

THE CONNECTICUT Economy



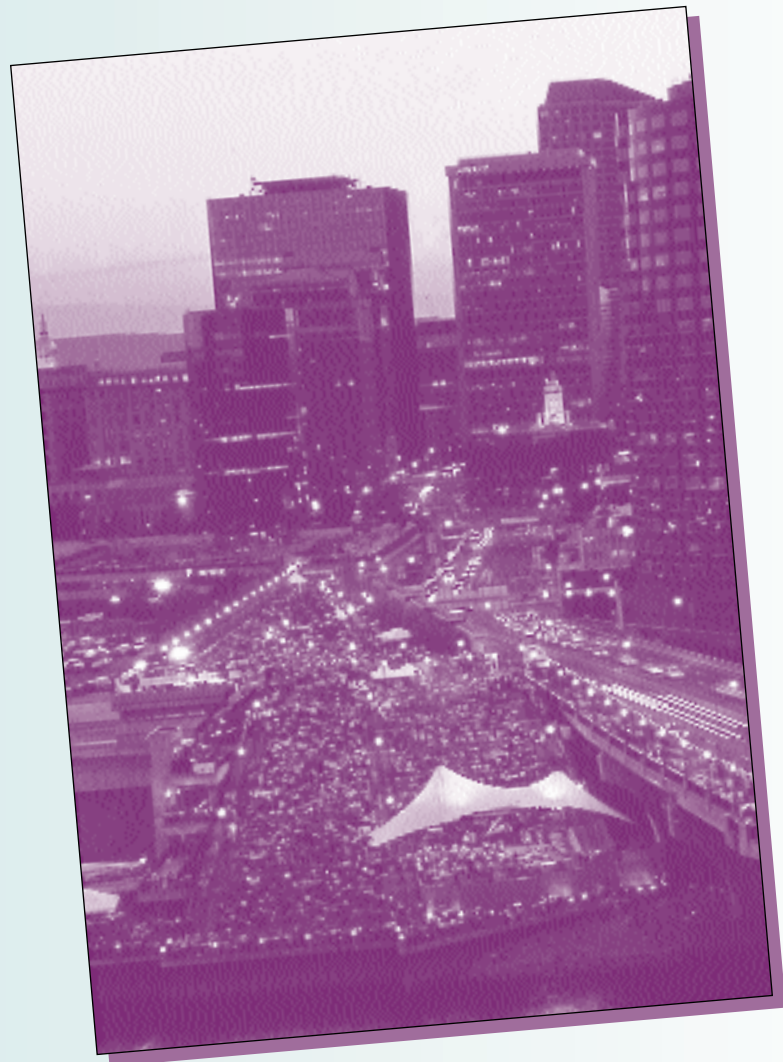
A University of Connecticut Quarterly Review

Spring 2001

Two Cities, Two
Tales—Too Late for
Hartford?

Getting FIRED Up
over Financial
Services in the
Central Region

Shouldering
the Burden of the
State's Income Tax



New Hope for an Ailing Region?

The Editors



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CONNECTICUT ECONOMIC INDICATORS

(Percent change: 2000-Q1 to 2001-Q1)

Indicators of Current Economic Activity

Total Nonfarm Jobs	+0.9%
Number Unemployed	-23.3%
Labor Force	-0.6%
Manufacturing	
Jobs	-1.1%
Avg. Weekly Hours	+0.5%
CT Mfg. Prod. Index	+0.1%
Avg. Hourly Earnings	+1.7%
New Auto Registrations	-5.8%
Travel and Tourism Index	-3.4%
Bradley Airport	
Passengers	xxx.x%
Freight	xxx.x%
State Taxes	
Sales	+2.5%
Income	+21.3%
Real Estate Conveyance	-8.7%
Normalized Electricity Use	+2.8%
State Exports ('99-Q4 to '00-Q4)	+16.4%
Personal Income (est.)	+4.5%
Retail Sales ('99-Q4 to '00-Q4)	+3.5%
Confidence in Current Economy	-7.5%
Coincident GDI	+0.7%

Indicators of Future Economic Activity

Help-Wanted Ads	
<i>Hartford Courant</i>	-18.6%
<i>The Advocate of Stamford</i>	-13.8%
Job Orders	-21.3%
Avg. Initial Unemp. Claims	+24.5%
Housing Permits	-2.5%
Net New Business Starts	-18.7%
Confidence in Future	-14.8%
Leading GDI	-1.0%

Good news

+0.9%
Non-farm
Jobs

Bad news

+24.5%
Initial
Unemployment Claims

A Hand-Wringing First Quarter

The recession may never arrive. But that doesn't mean we have nothing to worry about.

Connecticut added 15,000 new jobs between 2000-Q1 and 2001-Q1, an increase of 0.9%. Even so, the rate of job growth has been slowing steadily. Four-quarter job growth is off by more than half from its recent peak of 34,400 new jobs in 1998-Q3 and off by more than one-third since 2000-Q4 alone.

Since the peak quarter of job growth in 1998, most sectors of the Connecticut economy have maintained or even increased the number of new jobs they have added to the labor market. But two important sectors—FIRE and services—have not. New FIRE jobs have slowed by about 650 per quarter, and new services jobs have slowed by about 750 per quarter. Thus two of the hottest sectors for job growth during the last several years are also most responsible for today's cooler job climate.

But this quarter at least, the chill has spread to the other sectors. In the four quarters ending 2001-Q1, construction added 2,200 jobs, 300 fewer than the quarter before, though still enough to nearly offset the 2,900-job loss in manufacturing. Government, which includes the casinos, grew by 3,100—barely half the number of the previous quarter. And the gains in trade dropped precipitously, from 5,400 new wholesale and retail trade jobs in 2000-Q4 to just 1,300 new jobs in 2001-Q1.

