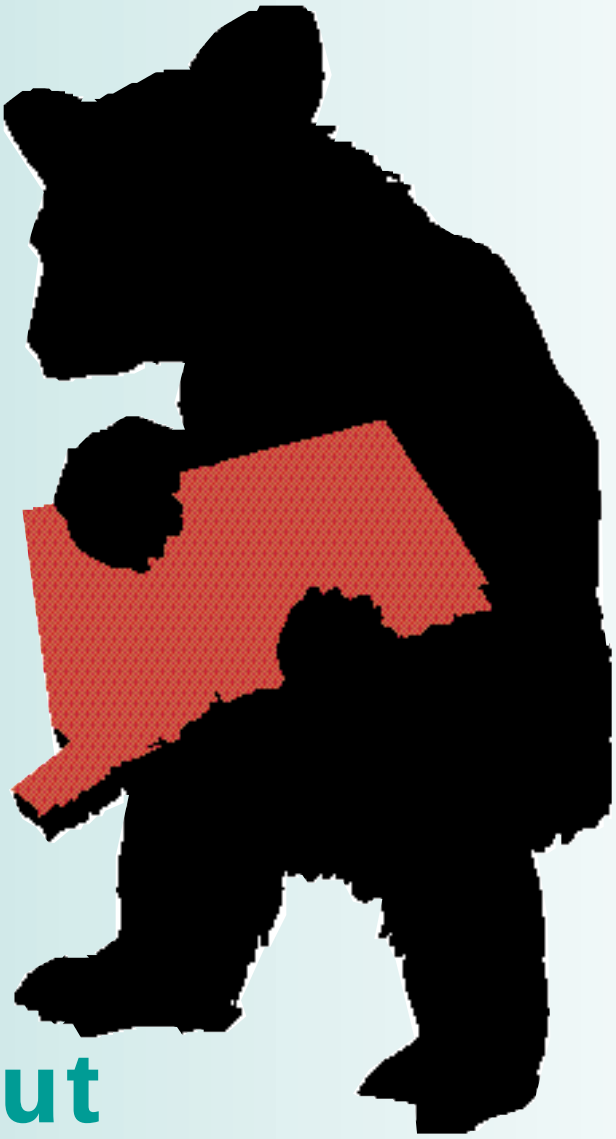
THE CONNECTICUT
Economy

A University of Connecticut Quarterly Review *Fall 1998*

A Mild Case of the Asian Flu

More Risk in a Shift to Services?

The Economy Meets Wall Street



The Connecticut Economy in a Grizzly World

The Editors

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Contents

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CONNECTICUT ECONOMIC INDICATORS

(Percent change: 1997-Q3 to 1998-Q3)

INDICATORS OF CURRENT ECONOMIC ACTIVITY

Total Nonfarm Jobs	+1.6%
Number Unemployed	-27.0%
Manufacturing	
Jobs	-0.2%
Avg. Weekly Hours	0.0%
Output Index	+0.6%
Avg. Hourly Earnings	+2.2%
New Auto Registrations	+58.7%
Travel and Tourism Index	+8.8 %
Bradley Airport	
Passengers	+4.4%
Freight (Jul./Aug '97-Jul./Aug '98)	+19.7%
State Taxes:	
Sales	+5.8%
Income	+10.0%
Real Estate	+21.6%
Normalized Electricity Use	+3.5%
State Exports ('97-Q2 to '98-Q2)	+3.2%
Overall Consumer Confidence	-1.0%
Coincident GDI ('98-Q2 to '98-Q3)	-0.3%

INDICATORS OF FUTURE ECONOMIC ACTIVITY

Help-Wanted Ads	
Hartford Courant	-1.9%
The Advocate of Stamford	+9.0%
Job Orders	+9.6%
Avg. Initial Unemp. Claims	+15.8%
Housing Permits	+35.5%
Net New Business Starts	+4.6%
Confidence in Future	-28.7%
Leading GDI ('98-Q2 to '98-Q3)	-1.0%

Good news

+35.5%
Housing Permits

Bad news

-28.7%
Confidence in Future

Job Growth Slows, But Spending Rolls On

Third-quarter job growth slowed in Connecticut, continuing a pattern experienced ever since the strong final quarter of 1997. Job totals grew a mere 1,400, or 0.4% at an annualized rate, between the second and third quarter of 1998. Without the SNET strike, jobs would have grown about 3,500, or 0.9% at an annualized rate. Between the third quarters of 1997 and 1998, jobs grew by 1.6%. Slower income growth has accompanied slower job growth, as reflected by Connecticut income-tax receipts. Receipts grew only 10% in the third quarter, after adjusting for tax rate cuts, versus 17.9% in the second quarter.

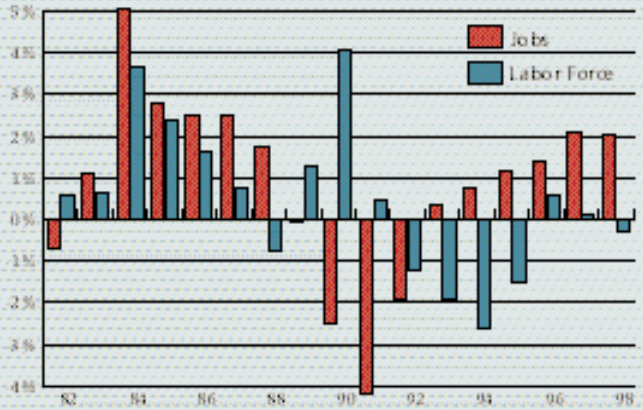
Despite slower job and income growth, consumers are still spending. Sales tax receipts rose 5.8% between the third quarters of 1997 and 1998, down only slightly from the 6.7% growth in the second quarter. The real-estate conveyance tax, a broad measure of housing sales, grew 21.6% in the third quarter from the same quarter the year before, and new housing permits jumped 35.5%. New car registrations increased 58.7% in the third quarter, with the number more than doubling in September from the September before. So as job growth slowed, consumer spending, particularly on houses and cars, remained strong.

Although the stock market took a dive in July and August, it came roaring back after the Fed's October 15th surprise cut in interest rates. Most stock indexes are again nearing their highs (for more on the relationship between the stock market and the Connecticut economy, see pages 12 and 13).

One long-standing problem has been a lack of growth in Connecticut's labor force. Since 1995, the labor force has been virtually unchanged, after falling by more than 100,000 between 1991 and 1995. The bar chart below compares annual growth rates in jobs and in the labor force since the early 1980s. During most of the 1980s, jobs and the labor force increased every year. But after 1988, this natural connection broke, with changes in jobs and in the labor force heading in opposite directions. During 1989, 1990, and 1991, the labor force increased by about 100,000, while jobs declined by over 100,000. Since 1992, the opposite occurred: the labor force declined by about 100,000, yet jobs grew by over 100,000.

Is the substantial drop in the labor force an important development in the state economy, or is it a statistical aberration? The labor force is estimated each month using a survey of about 500 Connecticut households. In contrast, jobs are estimated monthly through a survey of 5,000 Connecticut employers. Thus, job estimates are more reliable than the labor force estimates. Labor force estimates during the years 1989 through 1991 may have been simply too high, so that subsequent declines merely corrected for the earlier excesses. In fact, over the entire period 1988 to 1998, Connecticut's labor force declined by 1.2% and jobs declined by 1.4%. So jobs and the labor force changed hand in glove when viewed over the entire decade, suggesting that the intervening swings in the labor force might be just so much statistical noise.

Annual Percent Change in Connecticut Jobs and Labor Force
1982 to 1998



Developed by *The Connecticut Economy* based on estimates from the CT Dept. of Labor. Figures for 1998 are based on first three quarters compared to same quarters the year before.

Connecticut Catches The Asian Flu?

By Edwin L. Caldwell

It's the flu season, and the Connecticut economy might have caught a mild case of the Asian strain. Exports are important to the Connecticut economy and have been since colonial days. For most of the post-WWII years, they have averaged close to 6% of our gross state product. It is estimated that they now provide around 120,000 jobs. Asian markets have been buying about 25% of the total value of our exports.

The Spring issue of *The Connecticut Economy* examined the state's export picture to all parts of the world — more than 190 economies — from the late 1980s through 1997. The analysis indicated that Connecticut had a golden age of exporting in the last part of the 1980s through 1991 and then suffered a marked slowdown in the succeeding years until a major recovery occurred in 1997.

No Flu Through 1997.

The data through 1997 provided no evidence of the Asian or any other strain of flu. But we now have data on exports through the first half of 1998 and they lead to a prognosis that is cloudy for future Connecticut exports to the 13 Asian countries plus Singapore and Hong Kong. This market is important to the state — it takes about 25% of the total value of our exports, as noted above. There was no evidence of any trouble until 1998. Our Asian exports grew strongly through 1997. Then they slumped significantly in the first half of 1998, compared with the same period of 1997, as shown in the charts. During this same period total exports from the state increased 1.5%.

So What's The Trouble?

Why have our Asian customers forsaken us? You know the answer, of course, if you have been paying attention to the newspapers, radio, or television. Many of these economies are in financial crises that have decreased their purchasing power in foreign markets. According to most observers, the precipitating event was the devaluation of the basic monetary unit of Thailand, the baht, in July, 1997. The reasons for this collapse, as well as the financial troubles in other Asian economies, echo familiar stories of previous financial miscalculations in many times and many climes. Although the specific causes vary from country to country, they generally reflect the tendency of Asian companies to invest in high-yield debt securities, speculative property, and stock market deals instead of areas that would increase productivity and improve their competitive position in foreign markets. As a result, their trade balances deteriorated, undermining the value of their currencies and thus reducing their purchasing power in foreign markets.

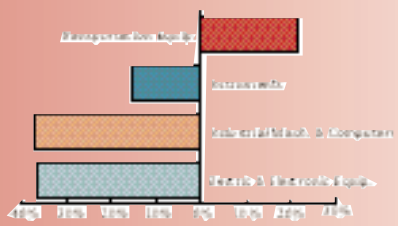
One World.

In a stunning demonstration that we really do live in one rather small world, the Thai crisis quickly spread to other Asian countries and is assigned the major responsibility for the largest one-day point drop ever in the New York Stock Exchange that occurred in October 1997. But the stock market recovered quickly and continuing favorable general economic indicators led to the comfortable belief in many quarters that the United States would avoid the "Asian contagion." By mid-1998, that warm and fuzzy feeling evaporated rapidly. Job-cut announcements in the nation in the third quarter were the largest for that quarter since 1993, the biggest downsizing year of the decade. The slow Asian markets were cited as the major source of trouble. In Connecticut, perhaps the rosy scenario lasted a little longer as our economy continued its strong advance. But reality has asserted itself, unfortunately. A recent poll conducted by the Connecticut Business and Industry Association indicated that almost a third of the respondents are feeling a dampening effect from the Asian slowdown. News releases from such disparate businesses as the Travelers Property Casualty Corp. and United Technologies Corp. cite the unfavorable impact of the Asian crisis. Las Vegas casinos report that business from their Asian customers is down markedly. Probably the same is true for casinos in Connecticut.

Some Evidence.

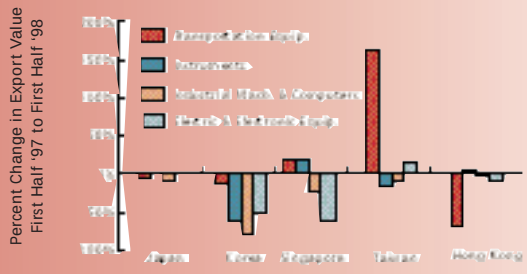
All of this brings us back to the charts. Their message seems clear — Connecticut manufacturers have not avoided a substantial reduction in exports to the Asian market. The percentage losses in the first half of 1998, compared with the same period

The Value of Exports to Asia Falls Across Most Major Industries . . . .



Percent Change in Export Value First Half '97 to First Half '98

. . . and Across Major Asian Trading Partners.



All exhibits were developed by *The Connecticut Economy* based on data from MISER.

last year, as shown in the top chart, are very large. Only transportation equipment and miscellaneous manufactures (not shown) scored gains over this period. The five other manufacturing industries in the state which export to Asia, not shown in the chart, also suffered large losses.

