chamber of Commerce Research Association, "ACCRA Cost of Living Index", Second Quarter 2005

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THE MAJOR REVENUE RAISING TAXES IN THE STATE OF CONNECTICUT

In fiscal 2005, Connecticut's General Fund derived 73 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 2003. The Table shows overall state tax collections as a percentage of personal income. In the Table, note that Connecticut ranks 24th, signifying that in 23 other states a greater percentage of an individual's income is going for state taxes than in Connecticut.

TABLE 70
STATE TAX COLLECTIONS AS A PERCENTAGE OF PERSONAL INCOME
Fiscal 2003

<u>State</u>	<u>Percentage</u>	<u>Rank</u>	<u>State</u>	<u>Percentage</u>	<u>Rank</u>
Hawaii	9.60	1	Indiana	6.41	26
Vermont	8.34	2	Kansas	6.35	27
Minnesota	8.27	3	Massachusetts	6.24	28
West Virginia	8.24	4	New York	6.21	29
Arkansas	7.95	5	Ohio	6.10	30
New Mexico	7.90	6	Nevada	6.01	31
Delaware	7.82	7	Iowa	5.99	32
Kentucky	7.76	8	Pennsylvania	5.99	33
Wyoming	7.70	9	South Carolina	5.98	34
Mississippi	7.59	10	New Jersey	5.93	35
Michigan	7.41	11	Arizona	5.89	36
Wisconsin	7.33	12	Oregon	5.65	37
Maine	7.25	13	Alabama	5.50	38
North Carolina	6.84	14	Maryland	5.44	39
California	6.82	15	Georgia	5.43	40
Idaho	6.75	16	Tennessee	5.40	41
Utah	6.74	17	Illinois	5.40	42
North Dakota	6.71	18	Florida	5.40	43
Rhode Island	6.69	19	Virginia	5.34	44
Nebraska	6.60	20	Alaska	5.29	45
Montana	6.54	21	Missouri	5.22	46
Washington	6.47	22	South Dakota	4.78	47
Oklahoma	6.45	23	Texas	4.62	48
<u>Connecticut</u>	<u>6.43</u>	<u>24</u>	New Hampshire	4.41	49
Louisiana	6.42	25	Colorado	4.29	50
U.S. Average	6.44				

Source: U.S. Department of Commerce, "State Government Finances, 2003"

Following is a discussion of the major revenue raising 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%. The amount of taxable income subject to the lower tax rate has been expanded as set forth in the Table below. Depending on federal income tax filing status and Connecticut adjusted gross income, personal exemptions ranging from \$12,625 to \$24,000 are available to taxpayers, with such exemptions phased out at certain higher income levels. Legislation enacted in 1999 increases the exemption amount for single filers over a certain number of years from \$12,000 to \$15,000. In addition, tax credits ranging from 75% to 1% of a taxpayer's Connecticut tax liability are also available, again dependent upon federal income tax filing status and Connecticut adjusted gross income (See Table 72 for more details). Neither the personal exemption nor the tax credit is available to a trust or an estate. Also commencing in income year 1996, personal income taxpayers were eligible for up to a \$100 credit for property taxes paid on their primary residence or on their motor vehicle. This credit increased to \$215 for income year 1997, \$350 for income year 1998, \$425 for income year 1999, and to \$500 for income years 2000 through 2002, with amounts above the initial \$100 phased-out at higher income levels. Beginning with income year 2003, the credit was reduced to \$350, but is scheduled to rise to \$400 in income year 2006.

The Personal Income Tax generated \$5,570.7 million in fiscal year 2004-05, \$4,943.4 million in fiscal year 2003-04 and \$4,263.1 million in fiscal year 2002-03. In fiscal year 2004-05, this tax accounted for 39.6% of total revenue and 50.7% of total tax collections while in fiscal 2003-04 it accounted for 38.1% of total revenue and 50.2% of total tax collections.

**TABLE 71
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 & After	3.0%	5.0%	\$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 2003.

TABLE 72
STATE INCOME TAX COLLECTIONS AS A PERCENTAGE OF PERSONAL INCOME
Fiscal 2003

<u>State</u>	<u>Percentage</u>	<u>Rank</u>	<u>State</u>	<u>Percentage</u>	<u>Rank</u>
Oregon	3.99	1	Oklahoma	2.31	23
New York	3.33	2	Nebraska	2.21	24
Massachusetts	3.21	3	Vermont	2.20	25
Wisconsin	3.18	4	South Carolina	2.20	26
Minnesota	3.18	5	Iowa	2.18	27
North Carolina	3.06	6	Missouri	2.13	28
Maine	2.89	7	Michigan	2.12	29
California	2.82	8	Colorado	2.09	30
Hawaii	2.79	9	Indiana	2.08	31
Virginia	2.79	10	New Mexico	2.02	32
Utah	2.68	11	New Jersey	2.00	33
Kentucky	2.63	12	Illinois	1.78	34
Delaware	2.62	13	Alabama	1.74	35
Georgia	2.54	14	Pennsylvania	1.72	36
<u>Connecticut</u>	<u>2.46</u>	<u>15</u>	Louisiana	1.61	37
Rhode Island	2.45	16	Mississippi	1.55	38
Idaho	2.43	17	Arizona	1.42	39
West Virginia	2.42	18	North Dakota	1.14	40
Arkansas	2.36	19	Kansas	0.23	41
Montana	2.36	20	New Hampshire	0.12	42
Ohio	2.34	21	Tennessee	0.07	43
Maryland	2.32	22			
U.S. Average	2.23				

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, 2003"

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The following Table shows Connecticut personal income tax exemptions ranging from \$12,625 to \$24,000 including the phase out as income levels rise depending on adjusted gross income for each income tax filing status.

TABLE 73
CONNECTICUT PERSONAL INCOME TAX CREDITS & EXEMPTIONS
Income Year 2006

<u>Single</u>			<u>Married Filing Jointly</u>			<u>Head of Household</u>		
Exemption: \$12,625			Exemption: \$24,000			Exemption: \$19,000		
Phase Out: \$1K of exemption for each \$1K from \$25,250 to \$37,250			Phase Out: \$1K of exemption for each \$1K from \$48K to \$72K			Phase Out: \$1K of exemption for each \$1K from \$38K to \$57K		
AGI From	AGI To	% of Tax	AGI From	AGI To	% of Tax	AGI From	AGI To	% of Tax
\$12,625	\$15,750	75%	\$24,000	\$30,000	75%	\$19,000	\$24,000	75%
\$15,750	\$16,250	70%	\$30,000	\$30,500	70%	\$24,000	\$24,500	70%
\$16,250	\$16,750	65%	\$30,500	\$31,000	65%	\$24,500	\$25,000	65%
\$16,750	\$17,250	60%	\$31,000	\$31,500	60%	\$25,000	\$25,500	60%
\$17,250	\$17,750	55%	\$31,500	\$32,000	55%	\$25,500	\$26,000	55%
\$17,750	\$18,250	50%	\$32,000	\$32,500	50%	\$26,000	\$26,500	50%
\$18,250	\$18,750	45%	\$32,500	\$33,000	45%	\$26,500	\$27,000	45%
\$18,750	\$19,250	40%	\$33,000	\$33,500	40%	\$27,000	\$27,500	40%
\$19,250	\$21,050	35%	\$33,500	\$40,000	35%	\$27,500	\$34,000	35%
\$21,050	\$21,550	30%	\$40,000	\$40,500	30%	\$34,000	\$34,500	30%
\$21,550	\$22,050	25%	\$40,500	\$41,000	25%	\$34,500	\$35,000	25%
\$22,050	\$22,550	20%	\$41,000	\$41,500	20%	\$35,000	\$35,500	20%
\$22,550	\$26,300	15%	\$41,500	\$50,000	15%	\$35,500	\$44,000	15%
\$26,300	\$26,800	14%	\$50,000	\$50,500	14%	\$44,000	\$44,500	14%
\$26,800	\$27,300	13%	\$50,500	\$51,000	13%	\$44,500	\$45,000	13%
\$27,300	\$27,800	12%	\$51,000	\$51,500	12%	\$45,000	\$45,500	12%
\$27,800	\$28,300	11%	\$51,500	\$52,000	11%	\$45,500	\$46,000	11%
\$28,300	\$50,500	10%	\$52,000	\$96,000	10%	\$46,000	\$74,000	10%
\$50,500	\$51,000	9%	\$96,000	\$96,500	9%	\$74,000	\$74,500	9%
\$51,000	\$51,500	8%	\$96,500	\$97,000	8%	\$74,500	\$75,000	8%
\$51,500	\$52,000	7%	\$97,000	\$97,500	7%	\$75,000	\$75,500	7%
\$52,000	\$52,500	6%	\$97,500	\$98,000	6%	\$75,500	\$76,000	6%
\$52,500	\$53,000	5%	\$98,000	\$98,500	5%	\$76,000	\$76,500	5%
\$53,000	\$53,500	4%	\$98,500	\$99,000	4%	\$76,500	\$77,000	4%
\$53,500	\$54,000	3%	\$99,000	\$99,500	3%	\$77,000	\$77,500	3%
\$54,000	\$54,500	2%	\$99,500	\$100,000	2%	\$77,500	\$78,000	2%
\$54,500	\$55,000	1%	\$100,000	\$100,500	1%	\$78,000	\$78,500	1%

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Source: General Statutes of the State of Connecticut

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

TABLE 74
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 (2)	T
Idaho	E	T	Oregon	E	T
Illinois	T (1)	T	Pennsylvania	E	T
Indiana	E	E	Rhode Island	E	T
Iowa	T (1)	T	South Carolina	E	T
Kansas	E	T	South Dakota (no tax)		
Kentucky	E	T	Tennessee	E	T
Louisiana	E	T	Texas (no tax)		
Maine	E	T	Utah	E	E
Maryland	E	T	Vermont	E	T
Massachusetts	E	T	Virginia	E	T
Michigan	E	T	Washington (no tax)		
Minnesota	E	T	West Virginia	E	T
Mississippi	E	T	Wisconsin	T (1)	T
Missouri	E	T	Wyoming (no tax)		

T = Taxable / E = Exempt

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

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

Source: Commerce Clearing House, Inc.

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

TABLE 75
PERSONAL INCOME TAX BY STATE*

<u>State</u>	<u>Low Bracket</u>		<u>High Bracket</u>		<u>State</u>	<u>Low Bracket</u>		<u>High Bracket</u>	
	<u>Rate</u>	<u>To Net Income</u>	<u>Rate</u>	<u>From Net Income</u>		<u>Rate</u>	<u>To Net Income</u>	<u>Rate</u>	<u>From Net</u>
Alabama (2)	2.0	1,000	5.0	6,000	Missouri (1)	1.5	1,000	6.0	9,000
Arizona (1)	2.87	20,000	5.1	300,001	Montana (1)	2.0	2,300	6.9	13,900
Arkansas (4)	1.0	3,400	7.0	28,500	Nebraska (1)	2.56	4,000	6.84	46,750
California (1)	1.0	12,294	9.3	80,692	New Hampshire	(b)			
Colorado (2)	4.63	All			New Jersey (4)	1.4	20,000	8.97	500,000
Connecticut (1)	3.0	20,000	5.0	20,000	New Mexico (1)	1.7	8,000	6.0	24,000
Delaware (1)	2.2	5,000	5.95	60,000	New York (1)	4.0	16,000	7.7	500,000
Georgia (1)	1.0	1,000	6.0	10,000	N. Carolina (2)	6.0	21,250	8.25	200,000
Hawaii (2)	1.4	4,000	8.25	80,000	N. Dakota (2)	2.1	49,600	5.54	326,450
Idaho (2)	1.6	2,258	7.8	45,153	Ohio (1)	0.7	5,000	7.2	200,000
Illinois (1)	3.0	All			Oklahoma (1)	0.5	2,000	6.65	21,000
Indiana (1)	3.4	All			Oregon (2)	5.0	5,200	9.0	13,000
Iowa (1)	0.36	1,242	8.98	55,890	Pennsylvania (4)	3.07	All		
Kansas (1)	3.5	30,000	6.45	60,000	Rhode Island (3)	25.0	All		
Kentucky (1)	2.0	3,000	6.0	8,000	S. Carolina (2)	2.5	2,530	7.0	12,650
Louisiana (1)	2.0	25,000	6.0	50,000	Tennessee	(b)			
Maine (1)	2.0	8,900	8.5	35,450	Utah (2)	2.3	1,726	7.0	8,626
Maryland (1)	2.0	1,000	4.75	3,000	Vermont (3)	3.6	48,500	9.5	319,100
Massachusetts (1)	5.3	All	(a)		Virginia (1)	2.0	3,000	5.75	17,000
Michigan (1)	3.9	All			W. Virginia (1)	3.0	10,000	6.5	60,000
Minnesota (2)	5.35	29,070	7.85	115,510	Wisconsin (1)	4.6	11,780	6.75	176,770
Mississippi (4)	3.0	5,000	5.0	10,000	Dist. of Col. (1)	5.0	10,000	9.0	30,000

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

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

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

(a) The rate is 12% for 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.

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. Hotel rooms are taxed at 12%.

The sales and use tax is an important source of revenue for the State of Connecticut. In fiscal 2004-05, sales and use taxes accounted for 23.4% of total revenue and 31.9% of total tax collections, compared to 24.2% and 34.1%, respectively, in fiscal 2003-04.

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 26 other states. The comparison is based on fiscal year 2003 data. From fiscal 1991 to fiscal 2003, Connecticut's sales tax collections as a percentage of personal income dropped from 3.15% with a rank of ninth to 2.07% with a rank of 27th, and compared to the national average of 2.25%. 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 Number 76 shows the comparison for major sales tax exemptions.

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TABLE 76
SALES TAX COLLECTIONS AS A PERCENTAGE OF PERSONAL INCOME
Fiscal 2003

<u>State</u>	<u>Sales Tax Rate</u>	<u>%</u>	<u>Rank</u>	<u>State</u>	<u>Sales Tax Rate</u>	<u>%</u>	<u>Rank</u>
Hawaii	4.0*	4.82	1	Kentucky	6.0	2.23	24
Washington	6.5*	4.00	2	Louisiana	6.0	2.15	25
Mississippi	7.0	3.74	3	California	5.0	2.14	26
Tennessee	7.0*	3.32	4	<u>Connecticut</u>	<u>6.0</u>	<u>2.07</u>	<u>27</u>
Nevada	6.5**	3.19	5	North Dakota	5.0*	2.06	28
Arkansas	6.0*	3.02	6	Ohio	5.5*	2.00	29
New Mexico	5.0	3.00	7	Pennsylvania	6.0*	1.95	30
Florida	6.0*	2.99	8	Iowa	5.0*	1.93	31
Arizona	5.6*	2.93	9	Georgia	4.0*	1.93	32
Nebraska	5.5*	2.81	10	New Jersey	6.0	1.77	33
Wyoming	4.0*	2.69	11	North Carolina	4.5*	1.73	34
South Dakota	4.0*	2.55	12	Missouri	4.225*	1.70	35
Utah	4.75*	2.53	13	Oklahoma	4.5*	1.62	36
Michigan	6.0	2.50	14	Illinois	6.25*	1.59	37
Idaho	5.0	2.42	15	Alabama	4.0*	1.51	38
South Carolina	5.0*	2.41	16	Massachusetts	5.0	1.48	39
Indiana	6.0	2.41	17	Maryland	5.0	1.35	40
Minnesota	6.5*	2.31	18	New York	4.0*	1.30	41
Maine	5.0	2.30	19	Colorado	2.9*	1.18	42
Texas	6.25*	2.28	20	Vermont	6.0	1.18	43
Wisconsin	5.0	2.27	21	Virginia	4.0*	1.11	44
Rhode Island	7.0	2.27	22	Kansas	5.3*	0.24	45
West Virginia	6.0	2.24	23				
U.S. Average		2.25					

* Local tax rates are additional.

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

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

Source: Commerce Clearing House, Inc.;
 U.S. Department of Commerce, "State Government Finances", 2003;
 U.S. Department of Commerce, Bureau of Economic Analysis

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TABLE 77
MAJOR SALES TAX EXEMPTIONS BY STATE

State	Prescription		Motor	Services	Clothes	Cig's	Computer	Computer
	Food	Drugs	Fuels				Software	Software
							(Canned)	(Custom)
Alabama	T	E	E	E	T	T	E	E
Arizona	E	E	T	T	T	T	E	E
Arkansas	T	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	T
Maine	E	E	E	E	T	T	E	E
Maryland	E	E	E	E	T	T	E	E
Massachusetts	E	E	T	E	E (3)	T	E	E
Michigan	E	E	T	E	T	T	E	E
Minnesota	E	E	T	T	E	T	E	E
Mississippi	T	E	E	T	T	T	T	T
Missouri	T (1)	E	E	E	T	T	T	E
Nebraska	E	E	E	E	T	T	T	T
Nevada	E	E	E	E	T	T	E	E
New Jersey	E	E	T	E	E	T	E	E
New Mexico	E	E	E	T	T	T	T	T
New York	E	E	T	T	T	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	E	E	E	T	T	T	E
Washington	E	E	T	T	T	T	E	E
West Virginia	T	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	14	20	38	45	22	13

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.

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Source: Commerce Clearing House, Inc.

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 2004-05, the Corporation Business Tax accounted for 4.8% of total revenue and 6.2% of total tax collections, while in fiscal 2003-04 they were 4.0% and 5.6%, respectively.

If a taxpayer is taxable solely within the state, the Income-Base Tax is measured by, and based upon, its entire net income. If a taxpayer is taxable in another state in which it conducts business, the base against which the Income-Base Tax is measured is the portion of the taxpayer's entire net income assigned to the state, pursuant to a statutory formula designed to identify the proportion of the taxpayer's trade or business conducted within the state. Currently, the Income-Base Tax is levied at the rate of seven and one half percent. During the 2005 Legislative session the General Assembly imposed a 20% surcharge for income year 2006 and a 15% surcharge for income year 2007.