Signs for the future of the labor market are also increasingly shaky. Though the unemployment rate crept up, initial unemployment claims shot through the roof in 2001-Q1 (see the chart). Seasonally adjusted initial claims, a leading indicator of future employment activity, jumped from an average weekly rate of 3400 in 2000-Q4 to 4500 in 2001-Q1. There hasn't been a bigger jolt in more than 20 years. And employers aren't even window-shopping for new recruits. Gone from the storefronts are the "help wanted" signs. Ad space is down 13.8% from a year ago at *The Advocate*, and 18.6% at *The Courant*.

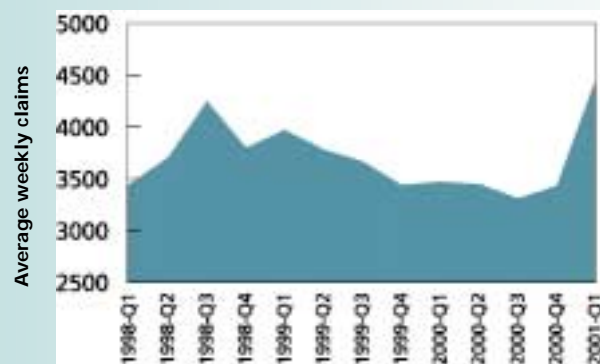
Slowing productivity growth may further threaten jobs. Despite a generally rising productivity trend throughout the 1990s, as gauged by the Connecticut Manufacturing Production Index, growth has entered a cyclical slowdown. The increase in Connecticut manufacturing productivity per worker hour peaked at 7.6% in 1998 and slowed to 1.6% in the most recent quarter. At the peak, unit labor costs were falling faster than 4% per year, but they are now starting to rise. If competitive product markets keep too tight a lid on prices, employers feeling the profit squeeze may begin pruning payrolls more aggressively, and the reductions could bring added cuts in other sectors as well.

Dimming job prospects also have given consumers pause at the checkout. Though incomes are up an estimated 4.5% in 2001-Q1, retail sales in 2000-Q4 grew just 3.5% from a year earlier. So not only has spending growth slowed markedly from its previous 5.4% rate; it now lags the rate of income growth. Consumers, it appears, are not enlisting in the effort to help spend the economy out of its lull.

But attitudes haven't soured completely either. Connecticut residents' spirits have been brightened by repeated visits from a gift-bearing Fed. Lower interest rates buoyed consumer confidence, helping to check 2000-Q4's big slide. And the selling price of existing homes, up a whopping 10.3% between 1999-Q4 and 2000-Q4, will, if that gain continues, offer homeowners the prospect of a return on investment that far outshines any rationally exuberant expectation for the future of the NASDAQ or the Dow.

The bottom hasn't fallen out of the economy, not yet. And so long as the labor markets hold up, it may not. But 2001-Q1 left us with plenty to fret about. And the time for hand-wringing probably isn't over.

Initial Unemployment Claims Skyrocket



Source: Developed by *The Connecticut Economy* based on data from the Connecticut Department of Labor.

Tales Of Two Cities: What the Dickens is Wrong with Hartford? And Would Acts of Providence Fix It?

By Arthur W. Wright

It is the best of times—in Providence. It is the worst of times—in Hartford. Neither city is the London or Paris of Dickens' novel, but the mayors of these two small cities continue to joust for southern New England bragging rights. At the moment, Providence holds the honors. Could copying Providence help Hartford snap out of its blue funk? More, what can the City of Hartford, the State of Connecticut, or private groups do to restore Hartford to Mark Twain's "chief...of all the beautiful towns it has been my fortune to see"?

Providence waxeth. It sports a spiffy new river-side park, a new hotel-shopping complex, Narragansett Bay, Brown U. and the Rhode Island School of Design, its own primetime TV namesake replete with golden sunsets, and a recently made-over small, growing airport, T.F. Green. And who can forget the colorful mayor, Buddy Cianci, straight out of a George V. Higgins novel, joking on the Don Imus radio show about his recent Federal indictment for running the city as a criminal enterprise?

Hartford waneth. True, it has its own gem, the Wadsworth Atheneum, and the nifty new Learning Corridor, inspired by (outgoing) President Dobelle at Trinity College. But Riverfront Recapture, a haunted Civic Center, and "Judging Amy" (set in family court—no golden sunsets there) don't quite stack up against the Bay, Providence Place, and "Providence". UConn's main campus and Health Center are each miles away. The venerable Aetna and Travelers companies have decamped to new headquarters, and Hartford's rickety government has endured a cascade of tawdry scandals and a looming fiscal crisis. To top it off, residents recently voted down a proposed charter reform that arguably would have made it easier to change the *status quo*.

Then there is attitude. Hartford's official home page on the Web is backward-looking: the centerpiece is a snow-covered Charter Oak, and there's a link to the Connecticut Colony Charter of 1622, plus the above quote from Mark Twain. Providence, in contrast, highlights its motto, "America's Renaissance City", and features a link for "Moving to Providence". As yet the mayor's

home page makes no mention of his 97-page Federal indictment.

Small wonder that Connecticut's capital city prefers looking to the past instead of the present. Its population fell by a phenomenal 13%—nearly one-eighth—between 1990 and 2000, from nearly 140,000 people to about 122,000. Hartford was at the bottom of the not very illustrious list of Connecticut's largest cities, all of which lost population over the decade. In contrast, the city of Providence grew by 8%, from 161,000 to 174,000.

Interestingly, the two cities' metropolitan areas are not all that different. They have almost identical populations—1.2 million—and the Hartford metro's 10-year growth rate of 2.2% ranked it 236th out of the 280 largest US metros, not very far behind Providence's rank of 217th.

So there must be something about Hartford the city...

Excuses, Excuses

In its defense, Hartford could cite such factors as its greater remove from Boston, the heavier hit it took in the recession of the early 1990s, and its weak-mayor form of government. How much difference did those factors make?

Being closer to Boston can't hurt. Over 1990-2000, Boston's metro population grew by 6.7% in its broadest, four-state definition, and by 5.5% in the narrower two-state (MA and NH) version. Much of T.F. Green Airport's growth traces to the ground and air congestion at Logan. Living in Boston's shadow? More like basking in Boston's glow.