The bottom chart identifies the major players in this drama. The five economies shown in the chart bought nearly 80% of all Connecticut exports to Asia in 1997 and the four industries shown in the chart sold about 80% of all the state's exports to Asia in 1997. Korea is clearly the weakest of our major customers so far in 1998.

How Much Longer?

How long will the Asian weakness last? Of course, no one knows. But the most common guess is about three more years. The International Monetary Fund sees no recovery for the Asian economies in 1998. For the five major Asian economies shown in the bottom chart, the Fund expects decreases in 1998 from 1997 in the gross domestic product of Japan of 2.5%; Korea, 7.0%; Taiwan, 3.0%; and Hong Kong, 5.0%. The Fund expects Singapore's 1998 gross domestic product to remain about the same as in 1997. However, it was down 1.5% in 1998-Q3 from the same period last year.

A Little Perspective.

It is worth noting that the data in this report do not include the export of services, since they are not collected by the federal government or any private source. We do not know their size or what impact the Asian crisis has had on them. But it is reasonable to assume that some dampening has occurred. We noted earlier that Travelers Casualty has experienced some reduction in the sale of their services to Asia. Asian students attending our colleges and universities are undoubtedly feeling the pinch of the reduced value of their currencies. There are probably many other examples of the impact of the weakness of Asian currencies on the export of our services.

But, with respect to the export data that are collected, the value of exports to Asia for the first half of 1998 fell 12% below their level for the same period of 1997. If that rate of decrease holds for all of 1998 and exports to the rest of the world remain the same, Connecticut's total exports to all countries for the year will fall about $230 million below the 1997 level of $7,784 million. That would seem to be a manageable number for an economy with an expected gross state product in 1998 of $127 billion. Of course, exports to the rest of the world might rise enough to offset the decrease to Asia.

For a more detailed projection of the impact on the Connecticut economy of the Asian crisis, see the analysis by the Connecticut Center for Economic Analysis on page 8.

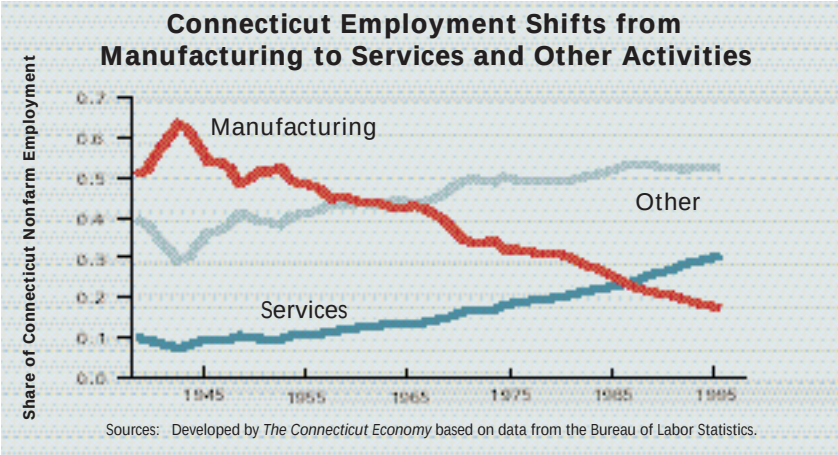
The Shift to Services: High Risk or High Return?

By Dennis Heffley

Much has been made of Connecticut's shift from manufacturing to services and other nonmanufacturing activities. The shift affects productivity, incomes, and our sensitivity to external shocks — important matters, given recent concerns about global financial crises and national recessions. Ed Caldwell (p.4) probes the links between Connecticut and the world economy, but here the focus is on the state's changing economic mix and whether such changes have made Connecticut more sensitive to national economic swings.

The "New" Connecticut Economy

Many believe that manufacturing has lost ground to services and other activities. The accuracy of this view depends on the chosen measure of economic activity. Let's divide Connecticut nonfarm employment into manufacturing (durable and nondurable), services (hotels; personal and business services; health, legal, and private educational services, etc.), and other nonmanufacturing activities (such as mining, construction, transportation and public utilities, wholesale and retail trade, FIRE, and government). Plotting each category's share of employment, from 1939-1998, we clearly see the relative decline in manufacturing, but the pattern spans more than half a century and mirrors structural changes in the U.S. and other developed economies.



Sources: Developed by *The Connecticut Economy* based on data from the Bureau of Labor Statistics.

The first chart shows that, apart from wartime build-ups, the share of Connecticut employment in manufacturing fell from 63% in 1943 to 17% now. The service employment share grew from 7% during World War II to 31% in 1998, while the share of state employment in other activities rose from a 1943 low of 29% to its current 52%. Today, we have roughly two service workers and three other workers for every manufacturing employee.

But the "demise" of manufacturing fades if we consider output value instead of employment. Between 1978 and 1996, the share of Connecticut gross state product (GSP) from manufacturing slipped from 25% to 19% — less than the drop in its employment share (from 31% to 17%) over the same period. Service GSP rose, but only from 18% to 21% of total GSP, smaller than the sector's growth in job share (from 19% to 31%) over that period. Other nonmanufacturing grew from 57% of GSP in 1978 to 60% in 1996, similar to its gain in job share (from 49% to 52%). Services and other activities are displacing manufacturing as a source of employment. Yet, despite its dwindling job share, manufacturing output remains a vital component of Connecticut GSP due to sizable productivity gains. More on this later, but first let's consider whether these changes in our economic mix have upped the risk of recession.

Are We More Exposed?

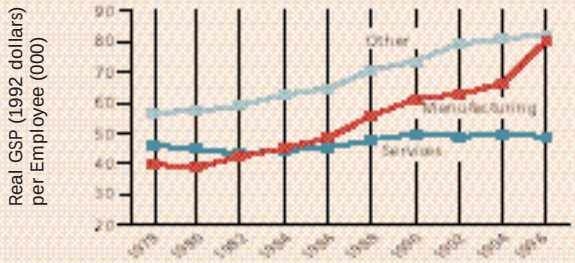
State economies do not move in perfect rhythm. Connecticut, for example, was slower than many states to regain jobs lost in the early 1990s. But trade, labor mobility, and capital flows ensure that changes in one state or region ultimately affect other areas. This economic "connectivity" takes many forms, but the most immediate effects are transmitted through interstate trade.

Income derived from Connecticut "exports" to other states and countries stimulates the state economy as workers and other local input-suppliers spend a portion of their earnings near home, leading to further rounds of local spending. Unfortunately, these positive multiplier effects turn negative when external demands for our goods and services drop. Export reductions inevitably are felt, but the delay and severity of the impact partly depend on the state's economic mix.

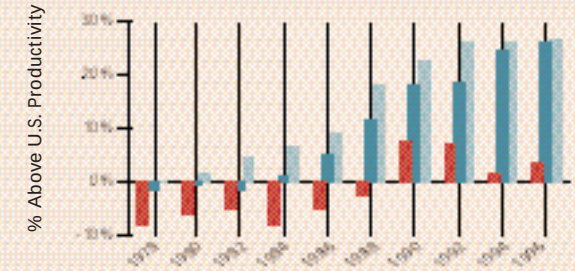
In estimating state-level multipliers, regional economists distinguish between the export sector, which produces goods and services for out-of-state buyers, and the local sector, which supplies in-state buyers. The simple economic base model assumes that any change in export activity, up or down, causes local activity to change by some multiple of the initial export change. This "base multiplier" is determined by the prevailing ratio of export-to-local activity. Using alternative measures of economic activity, such as gross state product, employment, or earnings, various base multipliers can be estimated. Such estimates, calculated at different dates, offer some information about whether Connecticut has become more sensitive to national fluctuations.

Based on a detailed breakdown of Connecticut and U.S. nonfarm earnings, reported by the Regional Economic Information Service, a standard method was used to divide earnings in each Connecticut industry into its export and local components. The resulting ratio of export-to-local earnings—the base multiplier—was calculated for years 1970, 1980, 1990, and 1996. The estimated multiplier grew from 4.1 in 1970 to 4.2 in 1980. More rapid growth in the 1980s boosted the value to 5.9 by 1990, but this growth then slowed, leaving the multiplier at 6.1 in 1996. These estimates overstate actual multipliers, but the pattern of growth — indicating greater sensitivity to exports — would likely survive the various adjustments that economists use to get more conservative estimates.

Connecticut Productivity Rises . . .



. . . and Outpaces the U.S.



Sources: Developed by *The Connecticut Economy* based on data from the Bureau of Economic Analysis and the Bureau of Labor Statistics.

Should We Worry?

The U.S. has argued for "openness" in the world economy. Like it or not, Connecticut is probably becoming more open and more exposed to external shocks. This shouldn't surprise us, given the changes in information technology, globalization of financial markets, and improvements in product marketing and distribution systems. But, should we worry about the trend and resist it, or should we embrace it? Can we compete in this fluid environment, or will our living standards slip and quality of life suffer? Quality of life is a complex notion, worth another article, but there is evidence that more exposure to external forces has not harmed our economy and may have even widened the income gap between Connecticut and other states.

In a competitive economy, labor productivity affects personal income. One productivity measure is real GSP per worker. The top panel of this page's exhibit shows 1978-1996 Connecticut real GSP per employee, by sector, measured in 1992 dollars. Since 1980, real GSP per manufacturing worker has more than doubled. Part of the sharp increase since 1993 may reflect downsizing by manufacturers—cutting jobs raises productivity if output falls by a smaller percentage. Following a period of mild decline, Connecticut service sector productivity began to rise after 1982, but has been quite flat since 1990. Productivity in other non-manufacturing activities has grown since 1980, and in 1996 was about the same as in manufacturing.

How does this pattern of rising productivity compare to U.S. gains? Quite favorably. As in Connecticut, U.S. productivity in manufacturing and in other activities has risen since 1980. But, unlike in Connecticut, service productivity in the U.S. has fallen pretty steadily since the late 1970s. Consequently, if we look at the percent by which Connecticut productivity exceeds U.S. productivity, by sector, we see how important services and other nonmanufacturing activities have become in explaining our large and growing income advantage over other states. In the lower panel of this page's exhibit, points above the horizontal line indicate that Connecticut productivity exceeds U.S. productivity. Since 1990, Connecticut productivity has surpassed U.S. productivity in each of the three sectors, but our edge in services and other nonmanufacturing activities has grown over an even longer period.

These productivity differentials help to explain the state's top-ranking per capita income, currently more than 42% above the national average. The debate continues about whether this "productivity bonus" has been fairly shared among Connecticut households, but there is little reason to believe that a more insulated state economy — even if that were possible — would greatly reduce income disparities associated with unequal education, skill differences, and job discrimination.

Commodity Prices Plunge, Consumer Prices Take a Skinny Dip

By Steven P. Lanza

Among the markets hardest hit this year by the Asian economic flu is the market for commodities. Commodities are basic, unprocessed goods or raw materials like cattle and lumber. Consumers don't directly buy these commodities. But they do buy many finished goods that begin as commodities.

The recent plunge in commodity prices reflects underlying shifts in global supply and demand. As the Asian crisis slowed economic activity around the world, producers demanded fewer raw materials. At the same time, cash-strapped exporting countries boosted their supply of commodities, hoping to raise more revenue. The effect of these forces on prices has been epic. One key commodity price index, the Commodity Research Bureau-Bridge Index, has reached its lowest mark in over 20 years.

Consumer Prices

Even so, lower commodity prices haven't translated into an equivalent drop in consumer prices (see chart). There are about ten consumer items in the Connecticut price index that have close equivalents in the market for commodities: gasoline, heating oil, natural gas, coffee, sugar, corn, milk, orange juice, bacon, and beef. In the commodities market, prices fell for all but three items—natural gas, milk, and orange juice—between 1997-Q3 and 1998-Q3. But where commodity prices did fall, consumer prices fell at a slower rate. In the commodities market, gasoline dropped 35.0%. At the pump, gasoline dropped just 17.6%. In the commodities market, coffee fell 34.0%. Vacuum-packed on the grocer's shelf, the price fell just 12.1%. On average these seven commodity prices fell 29%, but Connecticut consumers saw only a 6.8% drop in the prices they paid.