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 78
CORPORATION TAX BY STATE**

State	<u>Low Bracket</u>		<u>High Bracket</u>		State	<u>Low Bracket</u>		<u>High Bracket</u>	
	<u>%</u>	<u>To Net</u>	<u>%</u>	<u>From Net</u>		<u>%</u>	<u>To Net</u>	<u>%</u>	<u>From Net</u>
	<u>Rate</u>	<u>Income</u>	<u>Rate</u>	<u>Income</u>		<u>Rate</u>	<u>Income</u>	<u>Rate</u>	<u>Income</u>
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	50,000	7.81	50,000
California (1)	8.84	All			New Hampshire	8.5	All		
Colorado	4.63	All			New Jersey (6)	9.0	All		
Connecticut (4)	7.5	All			New Mexico	4.8	500,000	7.6	1.0M
Delaware	8.7	All			New York	7.5	All		
Florida (1)	5.5	All			N. Carolina	6.9	All		
Georgia	6.0	All			N. Dakota	2.6	3,000	7.0	50,000
Hawaii	4.4	25,000	6.4	100,000	Ohio	5.1	50,000	8.5	50,000
Idaho (2)	7.6	All			Oklahoma	6.0	All		
Illinois (3)	4.8	All			Oregon	6.6	All		
Indiana (4)	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	25,000	7.0	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	7.0	10,000	9.75	250,000
Maryland	7.0	All			Virginia	6.0	All		
Massachusetts (4)	8.33	All			West Virginia	9.0	All		
Michigan	1.9	All			Wisconsin (4)	7.9	All		
Minnesota	9.8	All			District of Col.	9.9	All		

Note: The table does not include corporate income taxes levied at the local level. These states do not levy a corporate income tax: Nevada, South Dakota, Texas, Washington & Wyoming. The following states require a minimum tax: Arizona \$50; California \$800; Connecticut \$250; Idaho \$20; Kentucky \$175; Massachusetts \$456; Montana \$50; New Jersey \$500; Ohio \$50; Oregon \$10; Rhode Island \$500; Utah \$100; and Vermont \$250

- (1) An alternative minimum tax imposed: 6.65% in California and 3.3% in Florida.
- (2) Plus an additional \$10.00 on each corporation filing a return.
- (3) Additional personal property replacement tax is imposed at the rate of 2.5% of net income.
- (4) A surtax is imposed: Connecticut 20% for income year 2006 and 15% in income year 2007, 14% in Massachusetts on tax liability, and in Wisconsin the surcharge rate is set annually.
- (5) A surtax of 3.35% on taxable incomes in excess of \$50,000 is imposed.
- (6) Foreign corporations with income from New Jersey sources are subject to the corporation income tax at a rate of up to 9.0% (depending on net income) on entire net income allocable to New Jersey.

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

Motor Fuels Tax

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

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

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

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

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

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

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

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TABLE 79
MOTOR FUEL TAXES BY STATE

<u>State</u>	<u>Excise Tax</u>	<u>Sales Tax Rate</u>	<u>Total Tax*</u>	<u>State</u>	<u>Excise Tax</u>	<u>Sales Tax Rate</u>	<u>Total Tax*</u>
Alabama	16.0¢	-	16.0¢	Montana	27.0¢	-	27.0¢
Alaska	8.0	-	8.0	Nebraska (e)	25.3	-	25.3
Arizona	18.0	-	18.0	Nevada	24.0	-	24.0
Arkansas	21.5	-	21.5	New Hampshire	18.0	-	18.0
California	18.0	6.25	31.1	New Jersey	10.5	6.00	23.1
Colorado	22.0	-	22.0	New Mexico	17.0	-	17.0
Connecticut	25.0	-	25.0	New York	8.0	4.25	16.9
Delaware	23.0	-	23.0	North Carolina (f)	27.1	-	27.1
Florida	14.5	6.00	37.1	North Dakota	23.0	-	23.0
Georgia (a)	7.5	1.00	9.6	Ohio	28.0	-	28.0
Hawaii (b)	30.1	-	30.1	Oklahoma	16.0	-	16.0
Idaho	25.0	-	25.0	Oregon	24.0	-	24.0
Illinois	19.0	6.25	32.1	Pennsylvania	30.0	-	30.0
Indiana (c)	18.0	6.00	30.6	Rhode Island	30.0	-	30.0
Iowa	20.7	-	20.7	South Carolina	16.0	-	16.0
Kansas	24.0	-	24.0	South Dakota	22.0	-	22.0
Kentucky (d)	17.4	-	17.4	Tennessee (g)	21.4	-	21.4
Louisiana	20.0	-	20.0	Texas	20.0	-	20.0
Maine	25.9	-	25.9	Utah (h)	24.5	-	24.5
Maryland	23.5	-	23.5	Vermont	20.0	-	20.0
Massachusetts	21.0	-	21.0	Virginia	17.5	-	17.5
Michigan	19.0	6.00	31.6	Washington	31.0	6.50	44.7
Minnesota	20.0	6.50	33.7	West Virginia (c)	20.5	6.00	33.1
Mississippi	18.0	-	18.0	Wisconsin	29.9	-	29.9
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 \$2.10 per gallon.

- (a) Motor fuel is exempt from 3%, but subject to the remaining 1% of the tax.
- (b) County taxes between 8.8¢ and 18¢ per gallon are levied in addition to the state tax of 16¢ per gallon. An average of 14.07¢ was used in calculating the excise tax.
- (c) The sales tax is not calculated on the excise portion of the cost per gallon.
- (d) Tax is 9% of the average wholesale price plus a highway user tax.
- (e) Includes additional tax based on statewide average cost of fuel and a second additional tax at 2¢ per gallon; plus the amount of any "ethanol adjustment."
- (f) Includes an additional tax based on the average wholesale price of motor fuel.
- (g) Plus an optional one-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.
- (h) An environmental surcharge of one-half cent per gallon is imposed on all petroleum sold.

Source: Commerce Clearing House, Inc.

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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 80
CIGARETTE TAXES BY STATE**

<u>State</u>	<u>Rate</u>	<u>State</u>	<u>Rate</u>
Alabama	42.5 ¢	Montana	\$1.70
Alaska	\$1.60	Nebraska	64.0 ¢
Arizona	\$1.18	Nevada	80.0 ¢
Arkansas (1)	59.0 ¢	New Hampshire	80.0 ¢
California	87.0 ¢	New Jersey	\$2.40
Colorado	84.0 ¢	New Mexico	91.0 ¢
Connecticut	\$1.51	New York	\$1.50
Delaware	55.0 ¢	North Carolina	30.0 ¢
Florida	33.9 ¢	North Dakota	44.0 ¢
Georgia	37.0 ¢	Ohio	\$1.25
Hawaii	\$1.40	Oklahoma	23.0 ¢
Idaho	57.0 ¢	Oregon	\$1.18
Illinois	98.0 ¢	Pennsylvania	\$1.35
Indiana	55.5 ¢	Rhode Island	\$2.46
Iowa	36.0 ¢	South Carolina	7.0 ¢
Kansas	79.0 ¢	South Dakota	53.0 ¢
Kentucky (2)	30.0 ¢	Tennessee	20.0 ¢
Louisiana	36.0 ¢	Texas	41.0 ¢
Maine	\$2.00	Utah (3)	69.5 ¢
Maryland	\$1.00	Vermont	\$1.19
Massachusetts	\$1.51	Virginia	30.0 ¢
Michigan	\$2.00	Washington	\$2.03
Minnesota	48.0 ¢	West Virginia	55.0 ¢
Mississippi (3)	18.0 ¢	Wisconsin (4)	77.0 ¢
Missouri	17.0 ¢	Wyoming	60.0 ¢

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

- (1) An additional \$12.50 per 1,000 cigarettes is imposed.
- (2) Plus a 0.001¢ enforcement tax on each package of cigarettes.
- (3) The tax rate is increased by the same amount of any reduction in the federal excise tax.
- (4) An additional tax of 0.8¢ per pack of 20 cigarettes is imposed minus the federal cigarette tax.

Source: Commerce Clearing House, Inc.

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TABLE 81
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)	2.75-4.25	2.75-4.25
Alaska (1)	1.00-6.00	1.00-6.00	Nebraska (1,4)	1.00-1.375	1.00-1.375
Arizona (1,3)	0.66-3.00	0.66-3.00	Nevada	3.50	3.50
Arkansas (1)	0.50-4.00	0.50-4.00	New Hampshire (8)	2.00-5.00	2.00-5.00
California (1)	0.50-5.00	0.50-5.00	New Jersey (1)	1.05-5.25	1.05-5.25
Colorado (2)	1.00	2.05	New Mexico (2)	3.003	3.003
Connecticut	1.75	1.75	New York (1,9)	0.80-2.00	0.80-2.00
Delaware (1,3)	1.75-5.00	1.75-5.00	North Carolina (1,4)	1.00-2.50	1.00-2.50
Florida (1,4)	0.75-1.75	0.75-1.75	North Dakota (1)	1.75-2.00	1.75-2.00
Georgia (1,2)	2.25-4.00	2.25-4.00	Ohio (1,4,8)	1.00-1.40	1.00-1.40
Hawaii (1)	0.88-4.27	0.88-4.27	Oklahoma (4)	2.25	2.25
Idaho (1,2)	2.30-2.50	2.30-2.50	Oregon	(10)	(10)
Illinois (1,4)	3.50-5.00	3.50-5.00	Pennsylvania (1)	2.00-5.00	2.00-5.00
Indiana (1)	1.30-3.00	1.30-3.00	Rhode Island	2.00-3.00	2.00-3.00
Iowa (1)	1.25-6.50	1.25-6.50	South Carolina (1,3)	0.75-1.35	0.75-1.35
Kansas (1)	0.08-6.00	0.08-6.00	South Dakota (1)	2.50-3.00	2.50-3.00
Kentucky (1,5)	2.00-2.75	2.00-2.75	Tennessee (1,2,8)	1.75-3.25	1.75-3.25
Louisiana (4)	(6)	(6)	Texas (1,2)	1.60-3.50	1.60-3.50
Maine (1)	1.00-2.55	1.00-2.55	Utah (1)	2.26-4.25	2.26-4.25
Maryland (1)	2.00-3.00	2.00-3.00	Vermont (1)	2.00-3.00	2.00-3.00
Massachusetts (1,3)	2.00-5.00	2.00-5.00	Virginia (1)	0.75-2.25	0.75-2.25
Michigan	(7)	(7)	Washington	2.00	2.00
Minnesota (1,4)	1.00-3.00	1.00-3.00	W. Virginia (1,4,8)	2.00-4.00	2.00-4.00
Mississippi (1,4)	3.00	3.00	Wisconsin (1)	0.50-2.375	0.50-2.375
Missouri (1)	2.00-5.00	2.00-5.00	Wyoming (1)	0.75-3.00	0.75-3.00

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, 1% on fire insurance in South Carolina and 14% of investment income in Massachusetts.
- (4) Plus a fire marshal's tax not to exceed 1%, 1.25% in Louisiana, 2.5% 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, \$180; over \$6,000, \$180 plus \$300 per \$10,000.
- (7) Subject to the greater of the single business tax or the retaliatory tax.
- (8) With minimum tax of \$200 in New Hampshire & West Virginia, \$150 in Tennessee and \$25 in Ohio.
- (9) Depending upon the type and date insurance was issued.
- (10) After 2001, foreign and alien insurers are no longer subject to gross premium tax, but are subject to the corporate excise tax.

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

TABLE 82
ALCOHOLIC BEVERAGE TAXES BY STATE
(Dollars Per Gallon)

State	Distilled Spirits	Wines 14% or Less	Wines 14% to 21%	Beer	State	Distilled Spirits	Wines 14% or Less	Wines 14% to 21%	Beer
Alabama (1,2)	58%	1.70	58%	.53	Montana (1,2)	16%	1.02	1.02	.14
Alaska	12.80	2.50	2.50	1.07	Nebraska	3.00	.75	1.35	.31
Arizona	3.00	.84	.84	.16	Nevada	3.60	.70	1.30	.16
Arkansas	2.50	.25	.75	.20	New Hampshire (1)	.30	.30	.30	.30
California	3.30	.20	.20	.20	New Jersey	4.40	.70	.70	.12
Colorado	2.28	.28	.28	.08	New Mexico	6.06	1.70	1.70	.41
Connecticut	4.50	.60	.60	.20	New York	6.43	.19	.19	.11
Delaware	3.75	.97	.97	.16	N. Carolina (1,2)	25%	.79	.91	.53
Florida	9.53	2.25	3.00	.48	N. Dakota	2.50	.50	.60	.08
Georgia	4.54	.41	1.02	.32	Ohio (1)	1.20	.30	.98	.18
Hawaii	5.98	1.38	2.12	.93	Oklahoma	5.56	1.40	2.08	.40
Idaho (1,2)	15%	.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	.19	S. Carolina (3)	1.92	.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	.13
Louisiana	2.50	.11	.23	.32	Texas	2.40	.20	.41	.20
Maine (1)	1.25	.60	1.24	.35	Utah (1,2)	13%	13%	13%	.41
Maryland	1.50	.40	.40	.09	Vermont (1,2)	25%	.55	25%	.27
Massachusetts	4.05	.55	.70	.11	Virginia (1,2,5)	20%	1.51	1.51	.01
Michigan (1,2)	9.9%	.51	.76	.20	Washington (1)		2.06	2.06	.15
Minnesota	5.03	.30	.95	.15	W. Virginia (2,6)	5%	1.00	1.00	.18
Mississippi (1)	2.50	.35	1.00	.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 9% on alcoholic beverages and 18¢ for wine are applied.
- (4) Tennessee levies a 17% surcharge on the wholesale price of malt beverages.
- (5) Additional tax of 4% of retail imposed on all wine.
- (6) A 5% tax is imposed on sales of liquor outside municipalities.
- (7) An administration fee of 3¢ per gallon is imposed on intoxicating liquors.

Source: Commerce Clearing House, Inc.

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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.

**TABLE 83
GENERAL FUND REVENUES**

<u>TAXES</u> (\$K)	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u> (1)	<u>FY 2005</u> (1)
Personal Income	\$4,744,233	\$4,265,912	\$4,263,070	\$4,943,430	\$5,570,724
Sales and Use	3,125,078	2,997,766	3,025,743	3,134,015	3,290,040
Corporation	550,509	380,985	507,975	518,009	678,668
Public Service Corporation	180,547	166,597	197,959	193,643	196,819
Insurance Companies	191,107	217,371	239,358	233,412	257,152
Inheritance & Estate	252,802	153,092	184,321	147,614	254,208
Cigarettes	119,476	160,904	256,052	279,572	273,979
Oil Companies	64,497	24,309	117,451	106,894	143,548
Real Estate Conveyance	112,282	120,717	149,317	176,743	207,953
Alcoholic Beverages	41,146	41,619	42,490	44,044	44,236
Admissions, Dues, Cabaret	25,811	26,905	31,696	31,662	31,699
Miscellaneous	35,088	26,229	33,731	34,846	39,230
Total - Taxes	9,442,576	8,582,444	9,049,163	9,843,884	10,988,256
Less Refunds of Taxes	(735,483)	(829,558)	(808,209)	(650,844)	(681,279)
Less Refunds of R&D Credit	-	(21,933)	(11,148)	(10,378)	(8,850)
Total - Taxes Less Refunds	8,707,093	7,730,953	8,229,806	9,182,662	10,298,127
<u>OTHER REVENUE</u>					
Transfer-Special Revenue	258,181	277,589	262,776	286,699	273,894
Indian Gaming Payments	332,418	368,954	387,255	402,733	417,838
Licenses, Permits & Fees	124,331	137,518	125,179	154,163	143,233
Sales of Commodities & Services	31,312	30,479	32,869	40,991	35,147
Investment Income	67,868	23,848	7,083	1,779	15,316
Rents, Fines & Escheats	48,228	47,620	81,490	117,719	170,729
Miscellaneous	125,594	114,273	182,364	111,111	153,936
Less Refunds of Payments	-	(373)	(396)	(574)	(374)
Total - Other Revenue	987,932	999,908	1,078,621	1,114,621	1,209,719
<u>OTHER SOURCES</u>					
Federal Grants	2,237,045	2,142,270	2,318,421	2,563,670	2,497,923
Transfer from Special Funds	138,800	120,000	489,486	114,600	142,500
Transfer to Other Funds	(85,400)	(147,686)	(93,009)	(3,000)	(85,000)
Total - Other Sources	2,290,445	2,114,584	2,714,898	2,675,270	2,555,423
GRAND TOTAL	\$11,985,470	\$10,845,445	\$12,023,325	\$12,972,553	\$14,063,269
<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	39.58%	39.33%	35.46%	38.11%	39.61%
Sales and Use	26.07	27.64	25.17	24.16	23.39
Corporation	4.59	3.51	4.22	3.99	4.83
Public Service Corporation	1.51	1.54	1.65	1.49	1.40
Insurance Companies	1.59	2.00	1.99	1.80	1.83
Inheritance & Estate	2.11	1.42	1.53	1.14	1.81
Cigarettes	1.00	1.48	2.13	2.16	1.95
Oil Companies	0.54	0.22	0.98	0.82	1.02
Real Estate Conveyance	0.94	1.12	1.24	1.36	1.48
Alcoholic Beverages	0.34	0.38	0.35	0.34	0.31
Admissions, Dues, Cabaret	0.22	0.25	0.26	0.24	0.23
Miscellaneous	0.29	0.24	0.28	0.27	0.28
Total - Taxes	78.78	79.13	75.26	75.88	78.13
Less Refunds of Taxes	(6.14)	(7.65)	(6.72)	(5.02)	(4.84)
Less Refunds of R&D Credit	-	(0.20)	(0.09)	(0.08)	(0.06)
Total - Taxes Less Refunds	72.65	71.28	68.44	70.79	73.23
<u>OTHER REVENUE</u>					
Transfer-Special Revenue	2.15	2.56	2.19	2.21	1.95
Indian Gaming Payments	2.77	3.40	3.22	3.10	2.97
Licenses, Permits & Fees	1.04	1.27	1.04	1.19	1.02
Sales of Commodities & Services	0.26	0.28	0.27	0.32	0.25
Investment Income	0.57	0.22	0.06	0.01	0.11
Rents, Fines & Escheats	0.40	0.44	0.68	0.91	1.21
Miscellaneous	1.05	1.05	1.52	0.86	1.09
Less Refunds of Payments	-	-	-	-	-
Total - Other Revenue	8.24	9.22	8.97	8.59	8.60