The Providence metro area took a staggering blow during the recession of 1989-1991, losing 8.7% of its non-farm employment. But it recovered quickly beginning in 1992 and went on to win the round with a double-digit gain of 13.3% for 1991-2000. Hartford, in contrast, lost "only" 6.9% of its non-farm employment, 1989-1991, but then went down for a mandatory eight-count. Non-farm employment finally bottomed out in 1995 a full 10.5% below the 1989 level. By 2000 it had recovered half its losses, but non-farm jobs were still 5.3% below 1989. Its Rhode Island rival was back in the black by 2.3% over 1989.

Providence has the traditional strong-mayor/ward-heeler council form of government. In Hartford's "good government", which dates to the late 1940s, the mayor is a figurehead; council members are elected at large. The appointed City Manager has day-to-day operating power but little real clout. Thus, everyone is responsible—but that means there are no bums to throw out. The main political discipline is administered through editorials in the *Hartford Courant*. The abdicating "Mayor Mike" Peters has truly made the best of a bad job for four terms.

Is Mayor Cianci responsible for Providence's renaissance? He has been mayor for 21 of the last 27 years (with 6 years off for bad behavior), and he was personally involved in many of the renewal projects. But would they (or something like them)

have occurred anyway, and he merely had the good sense not to get in the way?

Hope Springs Eternal...

How to revitalize Hartford? There is no lack of suggestions, large and small in scope and ambition. No one has yet suggested dragging the city closer to Boston, or making Buddy Cianci City Manager. Periodically, the Sunday *Courant* runs a progress report on the myriad projects around the city. The graphic on this page lists the biggest projects and their status.

Will they work? Skeptics like Bruce Katz, of the Brookings Institution, fret that costly projects are not the magic bullets they're touted to be, because they don't address the fundamental structural problems facing a "distressed central city" like Hartford. In the *Courant* on April 8, 2001, Katz argued that creating opportunity, not simply spending money, is what will make "city assets ... part of self-sustaining, self-organizing markets."

Without reforming municipal taxes, local governments, and state policies that encourage suburban sprawl, it's impossible to overcome the poor schools, scarce jobs, and dangerous neighborhoods that deter people from living in Hartford and businesses from locating there.

The themes of sprawl, taxes, and governance are familiar in debates about what ails Hartford. Traditional New England home rule, which spawns multiple city governments within a single metro area, has deep roots, and it has not obviously held back economic growth in and around Boston. Nonetheless, that the city of Hartford housed only 10.3% of total population in its metro in 2000—down from 12.1% in 1990—doesn't add to its clout in the General Assembly, where mandates for more regional cooperation must originate. (The comparable figure for Providence is 14.6% in 2000, up a half percentage point over 1990.) Not all the news is bad on the regional front: Riverfront Recapture had to secure the co-operation of several other river towns abutting the state's capital city.

Hartford has long socked it to industrial and commercial property owners on real estate taxes, to keep effective residential rates down. After all, homeowners vote and businesses don't. But the ploy is shortsighted. Over the long term, it attracts residents looking for low real estate taxes but repels new businesses and drives out existing ones. The resulting fiscal penury weakens street maintenance, schools, public safety, and other urban amenities, in turn encouraging flight to surrounding towns by upwardly mobile residents. State policies that help build new suburban schools and improve traffic arteries to shorten commuting times only exacerbate trends that originate in City Hall.

How attractive is it to do business in Hartford? One might hope that the urban dynamic just sketched would eventually lead to lower business costs that would offset if not overcome a city's decline. Not so, at least not yet, according to Economy.com's ongoing study of relative business costs by state and metropolitan area across the U.S. The latest figures, from the November 2000

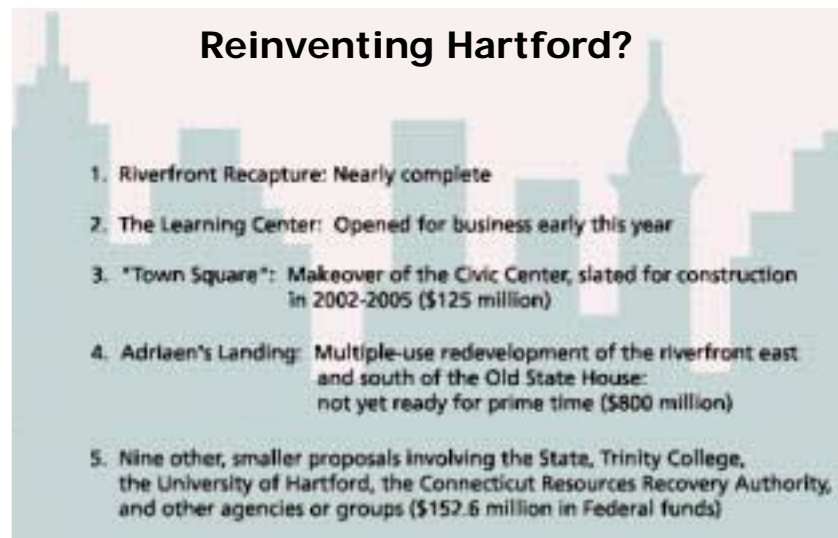
issue of its *Regional Financial Review*, rank Hartford the 8th highest-cost metro in the nation, out of the 162 sampled, after New York, Boston, and a set of smaller New Jersey metros. San Francisco is a paltry 14th. In general, states and metros with the highest incomes have the highest business costs, as we might expect. But Francis Markey and Michael Burt, authors of the study, stress that relative business costs are critical to *future* growth, accounting for about a third of relative employment growth over the decade 1989-1999.

The Economy.com cost index consists of unit labor costs, adjusted for productivity (65%), electricity costs (15%), state and local tax burden (10%), and office rents (10%)—all measured relative to the national average. Hartford's unenviable position traces to unit labor costs (+ 12.2% over the average), electric rates (+ 46.1%), and state and local taxes (+ 9.5%). Only in office rent is Hartford cheaper than the rest of the country, by 11.2%.