Value-Added

One reason that prices of consumer goods have changed by only a fraction of the change in commodity prices is that the cost of commodities is only a fraction of the total cost of final goods and services. To be useful to consumers, raw commodities must be processed, packaged, shipped, and marketed. Each production step adds value to the final product by bringing it closer in form to something that consumers find useful. But each step also adds a layer of cost. And even though raw commodities may go up or down in price, the cost of other production steps may not change.

Suppose, for example, the price for coffee on the commodity market drops by $1.00, from $2.00 per pound to $1.00 per pound. That's a 50% drop in the price of the commodity. But suppose the cost of processing, packaging, shipping and marketing adds another $2.00 to the price. That means the final cost to consumers falls from $4.00 per pound to $3.00 per pound. That's a drop of $1.00 per pound, but only a 25% decrease in price.

Hedging

Another reason that commodity price changes are diluted by the time they reach consumers is that the very purpose of commodity markets is to cushion the markets for consumer goods. Besides commodity producers, like farmers, some of the biggest participants in commodity markets are producers of final goods. Final goods producers enter commodity markets as buyers. Often, what they buy is not a "spot" commodity for immediate delivery, but a "futures" contract for delivery at a later time. A miller of flour, for example, might purchase a futures contract for wheat from a farmer. The miller thus locks in the cost of production in advance of the anticipated need. The farmer also knows in advance how much he'll be paid. The farmer is hedging against the possibility that the price of wheat may fall, while the miller is hedging against the possibility that the price of wheat may rise. By making future costs and revenues more certain, futures contracts insulate buyers, sellers and ultimately consumers against volatile changes in prices.

The Likely Effect

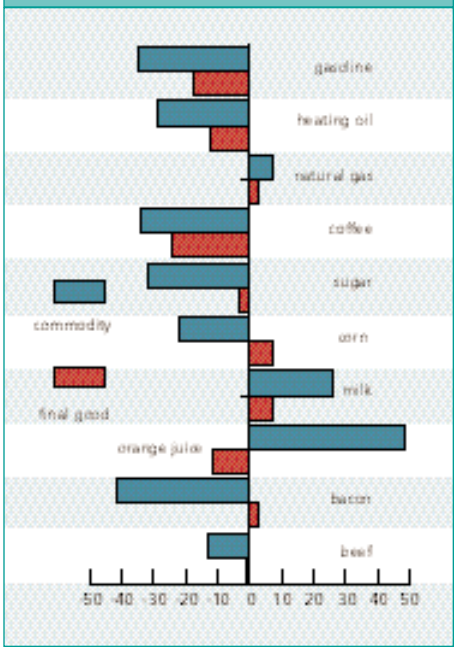
Because commodity prices are only a fraction of the cost of final goods, and because sellers of final goods deliberately insulate themselves from changes in commodity prices, commodity price changes will likely have little effect on overall consumer prices. Together, the ten commodity-like consumer items in the Connecticut price index account for just 8.5% of total consumer spending. And most consumer items are many steps removed from the underlying commodities from which they are made.

Our Regular Survey

In our regular Connecticut price survey, overall prices for 1998-Q3 rose just 0.6% above 1997-Q3 levels. That marks five consecutive surveys in which prices have changed by less than one percent compared to the same period the year before. Food, apparel and transportation prices were especially well behaved. Food prices rose just 1.0%, though dairy products jumped 12.1%. The price of margarine climbed 18%, from 63¢ to 74¢, likely the result of an increased demand for this butter substitute following the recent rise in butter prices. Apparel prices fell 5.8% with drops in the prices of dress shirts and denim jeans. And transportation costs fell 4.7%. Here's one area where a commodity, gasoline, made a direct and dramatic impact on consumer prices. Gasoline, at $1.17 per gallon, is down 25¢ from one year ago.

Commodity Price Drop Has A Muted Effect on Consumer Prices

Percent Change 1997-Q3 to 1998-Q3



But other prices advanced this quarter, most notably, housing. Despite a drop in mortgage interest rates, home prices rose and the mortgage payment on a typical home rose too, by 5.9%. Falling rates undoubtedly tempt new buyers into the market for homes and that added demand puts upward pressure on home prices. In Connecticut, the price of a typical home rose 7.5%. That rise could signal an eagerly awaited turnaround in the state housing market, which with the exception of Stamford, has been long-depressed.

Has the Recovery Lost Steam?

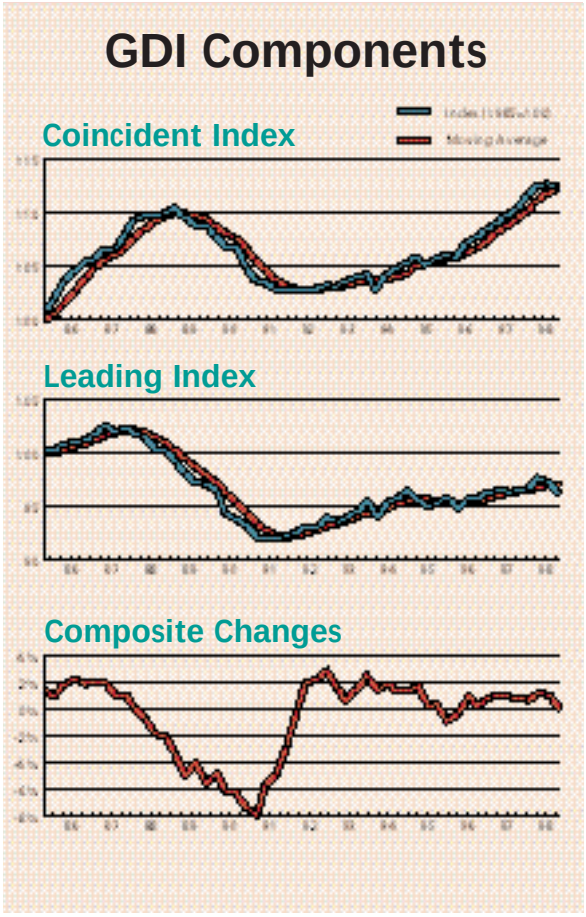
By Steven P. Lanza

After a string of nine consecutive gains, the GDI coincident index fell from a revised 112.8 in 1998-Q2 to 112.5 in 1998-Q3. Worse yet, the GDI leading index suffered its second straight decline, slipping from 97.3 to 96.3 between quarters, and dipping below its four-quarter moving average trendline. Together, the coincident and leading GDI track quarter-to-quarter changes in seven seasonally-adjusted measures of economic activity and are indexed so 1985 = 100.

Each measure in the current index gave a lackluster performance in 1998-Q3, but only the index of manufacturing output suffered a decline. Output dropped 1.7% for its biggest slide since 1996-Q1. Jobs grew, but only by 0.1%. And real personal income, which has logged an average 0.6% gain each quarter during the recovery, advanced just 0.2%.

Three of four variables in the leading index were weaker in 1998-Q3. The one exception? Residential permits. With a 11.0% rise in new permits, housing showed uncharacteristic strength. But initial unemployment claims proved a sore spot, jumping 14.7% for the biggest one-quarter bounce in this measure in the history of the GDI, which stretches back to 1985. Help wanted ads, down 11.9%, haven't dropped at that rate since 1991-Q1. But weekly manufacturing hours declined just 1.2%.

Is this quarter's decline in the GDI a sign that the recovery has lost steam? Not necessarily. The leading index last suffered a similar two-quarter drop in 1995-Q1 and 1995-Q2. But that translated into nothing more than an isolated one-quarter decline in the coincident index during 1995-Q2. After that, the GDI went on to scale new heights. Still, the fact that two of the four leading measures of economic activity took an unusual bruising suggests that we may see more of the same in quarters to come.



The Asian Crisis: Minimal Impact on Connecticut

By Stan McMillen

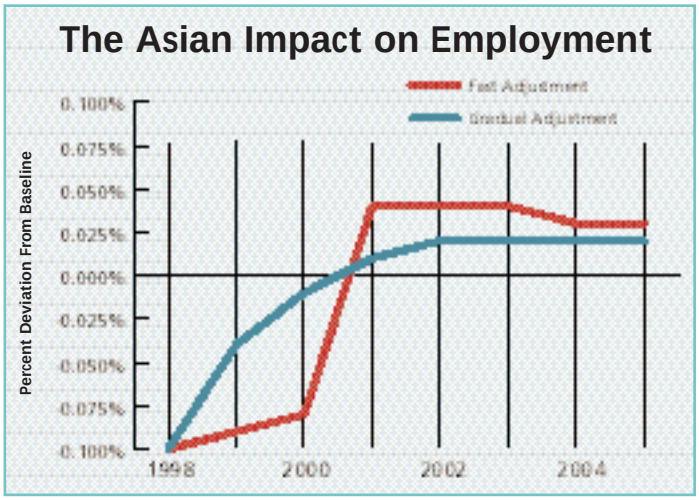
The Asian crisis has roiled world markets. Nevertheless, for Connecticut's economy, the Asian turmoil should have little impact.

As Ed Caldwell's article on page 4 explains, Connecticut's exports to Asia, in nominal dollars, are about a quarter of total exports. In 1997, four industries accounted for 80% of the $1.7 billion total in Asian exports. But then the Asian crisis hit and the value of exports to Asia in the first half of 1998 fell 12% below their level for the same period of 1997.

Using our statistical model of the state economy, we can estimate the likely effect on Connecticut from the continuing Asian crisis. We constructed three scenarios. Scenario one, the "baseline," assumes, contrary to fact, that the Asian crisis never occurred and that Connecticut exports continue to grow at historical rates. Scenario two, the "gradual adjustment" case, assumes a 12% drop in exports in 1998 compared to the baseline but then assumes this deviation diminishes by half each year and returns to trend in 2006. Scenario three, the "fast adjustment" case, assumes the 1998 shock continues for three years after which time export growth returns to trend.

Surprisingly, each crisis scenario gives similar results. The "gradual adjustment" shows Connecticut jobs 1650 below the baseline forecast in 1998, and job growth also slower than the baseline over the next 2 years. Then, in the years after that, jobs actually grow at a pace faster than they would have under the baseline scenario. This growth in jobs results from our assumption that the Asian crisis will reduce the price level by 0.2% over this period. In the "fast adjustment" scenario: jobs are 1650 below the baseline in 1998, 1540 below in 1999, 1400 below in 2000, and then in future years the economy gains 500 to 700 jobs jobs per year above the baseline.

Since Connecticut jobs exceed 1.6 million, even in the worst years the effect on the state's economy from lost jobs is minimal. Job totals are about the same with or without the crisis. That means the Asian crisis by itself holds little threat for the state's economy.



Connecticut Residents Optimistic About Present; Pessimistic About Future

By Chase H. Harrison

University of Connecticut Center for Survey Research and Analysis

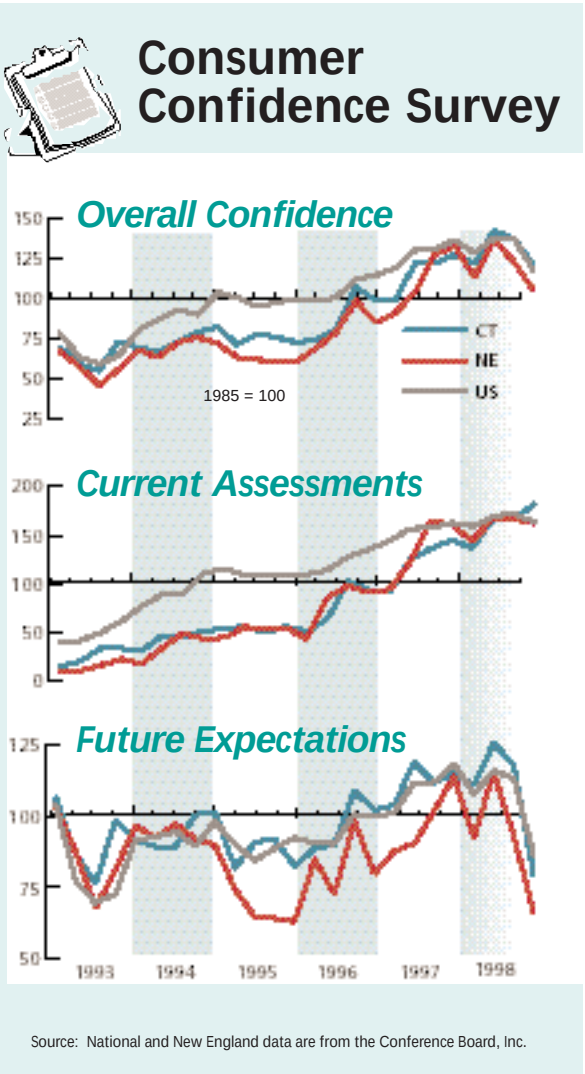
Connecticut residents are more optimistic about present economic conditions than at any time since measurement began in 1992. At the same time, they are more pessimistic about economic prospects than they have been since June 1993. Consumer expectations for future economic conditions dropped dramatically in the third quarter of this year—nationally, regionally, and in the state—leading to an overall decline in consumer confidence. Connecticut experienced the sharpest quarterly drop in expectations since measurement began in 1992. The extensive attention that the media has devoted to foreign economic crises may be having an effect on consumers. Although present conditions seem good to consumers—at least in Connecticut—they are becoming substantially more pessimistic about the future.