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OTHER SOURCES					
Federal Grants	18.66	19.75	19.28	19.76	17.76
Transfer from Special Funds	1.16	1.11	4.07	0.88	1.01
Transfer to Other Funds	<u>(0.71)</u>	<u>(1.36)</u>	<u>(0.77)</u>	<u>(0.02)</u>	<u>(0.60)</u>
Total - Other Sources	19.11	19.50	22.58	20.62	18.17
GRAND TOTAL	100.00%	100.00%	100.00%	100.00%	100.00%

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TABLE 84 SPECIAL TRANSPORTATION FUND REVENUES

	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004 (1)</u>	<u>FY 2005 (1)</u>
<u>TAXES (\$K)</u>					
Motor Fuels	\$417,523	\$430,287	\$457,991	\$464,481	\$483,797
Oil Companies	46,000	46,000	-	10,500	13,000
DMV Sales	60,106	65,224	65,523	70,558	69,720
Less Refunds of Taxes	<u>(7,556)</u>	<u>(7,777)</u>	<u>(8,518)</u>	<u>(10,096)</u>	<u>(8,329)</u>
Total - Taxes Less Refunds	516,073	533,734	514,996	535,443	558,188
<u>OTHER REVENUE</u>					
Motor Vehicle Receipts	196,340	200,690	204,824	219,719	233,852
Licenses, Permits & Fees	115,224	130,710	136,597	154,511	155,083
Interest Income	43,888	40,480	27,399	24,524	32,681
Federal Transit Administration	3,305	3,305	3,305	-	-
Transfer from Other Funds	-	-	2,634	3,730	-
Transfer to Other Funds	(3,000)	(9,500)	(60,500)	(8,500)	(8,500)
Transfer to TSB	-	-	-	(22,850)	(28,727)
Less Refunds of Payments	<u>-</u>	<u>(2,525)</u>	<u>(2,150)</u>	<u>(2,507)</u>	<u>(2,779)</u>
Total - Other Revenue	355,757	363,160	312,109	368,627	381,610
GRAND TOTAL	\$871,830	\$896,894	\$827,105	\$904,070	\$939,798
	<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	47.89%	47.98%	55.37%	51.38%	51.48%
Oil Companies	5.28	5.13	-	1.16	1.38
DMV Sales	6.89	7.27	7.92	7.80	7.42
Less Refunds of Taxes	<u>(0.87)</u>	<u>(0.87)</u>	<u>(1.03)</u>	<u>(1.12)</u>	<u>(0.89)</u>
Total - Taxes Less Refunds	59.19	59.51	62.26	59.23	59.39
<u>OTHER REVENUE</u>					
Motor Vehicle Receipts	22.52	22.38	24.76	24.30	24.88
Licenses, Permits & Fees	13.22	14.57	16.52	17.09	16.50
Interest Income	5.03	4.51	3.31	2.71	3.48
Federal Transit Administration	0.38	0.37	0.40	-	-
Transfer from Other Funds	-	-	0.32	0.41	-
Transfer to Other Funds	(0.34)	(1.06)	(7.31)	(0.95)	(0.90)
Transfer to TSB	-	-	-	(2.53)	(3.06)
Less Refunds of Payments	<u>-</u>	<u>(0.28)</u>	<u>(0.26)</u>	<u>(0.28)</u>	<u>(0.30)</u>
Total - Other Revenue	40.81	40.49	37.74	40.77	40.61
GRAND TOTAL	100.00%	100.00%	100.00%	100.00%	100.00%

(1) FY 2004 and FY 2005: as estimated by the Office of Policy and Management

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ECONOMIC ASSUMPTIONS OF THE GOVERNOR'S BUDGET

The Foreign Sector

As the 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, total U.S. imports and exports in both goods and services, as measured in 2000 dollars, have increased from \$1,492.5 billion in 1994 to \$2,837.1 billion in 2004, an increase of 90% versus only a 37% 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. As globalization continues to proceed rapidly, when forecasting the U.S. and Connecticut economies, the interaction with international economic policies, monetary and fiscal policies, financial markets, and currency movements must be taken into consideration.

U.S. exports hinge closely on world economic conditions. The U.S. economy ended its tenth-year of expansion in early 2001. That recession spread into other countries, affecting the overall world economy and, in turn, U.S. exports. Real world GDP grew 1.4% in 2001 and 1.6% in 2002, down from 4.0% in 2000. U.S. exports declined by 5.8% and 2.6%, respectively, in 2001 and 2002. The worldwide economy started to recover in 2003 with U.S. exports increasing by 3.9% and 12.3% in 2003 and 2004, respectively. The momentum carried into 2005, and is expected to extend into 2006. Worldwide real GDP is estimated to have grown 3.2% in 2005, and anticipated to grow at a slightly faster rate of 3.3% in 2006. The economic growth of the European Union (EU) is expected to improve to 1.8% in 2006, up from 1.5% in 2005. This 25-member economic bloc has a larger population (450 million versus 295 million in the U.S.) that produces roughly 90% of the U.S.'s GDP. Asian and emerging European economies should grow faster than other areas, led by a strong average growth of 7.0% for 2006 in the Pacific basin area. The economy in China, with actual real GDP growing much faster than its official estimates, may surpass that of U.K. and France and become the world's fourth-largest economy in 2006. More people in Asia are expected to shift their spending to discretionary consumption from basic necessities. Real GDP growth in Japan, the world's second largest economy, is however expected to moderate at 1.6% in 2006, down from 2.2% in 2005. This slowdown is due to a possible ending of its easy monetary policy with a tighter budget plan in an attempt to control inflation and national debt. Currently, debt service in Japan accounts for some 22% of national budget. High oil prices along with increasing competition with neighboring nations are taking a toll on economic growth. Exports for the U.S. bode well, enhanced by the depreciation of the dollar that remains at a favorable level of 90 measured by the "major currencies dollar index" as compiled by the Federal Reserve Bank, 22% lower from its peak value of 115 in early 2002. A correction to the undervalued Chinese currency may also add to the improvement in U.S. exports.

The continuing expansion of major multilateral trade systems also provides for a much freer flow of resources, helping stimulate economic activity and facilitate trade growth. This favorable development will create a more open, efficient, and uniform market, adding opportunities for U.S. trade. The World Trade Organization (WTO) has nearly 150 member countries that account for over 97% of total world trade. The admission of big traders such as China will play a vital role in the global trade arena. Obligated to the WTO and fueled by strong demand, China has revised laws and regulations to bring more transparency to its policy making and has lifted

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restrictions on import items. Trade reforms also have helped end the monopoly of state-owned enterprises over foreign trade. Ending worldwide export subsidies in agricultural products by 2013 achieved during the recent Hong Kong Ministerial Conference should set a level stage for trade in these goods. To extend free trade beyond the North American Free Trade Agreement (NAFTA) to cover the whole of the Americas, the U.S. signed a free trade agreement (FTA) with Chile, effective January 1, 2004. The agreement will eliminate tariffs on 90% of U.S. exports and is intended to ultimately include other countries in South America. In the Asian area, an FTA, effective January 2005, with Singapore and Australia, and a bilateral trade deal with Vietnam will help U.S. trade growth in the entire Pacific Rim. The agreement with Singapore will help the U.S. achieve more liberal trade with the Association of South East Asian Nations (ASEAN). The ASEAN includes 10 countries such as Singapore, Indonesia, and Thailand that have a combined population of about 500 million and a total GDP of some \$750 billion. Elsewhere, continuing trade liberalization during a period of steady growth in Eastern Europe will augment trade in the world economy.

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

As trade competition has intensified worldwide, the U.S. industrial sector has been affected as many industries lost shares of domestic and global markets. U.S. firms that were accustomed to controlling the domestic market for basic manufactured goods were not competitive enough to repel the aggressive foreign firms determined to claim a share of the U.S. market. Over the past decade, however, U.S. exports have gradually improved with the dedication of firms to quality improvement, a better control over costs, higher productivity through greater efficiencies and incorporation of advanced technologies, as well as concerted efforts to expand international markets. In spite of the vigorous promotional efforts and aggressive pricing strategies employed by our competitors, the nation's exports continue to expand while employment in the manufacturing sector has only been moderately impacted. Nonetheless, U.S. exports will confront more challenges in the future as new technology continues to improve and spread while the global market becomes more open and the worldwide standard of living continues to increase. As communication technology advances, digital data can move more freely and effectively beyond national borders, increasing the pressure on the traditionally job-secure service sector. Outsourcing of financial and medical related back-office services such as billing and pathological mapping analysis overseas not seen a few years ago is becoming more common. Outsourcing of manufacturing products is also occurring. Following China, countries in Eastern Europe and Southeast Asia as well as Russia will become big players in this area.

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Continuing improvement in communication technology will also provide a more transparent and efficient market, creating a more competitive environment. Transportation innovations will allow products to flow faster and more efficiently, shrinking trading time and distance. As new trade pacts and agreements are reached, hindrances are resolved in the WTO and other regional trade agreements; global competition only gets more intense.

TABLE 85
ECONOMIC GROWTH OF MAJOR TRADING PARTNERS
(GNP/GDP Growth)

Calendar Year	Germany							Mexico	Pacific Basin(b)	World (c)	CT Export Weighted Growth(d)
	U.S.	Canada	Japan	(a)	U.K.	France	Italy				
1997	4.5	4.2	1.4	1.8	3.2	2.4	2.0	6.8	6.1	3.5	3.9
1998	4.2	4.1	(1.9)	2.0	3.2	3.6	1.8	4.9	(0.5)	2.0	2.3
1999	4.5	5.5	(0.1)	2.0	3.0	3.4	1.7	3.9	6.4	3.0	3.8
2000	3.7	5.2	2.9	3.1	4.0	4.1	3.2	6.6	7.5	4.0	4.8
2001	0.8	1.8	0.4	1.0	2.2	2.1	1.7	(0.2)	3.9	1.4	1.8
2002	1.6	3.1	0.1	0.1	2.0	1.3	0.4	0.8	6.2	1.6	2.3
2003	2.7	2.0	1.8	(0.1)	2.5	0.9	0.4	1.4	6.0	2.4	2.3
2004	4.2	2.9	2.3	1.0	3.2	2.1	1.0	4.4	7.3	3.7	3.5
2005 (E)	3.7	2.9	2.2	1.0	1.9	1.5	0.2	3.2	6.5	3.2	3.0
2006 (P)	3.8	2.9	1.7	1.0	2.2	1.8	1.1	4.5	6.9	3.3	3.2
2007 (P)	2.9	2.0	1.6	1.3	2.5	2.2	1.5	1.5	7.0	3.0	2.9
Average (06&07)	3.3	2.4	1.7	1.2	2.4	2.0	1.3	3.0	7.0	3.1	3.1
% of CT's Exports *											
2000		22.6	6.1	6.8	5.8	13.4	1.8	5.1	13.5		
2001		20.1	7.2	7.8	5.4	16.4	1.9	3.8	13.7		
2002		18.0	7.3	7.9	6.0	14.2	1.8	4.8	17.0		
2003		16.6	7.9	9.3	6.3	13.5	1.8	5.9	15.9		
2004		17.2	5.9	8.9	6.4	13.8	1.4	6.4	14.2		

* For 2005 to 2007, assumes the same percentage as in 2004.

(a) The data reflects a united Germany.

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

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

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

(E) Estimated

(P) Projected

Source: Economy.com & U.S. Dept. of Commerce and University of Massachusetts (MISER)

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As stated in Section 3, the Sector Analysis, the U.S. balance of trade is significantly affected by the world economy, improving during recessionary years when exports grew faster than imports and deteriorating during recovery and expansionary periods when exports fell behind the growth in imports. The following Table lists actual real growth in GDP/GNP for the past decade, as well as the estimated and projected growths for the G-7 countries (United States, Canada, the European Big Four, and Japan), Mexico, the Pacific Basin, and the overall world economy. World GDP grew 3.2% in 2005 and is anticipated to improve to 3.3% in 2006 with a slight slowdown in 2007 to 3.0%.

Like the Nation, Connecticut's exports also hinge upon our trade partners' economic conditions. The weighted economic growth can be used as a reference to measure worldwide economic conditions and to predict Connecticut's export potential. Connecticut's export weighted growth rates as shown on the above table are constructed by weighing Connecticut's share of exports to our trade partner countries. Weak economic growth in our major trade partner countries forced the weighted growth down to 1.8% in 2001, 2.3% in 2002 and 2003, the lowest three years in the past decade. As the worldwide economy improved, weighted growth increased by 3.5% in 2004, but slowed to an estimated 3.0% in 2005 brought about by moderate economic growth from our major trade partners mostly in Europe. The outlook for Connecticut's exports is projected to grow 3.2% and 2.9%, respectively, in 2006 and 2007. Collectively, the Big 7 nations, Mexico and the countries in the Pacific Basin area account for approximately 75% of Connecticut's total exports.

Despite a continued growth outlook for trade in 2006 and 2007, actual economic growth and trade performance rely more upon smooth and orderly market conditions. Any unexpected disturbances, either domestically or elsewhere, may send the world economy into a tailspin. Any regional financial or non-financial shocks have the potential not only to interrupt an individual country's own economic stability but also disturb the international economic landscape. Regional tensions in the Middle East, instability in Iraq, and terrorist attacks anywhere in the world may also result in a setback. Major financial and social tremors such as the Asian financial crisis in 1997, the U.S.'s collapse of Long Term Capital Management in 1998, and the September 11th attacks in 2001, etc. profoundly affected the world economy in a disorderly way and detrimentally hampered Connecticut exports.

On the economic and financial front, the healthy United States and the fast-growing Asian area will continue to help carry the 2006 world economy forward at least on par with 2005. Any unproductive fiscal and monetary policies in the EU, Japan, or China, etc. intending to tame inflation may cause uncertain impacts. The EU represents a significant trade opportunity for the U.S. However, this giant bloc, the global growth laggard, is weak in both economic and financial conditions. Its consumer spending remains fragile. The increase of Europe's benchmark interest rate to 2.25% in late 2005 and a possible further tightening in 2006 may negatively affect economic growth. The expected growth rate for Euro-land in 2006 by the "*Blue Chip Economic Indicators*" is 1.8%. Governmental operating budgets of the EU area in 2005 are in a deficit of a negative 2.8% of GDP with its major members well above its limitation of a negative 3%: Italy at -4.4%, Germany at -3.5%, and France at -3.0%. Real economic activity in Germany, the biggest economy in the EU, is expected to grow 1.4% in 2006. Germany plans to raise the value-added tax, possibly replicating Japan's mistakes in 1997 before its recovery was firmly underway and thereby setting back economic growth. The EU's unemployment rates held steady at a high of 8.8% in late 2005, with the major economic players France and Germany at or higher than 10%.

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Japan may end its nearly-5-year old zero interest rate policy and tighten money supply with an increase in the sales tax to narrow nation's budget gap. China, ranked the world's most dynamic economy, is expected to decelerate with GDP slowing to 8.3% in 2006 from 9.5% in the past consecutive three years. A potential sharp slowdown in the U.S. real estate market may soften domestic consumer spending and imported goods from China, which will in turn crimp China's export-led economy, creating a profound consequence on the world economy. Any derailment of its economy might be detrimental to the U.S.'s export growth.

Unstable energy prices are also a damaging factor. Oil is the largest internationally traded commodity. The world crude oil market will continue to influence the U.S. economy, despite the fact that oil plays a less significant role in the economy than it did decades ago. The increasing use of substitutes and alternatives, as well as the improvement in efficiency, has reduced its importance in the economy. However, with U.S. domestic production less than 50% of total demand and the exploration of the Arctic Wildlife Refuge on hold for now, 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 can create inflationary pressure and erode consumers' purchasing power, contributing to a possible setback in the economy. In the long run, oil prices are expected to trend up as world growth in demand will continue to outpace that of production, limited by slow improvements in efficiency technology, less frequent discoveries of new fields, and increasing concerns for greenhouse gas emissions. In the short run, a host of factors could move oil prices in an unfavorable direction. These factors include changes in the production capacity and policies of OPEC, the status of non-OPEC output, political and economic uncertainties in certain geographic regions of the world particularly the nuclear ambitions of Iran, violence, and severe weather.