Providence slouches in as merely the 68th highest-cost metro, with an overall index (99.3) just under the national average (100.0). Its big advantage over Hartford is in unit labor costs, though Markey and Burt note that the "advantage" may well reflect sputtering job growth, slack labor markets, and hence slow wage growth in Rhode Island.

The important lesson here: It's not enough simply to let Hartford run down until new businesses will be attracted by the immense opportunity it presents. Bruce Katz hit the nail on the head. The powers that be have work to do: reducing business costs, offering incentives (or punishments) to induce cities and towns to work together more—and, for the city of Hartford, scrapping its weak-mayor governance so that the powers *can* be, and can be held to account if they don't deliver.

So progress is an uphill climb ... what else is new? In Hartford, it will take political and moral will, backed by courage, and not simply landing more Federal grants. If a few good politicians, even a flamboyant one or two, will make the effort, who knows, maybe Hartford will one day scare the Dickens out of Providence.



Southwest. This pattern reflects the latter's proximity and strong economic ties to the New York City financial hub, and Central's historical position as a major insurance center. In fact, Central has a concentration of property-casualty insurance jobs that is over seven times the U.S. average ... and three times the reinsurance activity to boot.

At the heart of today's story, however, are the patterns of growth and the drivers of change, not just the high concentrations of yesteryear. An examination of how concentrations of FIRE activity have changed over the past eleven years reveals that, where FIRE jobs are growing rapidly in absolute numbers, the sector is also growing in relative importance. The Stamford, Des Moines, Jersey City, Sioux Falls, and Wilmington metros are among the top-ten gainers in the U.S. in this regard. Their FIRE jobs are up, and the sector accounts for a growing share of all jobs. Places like Hartford, New York City, and San Francisco, however, show the opposite pattern. Hartford, in particular, is one of the most prominent overall job losers over the same period, and even more so in FIRE.

Powerful Forces Are Driving Change

These changes aren't isolated developments; they share a pattern that reflects the impact of powerful forces driving changes in global business, particularly in finance. The most pervasive of these forces are:

Innovations in communication technology that are dramatically lowering the cost of distance and enabling the decentralization of business activity—trends such as out-sourcing, e-commerce, and telecommuting.

Innovations in information technology that continue to markedly improve in consumer clout through transparency in pricing and the obsolescence of middlemen like travel agents and brokers.

Globalization, which is rapidly increasing the size and scope of multinational firms and the spread of foreign-owned affiliates.

Deregulation of financial services, especially the "Modernization" Act of 1999, allowing firms to offer once-proscribed services, and spawning mega-firms like Citigroup and Bank of America that combine banking, insurance, and securities under the same holding company.

The cumulative results of all these forces have been a dramatic increase in mergers and acquisitions in financial services, often across state and national borders, and the need to continually cut costs to remain competitive. Because of the high cost of doing business in Manhattan, New York City is losing FIRE share to nearby Stamford and Jersey City. Likewise, backroom activities such as billing and data processing can be done much more cheaply in places like Sioux Falls (where Citibank is now the second largest employer) or Des

Moines (home to many life insurance operations). Moreover, customer service and call centers are increasingly moving to low-cost areas such as Columbus, Oklahoma City, and Omaha, where cheaper but high quality labor is plentiful.

Whither Central Connecticut?

Southwestern Connecticut, so far, appears to be a net beneficiary of these trends; Central Connecticut a net loser. In the 1980s, Hartford was home-base for large regional banks such as Connecticut Bank & Trust, Hartford National Bank, and Society for Savings. Today larger multi-state or national banks have acquired all of those institutions. No truly large banks are now headquartered in Central Connecticut. Aetna, the largest financial firm in Hartford ten years ago, sold its property-casualty insurance operations to nearby rival Travelers, which in turn was consolidated into Citigroup, with headquarters in New York. Aetna also recently sold its life insurance business to the huge Dutch multinational ING. While operations remain in Hartford, ING's headquarters (and most likely their "geographic loyalty") are not. There are many similar stories—Connecticut Mutual Insurance merged into Mass Mutual, Hartford Steam Boiler acquired by global insurance giant AIG, and so on.

So, will the "insurance capital of the world" go the way of the "brass city" (Waterbury), the "hat city" (Danbury), and the "thread city" (Willimantic) before it? The answer is a hopeful but qualified "no." Central Connecticut boasts a robust pool of highly-educated and skilled workers in the art and science of insurance—a major attraction for the cutting edge of the business (e.g., reinsurance). And economic misfortune has a bright side: it causes the market-driven costs of doing business, such as office rents, to fall relative to rival, higher-growth locales. Now it's up to economic policy makers to reassess tax rates, improve infrastructure, and otherwise enhance the area's attractiveness for existing and prospective businesses. After all, industries such as insurance in Central Connecticut are both high-profile and high-paying ... so why not work extra hard to keep them here?

The decade ahead surely promises even more change. If we can change proactively rather than just reactively, we just might keep what we've got and then some.

Connecticut FIRE Jobs Unequally Distributed Across Regions

Sector	Total State		Central		Southwest		Rest of State	
	% of Total CT Jobs	Relative to US Avg.	% of Jobs in Sector	Relative to US Avg.	% of Jobs in Sector	Relative to US Avg.	% of Jobs in Sector	Relative to US Avg.
Total Finance & Insurance	8.2%	1.5	57.7%	2.4	38.7%	1.2	3.6%	0.4
Banking	1.4%	0.8	35.0%	0.8	52.0%	0.8	12.0%	0.8
Non-Bank Credit	0.6%	0.8	20.6%	0.5	79.1%	1.9	0.3%	0.0
Securities & Investment	0.9%	1.4	25.0%	0.9	71.2%	1.9	3.8%	0.4
Life & Health Insurance	2.6%	3.2	73.3%	6.4	26.4%	1.7	0.3%	0.1
Property Casualty Insurance	1.7%	3.0	85.4%	7.1	13.3%	0.8	0.3%	0.1
Reinsurance	0.0%*	5.0	23.9%	3.3	76.1%	7.5	0.0%*	0.0
Insurance Agents & Brokers	1.0%	1.3	56.1%	2.0	38.2%	1.2	5.7%	0.6
Other Financial	0.1%	0.6	24.1%	0.4	74.2%	0.8	1.7%	0.1
Total Non-Farm	100%		35.3%		50.9%		12.8%	

Source: *The Connecticut Economy* using data from the U.S. Department of Commerce

Evaluating a Transit Strategy for the Capitol Region

By Stanley McMillen

Connecticut faces nettlesome traffic congestion, and not just in Fairfield County. Concerns that the congestion may soon impede economic growth, never mind aggravating residents and visitors to the state, have prompted high-level political attention.