How the Index Components Changed

Nationally, the overall Consumer Confidence Index (CCI) dropped to 117.3 in October, down from 137.2 in July, while the New England CCI dropped from 122.7 to 104.8 and the Connecticut CCI dropped to 120.6 from a July measure of 137.1. Nationally and regionally, the current assessment portion of the index dropped modestly. The national current assessment measure dropped from 172.9 in July to 163.5 in October, while the New England measure dropped from 166.9 to 162.6. But in Connecticut, assessments of current economic conditions actually climbed from 166.2 to 182.0 in the past three months. These modest changes, however, have been offset by large declines in the expectation portion of the index. The national measure of expectations dropped from 113.4 to 86.6, the New England measure dropped from 93.2 to 66.2, while the Connecticut measure dropped from 117.7 to 79.6. In Connecticut, expectations have not been this pessimistic since 1993.

Nearly one-fourth (24%) of Connecticut residents say that there will be fewer jobs six months from now, compared to only 12% who think there will be more jobs in six months. Three months ago these figures were nearly reversed, with 23% saying there would be more jobs in six months, compared to only 13% saying there would be fewer. The situation is similar when it comes to assessing overall general business conditions. Currently, only 16% of Connecticut residents think general business conditions will be better in six months; three months ago 27% thought conditions would be better. Compared to July, more than twice as many Connecticut residents currently think general business conditions will be worse in six months - 20% now think they will get worse, compared to only 9% three months ago.

At the same time, 52% of Connecticut residents think there are plenty of available jobs in their area right now, compared to only 46% who said this three months ago. And now, only 12% think jobs are hard to get, compared to 18% who thought this three months ago. Ratings of current general business conditions have remained relatively stable over the past three months.



Source: National and New England data are from the Conference Board, Inc.

Changes in Real-World Context

Consumers learn about economic factors both through personal experience and through the media. Consumer assessments of current economic conditions are based much more on personal experience than are projections for the future. With so much current economic turmoil occurring overseas—areas where consumers have to rely on expert or media opinion—part of the drop in expectations can be attributed to the effect of media reports about international economic crises.

The gap between relative optimism about assessments of things with which people have personal experience, such as current economic assessments, compared to a greater pessimism about more distant economic factors, can also be found in data from a recent survey sponsored by *The Connecticut Economy*. When asked about recent changes in the stock market, only 28% of all Connecticut residents (and 39% of all investors) feel less confident in their own financial situation because of recent market changes. However, 43% of all residents (both investors and non-investors) feel less confident about the broader national economy.

Grounds for Concern

The timing of this drop in expectations is grounds for some concern. Some consumers may spend less this holiday shopping season than they otherwise would. At the same time, the current measures of consumer confidence were recorded before the Federal Reserve lowered interest rates. This should buffer or redirect the downward trend in economic confidence. How much of a buffer lower interest rates will provide remains to be seen.

The survey was conducted by the Center for Survey Research and Analysis at the University of Connecticut. A total of 502 randomly selected adults were interviewed by telephone from October 6 - 11. 1998. The sample error for a survey this size is plus or minus 5%.

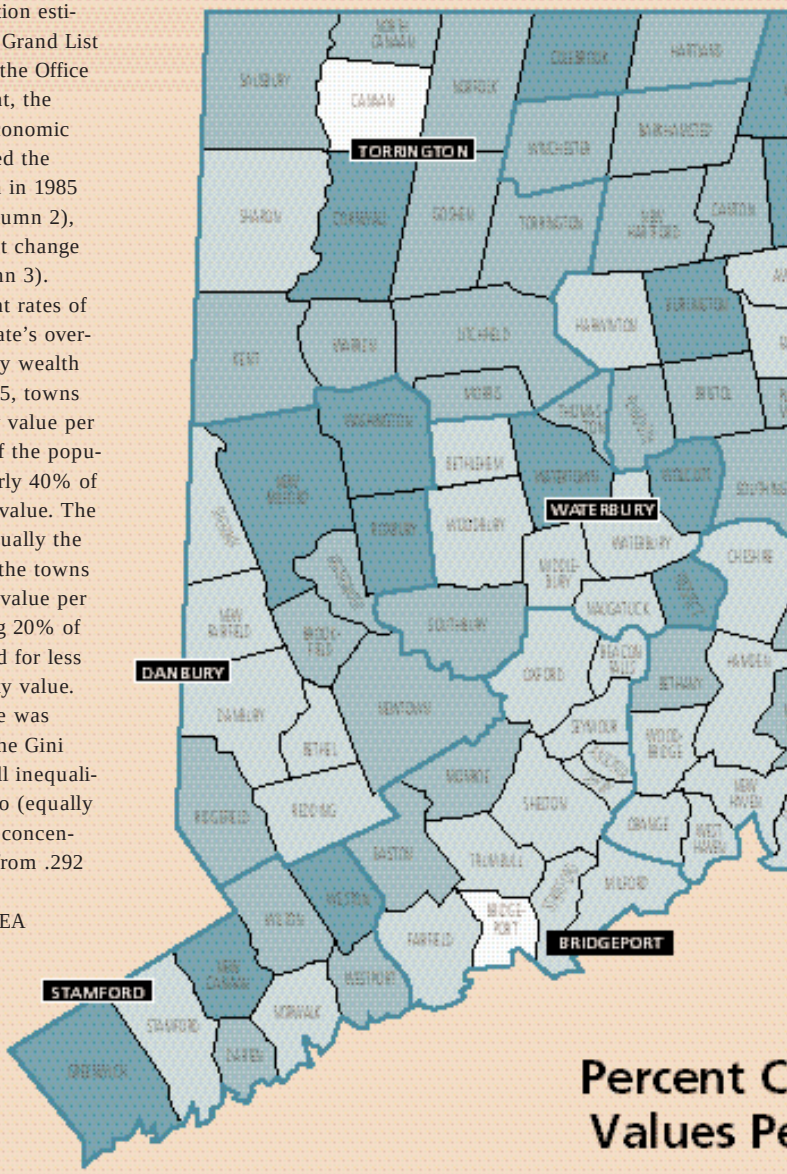
	1985 Total Values Per Capita	1995 Total Values Per Capita	%Chg
Bridgeport LMA	**$59,636**	**$70,641**	**18.5**
Ansonia	36,324	44,411	22.3
Beacon Falls	44,932	57,051	27.0
Bridgeport	31,910	27,291	-14.5
Derby	42,084	50,628	20.3
Easton	112,595	164,838	46.4
Fairfield	99,716	129,036	29.4
Milford	71,027	84,047	18.3
Monroe	70,364	95,152	35.2
Oxford	69,063	74,235	7.5
Seymour	46,570	59,453	27.7
Shelton	69,825	91,360	30.8
Stratford	67,734	74,739	10.3
Trumbull	81,620	105,735	29.5
Danbury LMA	**$76,996**	**$99,409**	**29.1**
Bethel	65,143	84,332	29.5
Bridgewater	99,951	140,242	40.3
Brookfield	81,516	110,288	35.3
Danbury	71,807	84,441	17.6
New Fairfield	77,542	98,453	27.0
New Milford	54,201	87,335	61.1
Newington	70,041	69,668	-0.5
Redding	113,279	150,163	32.6
Ridgefield	110,531	156,171	41.3
Roxbury	112,531	175,008	55.5
Sherman	121,184	151,162	24.7
Washington	95,528	163,472	71.1
Danielson LMA	**$34,600**	**56,188**	**62.4**
Brooklyn	31,806	49,906	56.9
Eastford	48,578	69,174	42.4
Hampton	42,388	61,475	45.0
Killingly	33,881	51,103	50.8
Pomfret	35,998	67,428	87.3
Putnam	31,686	50,892	60.6
Scotland	30,819	64,115	108.0
Sterling	31,345	67,463	115.2
Thompson	30,682	49,946	62.8
Union	51,539	90,895	76.4
Voluntown	39,516	56,662	43.4
Woodstock	43,806	71,646	63.6
Hartford LMA	**$49,080**	**$63,252**	**28.9**
Andover	42,980	66,155	53.9
Ashford	32,984	52,751	59.9
Avon	95,611	126,641	32.5
Barkhamsted	53,643	75,320	40.4
Berlin	62,728	94,447	50.6
Bloomfield	69,861	82,174	17.6
Bolton	50,109	68,004	35.7
Bristol	37,533	50,788	35.3
Burlington	50,581	83,336	64.8
Canton	52,399	75,094	43.3
Chaplin	30,542	57,108	87.0
Colchester	40,990	59,393	44.9
Columbia	52,558	75,822	44.3
Coventry	35,252	57,131	62.1
Cromwell	56,276	65,678	16.7
Durham	46,056	79,662	73.0
East Granby	58,363	99,213	70.0
East Haddam	58,539	86,539	47.8
East Hampton	42,467	65,369	53.9
East Hartford	49,222	52,773	7.2
East Windsor	50,040	67,310	34.5
Ellington	37,958	59,252	56.1
Enfield	35,258	54,283	54.0
Farmington	95,854	120,868	26.1
Glastonbury	63,674	93,232	46.4
Granby	47,869	75,478	57.7
Haddam	94,950	111,124	17.0
Hartford	44,375	37,538	-15.4
Harwinton	51,023	64,485	26.4
Hebron	45,634	68,167	49.4
Lebanon	46,442	65,211	40.4
Manchester	41,480	62,013	49.5
Mansfield	19,852	32,714	64.8
Marlborough	46,732	68,511	46.6
Middlefield	49,484	79,742	61.1
Middletown	54,910	64,247	17.0
New Britain	28,290	28,531	0.9
New Hartford	56,484	80,112	41.8
Newtown	73,725	100,389	36.2
Plainville	45,015	64,669	43.7
Plymouth	35,978	50,336	39.9
Portland	46,505	70,719	52.1
Rocky Hill	52,393	91,652	74.9
Simsbury	59,500	90,245	51.7
Somers	39,716	61,594	55.1
South Windsor	55,383	76,527	38.2
Southington	51,792	69,900	35.0
Stafford	38,024	55,662	46.4
Suffield	59,374	76,022	28.0
Tolland	41,858	70,642	68.8
Vernon	37,564	49,467	31.7