The U.S. Economy (History)

The Table on the following page compares the original forecast figures to actual for fiscal years 1996-97 to 2004-05 and the current estimates for fiscal year 2005-06. The December 2003 forecast for fiscal 2005 anticipated a 3.0% growth rate in real GDP, a rate better than the average long-term economic growth rate of 2.5% but slower than previous year's 3.9%, with a decline in housing starts and flat new car sales. The unemployment rate was expected to increase to 6.3% from 5.6% in the previous year, brought on mainly by the Federal Reserve Bank's tightening policy that was expected to increase federal fund rates at a "measured" pace, resulting in a slowing housing market and therefore the overall economy. However, the economy actually performed better than expected with real GDP growing by 3.7% and an inflation rate higher by 0.2%. Housing starts reached 2.02 million units, the highest volume since 1973. Although the federal fund rate has been raised from a 46-year low of 1.00% in June 2004 to 3.00% in June 2005, the level of interest rates are still artificially low by historical standards. In addition, while short-term interest rates continued to increase, long-term rates ran counter, steadily declining from 4.73%, for example, for the Treasury's 10-year notes in June 2004 to 4.00% in June 2005. This stimulative monetary condition created a substantially favorable financial condition for interest-sensitive markets. Mortgage rates in fiscal 2004 were the lowest since Freddie Mac began tracking them in 1971. Conventional mortgage rates on 30-year instruments fell further to 5.75% in fiscal 2005, compared to 5.92% in fiscal 2004, 6.88% in fiscal 2002 and 7.25% in fiscal 2001. Home prices continued to increase, propping up consumer spending and generating residential investment. In addition, household net assets including homes and stocks continued to improve after reaching a low in the fourth quarter of 2002, enabling a sustained and healthy boost in

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**TABLE 86
HISTORICAL COMPARISON OF U.S. ECONOMIC INDICATORS**

<u>Fiscal</u>		<u>GDP</u>	<u>Real GDP</u>	<u>GDP Deflator</u>	<u>Housing Starts</u>	<u>Unempl. Rate</u>	<u>New* Car Sales</u>	<u>CPI</u>
1996-97	12/95 Forecast	4.6%	2.3%	2.2%	1.41M	5.9%	14.9M	2.5%
	Actual	6.2%	4.3%	1.8%	1.46M	5.2%	15.0M	2.8%
	Difference	1.6%	2.0%	(0.4%)	0.05M	(0.7%)	0.1M	0.3%
1997-98	12/96 Forecast	4.6%	2.1%	2.5%	1.42M	5.6%	14.8M	2.6%
	Actual	5.8%	4.4%	1.3%	1.53M	4.6%	15.4M	1.8%
	Difference	1.2%	2.3%	(1.2%)	0.11M	(1.0%)	0.6M	(0.8%)
1998-99	12/97 Forecast	4.6%	2.1%	2.4%	1.42M	4.7%	14.3M	2.6%
	Actual	5.5%	4.2%	1.3%	1.66M	4.4%	16.1M	1.7%
	Difference	0.9%	2.1%	(1.1%)	0.24M	(0.3%)	1.8M	(0.9%)
1999-00	12/98 Forecast	3.9%	2.0%	1.9%	1.44M	4.6%	14.9M	2.0%
	Actual	6.4%	4.5%	1.8%	1.64M	4.1%	17.5M	2.9%
	Difference	2.5%	2.5%	(0.1%)	0.20M	(0.5%)	2.6M	0.9%
2000-01	12/99 Forecast	4.2%	2.5%	1.7%	1.41M	4.5%	15.3M	2.5%
	Actual	4.4%	2.0%	2.3%	1.57M	4.1%	16.9M	3.4%
	Difference	0.2%	(0.5%)	0.6%	0.16M	(0.4%)	1.6M	0.9%
2001-02	12/00 Forecast	5.0%	3.2%	1.7%	1.44M	4.6%	16.0M	2.4%
	Actual	3.0%	0.8%	2.1%	1.65M	5.5%	16.9M	1.8%
	Difference	(2.0%)	(2.4%)	0.4%	0.21M	0.9%	0.9M	(0.6%)
2002-03	12/01 Forecast	4.1%	2.5%	1.5%	1.54M	6.2%	16.1M	2.4%
	Actual	4.0%	2.3%	1.7%	1.73M	5.9%	16.6M	2.2%
	Difference	(0.1%)	(0.2%)	0.2%	0.19M	(0.3%)	0.5M	(0.2%)
2003-04	12/02 Forecast	6.3%	3.9%	2.2%	1.62M	5.6%	17.4M	2.4%
	Actual	6.4%	4.4%	1.8%	1.95M	5.8%	16.8M	2.2%
	Difference	0.1%	0.5%	(0.4%)	0.33M	0.2%	(0.6M)	(0.2%)
2004-05	12/03 Forecast	5.9%	3.0%	2.8%	1.48M	6.3%	17.4M	2.8%
	Actual	6.5%	3.7%	2.7%	2.02M	5.3%	17.0M	3.0%
	Difference	0.6%	0.7%	(0.1%)	0.54M	(1.0%)	(0.4M)	0.2%
2005-06	12/04 Forecast	5.4%	3.1%	2.2%	1.60M	5.4%	15.7M	2.0%
	12/05 Estimate	7.0%	3.7%	3.2%	2.03M	5.0%	16.6M	3.6%
	Difference	0.6%	0.6%	1.0%	0.63M	(0.4%)	0.9M	1.6%

* New Car Sales represent U.S. vehicle sales for automobiles and light vehicles (trucks).

M denotes Millions of Units.

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consumer spending. U.S. net household assets in the second quarter of 2005 increased to \$20.4 trillion, up 37.8% from a low of \$14.8 trillion in the fourth quarter of 2002. Consumer spending, which accounts for two thirds of GDP, remained the strong supporting pillar of the economy, up 6.5% in fiscal 2005 from 5.9% in fiscal 2004 and 4.3% in 2003. Business equipment and software investment, which had been a driver for the economy in the 1990s, but declined in early 2000s, grew 12.3% in fiscal 2005, up from 8.2% in fiscal 2004. As productivity rose, businesses produced more products without adding workers. Increasing competition in the domestic and global markets and outsourcing offshore also added pressure on the job market.

Total non-farm employment edged up 1.6% to 132,567,500 in fiscal 2005 from 130,480,000 in fiscal 2004, fully recovering from the recent high of 132.25 million jobs recorded in fiscal 2001. The jobs recovery, however, has been slower than that experienced in 1993. Total quarterly non-agricultural employment that had reached 132.8 million by the first quarter of 2005 surpassed the recent high registered in the first quarter of 2001. Employment would have increased by an additional 3 million jobs if it had grown at the same rate as in 1993. The average of the past five recessions shows that U.S. total employment rebounds after 16 months of contraction with 1.2% drop in jobs on average from its peak level of employment. The recent decline in employment ended in June of 2003, which took 28 months and fell 2.1% since the onset of the recession, and fully recovered by January 2005.

The U.S. Economy (Forecast)

The updated estimate for fiscal 2006 calls for better economic growth, lower unemployment rate, but much higher inflation. Real GDP growth will match that of fiscal 2005 at 3.7%, better than what was anticipated in December 2004 at 3.1%. Non-agricultural employment should continue to grow as new hiring resumes, with the unemployment rate declining to 5.0%. Despite interest rates edging higher, the housing market is not expected to slow drastically despite the constant concern that a bubble may emerge. Housing starts are estimated to have peaked in the 3rd quarter of 2005 with total annual new construction for fiscal 2006 reaching 2.03 million units, surpassing the fiscal 2005 level. The 30-year conventional mortgage rate remained favorably low at 5.75% in the 3rd quarter of 2005, down from 5.90% a year ago. After the raising federal funds rate 14 times over the past 18 months from a low of 1% to 4.50%, the Federal Reserve may slow or stop its tightening of monetary policy. Real interest rates, however, still remain relatively low. New car sales, although below last year, are also anticipated to perform better than originally expected by 0.9 million units. Corporate profits and cash flow should remain advantageous to support businesses' expansion plans, despite average interest rates rising above last year. Depreciation of the dollar and continued economic growth abroad should continue to help U.S. exports. The inflation rate should climb due to a tighter labor market and higher energy prices.

The forecast for the most widely used economic indicators for the U.S. economy in fiscal 2007 is shown below. Growth in real GDP is based on 2000 chained dollars to measure real output growth. The Consumer Price Index (CPI) is also based on a traditional fixed weight method with 1982-84 =100. New car sales include traditional passenger cars as well as minivans and light trucks.

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12/05 Forecast	<u>Fiscal Year 2006-07</u>
Gross Domestic Product	6.4%
Real Gross Domestic	3.4%
G.D.P. Deflator	2.9%
Consumer Price Index	2.9%
Unemployment Rate	4.9%
Housing Starts	1.77 Million
New Vehicle Sales	16.27 Million

As the economy continues to improve, the demand for labor will outgrow that of supply, bringing the unemployment rate down to 4.9% for fiscal 2007. Workweek hours are expected to decline and the use of temporary employment will moderate, replaced by an increase in permanent jobs. Encouraged by the need for more productive capacity and the gain in profitability, businesses should continue to increase investment. Employment in manufacturing is expected to improve modestly as the depreciation of the dollar should help boost the competitiveness of U.S. products and therefore factory orders, despite the impact of intensified global competition, higher operating costs, and productivity gains which tend to suppress the increase in hiring. New car sales will slow after averaging near 17 million units since fiscal 2000. The restructuring and downsizing of capacity by the domestic big three automakers will continue as competition from foreign cars accelerates. The overheated housing market will cool down due to a weaker demand resulting from high mortgage rates and reduced affordability due to elevated housing prices. The housing market this year will no longer be a major driving force in the economy. Inflation should ease as energy prices moderate and the growth of economy softens to 3.4%.

Consumer spending should continue to expand in fiscal 2007, but at a slower pace. Increases in disposable income from wages and salaries and improved equity markets should uphold spending. However, hefty consumer spending will be unlikely as there is a lack of any new stimulative fiscal and monetary policies. The rapid growth in home equity that created a healthy cash flow for spending over the past few years will drastically shrink. Households will continue to increase savings to pay down the debt that they incurred after aggressive spending over the past several years. The increase in interest rates will not only weigh down consumption, especially durable goods such as cars and other big ticket items, but also lure away spending for more savings. Sales of new vehicles are expected to cool down to below 16.3 million units in fiscal 2007, falling from 16.6 million units in fiscal 2006 and 17.0 million units in 2005. Housing starts should drop as conventional 30-year mortgage rates edge up. Housing starts are expected to fall to 1.77 million units in fiscal 2007, down from 2.03 million units in fiscal 2006. Thirty-year mortgage rates are anticipated to reach to 7% by the end of 2006, up from the current 6.10%. Business investment spending should still remain on a growth track. Continued economic growth, improved corporate balance sheets, and increased productivity will allow companies to continue to expand. Pent-up demand for upgrading antiquated equipment and software in order to boost competition and profitability will also require investment. In addition, the continued depreciation of the dollar should encourage exports and, therefore, augment manufacturing capacity.

Inflation for consumer goods and services in fiscal 2007 is anticipated to be 2.9%, down from 3.6% in fiscal 2006. Energy prices are expected to moderate after crude oil reached a high of over

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\$70 per barrel in late August 2005. The lower but still-elevated level of inflation in fiscal 2007 also reflects a continued improvement in economic conditions that should accelerate the growth in wages and salaries due to a tighter labor market and moderately expanded capacity utilization. The unemployment rate in fiscal 2007 is anticipated to decrease to 4.9%, a level that is considered within the full employment range. Capacity utilization, which will reach 78.5% in fiscal 2006, is expected to approach 80% in fiscal 2007. Thanks to technological advancements, aided by innovations in computer and information technology, efficiency and productivity should continue to rise, helping bring down inflationary pressure. Inflation pressures in the service sector, which accounts for 70% of the core CPI-U index, should increase moderately. Labor costs that include wages and salaries and benefits compensation will edge higher as the economy expands.

Forecast Caveats

The projection of 3.4% growth in real output for fiscal 2007 with a 2.9% rate of inflation assumes a tighter yet accommodative monetary policy that will continue to lead to employment growth, help increase business investment and consumer spending. This projection also assumes no severe setback in the housing market, a retreat in energy prices to a normal range, and a weaker U.S. dollar along with advantageous domestic and global financial conditions. However, there are myriad uncertainties that may detrimentally affect growth and inflation projections, including a weaker than expected housing or job market, unexpected higher energy prices and inflation, slow consumer spending and business investment, tighter-than-expected monetary policy, unexpected economic or financial turmoil 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.

Although the Federal Reserve's "measured" rate hiking monetary policy is intended to curtail any nascent inflation and maintain a neutral effect on the economy that would neither stimulate nor dampen economic growth, the housing market may be the first to feel the constraining impact of higher interest rates. The housing market has a huge wealth effect on the economy that can affect consumer behavior and therefore business investment. Consumers, who took advantage of low mortgage rates to refinance in past years, may find themselves saddled with unsupportable monthly payments in a higher interest rate environment. Households with option ARMs that include interest-only and option adjusted rate mortgages are subject to higher interest payments as rates rise and such mortgages are due to be reset. A flood of forced sales could put steep downward pressure on home prices and equities.

Growth in consumption could be further curbed as consumers become more conscientious about their inadequate level of savings. Personal savings as a percentage of disposable personal income dropped to a negative 1.8% in the 3rd quarter of 2005, down from a positive of 2.3% in late 2004, and down significantly from 7.7% in 1992 and over 10% in the early 1980s. Growth in personal consumption spending has been outpacing the growth in personal income over the past two decades. In addition, the increase in the minimum monthly payments from 2 percent to at least 4 percent on credit card balances may further check saving and spending.

Interest rates may even be further aggravated by the alarmingly high budget and trade deficits. The U.S. budget deficit for 2005, according to *The Economist*, reached 3.7% of GDP. This deficit

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was less than last year's -4.4% and, among all major industrial countries, lower than Japan's -6.5% and Germany's -3.9%. However, as the U.S. government seeks more and more financing from the global market to cover its deficit, it will place upward pressure on world interest rates and detrimentally affect the global economy. U.S. Treasury bonds are mostly held by foreign central banks, notably in Asia by the Japanese and the Chinese, as part of their strategy to prevent their own currencies from moving upward. This tactic also helps keep U.S. long-term interest rates artificially low. If demand for U.S. Treasury bonds sharply weakens, interest rates could be forced upward. The U.S. trade deficit fared even worse relative to GDP. The deficit in the current account balance in 2005 is estimated to account for 6.5% of GDP, up from 5.5% in 2004 and 4.4% in 2003 and is expected to climb to 6.6% in 2006. Continuing increases in the trade deficit have foreign countries investing in the U.S., forcing the U.S. to borrow more from the rest of world and putting the U.S. in a negative net direct investment position. Persistent deficits in the trade balance create uncertainty for the dollar and, therefore, inflation. There are few indications that the U.S. government can effectively get its budget or trade deficits under control in the near future.

For business investment, risk factors include unexpected higher prices in energy, labor cost, or import materials and a disorderly decline in the dollar that could disrupt financial markets and their operating environment. Energy prices may spike again at a new high. With demand for world energy continuing to increase while a tight capacity in global energy production continues, this market is precariously balanced. Any disruption either in demand or supply may create havoc. The labor market is expected to be operating at a level close to full-employment, if the economy keeps adding jobs at a faster pace, there will be higher labor costs and inflation. Other financial factors that also affect the U.S. economy include the financial condition of major industries such as the automobile and airline industries, and hedge funds. The possibility of bankruptcy filings by major companies or a collapse such as that of Long Term Capital Management in hedge funds could have ripple effects far beyond the company's employees and equity holders.

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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 1996-97 through 2004-05 and the current forecast for fiscal 2005-06 are 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>
1996-97	12/95 Forecast	\$106.6 Billion		5.4%
	Actual	\$111.4 Billion	1,599.6 Thousand	5.3%
	Difference	\$4.8 Billion		(0.1)%
1997-98	12/96 Forecast	\$116.6 Billion		5.2%
	Actual	\$119.4 Billion	1,627.6 Thousand	3.9%
	Difference	\$2.8 Billion		(1.3)%
1998-99	12/97 Forecast	\$127.0 Billion	1,652.4 Thousand	4.5%
	Actual	\$126.8 Billion	1,657.2 Thousand	2.8%
	Difference	(\$0.2) Billion	4.8 Thousand	(1.7)%
1999-00	12/98 Forecast	\$130.1 Billion	1,664.5 Thousand	4.1%
	Actual	\$135.8 Billion	1,682.1 Thousand	2.7%
	Difference	\$5.7 Billion	17.6 Thousand	(1.4)%
2000-01	12/99 Forecast	\$140.0 Billion	1,695.0 Thousand	3.3%
	Actual	\$145.7 Billion	1,690.4 Thousand	2.5%
	Difference	\$5.7 Billion	(4.6) Thousand	(0.8)%
2001-02	12/00 Forecast	\$146.9 Billion	1,722.3 Thousand	3.3%
	Actual	\$147.5 Billion	1,675.3 Thousand	3.7%
	Difference	\$0.6 Billion	(47.0) Thousand	0.4%
2002-03	12/01 Forecast	\$155.5 Billion	1,686.5 Thousand	4.4%
	Actual	\$147.5 Billion	1,652.4 Thousand	5.2%
	Difference	(\$8.0) Billion	(34.1) Thousand	0.8%
2003-04	12/02 Forecast	\$157.1 Billion	1,669.7 Thousand	4.4%
	Actual	\$153.6 Billion	1,643.7 Thousand	5.3%
	Difference	(\$3.5) Billion	(26.0) Thousand	0.9%
2004-05	12/03 Forecast	\$162.9 Billion	1,662.5 Thousand	5.0%
	Actual	\$164.2 Billion	1,662.3 Thousand	4.8%
	Difference	\$1.3 Billion	(0.2) Thousand	(0.2)%
2005-06	12/04 Forecast	\$168.7 Billion	1,665.6 Thousand	4.5%

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Latest Forecast	\$175.4 Billion	1,676.6 Thousand	5.3%
Difference	\$6.7 Billion	13.6 Thousand	0.8%

As the nation's financial engine has gained power, Connecticut's progress towards economic growth has also become apparent. While there have been encouraging signs of improvement in the labor market, there are, however, a few areas of concern. Providing some evidence of improvement is the fact that job growth has been positive in 20 of the last 24 months, although December of 2005 saw a decrease of 400 jobs. As the state worked its way back to positive year-over-year employment growth, total nonagricultural employment increased by 10,700 in fiscal 2005. Moreover, if past-experience provides some parallels, Connecticut's job recovery, although uneven, appears to actually be occurring now, because the state tends to lead the nation going into recession and lags behind the subsequent economic rebound. This current business cycle is no different. Nonagricultural employment in the state started to decline nearly three quarters before the start of the national recession in March 2001. Consequently, over the span of 38 months, nonagricultural employment declined 3.6%, ebbing to its lowest level in September of 2003. Since then, the state's economy has gained some traction, albeit slowly, adding 5,000 jobs since the start of the new fiscal year. Nonetheless, the health of employment growth in Connecticut could be tenuous compared with that of the nation. Since the onset of the economic slowdown, manufacturing employment in Connecticut has contracted at a comparable rate to the corresponding losses nationwide. In addition, the nation's nonmanufacturing sector, compared to the state's, reveals the nation's nonmanufacturing sector has weathered the unsteady nature of the economy better than Connecticut's. Nationwide nonmanufacturing employment levels increased 4.0% since the start of the economic slowdown, whereas Connecticut increased only 1.0%. The nation's total employment level surpassed the 132,546,000 point of February of 2001 and achieved full job recovery in January of 2005 with 132,573,000 jobs. The following Table compares nonagricultural employment and its two major components for the U.S. and Connecticut since each entered the recession through December of 2005.