House Speaker Moira Lyons addresses the state's transportation problems on the back cover of this issue. The same concerns recently led the Capitol Region Council of Governments (CRCOG), assisted by transportation experts from Parsons Brinkerhoff, to craft a "Regional Transit Strategy" for the 29 towns in Hartford and Tolland Counties that make up the core of Central Connecticut. CCEA, in turn, evaluated the long-term economic impacts of implementing the Strategy.

The working assumptions behind CRCOG's Strategy were as follows:

F Capitol Region roadways are already congested and will become more so unless something is done.

F Expanding highway capacity is not the answer, because growth in traffic will merely create new congestion.

F Existing mass transit does not meet the needs of many people—hence their reliance on cars to commute, shop, and run errands.

F Residents and workers in the region care enough about the quality of life in Hartford to pay for environmentally friendly transit development.

The Regional Transit Study's recommendations focus on "busways" and carefully targeted fixed-rail service. Dedicated bus-only lanes in the middle of existing rights-of-way would whisk travelers from downtown Hartford to New Britain, Rocky Hill, Bloomfield and Manchester, with feeder links to other communities. A spur from the corridor would link Hartford and Springfield to Bradley International Airport.

The rationale for a comprehensive regional transit strategy rests on the putative benefits of improved transportation services: savings of time and fuel, reduced car accidents, lower pollution, and increased productivity of truck services. Arguably, more efficient transportation would improve access to jobs, especially for low-income workers, and reduce incentives for suburban sprawl. The resulting denser development would improve land use and bring about more efficient use of public infrastructure. Importantly, better transportation in the Capitol Region would help energize Hartford as an economic hub by enhancing retention of businesses and workers, reinforcing links in our knowledge corridor, and improving air access to the global economy. None of this would hurt Hartford's quest for southern New England bragging rights over Providence. (See the article on pages 4-5)

Can we put some numbers on the above benefits? Not all of the variables involved are easy to quantify. Fortunately, we can say something about the effects of the Regional Transit Strategy on a set of macroeconomic variables: Gross State Product (GSP), jobs, population, personal income, and tax revenues. To do that, the CCEA used an inter-sectoral macroeconomic forecasting tool known as the "REMI model".

This model allows the analyst to compare the implications of contrasting sets of assumptions over a 25-year time horizon. Here, the baseline was the REMI forecast for the Connecticut

economy under business-as-usual, status quo assumptions—no Regional Transit Strategy, but performance of required maintenance on existing highways. The alternative "strategy" scenario would add busways and commuter rail capacity to the region's transportation network. The REMI model takes into account the economic sectors that would be involved in the new transit construction and those that would use both the existing network (baseline) and the new system (strategy). REMI also builds in specific assumptions about how the strategy would be financed. Thus, the impacts of CRCOG's strategy are in fact distinguishable from those of just any old stimulus to the state economy, such as spending an equivalent amount of money on more lanes of highway.

CCEA's analysis implicitly assumed that the congestion we will put up with under the status quo scenario is equal to congestion we would avoid by implementing the strategy. In fact, under business as usual, the costs of congestion would likely rise as we approached the capacity limits of the existing network. On the other hand, CCEA did not attempt to incorporate into its analysis the temporary disruption costs during the construction of the busway and fixed-rail facilities. These two complicating realities, although not explicitly recognized in the simulation, tend to offset each other.

CRCOG put the capital outlay required to implement its Regional Transit Strategy at \$409 million in today's dollars. The project would be relatively cheap for the region, though not for the nation as a whole, because the Federal government would pick up 80% of the capital costs; the State of Connecticut would foot only the remaining 20% of the bill. Operating and maintenance costs would increase by \$16.45 million annually, financed by fares and State subsidies.

Comparing the strategy scenario with the status quo over a 25-year horizon, CCEA found the following average annual changes:

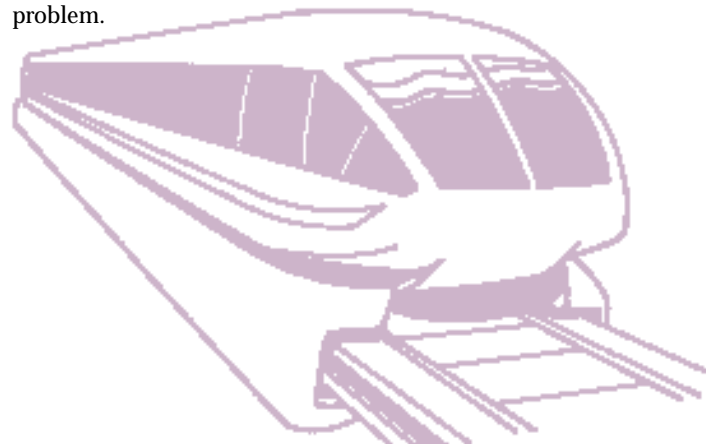
F 600 new jobs;

F 1,100 more residents;

F \$68.55 million in added Gross State Product (GSP), \$35.86 million in personal income, and \$2.41 million in local tax revenues; and

F \$4.5 million in net State tax revenues, equal to increased taxes of \$3.0 million due to economic growth, less the ongoing State subsidy of \$7.5 million.

These results indicate that the CRCOG's Regional Transit Strategy would be a net winner over continuing to muddle through—standing by while traffic builds up and chokes off the Capitol Region's creative energies. We can't tell whether a different strategy would be even better. Building more highways and unused "diamond lanes" is probably not going to help. It's not rocket science to figure out that continuing to pave the region over would be a 20th-century solution to a 21st-century problem.