Reading the Centerfold

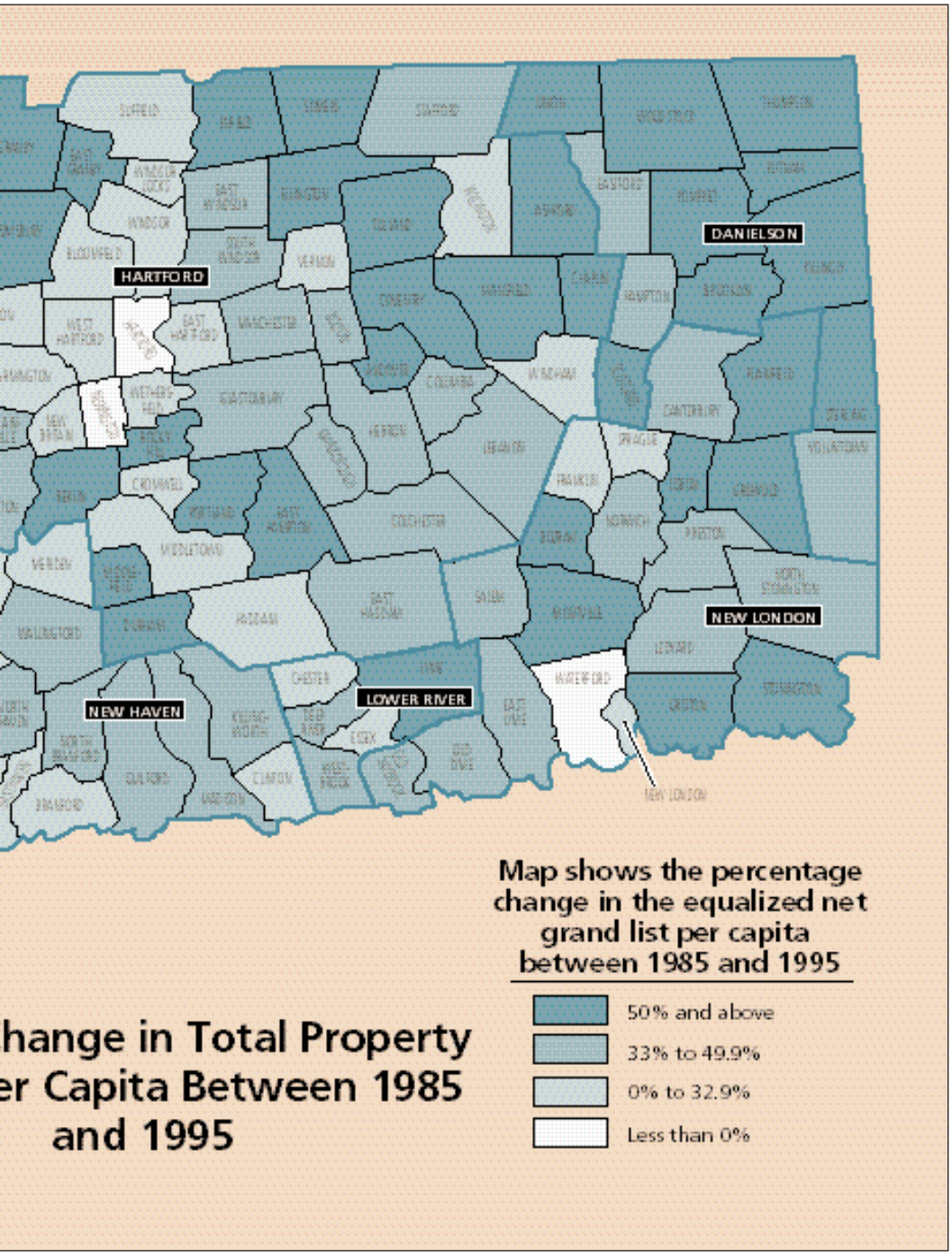
Based on town population estimates and Equalized Net Grand List (ENGL) data reported by the Office of Policy and Management, the Connecticut Center for Economic Analysis (CCEA) compared the property value per person in 1985 (column 1) and 1995 (column 2), and calculated the percent change from 1985 to 1995 (column 3).

Despite towns' different rates of change (see map), the state's overall distribution of property wealth has changed little. In 1985, towns with the highest property value per capita, containing 20% of the population, accounted for nearly 40% of the state's total property value. The 1995 figure remained virtually the same. At the other end, the towns with the lowest property value per capita in 1985, containing 20% of the population, accounted for less than 10% of total property value. Again, by 1995, the figure was essentially unchanged. The Gini ratio, a measure of overall inequality which ranges from zero (equally distributed) to one (fully concentrated), barely changed, from .292 in 1985 to .291 in 1995.

—Corinne McCue, CCEA



	1985 Total Values Per Capita	1995 Total Values Per Capita	%Chg
West Hartford	64,667	73,433	13.6
Wethersfield	58,415	75,521	29.3
Willington	38,712	49,973	29.1
Winchester	37,036	50,051	35.1
Windham	25,751	34,073	32.3
Windsor	71,636	82,299	14.9
Windsor Locks	75,852	94,230	24.2
Lower River LMA	**$83,154**	**$113,523**	**36.5**
Chester	73,457	92,957	26.5
Deep River	54,976	78,919	43.6
Essex	96,203	121,839	26.6
Lyme	103,048	160,917	56.2
Westbrook	90,472	129,253	42.9
New Haven LMA	**$48,849**	**$61,519**	**25.9**
Bethany	63,782	87,028	36.4
Branford	69,881	85,742	22.7
Cheshire	59,467	77,636	30.6
Clinton	62,517	80,945	29.5
East Haven	40,263	48,791	21.2
Guilford	70,530	96,545	36.9
Hamden	48,474	58,172	20.0
Killingworth	61,666	89,757	45.6
Madison	82,250	116,551	41.7
Meriden	36,964	42,831	15.9
New Haven	31,520	32,874	4.3
North Branford	46,793	67,374	44.0
North Haven	76,316	112,393	47.3
Orange	95,728	119,446	24.8
Wallingford	52,393	74,562	42.3
West Haven	38,139	41,702	9.3
Woodbridge	104,637	128,417	22.7
New London LMA	**$66,051**	**$80,195**	**21.4**
Bozrah	39,431	78,988	100.3
Canterbury	35,678	51,954	45.6
East Lyme	60,949	81,053	33.0
Franklin	69,532	87,539	25.9
Griswold	29,336	47,283	61.2
Groton	46,075	69,303	50.4
Ledyard	39,315	55,097	40.1
Lisbon	33,389	55,053	64.9
Montville	42,545	65,758	54.6
New London	32,256	34,789	7.9
North Stonington	51,026	76,300	49.5
Norwich	31,376	44,620	42.2
Old Lyme	102,817	151,062	46.9
Old Saybrook	93,545	135,780	45.1
Plainfield	27,858	45,264	62.5
Preston	33,942	49,577	46.1
Salem	47,825	68,696	43.6
Sprague	39,105	51,765	32.4
Stonington	64,932	99,481	53.2
Waterford	338,638	287,946	-15.0
Stamford LMA	**$131,915**	**$172,041**	**30.4**
Darien	167,158	245,546	46.9
Greenwich	171,402	288,988	68.6
New Canaan	157,535	243,486	54.6
Norwalk	85,080	99,455	16.9
Stamford	125,326	118,576	-5.4
Weston	130,457	215,209	65.0
Westport	170,259	233,873	37.4
Wilton	126,910	189,729	49.5
Torrington LMA	**$57,453**	**$82,206**	**43.1**
Canaan	98,318	96,621	-1.7
Colebrook	68,557	106,554	55.4
Cornwall	109,427	183,738	67.9
Goshen	96,477	128,423	33.1
Hartland	54,470	75,667	38.9
Kent	86,149	117,961	36.9
Litchfield	60,948	88,333	44.9
Morris	73,823	100,584	36.3
Norfolk	63,389	91,835	44.9
North Canaan	45,557	67,673	48.5
Salisbury	104,258	145,027	39.1
Sharon	99,517	125,005	25.6
Torrington	37,376	54,723	46.4
Warren	98,757	137,913	39.6
Waterbury LMA	**$40,374**	**$52,673**	**30.5**
Bethlehem	70,718	79,644	12.6
Middlebury	99,536	104,494	5.0
Naugatuck	38,831	44,494	14.6
Prospect	44,422	67,178	51.2
Southbury	71,862	95,675	33.1
Thomaston	45,153	67,524	49.5
Waterbury	28,575	35,570	24.5
Watertown	44,964	69,135	53.8
Wolcott	39,960	63,910	59.9
Woodbury	72,490	84,490	16.6
Statewide	**$61,827**	**$78,589**	**27.1**



The Connecticut Economy Meets Wall Street

By William A. McEachern

Greenwich, or "Wall Street By The Sea" as some financial pundits call it, was ground zero for the hedge-fund bomb that imploded in financial markets around the world. Long-Term Capital Management borrowed heavily, undertook risky investments, and nearly failed in September. It survived only after a transfusion of $3.6 billion from big brokerage firms and banks under the watchful gaze of the Federal Reserve.

In late October, LTCM laid off about one-fifth of its 178 employees, mostly workers in Greenwich. Another Greenwich based hedge fund, Ellington Capital Management, run by Michael Vranos and named for his hometown, has also been rocked by recent volatility in the bond market. The fund lost about 25 percent of its value in October and had to auction off assets to satisfy creditors. But the company's 25 employees are still on the job.

Hedge fund problems spooked stock markets around the world and caused big losses at major financial institutions. Union Bank of Switzerland, for example, lost $700 million on LTCM investments, a loss that cost top executives their jobs. In the wake of the financial turmoil, the International Monetary Fund has reduced its world growth forecast for 1999 from 3.7% to 2.5%. The European Commission cut its growth forecast for the euro zone in 1999 by 0.6% to 2.6%.

Some other economists project U.S. growth rates as low as 1% in 1999. At this point only a few economists are predicting a recession. Most expect slower growth. An October survey of the National Association of Manufacturers found about half the members polled plan to "significantly reduce" their capital outlays in the wake of financial and economic turmoil around the world. Still, preliminary estimates for U.S. third quarter growth came in surprisingly strong, with real gross domestic product up 3.6%.

As I write these words in mid-November, the Dow Jones Industrial average has climbed nearly all the way back from the lows of late August. The S&P 500 and Nasdaq have returned to double-digit gains for the year. So the long bull market may be back on track after sharp drops between mid-July and late August. Regardless how it all pans out, the unsettling global turbulence and market slide raise a question about the links between the Connecticut economy and financial markets, especially the U.S. stock market.

Connecticut Stockholders

First, let's get a handle on stock ownership in Connecticut. Living in the wealthiest state in the nation, Connecticut residents have an abiding interest in the ups and downs of Wall Street. According to our October survey, about six of 10 Connecticut residents invest in the stock market, either through mutual funds or direct stock purchases. On average, a little over four of 10 Americans own stock. Of those Connecticut residents not in the market, two thirds say they can't afford to invest. Only one in eight says their absence stems from a fear of losing money.

How do Connecticut residents feel about recent market turbulence? Thirty-nine percent of investors say they are less confident about their own financial situation because of recent market fluctuations. Only 24% of non-investors are less confident.

Despite some loss in confidence and reservations about the near-term outlook, Connecticut investors still see the stock market as the place to be. About one in four investors plans to buy more stock over the next few months versus only one in 16 who plans to cut back. By more than four to one, investors think the next two or three years will be a good time rather than a bad time to invest in the market. Not surprisingly, high-income households are more upbeat about the market than are low-income households (see the chart on the facing page).

Company Stock

An important source of Connecticut wealth during the long bull market has come from employee investments in their own companies through stock options, stock-purchase plans, and retirement plans. As of early November, the Bloomberg Connecticut Index, a price-weighted mix of 163 Connecticut-based companies, stood about where it was at the beginning of the year. Since December of 1994, this index is up about 95%, representing a compound annual growth rate of 18%. Most other stock indexes grew a bit more during the period, so Connecticut stocks, on average, have trailed the nation.

But recent drops in stock prices have made some employee options worthless, at least for now. Consider the Stamford-based Gartner Group, one of the world's leading high-tech consulting firms. It's share price was most recently the lowest it has been in the last three years, so options issued during that period have no exercise value. The employees of Oxford Health Plan got hosed when their company's share price dropped from more than $80 in the summer of 1997 to about $10 during most of this year. Overall, options issued in early 1998 for most Connecticut firms in banking, insurance, and manufacturing are currently under water. So stock options, at least those issued recently, won't be much of a factor in the near term.

The Bottom Line: Jobs

Flagging revenue prospects have forced firms to cut costs; this could halt job growth at best and cause job cuts at worst. For example, Advo, the Windsor junk mailer, saw revenues in the third quarter creep up less than 3%. But, because of aggressive cost cutting, earnings per share jumped 42%. Merrill Lynch reported its first quarterly loss ($164M) in nearly nine years, then announced plans to cut 5% of its global work force, or 3,400 jobs, through layoffs and attrition. Some of these workers live in Fairfield County. Most of the job cuts will occur in the bond and emerging market divisions.