United States & Connecticut Change in Employment (In Thousands)

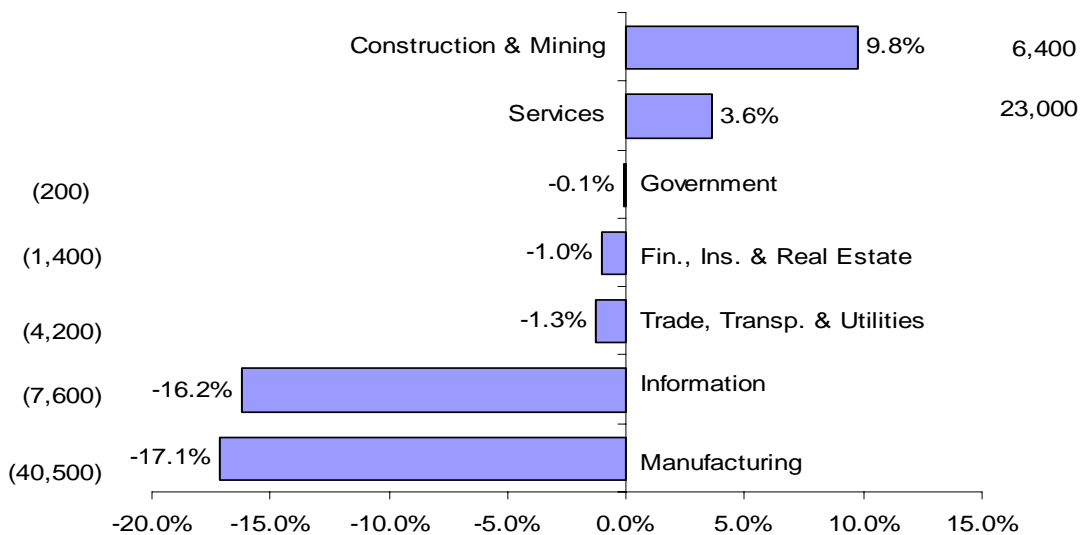
	United States				Connecticut			
	<u>2/01</u>	<u>12/05</u>	<u>Change</u>	<u>% Chg.</u>	<u>7/00</u>	<u>12/05</u>	<u>Change</u>	<u>% Chg.</u>
Mfg. Empl.	17,030	14,283	(2,747)	(16.1%)	237	197	(40)	(16.9%)
NonMfg. Empl.	<u>115,516</u>	<u>120,185</u>	<u>4,669</u>	4.0%	<u>1,463</u>	<u>1,478</u>	<u>15</u>	1.0%
NonAgr. Empl.	132,546	134,468	1,922	1.5%	1,700	1,675	(25)	(1.5%)

Specifically, Connecticut's manufacturing sector continued to fare the worst among the state's industries. Manufacturers were not contributors to job growth during the economic boom of the late 1990s, and since its abrupt end, factory employment has fallen by 9,400 jobs annually, on average from fiscal 1999 to fiscal 2004. Thus, with the addition of 400 jobs in manufacturing over the past fiscal year, it comes as a pleasant surprise that more jobs were not shifted to other states, overseas, or lost due to greater efficiencies. Since the onset of the last recession, manufacturing employment in the state has declined by 39,400 workers. The majority of the job cuts occurred in durable goods industries, primarily in computer and electronic products, industrial machinery

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and fabricated metal products. At one time, a good number of the idle workforce in the manufacturing sector was absorbed by Connecticut's tight labor markets, and now employment growth has returned; the nonmanufacturing sector, after posting positive growth for nine of the last ten years, has expanded by 1.0% since July of 2000. Most of the state's nonmanufacturing industries declined as economic activity faltered. Also, the information sector, comprising establishments engaged in telecommunications, broadcasting and data processing continued to weigh on the economy because of lingering overcapacity and fierce global competition. The state's economy would have performed much worse but for the steady growth in the education and health service sectors, which helped the overall service sector post a respectable gain. An increase in construction is due to a robust housing market and significant economic development in downtown Hartford, but will probably not continue much longer. The following Chart covering the period from July 2000 through December 2005 shows how the various state sectors have been impacted by the lingering impact of the last recession.

CONNECTICUT EMPLOYMENT
Percent Change In Employment By Sector And Jobs Gained/(Lost)
 (From July 2000 To December 2005)



A significant increase in employment in the service industry has taken place, especially in health care and education. Growth in the construction sector was helped by a relatively robust residential housing market and significant construction in the downtown Hartford area, which will be cooling off over the next year or so. Consequently, employment in the sector did improve. Unfortunately, a number of state companies have announced layoffs or closed up business altogether. For example, Electric Boat announced that it will eliminate between 1,400 and 1,900 jobs at its Groton plant by the end of 2006 due to the Defense Department's plan to reduce the size of the nation's submarine fleet, Stop & Shop will close its North Haven distribution facility, resulting in the loss of 850 jobs by the summer of 2006, and auto parts manufacturer TI Automotive plans to close its Meriden plant and lay off 414 workers by August of 2006. On the other hand, not all of the announcements were so pessimistic. Foxwoods will be expanding and adding 2,300 jobs in Ledyard by 2008, Royal Bank of Scotland will be bringing 800 finance positions to Stamford by 2008, and Cabela's is expected to open an outdoor

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merchandise superstore with 450 new jobs by 2007 in East Hartford. Nonetheless, the state's recent economic experience has been mixed. The Tables on the following page provide a breakdown of the employment totals lost by each sector and the corresponding impact on the unemployment rate in selected labor market areas (LMA).

Connecticut Employment (Seasonally Adjusted)				Selected LMA Unemployment Rates (Not Seasonally Adjusted)			
<u>Sectors</u>	<u>Jul. '00</u>	<u>Dec. '05</u>	<u>Chg.</u>	<u>LMA</u>	<u>Jul. '00</u>	<u>Dec. '05</u>	<u>Chg.</u>
Manufacturing	237.0	196.5	(40.5)	Waterbury	3.0%	5.7%	2.7%
Information	46.8	39.2	(7.6)	Brdgpvt/Stmfrd	2.2%	3.9%	1.7%
Construction & Mining	65.2	71.6	6.4	Hartford	2.4%	4.5%	2.1%
Trade, Transp. & Utilities	317.7	313.5	(4.2)	Danielson	3.0%	5.1%	2.1%
Fin., Ins. & Real Estate	143.6	142.2	(1.4)	Torrington	1.9%	4.0%	2.1%
Government	243.3	243.1	(0.2)	New London	2.2%	4.1%	1.9%
Services	<u>646.6</u>	<u>669.6</u>	<u>23.0</u>	New Haven	2.5%	4.3%	1.8%
Total	1,700.2	1,675.7	(24.5)	Danbury	1.7%	3.1%	1.4%

Compared to last December the unemployment rate has improved slightly, and remains just barely below the national rate of 4.9%. The state rate increased from 4.5% to 4.8%, and the number of unemployed increased by 9.4%. On average, there were nearly 91,600 workers out of work in calendar 2005, an increase of 4,000 compared to 2004. On a year-over-year basis, the state added 10,700 jobs since last December. A mildly encouraging signal for the state's economy was the 0.6% drop in initial (first-time) claims for unemployment insurance over last year. However, continuing claims climbed higher, rising 12.3% year-over-year, likely suggesting that fewer long-time job seekers are finding work.

One of the signs that the state's economy is improving is the gradual acceleration of total personal income growth. Personal income in Connecticut grew by 6.9% in fiscal 2005, the fastest pace in more than four fiscal years. Examining its components, other labor income and proprietors' income had growth rates of 8.4% and 6.7% during the year, followed by wage and salary growth of 6.2%. Particularly notable, manufacturing wage growth remained positive for the second year in a row, after declining for two consecutive years, confirming that employment growth, which eventually shows up in rising wage and salary payments, was actually occurring. As proof of the upside in personal income gains, after adjusting for the effects of inflation, Connecticut's real per capita personal income increased by 3.3%. This means state residents saw their incomes rise faster than inflation for the second time since fiscal 2001, and at the highest rate of growth since fiscal 2000. Furthermore, Connecticut per capita personal income still remains well above the U.S. average by 38%.

Again, relatively low mortgage rates were the key driver to last year's housing market. Connecticut's surprising strength stems primarily from the failure of long term interest rates to rise as widely expected. This, together with a tight housing supply, appears to be providing a soft landing to the state's housing boom, rather than the bursting bubble feared in some areas in calendar 2005. In addition, the lack of any substantial overbuilding anywhere in the state has placed a solid floor under the market. As a result, the severe real estate downturn of the early 1990s is unlikely to repeat itself. Underpinning this view, year-to-date new housing permits through November 2005 were down only 0.9% compared to last year. Also, the redevelopment

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of Hartford's downtown as part of the state's Six Pillars of Progress was much more evident in 2005 as the city center's transformation continued to take shape. Signs of progress are obvious at the riverfront, on the site of the convention center/hotel and in and around the fringes of downtown Hartford. As various components of these projects are completed, however, we can expect some softening in the construction sector.

Finally, Connecticut's personal income tax revenues, after growing 11.1% the previous year, grew 12.7% in fiscal 2005, as estimated and final payments, which include capital gains, rose 23.2% compared to last year. When combined with a sizable increase of 17.7% in real estate conveyance taxes, 31.0% in the corporation tax, 34.2% in petroleum gross receipts tax, and a dramatic increase in inheritance and estate taxes, total tax receipts grew year-over year by 12.1%. This, coupled with overall expenditure restraints, and the economy's remarkable resiliency, were the key reasons the state ended with a budget surplus in excess of \$300 million.

The Connecticut Economy (Forecast)

The past fiscal year has been mixed for the state's economy. A year or two ago, it was unclear how Connecticut households and businesses would react to the forces restraining economic growth. Today, heading into the second year of the biennium, the situation appears a little clearer. The state is expected to see the recovery continue as economists are generally upbeat in their assessments of the economy's prospects. Risks still exist and, unfortunately, some of them hamper economic growth rather than provide a lift. However, this risk will be tempered as Connecticut's economy is well diversified and stands to benefit from increasing economic activity throughout the nation, and unemployment remains relatively low. Moreover, some economic indicators are signaling that Connecticut has embarked on a path of growth. As fiscal 2006 optimistically progresses, the state's economy is expected to show signs of continued progress, although caution may be in the wind near the end of fiscal 2007.

The state's economy is expected to maintain momentum this year. Total nonagricultural employment is projected to grow 0.9% during both fiscal 2006 and fiscal 2007. The state's nonmanufacturing sector is expected to post a comparable increase of 1.0% in fiscal 2006 as job creation among the major industry groups remains fairly strong. Not surprisingly, manufacturing employment, where the vast majority of jobs losses were concentrated during the recession and subsequent weak recovery, is expected to see a loss of 0.6%, continuing its drag on employment growth that has prevailed since 1999, with the exception of only one year, 2005. With the recession having run its course, total nonagricultural employment declined by roughly 61,400 jobs, or 3.6%, relative to its peak. Nonetheless, recent state labor employment reports indicate that the job market recovery is underway, ever since September of 2003 when the trough was reached with regard to employment losses.

Employment levels in Connecticut are expected to rise over the coming quarters as the recovery continues. However, the expansion will not be consistent across all sectors. Manufacturing is projected to continue the negative and weak employment levels of the recent past. Nonetheless, the state's economic engine will get a boost as the combination of healthy productivity gains, higher household net worth, and corporate earnings provide support for the state's economy to stay on track and enjoy fairly solid growth. The recipe of low federal taxes, more disposable income, and a competitive exchange rate are some of the factors that will allow consumers and businesses to continue their spending pace, making it possible for the state's economy to

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continue momentum heading into next year. Therefore, for the duration of fiscal 2006, expect the pace of economic activity in Connecticut to hold up as the outlook sees continued positive consumer spending, business investment, and in particular, an upswing in job creation. In fiscal 2007, the tempo of employment growth is forecasted to continue with nonagricultural employment expanding by 0.9%, resulting in 14,900 jobs. The state will add these new jobs in high skill, high-income fields such as professional and business services, education and health services, along with lower paying jobs in leisure and hospitality and wholesale trade. With the state's economy showing signs of expanding at a solid rate, the unemployment rate in Connecticut should remain favorable through the remainder of fiscal 2006. This will take place because, as the economy remains strong during coming months, discouraged workers, not counted in the current unemployment statistics, are expected to reenter the state's labor force. This will persist in the fiscal year ahead, continuing the trend of a slow improvement in the unemployment rate even as the economy expands.

Connecticut's population growth during the forecast period is estimated to be moderate, and still below the national growth rate, based upon the trend of the last several years. Demand for skilled workers will have to be met by a rise in the state's labor force which remains stubbornly low. The lack of skilled workers represents one of the biggest challenges the state faces during the next several years 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. However, nonmanufacturing employment, which grew by 21,300 jobs, or 1.5%, in FY 2005, is expected to grow by 15,500 jobs, or 1.1%, in FY 2006, and 15,300 jobs, or 1.0%, in FY 2007. The job growth leaders in the state will be professional and business services, education and health services. Ongoing demand for health care and social services will underpin growth in the sector. As the state's population ages, healthcare employment will rise. Furthermore, firms across the state registered solid gains in earnings. Having restored profitability, businesses will be focusing their attention on hiring which should spur growth. Also, the leisure and hospitality sector shows signs of coming to life. However, one important sign that the economy will not be as robust as it looked a year ago, is that, after holding its own in 2005, manufacturing employment levels are forecasted to continue to decline for the next few years. Finally, the construction trades, after a period impressive growth, are expected to experience losses as major construction programs in the state wind down. The forecast for the most widely used economic indicators for the Connecticut's economy is shown below.

<u>12/05 Forecast</u>	<u>Fiscal Year 2005-06</u>	<u>Fiscal Year 2006-07</u>
Personal Income	\$175.4 Billion	\$184.5 Billion
Nonagricultural	1,676.6 Thousand	1,691.5 Thousand
Unemployment	5.3%	5.2%

Finally, the state's highly skilled but aging workforce, strong presence of high-tech industries, and high per capita income provide an economic footing which is now quite solid but may become somewhat insecure in the long term. In addition, these fundamental drivers buffer the state in times of economic uncertainty. Therefore, it is projected that healthy income growth will accompany the expected rise in employment. Personal income for Connecticut residents is estimated to increase 6.8% this fiscal year, followed by 5.2% growth in fiscal 2007. This is in stark contrast to virtually no growth in fiscal 2003. This growth in personal income will provide households with the means to maintain their spending patterns. Steady gains in spending will

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supply ongoing support for the expansion. Mix in low inflation and you have the wherewithal to sustain economic activity. Furthermore, the housing market, another prop for consumer spending, shows no sign of a dramatic unraveling in the state as mortgage rates remain low enough to keep housing affordable for many. Year-ending data suggest that the underlying demand for housing is weaker but still remains healthy. Notwithstanding, the negative impact of rising interest rates will slow housing activity. A firm economy, however, will help keep a floor under housing. And given the continued availability of low mortgage rates, stronger job and income growth, and a belief that housing is a good long-term investment, housing activity in Connecticut is projected to hold up relatively well.

The biggest risks that may impede the state's economic recovery are: (1) Slow job growth, debt-ridden consumers, rising inflation, and higher energy costs, which increases the uncertainty about the future course of the state's economy. Should consumer confidence erode and the pace of consumer spending deteriorate, the probability of a continued expansion will diminish. (2) The prospect of another terrorist attack against the United States. What it means for the economy depends on whether or not it occurs on U.S. soil. An attack on a U.S. installation overseas will still cause a spike in oil prices and hurt business and consumer confidence. However, an act of aggression aimed at the U.S. directly will have a much larger impact on oil prices, the stock market and the economy. It could severely limit the extent of the expansion. (3) A weaker stock market. The risk of this scenario to the state is twofold. First is equity ownership by Connecticut residents, who by nature of their very wealth have a greater proportion of their asset's allocated to stocks. Second, Connecticut has a higher proportion of workers employed in the financial services industry which, combined with our geographical proximity to the world's financial capital, exposes our employment mix to the vagaries of the markets centered on Wall Street. (4) Finally, by the time each of the last five recessions had run its course, the number of Connecticut jobs fell from 1.4% to as much as 9.4%, relative to its peak. Regrettably, the state's recent downturn will not be soon forgotten. The data indicates that the bottom was reached in September of 2003, not before claiming 3.6% of the state's workforce. In view of that, based on all the cited risks, there are reasons to worry that state's job market will remain weak. In retrospect, it took the state's labor market 38 months to reach bottom. The '89-'92 recession racked up job losses for 46 months. Recovering these loses took another 85 months. If robust job growth continues to elude the state, the performance of the state's labor market during the early 1990s will not be an historical anomaly. The following Table shows that the current downturn compared to prior recessionary periods in state history.

RECESSIONS IMPACT ON CONNECTICUT'S LABOR MARKET

Recession <u>Peak To Trough</u>	Jobs Lost As A <u>Percent Of Total Jobs</u>	Months From <u>Peak To Trough</u>	Months From <u>Peak To Regaining Peak</u>
Feb. '70 - Jun. '71	4.0%	16	34
Aug. '74 - Sept. '75	4.4%	13	32
Mar. '80- Aug. '80	1.4%	5	11
Oct. '81 - Feb. '83	1.5%	16	21
Feb. '89 - Dec. '92	9.4%	46	131
Average	4.1%	19	46
Jul. '00 - Sep. '03	3.6%	38*	na

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* Assumes that the trough of the labor market was reached in September of 2003.