Connecticut Residents to Hartford: We Don't Want to Move There, But More Culture and Sports Might Make Us Visit

By Chase Harrison

Center for Survey Research and Analysis

Over the past decade, the proportion of Connecticut residents who visit Hartford at least once a month has remained rather stable. But the percentage of Connecticut residents who have ever journeyed to Hartford has declined. Most Nutmeggers wouldn't move to Hartford, even to take a better job. But more cultural attractions and sporting events are the improvements most likely to persuade Connecticut residents to visit the state's capital city more often.

In 1988, a University survey found that 28% of Connecticut residents visited Hartford at least once a

The proportion of state residents who have never visited their capital has increased from 9% in 1988 to 24% today

think it somewhat important. These numbers have not changed

Asked to choose among enticements to visit Hartford more often, a quarter of respondents mentioned cultural venues such as museums or theaters first, while one-fifth chose sporting events first. Substantially fewer respondents chose concerts (9%), shopping (7%) or restaurants (6%) as improvements that would bring them to Hartford more often.

Connecticut residents also place a high degree of importance on improving public transit into downtown Hartford. Nearly half (46%) of all respondents rate improving mass transit to downtown Hartford as very important, and an additional

22% think it somewhat important. These numbers have not changed significantly since 1988.

A total of 500 randomly selected Connecticut residents were interviewed by telephone by the Center for Survey Research and Analysis at the University of Connecticut from April 30-May 3, 2001. The sample error for a survey this size is +/-5%.

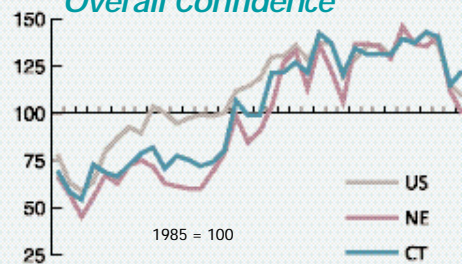
month. Today, according to a survey commissioned by *The Connecticut Economy* and the Connecticut Center for Economic Analysis, a similar percentage of residents—31%—visit Hartford at least once a month. However, the proportion of state residents who have never made the trip has increased substantially, from only 9% in 1988 to 24% today. These data suggest that, while Hartford is still a regional focal point, the city's importance as a capital city for all residents of the state may be diminishing.

Connecticut residents aren't scrambling to move to Hartford. A full 58% of Connecticut residents report that they would not accept a better job if it required them to move there; only 28% would make the move for a better job. The most common reason for not wanting to relocate to Hartford is family circumstances, but schools, housing quality, and physical safety are also mentioned with relatively high frequencies.

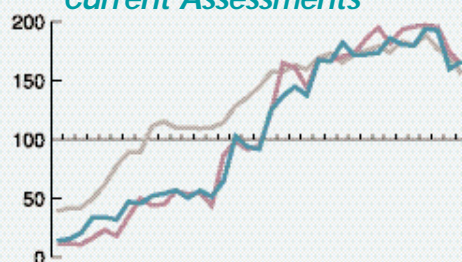


Consumer Confidence Survey

Overall Confidence



Current Assessments



Expectations



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

Consumer Confidence on the Rebound

Bolstered by a surprise cut in interest rates, Connecticut consumers regained some of their lost confidence in April. The Connecticut index of consumer confidence rose by 7.3 points to 122.2 in April, after falling more than 25 points in January. Despite improved attitudes, overall confidence remains 15.1 points or 11% below its level of one year ago.

Consumer confidence slumped nationally and regionally in 2001-Q1, raising fears of a retrenchment in consumer spending that could choke off the expansion. Consumer spending fuels about two-thirds of the economy. To buttress the sagging economy, the Fed once again lowered interest rates, though the cut came too late to be reflected in national or regional consumer confidence figures.

The Connecticut confidence measure, however, suggests the rate cut may have done some good. Based on interviews conducted after the drop in interest rates, residents' assessments of current conditions showed a 3.8% improvement in April compared with January. Expectations about the future of the economy jumped 9.8%. Both measures, however, remain below levels reached the same time last year.

Optimism about present and future job conditions added most to the turnaround in confidence. Those who see jobs as plentiful outnumber those who see jobs as hard to get by a ratio of two to one. Fully 47% of respondents rated present business conditions "good," compared with 12% who viewed them as "bad," though those same residents are evenly split on the question of whether business conditions six months from now will be better or worse.

Returns (thousands) Tax (millions) Tax Per Return

Returns (thousands) Tax (millions) Tax Per Return

Returns (thousands) Tax (millions) Tax Per Return

Bridgeport LMA

Ansonia	7.2	\$6.5	\$914
Beacon Falls	2.2	2.9	1319
Bridgeport	45.8	28.5	622
Derby	5.2	5.3	1031
Easton	3.0	17.5	5748
Fairfield	22.6	101.5	4496
Milford	22.3	37.5	1682
Monroe	7.7	20.3	2648
Oxford	3.9	7.6	1952
Seymour	6.4	8.4	1323
Shelton	16.0	30.8	1927
Stratford	20.8	29.1	1395
Trumbull	14.0	38.4	2752

Danbury LMA

Bethel	7.4	\$13.6	\$1824
Bridgewater	0.8	2.7	3358
Brookfield	6.6	16.6	2505
Danbury	27.0	38.7	1432
New Fairfield	5.4	10.5	1958
New Milford	10.7	17.7	1657
Newtown	9.6	31.3	3265
Redding	3.5	16.7	4722
Ridgefield	9.1	47.5	5199
Roxbury	0.9	3.1	3685
Sherman	1.4	3.9	2793
Washington	1.9	6.6	3574