Those Wall Street types who keep their jobs can expect smaller year-end bonuses. Pay experts say bonuses will be lower this year. Not getting a big year-to-year increase in bonus is seen on Wall Street as "not getting paid."

Consumer Confidence and Sales

Global turbulence and consequent problems on Wall Street do not seem to have slowed Connecticut consumers in the third quarter. Housing sales look good. The real-estate conveyance tax, a broad measure of housing sales, grew from 15.4% in the second quarter to 21.6% in the third quarter. After growing 14.7% in the second quarter, new housing permits jumped 35.5% in the third quarter—hardly a sign of caution.

If consumption did pause, you couldn't tell by car sales. New car registrations increased 58.7% in the third quarter, with the number more than doubling in September. Rising personal income, lower interest rates, and price competition have made new cars more affordable. Miller Motorcars of Greenwich reports selling several $145,000 Ferraris' during the last half of October. How bad can it be in Fairfield County?

During the second quarter of 1998, sales tax receipts increased 6.7% compared to the same quarter the year before. During the third quarter, that growth slipped to 5.8%. One possible sign of trouble was a slowing rate of growth of income tax receipts, which in the third quarter grew only 10%, after growing 17.9% in the second quarter.

Consumer expectations about the future did drop sharply in Connecticut in October and this could spell trouble. During the 25 quarters during which we have reported consumer confidence, expectations have been lower only one other time, in June of 1993, more than five years ago. But even then, expectations rebounded in the next quarter by more than 20%. So declining expectations do not necessarily mean a bad road ahead.

Bull or Bear?

The link between Wall Street and the Connecticut economy can be overdone. The New England Economic Project forecasts that Connecticut jobs will grow next year by only 2,100, or 0.2%, the slowest growth since the recovery began in 1993. New England jobs are projected to grow 1.4% and jobs in the United States by 1.6%. Part of Connecticut's poor outlook reflects trouble expected in financial services, especially in Fairfield County.

But FIRE (finance, insurance and real estate) has not really been part of the current expansion. Only in 1997 did the sector begin showing any growth at all and much of that came from the 2,000 jobs added by Swiss Bank's move to Stamford. Perhaps jobs in financial services will soften substantially, but don't tell that to the Stamford bank (now known as USB AG), which can't fill 300 high paying jobs.

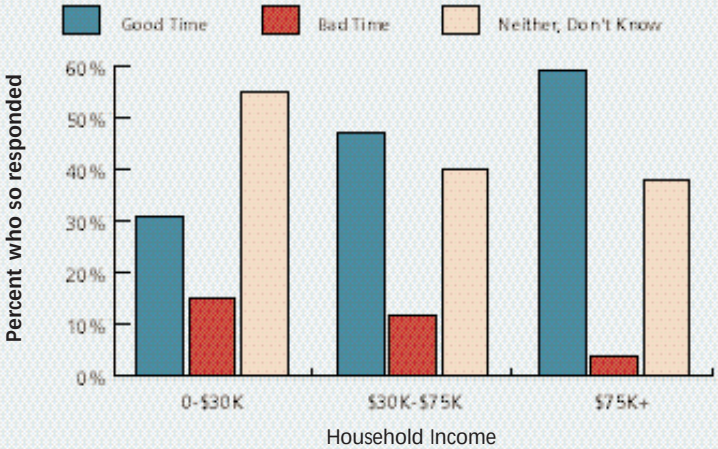
What happens if we have a real stock market crash, along the lines experienced a decade ago? After the crash of October 1987, jobs growth in Connecticut paused for the month of November but then resumed climbing, gaining 20,000 more jobs by October of 1988.

This is not to say that all is right with the world. Despite the correction (or whatever it was that happened over the summer), there is still much madness on Wall Street. Amazon, an Internet seller of books and CDs, has not yet earned a penny and lost a record 90 cents a share in the third quarter. Yet the capitalized value of the firm exceeds $6 billion, which works out to exceed $6 million per employee! Amazing Amazon's worth now exceeds that of the Danbury-based Dow component Union Carbide. Maybe the market is right about Amazon and the other Internet phenoms, but enough frothiness remains in stock prices to warrant serious caution about such high flyers.

An economist, however, may not be the best person to consult about proper stock valuations. MIT economist and Nobel Laureate Paul Samuelson relates that at a 1991 reunion of former Nobel winners, William Sharpe, another Nobelist, polled the group on their views about the stock market. A majority thought the market, at the time, was overvalued. Since 1991, the Dow has nearly tripled.

As the poet Thomas Gray advised "Where ignorance is bliss, 'tis folly to be wise."

500 Connecticut Residents Were Asked:
"Is the Next Two or Three Years a Good Time or a Bad Time to Invest in the Stock Market?"



Source: *The Connecticut Economy* poll conducted by UConn's Center for Survey Research and Analysis between October 6-11, 1998.

The Regions: Growth Slows In The Third Quarter

By Edwin L. Caldwell

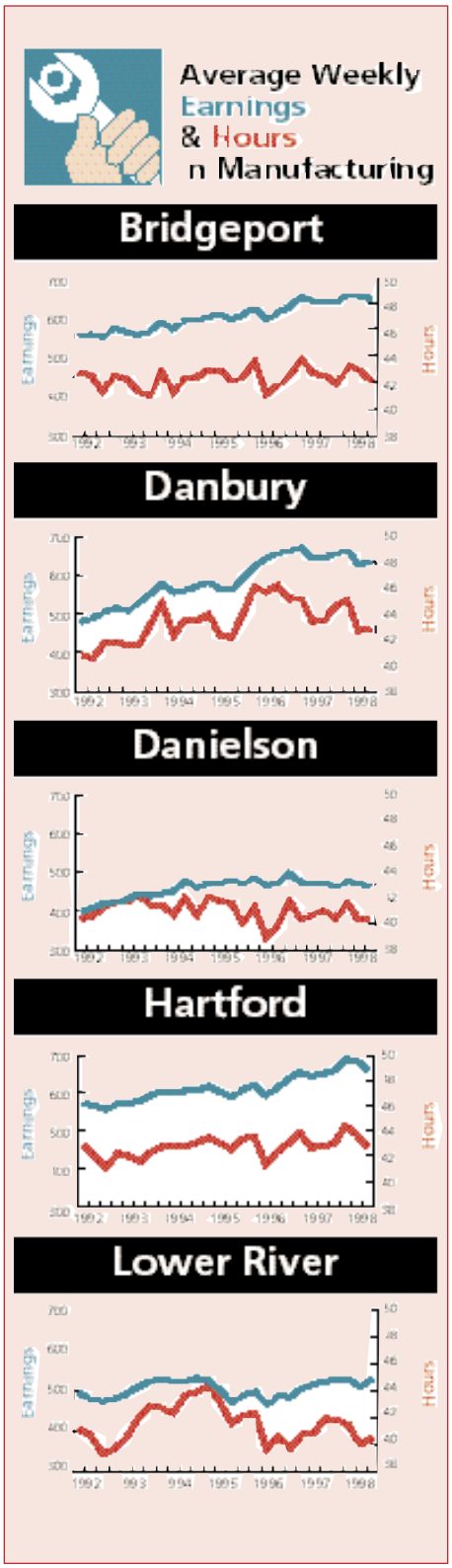
In the third quarter, the regions didn't quite match their strong second-quarter performance. In the second quarter, all ten regions posted growth in jobs over the same period of 1997; in the third quarter, three regions fell a little short of the previous year in total jobs — Bridgeport, Lower River, and New Haven. The state as a whole registered a 2.0% year-to-year growth in jobs in the second quarter but dropped to a 1.6% rate in the third quarter. However, all ten regions reported decreases in their unemployment rates in the third quarter, some very substantial, to match the performance of the second quarter. Nine of the regions experienced an increase in housing permits in the third quarter, the same as in the second quarter. Only Torrington fell short of last year.

BRIDGEPORT

Bridgeport lost 700 jobs between 1997-Q3 and the same quarter this year. Losses occurred in manufacturing; transportation, communications, and utilities (TCU); finance, insurance, and real estate (FIRE); and government. Construction, trade, and the services scored gains. In spite of the loss of jobs, the unemployment rate dropped from 5.8% in 1997-Q3 to 4.4% the same time this year due to a reduction in the labor force. As shown in the accompanying chart, average weekly earnings in manufacturing gained slightly over last year while average hours fell slightly. Permits for the construction of new housing units rose 16% over last year, with the strength widely shared among the 13 towns of the region. Congress passed a defense spending bill toward the end of September that was good news for Stratford's Sikorsky Aircraft. It includes money for 34 Black Hawk helicopters, eight more than requested by the administration, as well as funding for the development of the Comanche helicopter. This is about the level of funding that Sikorsky needs to maintain production line staffing.

DANBURY

Danbury added a little over 1,000 jobs between 1997-Q3 and 1998-Q3, a gain of 1.2%. Gains were registered in construction, FIRE[2], the services, and government. Manufacturing, TCU[1], and trade suffered reductions. Small year-to-year reductions occurred in both average earnings and hours in manufacturing, as may be observed in the accompanying chart. Danbury's unemployment rate dropped to a very low 2.6% in the third quarter, down from 3.5% the previous year. But that wasn't the lowest rate among the regions. Stamford retained that position with a rate of 2.3%. Housing permits almost tripled over last year on the strength of a very large project in Danbury, but several other towns of the region were also strong.



DANIELSON

Jobs in Danielson increased 2.3%, or close to 500, in the third quarter over the same period last year. That was the largest rate of gain among the regions. Increases were posted by construction, manufacturing, trade, the services, and government. FIRE[2] and TCU[1] were unchanged. The unemployment rate dropped to 4.6% from 6.7% the year earlier but remained the highest among the regions. Both hours and earnings were a shade under last year's levels. Permits issued for the construction of new housing units posted a nice gain of 18% over last year. Pomfret and Woodstock led the pack.

HARTFORD

Hartford's job total rose almost 3,000 between 1997-Q3 and the same period this year for a gain of 0.5%. Increases were achieved by manufacturing (the largest among the regions), TCU[1], FIRE[2], the services, and government. Construction and trade sustained losses. Average weekly earnings in manufacturing rose by 1.7% to over $667, the highest among the regions, and hours remained the same at 42.7. The region's unemployment rate dropped to 3.7% from 5.1% in 1997-Q3. Permits granted for the construction of new housing units were strong again, rising 25% from last year. Many towns posted large numbers. The leaders were the usual suspects, Avon, Glastonbury, Manchester, Middletown, Rocky Hill, and Southington plus newcomer Winchester. Pratt & Whitney was treated well by the recently-passed defense spending bill which authorized the purchase of 13 C-17 transport planes, powered by P & W jet engines, and continued work on engines for the F-22 fighter and the Joint Strike Fighter. International Aero Engines, a joint venture of P & W and Rolls Royce, received the largest order in its history from British Airways. Pratt also received its largest engine order in two years, this one from US Airways. Hamilton Standard of Windsor Locks is participating in these defense and civilian activities with multimillion dollar contracts for engine control systems. Shuttle America, a new commuter airline, is scheduled to begin ser-

vice in November out of Bradley with 100 employees and the expectation of 300 to 350 in three years. A consortium of Dutch produce growers, Rainbow Growers Group, signed a lease on eight acres of land at the airport on which it will build a 100,000 square-foot distribution and refrigeration packing center. In Enfield, Citibank will open, by the end of the year, a customer service center which expects to employ up to 500 workers.