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

TABLE 88
UNEMPLOYMENT RATES
Seasonally Adjusted

<u>Fiscal Year</u>	<u>Quarters</u>	<u>United States</u>	<u>Connecticut</u>	
2003-04	1	6.1%	5.5%	
	2	5.9%	5.4%	
	3	5.7%	5.2%	
	4	5.6%	4.9%	
2004-05	1	5.4%	4.8%	
	2	5.4%	4.6%	
	3	5.2%	4.8%	
	4	5.1%	5.1%	
2005-06	1	5.0%	5.3%	
	2	5.0%	5.3%	Start of Forecast
	3	5.0%	5.3%	
	4	5.0%	5.2%	
2006-07	1	4.9%	5.2%	
	2	4.9%	5.2%	
	3	4.9%	5.2%	
	4	5.0%	5.3%	

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

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

<u>Fiscal Year</u>	<u>Connecticut</u>		<u>United States</u>		<u>United States</u>	
	<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>
1996-97	111.444	5.7	6,702.2	6.2	8,057.7	6.2
1997-98	119.426	7.2	7,158.3	6.8	8,524.4	5.8
1998-99	126.769	6.1	7,607.0	6.3	8,996.0	5.5
1999-00	135.783	7.1	8,109.6	6.6	9,571.3	6.4
2000-01	145.744	7.3	8,613.9	6.2	9,991.5	4.4
2001-02	147.035	0.9	8,789.9	2.0	10,280.3	2.9
2002-03	147.486	0.3	8,978.0	2.1	10,670.0	3.8
2003-04	153.594	4.1	9,397.9	4.7	11,361.7	6.5
2004-05	164.243	6.9	9,999.3	6.4	12,097.7	6.5
2005-06 (E)	175.427	6.8	10,494.2	4.9	12,946.6	7.0
2006-07 (P)	184.481	5.2	11,060.1	5.4	13,779.3	6.4

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(E) = Estimated / (P) = Projected

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

TABLE 90
STATE OF CONNECTICUT
Annualized Personal Income & Nonagricultural Employment
(In Millions)

<u>Fiscal Year</u>		<u>Personal</u> <u>Income</u>	<u>% Change</u> <u>Year Ago</u>	<u>Nonagricultural</u> <u>Employment</u>	<u>% Change</u> <u>Year Ago</u>	
2003-04	1	149,872	1.8	1,639.3	(1.3)	
	2	151,395	3.1	1,643.9	(0.6)	
	3	156,095	6.1	1,643.2	(0.5)	
	4	157,012	5.6	1,648.2	0.3	
	Average	153,594	4.1	1,643.7	(0.5)	
2004-05	1	160,047	6.8	1,651.7	0.8	
	2	164,587	8.7	1,663.7	1.2	
	3	165,815	6.2	1,664.0	1.3	
	4	166,524	6.1	1,669.9	1.3	
	Average	164,243	6.9	1,662.3	1.1	
2005-06	1	168,095	5.0	1,670.5	1.1	
	2	174,238	5.9	1,675.1	0.7	
	3	176,710	6.6	1,677.9	0.8	Start of Forecast
	4	179,005	7.5	1,682.9	0.8	
	Average	175,427	6.8	1,676.6	0.9	
2006-07	1	181,406	7.9	1,686.8	1.0	
	2	183,493	5.3	1,691.3	1.0	
	3	185,553	5.0	1,693.1	0.9	
	4	187,471	4.7	1,694.5	0.7	
	Average	184,481	5.2	1,691.5	0.9	

TABLE 91
U.S. CONSUMER PRICE INDEX
(1982-84 = 100)

<u>Fiscal Year</u>		<u>Consumer</u> <u>Price Index</u>	<u>% Change</u> <u>Year Ago</u>	
2003-04	1	184.4	2.2	
	2	184.8	1.9	
	3	186.6	1.8	
	4	188.6	2.8	
	Average	186.1	2.2	
2004-05	1	189.4	2.7	
	2	191.0	3.4	
	3	192.2	3.0	
	4	194.1	2.9	
	Average	191.7	3.0	
2005-06	1	196.6	3.8	
	2	197.9	3.6	Start of Forecast
	3	199.2	3.6	
	4	200.7	3.4	
	Average	198.6	3.6	

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2006-07	1	202.1	2.8
	2	203.5	2.8
	3	205.1	3.0
	4	206.5	2.9
	Average	204.3	2.9

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

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REVENUE FORECAST

The following Table shows the General Fund Revenue collections for fiscal 2004-05 as estimated by the Office of Policy and Management, and estimated revenue collections for fiscal 2005-06 and projected revenue collections for fiscal 2006-07 by major sources.

TABLE 92
STATE OF CONNECTICUT - GENERAL FUND REVENUES
(In Millions of Dollars)

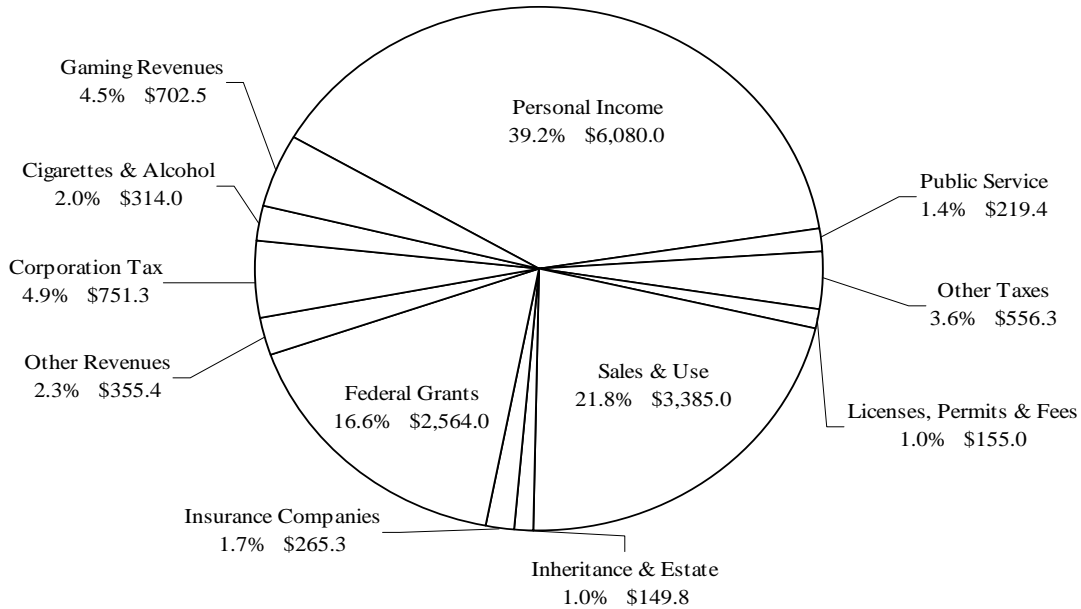
	Actual Revenue <u>2004-05</u>	Projected Revenue Current Rates <u>2005-06</u>	Proposed Revenue Changes <u>2005-06</u>	Net Projected Revenue <u>2005-06</u>
Taxes				
Personal Income Tax	\$ 5,570.7	\$ 6,080.0	\$ -	\$ 6,080.0
Sales & Use Tax	3,290.0	3,385.0	-	3,385.0
Corporation Tax	678.7	751.3	-	751.3
Public Service Tax	196.8	219.4	-	219.4
Inheritance & Estate Tax	254.2	149.8	-	149.8
Insurance Companies Tax	257.2	265.3	-	265.3
Cigarette Tax	274.0	270.0	-	270.0
Real Estate Conveyance Tax	208.0	205.0	-	205.0
Oil Companies Tax	143.5	172.3	-	172.3
Alcoholic Beverages	44.2	44.0	-	44.0
Admissions and Dues	31.7	32.6	-	32.6
Miscellaneous	39.2	146.4	-	146.4
Total Taxes	\$ 10,988.3	\$ 11,721.1	\$ -	\$ 11,721.1
Less Refunds of Taxes	(681.3)	(756.0)	-	(756.0)
Less R&D Credit Exchange	(8.9)	(8.0)	-	(8.0)
TOTAL - Taxes Less Refunds	\$ 10,298.1	\$ 10,957.1	\$ -	\$ 10,957.1
Other Revenues				
Transfers Special Revenue	\$ 273.9	\$ 277.5	\$ -	\$ 277.5
Indian Gaming Payments	417.8	425.0	-	425.0
License, Permits, Fees	143.2	155.0	-	155.0
Sales of Commodities & Services	35.1	33.0	-	33.0
Rents, Fines & Escheats	170.7	53.0	-	53.0
Investment Income	15.3	40.0	-	40.0
Miscellaneous	153.9	133.0	-	133.0
Less Refunds of Payments	(0.4)	(0.6)	-	(0.6)
TOTAL - Other Revenues	\$ 1,209.7	\$ 1,115.9	\$ -	\$ 1,115.9
Other Sources				
Federal Grants	\$ 2,497.9	\$ 2,564.0	\$ -	\$ 2,564.0
Transfer From Tobacco Settlement	142.5	96.4	-	96.4
Transfers From (To) Other Funds	(85.0)	(127.3)	-	(127.3)
TOTAL - Other Sources	\$ 2,555.4	\$ 2,533.1	\$ -	\$ 2,533.1
TOTAL - General Fund	\$ 14,063.3	\$ 14,606.1	\$ -	\$ 14,606.1

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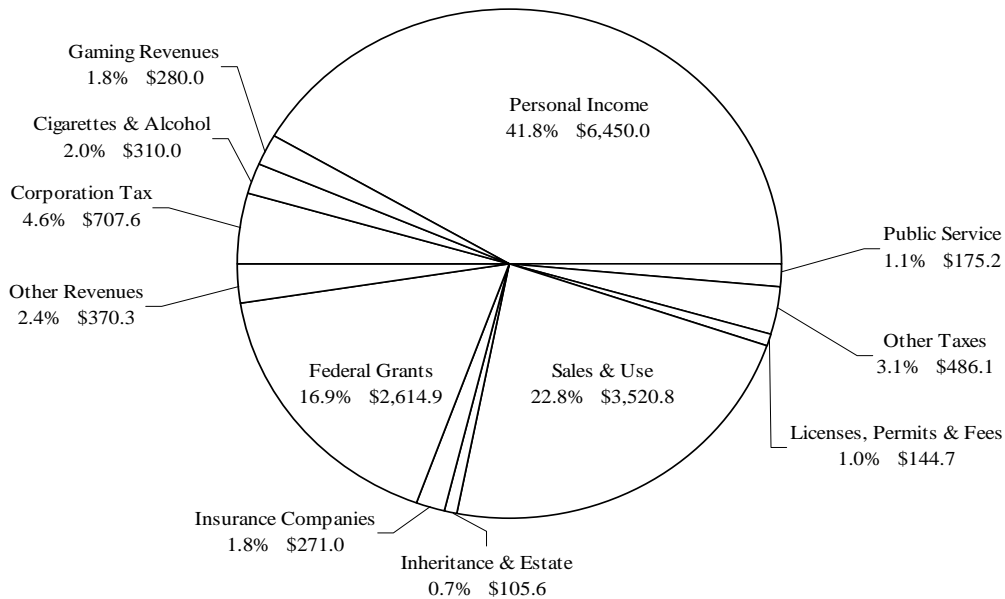
Projected Revenue At Current Rates <u>2006-07</u>	Proposed Revenue Changes <u>2006-07</u>	Net Projected Revenue <u>2006-07</u>	<u>Explanation of Changes</u>
\$ 6,450.0	\$ -	\$ 6,450.0	<u>Corporation Tax</u> Eliminate the 15% surcharge for income year 2007.
3,520.8	-	3,520.8	Establish displaced worker, job creation, and film industry corporation tax credits.
751.3	(43.7)	707.6	
220.1	(44.9)	175.2	<u>Public Service Tax</u>
139.7	(34.1)	105.6	Reduce the tax rate on sales of gas and electricity for commercial and residential customers by 25%.
271.0	-	271.0	
266.0	-	266.0	
192.7	-	192.7	
153.4	(40.0)	113.4	<u>Inheritance & Estate Tax</u>
44.0	-	44.0	Phase out the estate tax by 2010.
33.3	-	33.3	
146.7	-	146.7	<u>Oil Companies Tax</u>
\$ 12,189.0	\$ (162.7)	\$ 12,026.3	Increase transfer to the Special Transportation Fund by \$40.0 million to fund the 2006 Transportation Initiative Plan.
(819.5)	325.0	(494.5)	
(10.0)	-	(10.0)	
\$ 11,359.5	\$ 162.3	\$ 11,521.8	
			<u>Refunds of Taxes</u>
\$ 280.0	\$ -	\$ 280.0	Eliminate the Property Tax Credit on the Personal Income Tax.
435.6	(435.6)	-	
144.7	-	144.7	
35.0	-	35.0	
44.0	-	44.0	<u>Indian Gaming Payments</u>
45.0	-	45.0	Redirect revenue to proposed CAR Fund to reimburse towns for foregone property taxes on privately owned passenger vehicles.
140.1	-	140.1	
(0.6)	-	(0.6)	
\$ 1,123.8	\$ (435.6)	\$ 688.2	
			<u>Federal Grants</u>
\$ 2,605.7	\$ 9.2	\$ 2,614.9	Reflects impact of recommended expenditure changes.
106.2	-	106.2	
(33.3)	13.1	(20.2)	<u>Transfers From (To) Other Funds</u>
\$ 2,678.6	\$ 22.3	\$ 2,700.9	Fund the former Mashantucket Pequot & Mohegan Grant from the General Fund. Eliminate transfer from the Energy Conservation and Load Management Fund. Fund Transition Payment for CAR Fund.
\$ 15,161.9	\$ (251.0)	\$ 14,910.9	

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FISCAL YEAR 2005-06 – TOTAL \$14,606.1 MILLION* (General Fund)



FISCAL YEAR 2006-07 – TOTAL \$14,910.9 MILLION* (General Fund)



* Refunds of Taxes are estimated at \$756.0M for FY 2005-06 and \$494.5M for FY 2006-07, R&D Credit Exchange are estimated at \$8.0M for FY 2005-06 and \$10.0M for FY 2006-07, Refunds of Payments are estimated at \$0.6M for both FY 2005-06 and FY 2006-07, and Transfers-Other Funds are estimated at \$127.3M for FY 2005-06 and \$20.2M FY 2006-07.

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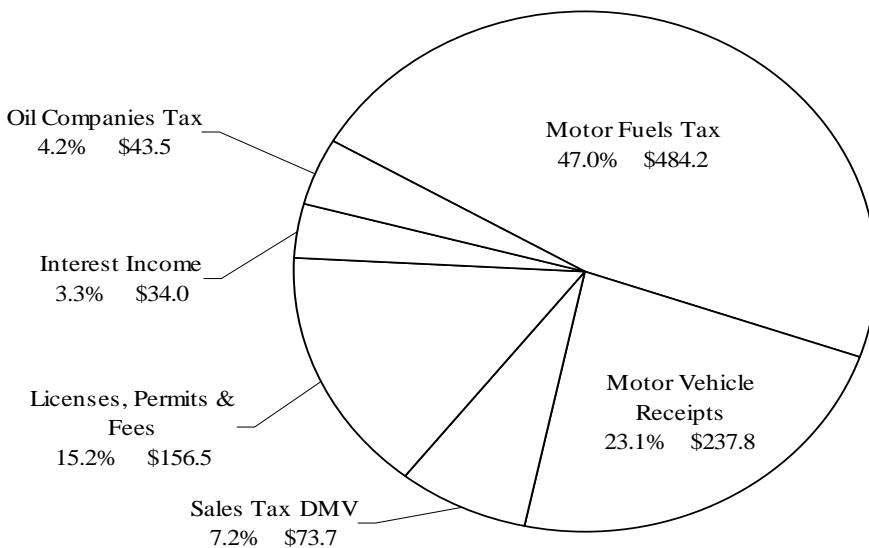
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**TABLE 93
STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND REVENUES
(In Millions of Dollars)**

	Actual Revenue 2004-05	Projected Revenue Current Rates 2005-06	Proposed Revenue Changes 2005-06	Net Projected Revenue 2005-06
Taxes				
Motor Fuels Tax	\$ 483.8	\$ 484.2	\$ -	\$ 484.2
Oil Companies Tax	13.0	43.5	-	43.5
Sales Tax DMV	69.7	73.7	-	73.7
Less Refunds of Taxes	(8.3)	(8.4)	-	(8.4)
TOTAL - Taxes Less Refunds	\$ 558.2	\$ 593.0	\$ -	\$ 593.0
Other Sources				
Motor Vehicle Receipts	\$ 233.9	\$ 237.8	\$ -	\$ 237.8
Licenses, Permits & Fees	155.1	156.5	-	156.5
Interest Income	32.7	34.0	-	34.0
Transfers From (To) Other Funds	(8.5)	(4.6)	-	(4.6)
Transfer To TSB	(28.7)	(25.3)	-	(25.3)
Less Refunds of Payments	(2.8)	(3.1)	-	(3.1)
TOTAL - Other Sources	\$ 381.6	\$ 395.3	\$ -	\$ 395.3
TOTAL - S.T.F.	\$ 939.8	\$ 988.3	\$ -	\$ 988.3

FISCAL YEAR 2005-06 - TOTAL \$ 988.3 MILLION*



* Refunds of Taxes are estimated at \$8.4M, Transfers to Other Funds are estimated at \$4.6 M, Refunds of Payments are estimated at \$3.1M and Transfers to Transportation Strategy Board are estimated at \$25.3M in fiscal 2005-06.