Danielson LMA

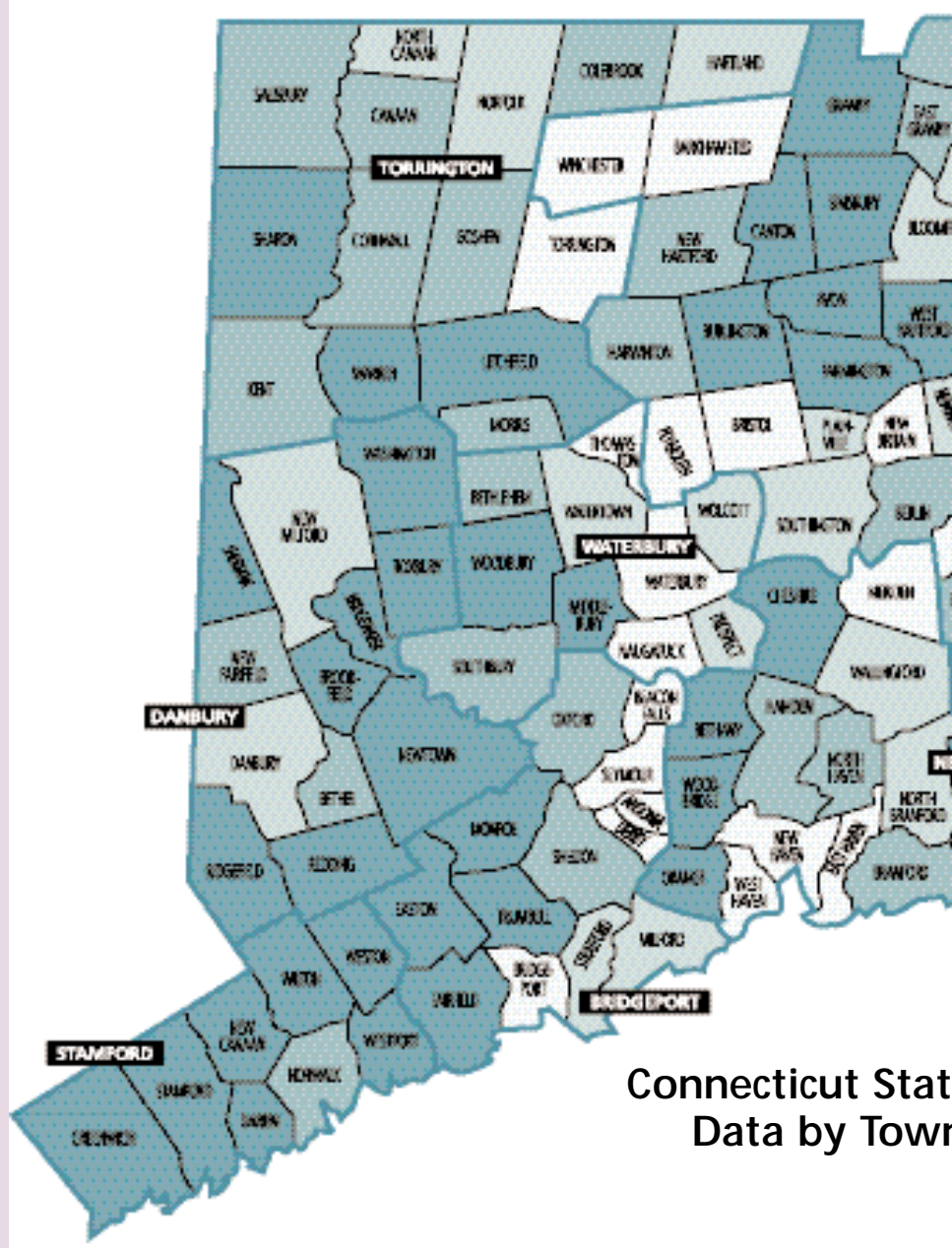
Brooklyn	1.9	\$2.6	\$1317
Eastford	0.5	0.8	1598
Hampton	0.9	1.2	1356
Killingly	7.0	4.8	691
Pomfret	1.6	2.8	1783
Putnam	3.2	2.4	760
Scotland	0.3	0.4	1306
Sterling	1.0	0.7	683
Thompson	3.4	2.3	686
Union	0.5	0.6	1108
Voluntown	1.5	1.6	1011
Woodstock	2.6	3.6	1405

Hartford LMA

Andover	1.3	\$2.2	\$1750
Ashford	1.6	2.1	1318
Avon	6.8	37.1	5471
Barkhamsted	0.3	0.5	1326
Berlin	7.9	15.1	1927
Bloomfield	9.1	15.9	1760
Bolton	2.1	4.6	2205
Bristol	24.6	29.5	1198
Burlington	3.3	9.1	2742
Canton	4.1	10.2	2512
Chaplin	0.6	0.6	1163
Colchester	5.7	9.5	1665
Columbia	2.1	3.9	1886
Coventry	4.7	7.2	1539
Cromwell	5.6	10.4	1852
Durham	2.7	6.4	2316
East Granby	2.0	4.0	2055
East Haddam	3.0	6.1	2041
East Hampton	4.7	8.4	1771

East Hartford	20.3	\$17.3	\$854
East Windsor	4.2	5.3	1266
Ellington	5.4	10.1	1880
Enfield	17.1	19.2	1118
Farmington	9.9	33.8	3404
Glastonbury	13.3	48.3	3634
Granby	4.1	10.6	2557
Haddam	3.0	6.6	2176
Hartford	37.8	22.2	588
Harwinton	2.2	4.6	2121
Hebron	3.4	8.6	2538
Lebanon	2.7	4.0	1466
Manchester	22.8	30.9	1354
Mansfield	4.7	9.3	1978
Marlborough	2.4	6.0	2477
Middlefield	1.8	3.4	1920

Middletown	17.4	\$23.3	\$1339
New Britain	25.6	18.4	718
New Hartford	3.0	6.0	1972
Newington	13.2	18.7	1413
Plainville	7.5	10.3	1373
Plymouth	4.8	5.3	1114
Portland	3.6	7.2	2026
Rocky Hill	8.1	14.6	1808
Simsbury	9.3	37.2	3991
Somers	3.4	6.6	1920
South Windsor	10.2	22.7	2227
Southington	17.0	30.1	1778
Stafford	4.4	4.5	1032
Suffield	5.0	11.0	2203
Tolland	5.2	12.0	2300
Vernon	11.8	15.9	1349



Connecticut State Data by Town

Source: *The Connecticut Economy* based on figures from the Connecticut Department of Revenue Services.