LOWER RIVER

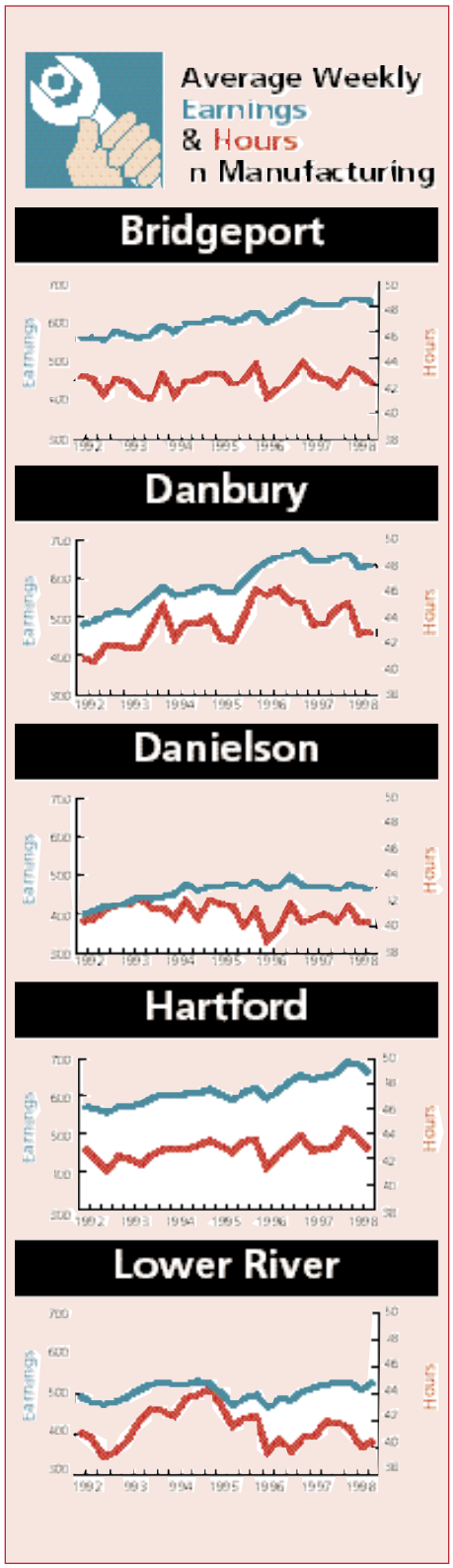
Lower River, usually a star performer, slipped in the third quarter by losing 0.3%, or 33 of its 10,000 jobs. The loss came from construction, manufacturing, and the services. TCU[1], trade, and government posted gains, and FIRE[2] was unchanged. The unemployment rate fell to 2.6% in the third quarter from 3.6% the year earlier. Permits granted for the construction of new housing units rose more than 18% over the year earlier, with Westbrook granting almost twice as many as any of the other four towns in the region.

NEW HAVEN

New Haven was the third region to lose jobs in 1998-Q3 from 1997-Q3 — down 0.5%, or more than 1,100 jobs. Construction, manufacturing, TCU[1], FIRE[2], and government sustained reductions. Trade gained a little and the services held steady. Average weekly earnings, shown in the accompanying chart, gained a fraction and average hours dropped almost 2%. But the unemployment rate provided some sunshine by dropping to 3.6% from 5.1% in 1997-Q3. Permits granted for the construction of new housing units rose 15% over a year ago with the gains widely distributed among most of the towns. Wallingford led by granting more than twice as many permits as any of the other 16 towns of the region.

NEW LONDON

New London scored a good gain of more than 2,100 jobs over the year. Construction, TCU[1], FIRE[2], the services, trade, and government contributed to the gain. Only manufacturing came up short. But average weekly earnings in manufacturing were up 3.6%, by far the largest increase among the regions. Hours remained unchanged. The unemployment rate dropped to 4.0% from 5.3% the year earlier, indicating that the layoffs from Electric Boat have been mainly absorbed. Permits granted for the construction of new housing units increased by nearly a half in the third quarter over the year before. East Lyme, Groton, Stonington, and Waterford were the leaders. The recently-passed defense spending bill provides $4.2 billion for the construction of four New Attack Submarines, now called the Virginia class, to be delivered by 2007. Electric Boat and Newport News Shipbuilding will each build two of them, with EB delivering the first in 2004 and the third in 2006.



STAMFORD

Stamford keeps rolling along. It added almost 4,400 jobs in the third quarter to bring its total to over 209,400, a gain of 2.1% over 1997-Q3. FIRE[2] gained a large 11%, followed by a good increase in the services and a small increment in government. The other sectors sustained losses. Manufacturing's job loss was the largest among the regions and there were substantial reductions in the average workweek and earnings in manufacturing. As noted earlier, the unemployment rate dropped to 2.3% from 3.1% a year ago to become the lowest among the regions. Permits granted for the construction of new housing units increased 52% over a year ago. The Town of Stamford issued nearly twice as many new permits as the next ranking town, Greenwich. But all the other towns of the region except Darien and Weston were active.

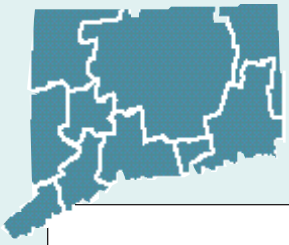
TORRINGTON

Torrington eked out a gain of about 70 jobs between 1997-Q3 and 1998-Q3. This was composed of increases in construction and trade, no change in FIRE[2], and losses in the other sectors. But the unemployment rate dropped to 2.5% — second only to Stamford — from 3.7% in 1997-Q3. Permits issued for the construction of new housing units fell 50% below the level of last year's third quarter. Permits last year were beefed up by a large project in Litchfield.

WATERBURY

Waterbury did well in the third quarter, gaining nearly 1,800 jobs between 1997-Q3 and 1998-Q3, an increase of 2%. That compared favorably with Danielson's 2.3% and Stamford's 2.1%. Construction achieved a large increase, followed by manufacturing, TCU[1], trade, the services, and government. FIRE[2] sustained a sizeable loss. Average weekly earnings in manufacturing posted an increase of more than 1% while hours fell by nearly 2%. The unemployment rate fell to 4.1% from 5.4% a year ago; only Bridgeport and Danielson had higher rates. Permits granted for the construction of new housing units advanced 10% over last year, rising in all towns, but especially in Southbury, Watertown, and Wolcott.

[1]TCU: Transportation, Communications, and Utilities
[2]FIRE: Finance, Insurance, and Real Estate



LABOR MARKET DATA

Labor Market Area	Labor Force		Nonfarm Jobs		Manufacturing Jobs	
	1998-Q3 (000)	% Change Year Ago	1998-Q3 (000)	% Change Year Ago	1998-Q3 (000)	% Change Year Ago
Bridgeport	218.1	-1.4	181.4	-0.4	39.3	-0.8
Danbury	110.8	0.6	86.7	1.2	18.4	-2.3
Danielson	33.8	-0.1	20.5	2.3	6.0	1.1
Hartford	588.2	-0.7	596.5	0.5	93.8	1.7
Lower River	12.9	-0.5	10.0	-0.3	3.1	-2.1
New Haven-Meriden	271.5	-1.4	247.4	-0.5	38.6	-1.3
New London-Norwich	159.0	-0.1	140.7	1.5	24.2	-1.9
Stamford	200.9	1.2	209.4	2.1	26.7	-5.0
Torrington	39.5	-0.1	28.8	0.2	6.3	-1.6
Waterbury	121.4	0.9	88.6	2.0	18.9	0.2
Statewide	1739.2	-0.4	1640.7	1.6	275.4	-0.2

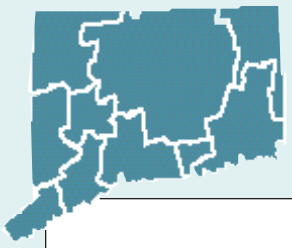
Labor Market Area	Construction Jobs		Trade Jobs		FIRE* Jobs	
	1998-Q3 (000)	% Change Year Ago	1998-Q3 (000)	% Change Year Ago	1998-Q3 (000)	% Change Year Ago
Bridgeport	7.0	1.0	41.1	0.6	10.3	-1.0
Danbury	3.9	7.3	21.9	-1.1	5.0	9.6
Danielson	1.0	11.1	4.6	0.7	0.6	0.0
Hartford	20.5	-2.5	123.1	-0.9	69.1	0.3
Lower River	0.3	-9.1	2.3	6.2	0.4	0.0
New Haven-Meriden	10.0	-0.3	53.0	0.4	12.9	-1.3
New London-Norwich	4.9	4.3	29.0	0.7	4.0	5.3
Stamford	6.0	-1.1	46.8	2.0	26.4	10.9
Torrington	2.3	6.2	6.4	3.8	0.9	0.0
Waterbury	3.7	7.8	18.9	6.2	4.2	-3.1
Statewide	64.5	4.4	360.0	1.5	136.5	3.4

* Finance, Insurance & Real Estate

Labor Market Area	Service Jobs		Government Jobs		TCU Jobs	
	1998-Q3 (000)	% Change Year Ago	1998-Q3 (000)	% Change Year Ago	1998-Q3 (000)	% Change Year Ago
Bridgeport	57.6	0.1	19.4	-2.8	6.8	-1.0
Danbury	25.7	4.0	9.4	0.7	2.4	-1.4
Danielson	4.8	5.1	3.0	1.1	0.5	0.0
Hartford	173.1	0.9	91.0	1.4	25.9	0.1
Lower River	2.6	-4.9	0.9	4.0	0.4	8.3
New Haven-Meriden	87.6	0.0	30.1	-0.3	15.2	-3.6
New London-Norwich	35.5	2.3	36.6	2.9	6.5	2.6
Stamford	76.2	3.3	17.4	0.2	9.9	-1.7
Torrington	9.2	-0.4	3.3	-2.0	0.4	-17.6
Waterbury	27.2	1.2	12.2	0.8	3.5	1.9
Statewide	515.1	2.6	215.8	0.4	73.5	0.9

*Transportation, Communications, and Utilities

Sources: Data provided by Connecticut Department of Labor. Statewide totals are not necessarily the sums of individual labor market areas.



LABOR MARKET DATA

Labor Market Area	Number Unemployed		Unemployment Rate (%)		Initial Unemployment Claims	
	1998-Q3 (000)	% Change Year Ago	1998-Q3	1997-Q3	1998-Q3	% Change Year Ago
Bridgeport	9.7	-24.5	4.4	5.8	1,652	24.9
Danbury	2.8	-25.4	2.6	3.5	423	17.5
Danielson	1.6	-30.9	4.6	6.7	272	-6.5
Hartford	21.6	-28.5	3.7	5.1	3,576	0.0
Lower River	0.3	-28.7	2.6	3.6	*	*
New Haven-Meriden	9.9	-28.9	3.6	5.1	2,087	60.3
New London-Norwich	6.3	-25.3	4.0	5.3	817	9.8
Stamford	4.6	-23.6	2.3	3.1	625	10.6
Torrington	1.0	-31.8	2.5	3.7	314	11.7
Waterbury	4.9	-24.5	4.1	5.4	991	17.1
Statewide	62.3	-27.0	3.6	4.9	10,758	15.8

* Lower River included in Hartford LMA.

Labor Market Area	Average Weekly Earnings		Average Weekly Hours		Average Hourly Earnings	
	1998-Q3 (000)	% Change Year Ago	1998-Q3 (000)	% Change Year Ago	1998-Q3 (000)	% Change Year Ago
Bridgeport	$640.57	0.7	41.1	-2.4	$15.57	3.2
Danbury	616.94	-4.2	41.9	-3.1	14.73	-1.2
Danielson	466.80	1.5	39.9	0.7	11.71	0.9
Hartford	667.23	1.7	42.7	0.2	15.61	1.5
Lower River	527.24	0.9	40.3	-3.6	13.09	4.7
New Haven-Meriden	615.54	0.1	41.6	-1.8	14.80	2.0
New London-Norwich	662.14	3.6	42.3	0.0	15.65	3.6
Stamford	536.10	-3.2	38.8	-3.8	13.82	0.7
Torrington	524.89	-3.6	41.7	-1.2	12.60	-2.5
Waterbury	594.97	1.2	42.4	-1.6	14.04	2.9
Statewide	$629.49	2.2	42.3	0.1	$14.87	2.1

Labor Market Area	State Job Service Postings		Housing Prices		Housing Permits	
	1998-Q3 (000)	% Change Year Ago	1998-Q3 (000)	% Change Year Ago	1998-Q3 (000)	% Change Year Ago
Bridgeport	1,246	-29.9	$209.8	7.6	289	16.1
Danbury	501	-3.7	296.0	8.6	673	153.0
Danielson	278	41.8	*	*	74	17.5
Hartford	5,162	28.3	132.1	6.1	1,133	24.6
Lower River	*	*	*	*	39	18.2
New Haven-Meriden	1,449	12.1	134.1	15.3	322	15.0
New London-Norwich	638	-11.3	146.7	-8.6	283	48.9
Stamford	503	-51.9	503.9	5.0	220	51.7
Torrington	1,080	108.5	109.9	12.9	57	-50.4
Waterbury	1,445	27.8	164.1	9.0	168	9.8
Statewide	12,302	9.6	$222.9	7.5	3,258	35.6

* Lower River included in Hartford LMA. * Markets are too small for reliable estimates.