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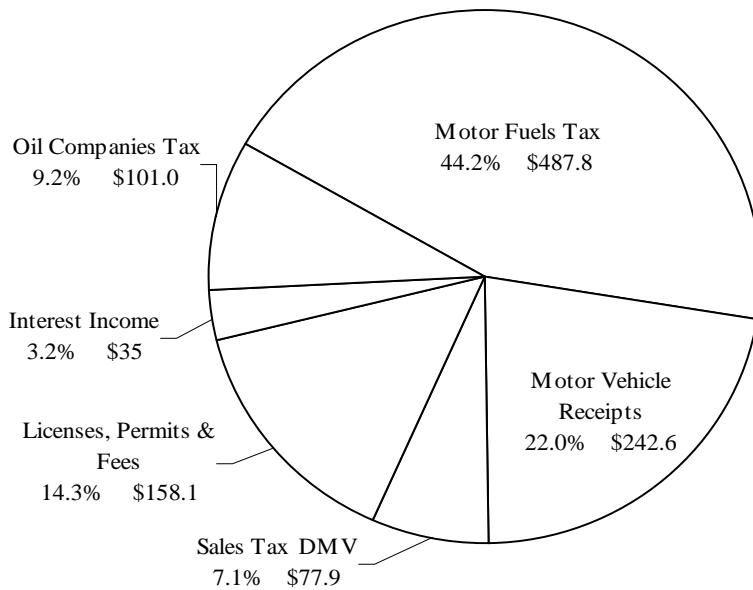
Explanation of Changes

Projected Revenue Current Rates <u>2006-07</u>	Proposed Revenue Changes <u>2006-07</u>	Net Projected Revenue <u>2006-07</u>
\$ 487.8	\$ -	\$ 487.8
61.0	40.0	101.0
77.9	-	77.9
(8.5)	-	(8.5)
\$ 618.2	\$ 40.0	\$ 658.2
\$ 242.6	\$ -	\$ 242.6
158.1	-	158.1
35.0	-	35.0
(7.0)	-	(7.0)
(20.3)	-	(20.3)
(3.2)	-	(3.2)
\$ 405.2	\$ -	\$ 405.2
\$ 1,023.4	\$ 40.0	\$ 1,063.4

Oil Companies Tax

Increase transfer from General Fund by \$40.0 million to fund the 2006 Transportation Initiative Plan.

FISCAL YEAR 2006-07 - TOTAL \$ 1,063.4 MILLION*



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- * Refunds of Taxes are estimated at \$8.5M, Transfers to Other Funds are estimated at \$7.0M, Refunds of Payments are estimated at \$3.2M and Transfers to Transportation Strategy Board are estimated at \$20.3M in fiscal 2006-07.

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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 on what government realistically can and ought to do.

The economic implications of governmental budgets are significant. The government sector including federal and local governments is an important dimension of the national economy, accounting for 19.0% 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 more than 7.0% of the Gross State Product, it is inevitable that state government's expenditure and revenue actions influence the State's economy.

The economy has undergone significant change over the past several years and along with it, so has the state's budget. The result is a budget recommendation that proposes few but significant tax changes while continuing to make changes in resource allocation to improve the social and economic wellbeing of the state's residents. This budget is also part of the vision of the Governor to attain and retain structural balance in the budget. Governor Rell believes this budget will maintain the positive impact previous budgets have had on the economy, while preserving the most important aspects of our quality of life.

Expenditure Actions

Education

Making Connecticut Competitive: Investing in Young Children and Jobs By Investing in the Early Education of Young Children

Governor Rell is committed to building a vibrant, modern and flexible economy for Connecticut. To accomplish this, she is recommending programs that will help create smart, educated workers who are prepared for tomorrow's jobs.

To retain America's global competitiveness, a recent survey of company executives found that 81% favored publicly funded pre-school. Quality preschool programs prepare youngsters for school and this is especially important for impoverished children, who historically have struggled academically. Preschool programs help narrow the achievement gap.

Governor Rell's proposed budget includes the first part of a phase in of new preschool slots for the state's most economically disadvantaged students. While expanding preschool programs helps children educationally, it is expected to have a long term positive effect on Connecticut's economy. If children arrive ready to learn in school, they are less likely to need special education services, less likely to become teen parents and more likely to graduate from high school, which is necessary to create the dynamic, smart and motivated workers that Connecticut will need to thrive in the global economy.

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Governor Rell's proposed budget will:

1. Increase from about 7,000 to about 7,500, the number of inner city children in preschool,
2. Add funding for five more communities to add preschool programs,
3. Stabilize the financial situations of state funded child care centers, and
4. Initiate the creation of a true kindergarten assessment tool.

In addition to expanding the preschool program, Governor Rell's preschool initiatives also address quality issues. Too often, preschools are plagued by high staff turnover (average 15% annually) caused by low wages (\$24,000 average annual salaries for preschool workers not associated with a public school) and other working condition issues. In the budget, Governor Rell has included \$4 million to increase the per child School Readiness reimbursement from \$7,750 to \$8,025. With this additional funding, and the per child increases given in the state FY 2006 budget, it is hoped that preschool finances will become more stable and that wages for employees will increase, thereby decreasing worker turnover and increasing preschool quality.

Although there is much anecdotal evidence that a significant number of children do not arrive ready to learn in kindergarten, there is not an assessment tool available that is measuring children's kindergarten readiness. Within the Governor budget, there is \$400,000 to begin the process of creating a kindergarten readiness tool. It is clear that this tool cannot be a paper and ink test, but it will need to include all of the academic, social and developmental skills necessary for children to succeed in kindergarten.

With more children, especially children who reside in the state's poorest communities, in quality preschool programs, it is expected that the achievement gap will narrow and that more disadvantaged children will reach academic proficiency, graduate from high school and possibly college, and become the productive workers that our state's future economy needs.

The Jobs Initiative and Making Connecticut Competitive

In the Early Childhood Education Initiative, Governor Rell is preparing tomorrow's workers for tomorrow's jobs. The Jobs Initiative, which creates new economic development entities and expands programs, creates a bold new strategy that will create the jobs for the workers who benefit from the Early Childhood Education Initiative.

This budget proposes the creation of two economic development entities, the Connecticut Finance Collaborative and the Office of Economic Development Policy. These new entities are critical components of Governor Rell's innovative five year plan to retain and create the jobs of the future.

To provide better coordination of economic development programs, the new Connecticut Finance Collaborative will combine Connecticut Innovations Incorporated (CII) and the Connecticut Development Authority (CDA) so companies will have access to streamlined financing for start-up and hi-tech loans.

As part of the Governor's Office, the Governor's Senior Advisor for Economic Policy will lead the new Office of Economic Development Policy (OEDP) and will direct the state's economic development policy. With a cabinet level agency role in the Governor's Office, OEDP will ensure that Connecticut's economic development policy-making is prepared to retain and

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attract employers. OEDP will, as an inaugural initiative, do an intensive study of structural and programmatic economic development methodologies that will encourage business and job growth in Connecticut.

In addition to the creation of the OEDP, Governor Rell's budget includes funding for significant new economic development programming in the Department of Business and Employment (DBE), formerly known as the Department of Economic and Community Development, including the following:

1. \$125,000 for an Office of National and International Commerce. With this new office, the DBE will market Connecticut globally as a good place to do business.
2. \$125,000 for a Housing and Community Development program. With a dedicated senior level staff person and new planning staff, the Governor is emphasizing how important affordable housing is to the state's economic future.
3. \$500,000 for the Connecticut Research Institute within DBE that will evaluate jobs, workforce issues and economic development data for possible recommendations on how to grow and retain the state's workforce.

Governor Rell's proposed budget includes several other jobs and workforce-related initiatives in the Department of Labor (DOL) that will help keep Connecticut competitive. These include:

1. \$1.5 million for Governor Rell's 21st Century Jobs Program - an important program that will customize job training for employers (who will pay a 50% match for this opportunity),
2. \$150,000 for the Connecticut Career Resource Network that will provide career specific public information to state students, teachers and guidance counselors, and
3. \$250,000 for an expansion of the Connecticut Apprenticeship program which provides guidance and mentoring for businesses using apprentices.

In addition to the DBE's and DOL's new programs, Governor Rell's budget for the Department of Higher Education includes a creative new loan forgiveness program to encourage college students to choose work in "high needs" fields in Connecticut. Of the \$3.0 million dedicated to this endeavor, half, or \$1.5 million, will be made available to students who plan on becoming math or science teachers (a shortage area). The DBE will decide what other fields would be included in this program.

Finally, Governor Rell is proposing legislation to require economic impact statements on legislation. If implemented, this legislation would require the Office of Fiscal Analysis, the non-partisan staff budget office for the General Assembly, to include economic statements on the fiscal notes they do for legislation. This is an important part of the economic puzzle that should be put in front of legislators before they enact legislation into law.

Health and Human Services

In FY 2007, considerable new funding, \$33.2 million, is proposed by Governor Rell for the Department of Children and Families, to fund new programs important to the state's effort to improve outcomes for children. This funding is designed to ensure that the state can exit from court oversight related to the *Juan F.* consent decree and fully fund the Emily J. Settlement Agreement, as well as initiate new programs for DCF clients involved with the Juvenile Justice System. As an offset to the new funding, \$8.4 million in savings is included in the budget.

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The Governor has also proposed to continue the recent initiative in the Department of Mental Retardation to address unserved and underserved persons currently on DMR's waiting list, as well as other DMR Clients. Additional funding of \$23.2 million is provided in the FY 2007 budget in support of these initiatives. Continued support for other initiatives started in the biennium includes dedicating \$20 million to stem cell research and providing increased funding of \$5.5 million for mental health services in FY 2007.

A number of new initiatives are also proposed in the Governor's Midterm Budget.

To ensure a partnership between the state and private grant providers, a 2% cost of living adjustment (COLA) for traditional private providers is funded for FY 2007. Nursing homes, residential care homes, and intermediate care facilities - mentally retarded (ICF/MRs) are also receiving a 2% increase in rates. These increases are scheduled for October 1, 2006.

Two dental prevention programs for young children are being recommended in the Governor's Budget to prevent and minimize tooth decay. Covered services under Medicaid and State Children's Health Insurance Program (SCHIP) will be expanded to include the placement of sealants on premolars. In addition, Medicaid will allow for the child's current pediatrician to apply topical fluoride varnishes to young children under the age of three.

The Department of Social Services will seek to have HUSKY A clients enroll in health plans offered by their employers when available. This initiative will supplement employers' plans to ensure coverage comparable to the existing Medicaid benefit package.

Public Safety and Criminal Justice

The Governor is committed to the safety and wellbeing of Connecticut citizens. Due to rising criminal activity in Connecticut cities, the Governor is establishing an Urban Violence Initiative.

Currently, the Chief State's Attorney has a racketeering and continuing criminal activities unit within the Department of Criminal Justice (DCJ) of one prosecutor. The Adjusted FY 2007 Budget provides \$400,000 in the DCJ to fully support an additional six staff and associated operating expenses. These funds will enable the unit to address violence in the major urban areas by employing a vertical prosecution strategy, whereby a team of prosecutors and inspectors work on criminal cases from the earliest stages through all court proceedings and post-conviction. This was one of the most important elements of the successful strategy used in the 1990s to attack gang violence and has also been successful in the prosecution of domestic violence and elder abuse cases.

The Budget for the Department of Public Safety provides \$520,000 to create a state and municipal task force to combat violent crime in Connecticut's major cities. A team of state troopers and two officers from each major city will be deployed to address "Hot Spots" identified by the municipal police departments. They will gather intelligence, deploy into target areas, and conduct investigations, large scale sweeps and arrests. This is in addition to patrol saturation of the targeted area for order maintenance, traffic citations and street sales of drugs.

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The centerpiece of the Governor's Public Safety legislative initiative is a call for minimum mandatory sentencing of 25 years for individuals convicted of certain sex crimes against children 13 years of age and younger. This proposal includes lifetime tracking by global positioning satellite (GPS) and required lifetime address registration for certain offenders. The Judicial Branch's Office of Adult Probation recently completed a successful pilot program utilizing GPS to track certain high-risk offenders. The Governor proposes to fully implement this program in the probation system and the parole system managed by the Department of Correction (DOC).

Connecticut has nine regional fire training schools. Eight are operated and controlled by municipal or regional fire associations. One school, in Windsor Locks, shares a building that is under the care, custody, and control of the State Commission on Fire Prevention and Control. The Governor is recommending an additional bond authorization of \$10 million in the FY2007 Midterm Budget to continue construction, renovations and property acquisition to upgrade and replace these aging facilities. Additional bond funding from a prior authorization is also available in the amount of \$10 million for the Regional Fire Schools throughout the state.

The Governor's Adjusted Budget for FY 2007 continues to protect the safety of Connecticut's residents by providing over \$400,000 to the Department of Motor Vehicles (DMV) for the hiring of commercial vehicle safety inspectors in order to prevent future devastating accidents such as the Avon Mountain tragedy that occurred in July of 2005. In response to that tragedy, the Governor immediately ordered DMV to increase the number of Commercial Vehicle Safety Inspectors in order to monitor all commercial fleet activity, both inter- and intrastate. In addition, the DMV's adjusted budget provides over \$1.3 million in funding that will accomplish a number of changes, such as telecommunications upgrades, assistance in meeting the requirements of federal mandates, additional staffing, and expanded hours for certain branch offices.

The Governor will also include \$17.0 million in her bonding package for continuing improvements to the information systems of the department through the Real-Time Online Registration (RTOL) and the Reengineering of the Regulation of Driver (Re-ROD) Programs.

General Government

The Governor continues to promote clean government under her administration by supporting the Office of State Ethics established by PA05-183. The Governor's Budget includes resources for the agency to run effectively and efficiently, and carry out its mission as defined by the new Act. The Executive Director is working to build a strong agency that will be able to monitor the ethical activity of state entities and those private sector companies with whom the state conducts business. The new Commission includes 19 positions with a total budget for FY 2007 of approximately \$1.8 million. This funding provides the agency with the resources necessary to accomplish its mission of ensuring that the state is working in an ethical manner. The agency will continue to emphasize both public education and ethics enforcement.

Governor Rell has also called for the clean up of campaign finance in order to deter those elected to state offices from catering to special interests and ignoring the true needs of the residents of Connecticut. Public Act 05-5 – An Act Concerning Comprehensive Campaign Finance Reform for State-Wide Constitutional and General Assembly Offices, passed in the

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October Special Session, puts Connecticut at the forefront of campaign financing in the nation. This Act bans campaign contributions from state contractors and lobbyists, creates a voluntary system of publicly financing campaigns for every state office, and established a program in which public grants are provided to qualified candidates. The estimated annual cost of this program is \$16 million. In addition, this legislation enables the State Elections Enforcement Commission (SEEC) to better organize itself as the election watchdog by expanding the agency's power, responsibilities and resources.

In an effort to streamline and centralize the energy planning and policy efforts of the State, particularly due to the recent escalation in the cost of energy which is not expected to subside any time soon, the Governor's Adjusted Budget establishes the new Department of Energy (DOE). This new entity will incorporate energy-related activities and resources of the State in order to take a more proactive stance towards addressing this issue. The new department will consist of 10 positions. Building upon the existing resources of the 5 positions of the energy staff at the Office of Policy and Management, new funding from the General Fund will also be appropriated in order to add 5 positions and resources. Two positions and funding will be reduced in the DPUC to reflect the centralization of energy planning functions within the new DOE and to avoid duplication of activities.

Governor Rell is proposing a second major transportation initiative focused on new commuter-friendly train service with new train stations along the New Haven-Springfield corridor and other various upgrades. This plan will build on last year's highway and public transit package by promoting economic development, reducing interstate traffic and offering additional options to workers, shoppers and other travelers. The plan includes first-time bus service from the train to Bradley International Airport and completion of a unique 'busway' link between Hartford and New Britain. Other initiatives contained in the plan include rehabilitation of approximately 40 locomotive-pulled rail coaches currently used on the Metro-North commuter railroad and improvements to bus service between rail stations and major employers.

Revenue Actions

The proportion of the State's revenue that must be raised through taxes directly affects the State's economy, impacting both citizens and businesses who must assume the tax burden necessary to provide essential state services. Recognizing this, Governor Rell's administration stands for the continuation of significant tax reform measures targeted at making Connecticut more competitive from the perspectives of both the private individual and business.

The changes proposed by Governor Rell, as outlined below, will reduce taxes in FY 2007 by \$294.5 million. The changes are a combination of tax repeals and reductions, tax credits, and various transfers between funds.

First, Governor Rell is proposing to eliminate the property tax on privately-owned Connecticut-registered cars and motorcycles, as well as those vehicles that individuals lease on a long-term basis. This is a bold step to eliminate a regressive tax, which will make the state of Connecticut a much more attractive place to live, reducing the financial burden on the average working family in the state. The proposal does not include unregistered automobiles, business-owned vehicles, or vehicles which are recreational in nature. Payments of property tax on exempt

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vehicles would be eliminated; beginning with what would be the July payment of 2006. Municipalities and other taxing districts will receive a property tax relief grant from the state's Casino revenue to offset the revenue loss due to the exemption. The cost of this initiative is \$497 million. In order to pay for this proposal, first all Indian Gaming Payments, \$435.6 million in FY 2007, will be redirected and used to reimburse towns. A second redirecting of funds will also take place as a transition to make up the difference between the cost of the proposal and the Indian Gaming Payments. This will be a \$61 million transfer from General Fund revenue. The General Fund is then made whole by eliminating the \$400 property tax exemption against the personal income tax, saving \$325 million and, because better than expected revenue growth has occurred than when the original FY 2007 budget was adopted, \$172 million from the surplus for FY 2007 will be used to make up the difference between the Indian Gaming Loss and the elimination of the property tax credit. Finally, the funding for the Mashantucket Pequot Grant will be maintained, but the \$86.3 million will now come from the General Fund.

Governor Rell will also phase out the estate tax over the next five years, with total elimination of the tax in income year 2010. Under current law, estates valued at \$2.0 million or more are taxed. The Governor is proposing to increase the tax exemption level to \$4.1 million beginning January 1, 2006, resulting in a revenue loss in FY 2007 of \$34.1 million. The exemption level will rise to \$5.1 million for income year 2007, to \$7.1 million for income year 2008, and to \$10.1 million for income year 2009. As part of the phase-out plan, the Governor is proposing to eliminate the "cliff" effect at each exemption level which results in significant tax savings for all filers. When completely phased out, Connecticut will join 32 other states with no estate tax.

This budget also includes a number of proposals to encourage job creation and economic growth in the state. The first will eliminate the corporation tax surcharge of 15% for income year 2007, reducing revenue by \$32.2 million in FY 2007. Additionally, a series of three new tax credits against the taxes paid by businesses in the state are being proposed:

1. The first is a job creation tax credit, effective January 1, 2006, for the establishment of jobs by a company new to the state. The credit may be applied against the Corporation Tax, Insurance Tax, or Public Utilities Tax. The credit is equivalent to 25% of the withholding tax paid for the state's personal income tax for all employees eligible for the credit, will be capped in total for the state at \$10.0 million in any year, and may only be used by the company for five years. The size of the credit will be a function of the payroll created by the new entity, but the credit will be applied against one of the corporation-based taxes.
2. The second credit is the displaced worker credit. This credit is applied against the Corporation Tax, Insurance Tax, or Public Utilities Tax, and is worth \$1,500 per eligible employee hired by a corporation. To be eligible, the employee must have been terminated from his or her prior job as a direct result of a business restructuring, the employee must have been at the new job for at least one year, and the employee's salary in the new job must be at least 75% of the salary the employee received in the prior job. This credit will result in a total annual loss of revenue of \$4.5 million.
3. The third credit is a film industry credit against the corporation tax. The credit is 25% of in-state production expenses, including payroll, but excluding salaries more than \$1.0 million, for productions such as feature length films, television series, and commercials. The credit is capped at \$5.0 million for any one production.