Sources: Labor data are from CT Department of Labor. Statewide totals are not necessarily the sums of individual labor market areas. Housing permits from CT Department of Economic and Community Development. Housing prices, from UConn's Center for Real Estate and Urban Economic Studies, are preliminary.

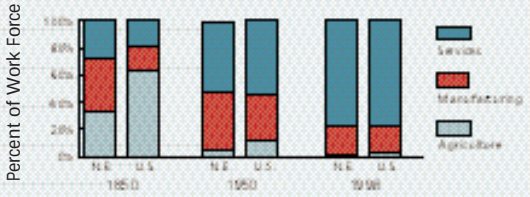
New England Check-Up

The Long View

In the 19th century, agriculture was the primary industry, manufacturing the secondary, and services the tertiary. In 1850, well over half, 63%, of the U.S. work force was in agriculture, growing enough food to feed the nation. Remaining workers split between manufacturing with 18%, and services with 19%. In New England, only 34% of the work force in 1850 was in agriculture, with 38% in manufacturing and 28% in services. So manufacturing's share was twice as large in New England as in the nation. Because water power was the primary energy source used in manufacturing, New England's many rivers, streams, and waterfalls offered the region a comparative advantage, while rocky soil put agriculture here at a disadvantage.

The chart below shows the distribution of labor between 1850 and 1998, dividing the work force into: (1) agriculture, which also includes forestry and fishing; (2) manufacturing, which also includes construction and mining; and (3) services, which includes everything else. As the economy developed, two forces increased the demand for service workers. First, rising productivity in both agriculture and manufacturing stimulated demand for transportation, communication, financial services, wholesale and retail trade, and the other business services needed to support a growing economy. Second, the higher personal income that resulted from enhanced productivity stimulated the demand for dentists, lawyers, entertainers, cooks, and others workers in services. Historically, those nations with the highest income per capita also had the highest share of workers in the service occupations. Thus, as far back as 1850, New England led the nation in economic development.

Work Force Share in New England and U.S. in 1850, 1950, and 1998



Based on estimates for 1850 and 1950 from *The Economic State of New England*, Committee of New England (Yale University Press, 1954); figures for 1998 are from U.S. Labor Dept. and staff estimates.

Employment Shares Converge

Between 1850 and 1950, agriculture's share of U.S. employment dropped from 63% to 12%; in New England the share plunged from 34% to 4%. The relative share of manufacturing employment nearly doubled nationally from 18% in 1850 to 34% in 1950. Manufacturing expanded in New England, but more modestly from 38% to 44%. The service sector in the nation more than doubled as a share of employment from 19% to 54%; in New England it nearly doubled from 28% to 52%. Service growth occurred primarily in trade, financial, and professional services. By 1998, U.S. employment consisted of 3% in agriculture, 19% in manufacturing, and 78% in services. New England's distribution was 2% in agriculture, 20% in manufacturing, and 78% in services.

Though not shown in the bar chart, Connecticut's employment distribution in 1950 was 3% in agriculture, 49% in manufacturing, and 48% in services. By 1998 Connecticut's distribution converged further toward the U.S. and New England distributions, with 1% in agriculture, 21% in manufacturing, and 78% in services.

New England Income Differences

The nation is divided into eight census regions. New England led the nation in per capita income in 1997, 20.0% above average. Connecticut was the top state, exceeding the national average by 42.2%, one of the largest leads any state ever had. At the same time, Maine ranked 36th nationally at 13.7% below the national average. Vermont ranked 30th nationally at 8.6% below the national average. Put another way, Connecticut's per capita income was 55.0% above Vermont's average and 64.2% above Maine's average. The income disparity among New England states was the greatest of any census region in the country.

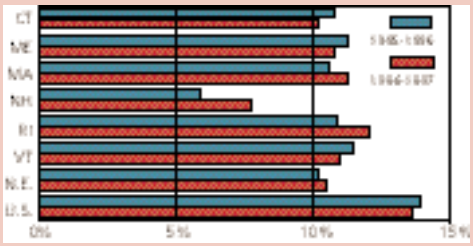
New England's per capita income in 1950 was only 6.7% above the national average, ranking the region fourth highest among the census regions. Connecticut's per capita income was 23.2% above the national average, fifth highest in the nation. Was per capita income more evenly distributed among the New England states back then? Not really. Connecticut's per capita income was 59.4% above that of the poorest New England state, Vermont, and 54.3% above the second poorest state, Maine. Vermont and Maine ranked 40th and 37th in the nation. The income disparity among New England states was the greatest among the eight census regions in 1950.

Although New England states are often viewed as relatively homogeneous, cross-state income differences have been, and still are, greater in New England than any other part of the country. The difference in per capita income between Connecticut and Maine in 1997 was comparable to the difference between New Jersey and Arkansas or between New York and Mississippi.

Comparing Poverty Rates

Although Connecticut has high per capita income, the state still has its share of poverty. The chart below compares recent poverty rates for Connecticut, other New England states, and the nation. Because state samples are small, the Census Bureau reports a two-year moving average. In 1996-1997, an estimated 10.1% of Connecticut's population was in poverty, down slightly from 10.7% in 1995-1996, lowering the number in poverty by about 20,000 people. Connecticut's rate was second lowest among New England states. New Hampshire had the lowest poverty rate in New England and in the nation. The national average was 13.5% in 1996-1997, down a bit from 13.8% in 1995-1996.

Poverty Rates in New England



Percent in Poverty

Developed by *The Connecticut Economy* based on estimates of poverty rates published in *Poverty in the United States: 1997*, Current Pop. Reports P60-201 (September 1998), U.S. Bureau of Census.

Two States Dominate New England

Few realize how much Connecticut and Massachusetts dominate New England's economy. Connecticut accounts for 24.4% of New England's population, 24.2% of the labor force, and 28.9% of its personal income. Massachusetts accounts for 45.7% of New England's population, 45.8% of the labor force, and 46.9% of the personal income. The two states combined make up 70.1% of the population, 70.0% of the labor force, and 75.8% of the personal income.

The four other New England states together account for only 29.9% of the population, 30.0% of the labor force, and 24.2% of the personal income. Connecticut's population falls below the combined populations of Maine, New Hampshire, Rhode Island, and Vermont, but its total personal income exceeds by one fifth the total for those four states.

Job and Labor Force Growth

Recent issues of *The Connecticut Economy* have underscored problems that a flat labor force create for continued job growth. The chart below compares Connecticut's job growth and labor force growth with other New England states and with the U.S. average. Between 1995 and the middle of 1998, jobs in Connecticut grew a total of 5.4% but the labor force grew only 0.4%. For New England, jobs grew 6.4% and the labor force 2.2%. Connecticut ranked third among New England states in job growth and last in labor force growth. Massachusetts experienced the highest job growth and Vermont, the highest labor force growth. National job growth was 7.3%; labor force growth was 3.9%. Hence, for Connecticut, New England, and the nation, the growth rate in jobs exceeded the growth rate in the labor force, though the difference was greatest in Connecticut.

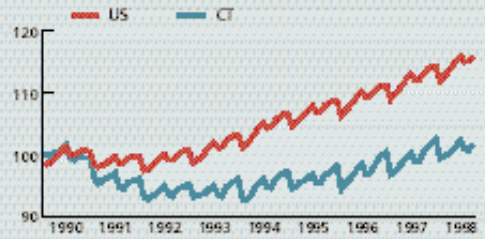
Growth Rate in Jobs and Labor Force Between 1995 and 1998

Developed by *The Connecticut Economy* based on U.S. Bureau of Labor Statistics estimates published in *New England Economic Indicators*.

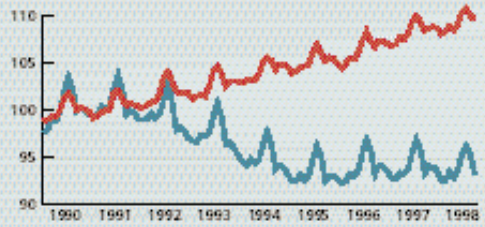
ECONOMIC SCORECARD

Indexed so 1990 = 100

Job Totals
(not seasonally adjusted)

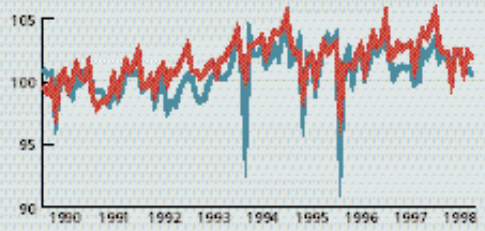


Labor Force
(not seasonally adjusted)



Service Jobs
(not seasonally adjusted)

Weekly Manufacturing Hours
(not seasonally adjusted)



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Connecticut Travel and Tourism Index

The overall index increased 8.6% in the third quarter compared to the same quarter the year before. The index consists of hotel-motel revenues, hotel-motel occupancy rates, attendance at six major tourist attractions, and traffic on five tourist roads.

Hotel/Motel Rev.	H	16.1%
Occupancy Rate	H	0.9%
Attendance	H	16.1%
Traffic	H	2.6%
Overall	H	8.8%

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Businesses Grapple With Asia and Y2K

By Kenneth O. Decko, President and CEO
Connecticut Business & Industry Association

Connecticut
a forward look...

For some time now, forecasters have warned about rough weather ahead for Connecticut's economy.

They point to a potential tsunami from the Asian financial crisis and subsequent economic crises elsewhere in the world. Meanwhile, they also warn of unpredictable storms in the form of the Year 2000 or Y2K problem, a product of the inability of some computers and programs to correctly deal with the date change of the millennium.

Indeed these storms are coming our way.

But the question is whether our new, diversified state economy has the deep roots to withstand these onslaughts.

The answer is "yes."

Crisis in Asia

Take first the Asian crisis.

While Connecticut's first half 1998 exports were only off slightly from first half 1997, exports to Asia dropped by 12 percent. Certainly exports to Asia have been affected. And it is reasonable that companies that deal with Asian exporters will also be affected.

But it is important to note that Connecticut's economy is not as exposed to Asia's crisis as the rest of the United States. Exports to Asia comprise roughly 25 percent of state exports, compared to an average of 30 percent for the rest of the nation.

We may even see some gain as companies that import Asian goods, for example retailers, realize a drop in prices on goods they import.

Also, opportunities arise in times of change. Companies should still explore opportunities in Asia because this economic turmoil will not last forever. When these countries do recover, Connecticut companies should be ready.

The Y2K Problem

In many ways, the Y2K problem is entirely different. While the effects of the Asian crisis can be to some degree predicted, the scope of the Y2K problem is harder to grasp.

Indeed, a recent CBIA survey found almost half of Connecticut's small and midsize businesses believe they will not be affected by this problem. Only one in six who foresaw an effect had completed their Y2K compliance plans. Thus the problem lies in this lack of awareness.

Businesses must understand that this problem is not only about computers. Companies must check any system that runs on a computer chip for potential problems, including phone systems and manufacturing equipment.

They must also ensure suppliers and customers are compliant. For example, if a company's supplier can't deliver raw material because of a Y2K glitch, the company may not be able to produce its own goods.

But Connecticut has the tools to deal with this problem. A high-tech state, Connecticut has the know-how and the skilled labor to address the Y2K problem. But it is incumbent on businesses to ensure that we are all aware of and working on the problem. And from what I've seen, the word is getting out.

One important factor in how Connecticut deals with both problems is our business climate. Now, more than ever, state government must work to lower business costs and invest in creating skilled labor to ensure Connecticut business can ride out these storms.

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