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The Governor recognizes the dramatic increases that have occurred recently in the cost of energy, and believes steps must be taken to address the impact these increases have had on businesses and working families in Connecticut. In recognition of the importance of this issue, along with other steps being taken on the expenditure side, she proposes to eliminate the transfer from the Energy Conservation and Load Management Fund, costing the General Fund \$12.0 million. Also, in order to address the high cost of energy facing both businesses and families at all income levels, the Governor is proposing to reduce the Public Service Companies Tax by 25%, resulting in a saving on the gas and electricity bills of all residential and commercial customers in the state. The cost to the state will be \$44.9 million in FY 2007.

As part of the Governor's 2006 transportation initiative, she is proposing to increase the oil companies transfer to the Special Transportation Fund by \$40.0 million, to help encourage the use of public transportation and enhance the long-term economic growth of the state. This initiative includes: commuter rail service linking Springfield to New Haven, allowing passengers as far away as Springfield to avail themselves of commuter service all the way into New York; a dedicated right-of-way for bus service between New Britain and Hartford; and regular bus service between Bradley International Airport and the nearest station on the Springfield-to-New Haven rail line.

Conclusion

These proposals, taken all together, demonstrate Governor Rell's recognition of the reality of a challenging competitive climate for the state. This budget also demonstrates a pragmatic and optimistic response to this environment. The Governor has attempted to maintain the fiscal stability already established while encouraging economic expansion.

A P P E N D I X

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Connecticut Resident Population Census Counts

	Population		Population		1990-2000	%	2004
	<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	3,503,604
Andover	2,540	149	3,036	147	496	19.5	3,177
Ansonia	18,403	52	18,554	57	151	0.8	18,881
Ashford	3,765	138	4,098	135	333	8.8	4,349
Avon	13,937	72	15,832	68	1,895	13.6	16,992
Barkhamsted	3,369	140	3,494	143	125	3.7	3,687
Beacon Falls	5,083	124	5,246	125	163	3.2	5,553
Berlin	16,787	60	18,215	59	1,428	8.5	19,471
Bethany	4,608	128	5,040	126	432	9.4	5,417
Bethel	17,541	56	18,067	61	526	3.0	18,742
Bethlehem	3,071	144	3,422	144	351	11.4	3,598
Bloomfield	19,483	51	19,587	52	104	0.5	20,414
Bolton	4,575	129	5,017	127	442	9.7	5,173
Bozrah	2,297	152	2,357	153	60	2.6	2,446
Branford	27,603	35	28,683	32	1,080	3.9	29,166
Bridgeport	141,686	1	139,529	1	-2,157	-1.5	140,132
Bridgewater	1,654	161	1,824	160	170	10.3	1,892
Bristol	60,640	9	60,062	11	-578	-1.0	60,994
Brookfield	14,113	71	15,664	69	1,551	11.0	16,201
Brooklyn	6,681	110	7,173	113	492	7.4	7,650
Burlington	7,026	107	8,190	108	1,164	16.6	8,952
Canaan	1,057	168	1,081	168	24	2.3	1,106
Canterbury	4,467	131	4,692	130	225	5.0	5,010
Canton	8,268	101	8,840	101	572	6.9	9,603
Chaplin	2,048	155	2,250	156	202	9.9	2,418
Cheshire	25,684	37	28,543	33	2,859	11.1	29,303
Chester	3,417	139	3,743	141	326	9.5	3,846
Clinton	12,767	77	13,094	81	327	2.6	13,638
Colchester	10,980	87	14,551	74	3,571	32.5	15,334
Colebrook	1,365	164	1,471	165	106	7.8	1,530
Columbia	4,510	130	4,971	129	461	10.2	5,295
Cornwall	1,414	163	1,434	166	20	1.4	1,482
Coventry	10,063	91	11,504	87	1,441	14.3	12,166
Cromwell	12,286	79	12,871	83	585	4.8	13,520
Danbury	65,585	8	74,848	7	9,263	14.1	78,221
Darien	18,196	53	19,607	51	1,411	7.8	20,547
Deep River	4,332	132	4,610	133	278	6.4	4,736
Derby	12,199	80	12,391	84	192	1.6	12,620
Durham	5,732	120	6,627	116	895	15.6	7,206
East Granby	4,302	133	4,745	132	443	10.3	5,018
East Haddam	6,676	111	8,333	105	1,657	24.8	8,789
East Hampton	10,428	88	13,352	78	2,924	28.0	11,927
East Hartford	50,452	17	49,575	19	-877	-1.7	49,416
East Haven	26,144	36	28,189	35	2,045	7.8	28,808
East Lyme	15,340	67	18,118	60	2,778	18.1	18,629

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Connecticut Resident Population Census Counts

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East Windsor	10,081	90	9,818	94	-263	-2.6	10,261
Eastford	1,314	165	1,618	163	304	23.1	1,725
Easton	6,303	113	7,272	111	969	15.4	7,488
Ellington	11,197	84	12,921	82	1,724	15.4	14,141
Enfield	45,532	20	45,212	20	-320	-0.7	45,567
Essex	5,904	118	6,505	117	601	10.2	6,816
Fairfield	53,418	14	57,340	13	3,922	7.3	57,861
Farmington	20,608	48	23,641	45	3,033	14.7	24,682
Franklin	1,810	160	1,835	159	25	1.4	1,927
Glastonbury	27,901	33	31,876	29	3,975	14.2	32,852
Goshen	2,329	151	2,697	151	368	15.8	3,007
Granby	9,369	93	10,347	93	978	10.4	10,989
Greenwich	58,441	12	61,101	9	2,660	4.6	62,317
Griswold	10,384	89	10,807	89	423	4.1	11,194
Groton	45,144	21	39,907	23	-5,237	-11.6	40,522
Guilford	19,848	50	21,398	49	1,550	7.8	22,245
Haddam	6,769	109	7,157	114	388	5.7	7,535
Hamden	52,434	15	56,913	14	4,479	8.5	58,412
Hampton	1,578	162	1,758	161	180	11.4	1,968
Hartford	139,739	2	124,121	2	-15,618	-11.2	125,053
Hartland	1,866	158	2,012	158	146	7.8	2,078
Harwinton	5,228	123	5,283	124	55	1.1	5,526
Hebron	7,079	106	8,610	104	1,531	21.6	9,085
Kent	2,918	147	2,858	150	-60	-2.1	2,945
Killingly	15,889	64	16,472	67	583	3.7	17,214
Killingworth	4,814	127	6,018	121	1,204	25.0	6,381
Lebanon	6,041	115	6,907	115	866	14.3	7,224
Ledyard	14,913	68	14,687	72	-226	-1.5	15,149
Lisbon	3,790	137	4,069	136	279	7.4	4,231
Litchfield	8,365	100	8,316	106	-49	-0.6	8,594
Lyme	1,949	157	2,016	157	67	3.4	2,115
Madison	15,485	66	17,858	64	2,373	15.3	18,778
Manchester	51,618	16	54,740	15	3,122	6.0	55,563
Mansfield	21,103	45	20,720	50	-383	-1.8	24,232
Marlborough	5,535	121	5,709	123	174	3.1	6,185
Meriden	59,479	11	58,244	12	-1,235	-2.1	59,163
Middlebury	6,145	114	6,451	118	306	5.0	6,846
Middlefield	3,925	135	4,203	134	278	7.1	4,303
Middletown	42,762	22	43,167	21	405	0.9	47,141
Milford	49,938	18	52,305	17	2,367	4.7	54,495
Monroe	16,896	59	19,247	54	2,351	13.9	19,656
Montville	16,673	61	18,546	58	1,873	11.2	19,846
Morris	2,039	156	2,301	155	262	12.8	2,396
Naugatuck	30,625	29	30,989	30	364	1.2	31,802
New Britain	75,491	7	71,538	8	-3,953	-5.2	71,832
New Canaan	17,864	55	19,395	53	1,531	8.6	19,965

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New Fairfield	12,911	75	13,953	75	1,042	8.1	14,229
New Hartford	5,769	119	6,088	120	319	5.5	6,662
New Haven	130,474	3	123,626	3	-6,848	-5.2	125,012
New London	28,540	32	25,671	41	-2,869	-10.1	26,375
New Milford	23,629	40	27,121	37	3,492	14.8	28,484
Newington	29,208	31	29,306	31	98	0.3	29,646
Newtown	20,779	47	25,031	42	4,252	20.5	26,762
Norfolk	2,060	154	1,660	162	-400	-19.4	1,687
North Branford	12,996	74	13,906	76	910	7.0	14,292
North Canaan	3,284	142	3,350	145	66	2.0	3,392
North Haven	22,247	41	23,035	39	788	3.5	23,710
North Stonington	4,884	126	4,991	128	107	2.2	5,201
Norwalk	78,331	6	82,951	6	4,620	5.9	84,412
Norwich	37,391	25	36,117	26	-1,274	-3.4	36,721
Old Lyme	6,535	112	7,406	110	871	13.3	7,535
Old Saybrook	9,552	92	10,367	92	815	8.5	10,520
Orange	12,830	76	13,233	79	403	3.1	13,587
Oxford	8,685	96	9,821	96	1,136	13.1	11,112
Plainfield	14,363	69	14,619	73	256	1.8	15,353
Plainville	17,392	57	17,328	66	-64	-0.4	17,371
Plymouth	11,822	81	11,634	86	-188	-1.6	12,117
Pomfret	3,102	143	3,798	140	696	22.4	4,086
Portland	8,418	99	8,732	102	314	3.7	9,340
Preston	5,006	125	4,688	131	-318	-6.4	4,846
Prospect	7,775	105	8,707	103	932	12.0	9,205
Putnam	9,031	95	9,002	98	-29	-0.3	9,237
Redding	7,927	103	8,270	107	343	4.3	8,648
Ridgefield	20,919	46	23,643	44	2,724	13.0	24,222
Rocky Hill	16,554	62	17,966	62	1,412	8.5	18,620
Roxbury	1,825	159	2,136	154	311	17.0	2,311
Salem	3,310	141	3,858	138	548	16.6	4,058
Salisbury	4,090	134	3,977	137	-113	-2.8	4,059
Scotland	1,215	167	1,556	164	341	28.1	1,665
Seymour	14,288	70	15,454	70	1,166	8.2	16,133
Sharon	2,928	146	2,968	149	40	1.4	3,036
Shelton	35,418	26	38,101	25	2,683	7.6	39,254
Sherman	2,809	148	3,827	139	1,018	36.2	4,100
Simsbury	22,023	44	23,234	47	1,211	5.5	23,460
Somers	9,108	94	10,417	91	1,309	14.4	10,888
South Windsor	22,090	42	24,412	43	2,322	10.5	25,586
Southbury	15,818	65	18,567	56	2,749	17.4	19,498
Southington	38,518	24	39,728	24	1,210	3.1	41,723
Sprague	3,008	145	2,971	148	-37	-1.2	3,011
Stafford	11,091	85	11,307	88	216	1.9	11,815
Stamford	108,056	5	117,083	4	9,027	8.4	120,160
Sterling	2,357	150	3,099	146	742	31.5	3,384

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Connecticut Resident Population Census Counts

	Population		Population		1990-2000	%	2004
	<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	18,381
Stratford	49,389	19	49,976	18	587	1.2	50,309
Suffield	11,427	83	13,552	77	2,125	18.6	14,539
Thomaston	6,947	108	7,503	109	556	8.0	7,901
Thompson	8,668	97	8,878	100	210	2.4	9,263
Tolland	11,001	86	13,146	80	2,145	19.5	14,416
Torrington	33,687	27	35,202	27	1,515	4.5	35,955
Trumbull	32,016	28	34,243	28	2,227	7.0	35,293
Union	612	169	693	169	81	13.2	744
Vernon	29,841	30	28,063	36	-1,778	-6.0	29,338
Voluntown	2,113	153	2,528	152	415	19.6	2,632
Wallingford	40,822	23	43,026	22	2,204	5.4	44,607
Warren	1,226	166	1,254	167	28	2.3	1,342
Washington	3,905	136	3,596	142	-309	-7.9	3,701
Waterbury	108,961	4	107,271	5	-1,690	-1.6	108,487
Waterford	17,930	54	19,152	55	1,222	6.8	19,089
Watertown	20,456	49	21,661	48	1,205	5.9	22,268
West Hartford	60,110	10	61,046	10	936	1.6	61,392
West Haven	54,021	13	52,360	16	-1,661	-3.1	53,124
Westbrook	5,414	122	6,292	119	878	16.2	6,597
Weston	8,648	98	10,037	95	1,389	16.1	10,263
Westport	24,410	39	25,749	40	1,339	5.5	26,564
Wethersfield	25,651	38	26,271	38	620	2.4	26,358
Willington	5,979	117	5,959	122	-20	-0.3	6,197
Wilton	15,989	63	17,633	65	1,644	10.3	17,965
Winchester	11,524	82	10,664	90	-860	-7.5	10,889
Windham	22,039	43	22,857	46	818	3.7	23,167
Windsor	27,817	34	28,237	34	420	1.5	28,652
Windsor Locks	12,358	78	12,043	85	-315	-2.5	12,333
Wolcott	13,700	73	15,215	71	1,515	11.1	16,149
Woodbridge	7,924	104	8,983	99	1,059	13.4	9,289
Woodbury	8,131	102	9,198	97	1,067	13.1	9,679
Woodstock	6,008	116	7,221	112	1,213	20.2	7,854

* 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, 2004"

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Money Income and Housing Affordability

Per Capita Money Income

Money income, as defined by the Bureau of the Census (BOC) is the sum of wage or salary income; net farm self-employment income; net nonfarm self-employment income; interest, net rental and dividends income; Social Security and railroad retirement income and all other received income such as Veteran's payments, pensions, unemployment compensation and alimony. This differs from the Bureau of Economic Analysis (BEA) personal income figures, which appear annually in the *Survey of Current Business*, as the BEA's figures include non-cash items received in lieu of cash; e.g., transfer payments (such as food stamps, lodging, Medicare and Medicaid) and employer contributions to private welfare and compensation funds.

The exclusion of non-cash income, such as transfer payments and employer contributions, makes BOC's estimated per capita money income (PCMI) lower than that of BEA's per capita personal income (PCPI). In 1999, the latest available year, PCMI accounted for 75.6% of PCPI, decreasing from 78.6% in 1989. The increase in the margin between PCPI and PCMI was due to slower growth in money income accompanied by an increase in non-cash compensation. PCPI was estimated at \$38,044 in 1999, an increase of 48% from \$25,687 in 1989. PCMI was estimated at \$28,766 in 1999, an increase of 42% from \$20,189 in 1989 while non-cash compensation increased 113% during the period. The Table below shows Connecticut's PCMI and PCPI for 1989 and 1999.

Connecticut Per Capita Money Income

	<u>1989</u>	<u>1999</u>	<u>Growth</u>
Per Capita Money Income (PCMI)	\$20,189	\$28,766	42%
Per Capita Non-Money Income	\$4,359	\$9,278	113%
Per Capita Personal Income (PCPI)	\$25,687	\$38,044	48%
PCMI/PCPI (%)	78.6%	75.6%	

Source: U.S. Bureau of Census and Bureau of Economic Analysis

Median Sales Price Of Housing

Median sales price is the sales price at which half of the sales are above and half below the price. The median sales price data is for the sale of single-family homes. As shown in the Table on the following page, the median sales price in 2004 was \$278,830, up nearly 45% since 1999. The rise in housing prices is partially attributed to historically low interest rates. Since 1997, capital gains of up to \$250,000 (\$500,000 for married couples) resulting from the sale of a primary residence have been tax exempt. Furthermore, steady population growth has kept

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homes in short supply, driving up demand. As a result, home price appreciation in Connecticut accelerated 10.1% in 2004.

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. An index 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 chart below indicates that overall housing affordability has fallen in the U.S. and CT over the past 6 years, indicating that housing prices are outpacing income increases, which may be an indication of an impending correction in the housing market.

Sales Price Of Homes In Connecticut And U.S.

Calendar Year	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>1999-04</u> <u>(Change)</u>
CT Median Price	\$192,340	\$197,270	\$204,000	\$224,760	\$253,330	\$278,830	\$86,490
<i>% Change</i>	<i>3.9%</i>	<i>2.6%</i>	<i>3.4%</i>	<i>10.2%</i>	<i>12.7%</i>	<i>10.1%</i>	<i>45.0%</i>
U.S. Median Price	\$130,660	\$138,720	\$147,150	\$159,300	\$172,620	\$193,520	\$62,900
<i>% Change</i>	<i>5.1%</i>	<i>6.2%</i>	<i>6.1%</i>	<i>8.3%</i>	<i>8.4%</i>	<i>12.1%</i>	<i>48.1%</i>
CT as a % of U.S.	147	142	139	141	147	144	
CT Affordability							
Index	123.45	122.16	127.93	123.66	120.84	116.35	(7.10)
<i>% Change</i>	<i>(5.9%)</i>	<i>(1.0%)</i>	<i>4.7%</i>	<i>(3.3%)</i>	<i>(2.3%)</i>	<i>(3.7%)</i>	<i>(5.8%)</i>
U.S. Affordability							
Index	149.32	136.66	144.40	144.16	150.08	144.39	(4.93)
<i>% Change</i>	<i>(3.5%)</i>	<i>(8.5%)</i>	<i>5.7%</i>	<i>(0.2%)</i>	<i>4.1%</i>	<i>(3.8%)</i>	<i>(3.3%)</i>

Source: Economy.Com