Returns (thousands) Tax (millions) Tax Per Return

	# Returns (thousands)	Tax (millions)	Tax Per Return
West Hartford	25.6	\$76.0	\$2964
Wethersfield	11.8	21.6	1839
Willington	2.2	3.6	1630
Winchester	5.3	6.1	1151
Windham	8.1	6.4	796
Windsor	12.1	19.1	1581
Windsor Locks	5.2	5.7	1094

Lower River LMA

Chester	1.6	\$3.4	\$2143
Deep River	1.9	3.3	1772
Essex	2.9	10.4	3568
Lyme	0.8	5.4	6401
Westbrook	2.7	4.5	1672

Returns (thousands) Tax (millions) Tax Per Return

New Haven LMA

Bethany	2.1	\$6.3	\$3052
Branford	12.9	26.1	2015
Cheshire	10.5	30.3	2886
Clinton	5.5	8.8	1603
East Haven	11.4	12.3	1079
Guilford	9.1	27.9	3057
Hamden	22.3	43.9	1970
Killingworth	2.5	6.6	2667
Madison	7.3	27.7	3805
Meriden	22.7	23.3	1023
New Haven	36.1	32.8	911
North Branford	6.1	10.1	1642
North Haven	9.9	20.3	2047
Orange	5.7	17.0	2966
Wallingford	18.2	29.5	1624

Returns (thousands) Tax (millions) Tax Per Return

West Haven	20.5	\$19.0	\$926
Woodbridge	3.9	20.6	5308

New London LMA

Bozrah	1.1	\$1.7	\$1592
Canterbury	2.0	2.3	1144
East Lyme	6.8	15.1	2232
Franklin	0.8	1.1	1420
Griswold	3.4	2.8	832
Groton	9.6	12.0	1252
Ledyard	5.8	10.8	1875
Lisbon	1.2	1.4	1199
Montville	6.9	8.0	1149
New London	8.6	6.9	803
North Stonington	2.1	3.6	1726
Norwich	14.5	14.5	1000
Old Lyme	3.3	12.1	3622
Old Saybrook	4.5	9.7	2152
Plainfield	5.6	4.2	758
Preston	1.8	2.4	1284
Salem	1.5	3.0	1980
Sprague	1.4	1.4	1003
Stonington	10.6	22.6	2128
Waterford	8.2	14.3	1739

Stamford LMA

Darien	7.6	\$65.1	\$8552
Greenwich	25.4	257.1	10102
New Canaan	7.7	110.7	14306
Norwalk	33.8	69.5	2054
Stamford	47.7	115.0	2411
Weston	3.8	35.7	9348
Westport	10.9	90.0	8247
Wilton	7.0	51.9	7423

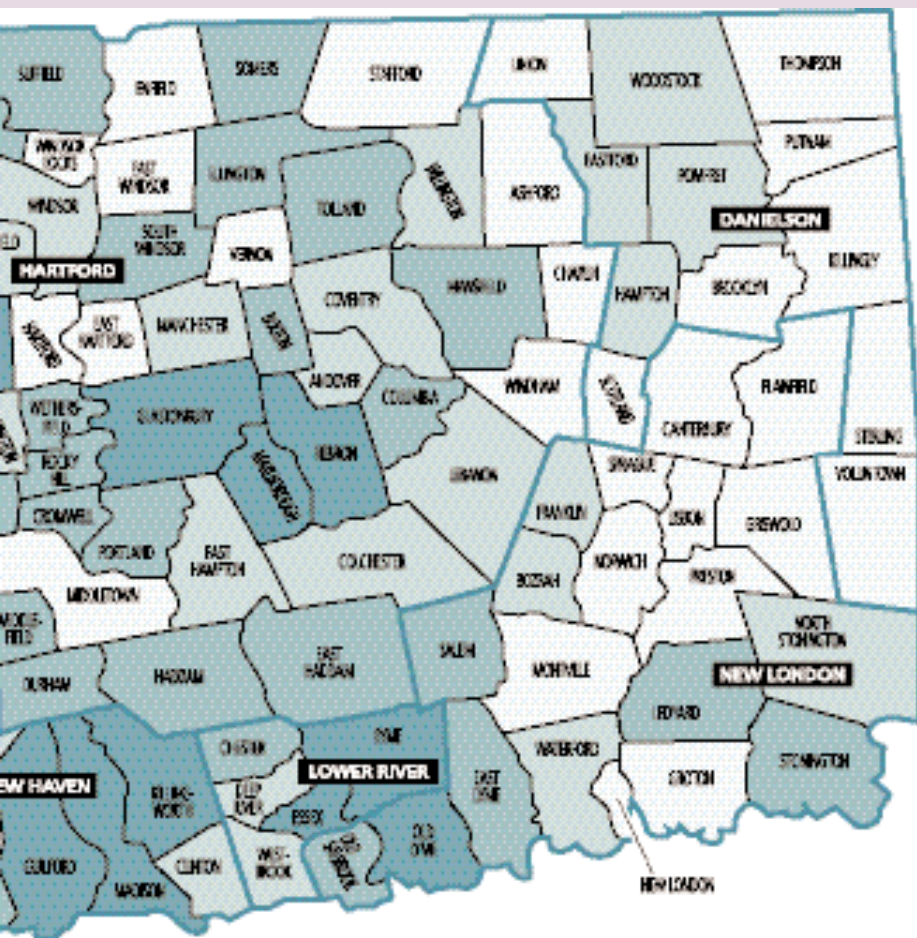
Torrington LMA

Canaan	1.5	\$2.8	\$1809
Colebrook	0.2	0.6	2285
Cornwall	0.4	1.0	2223
Goshen	1.1	2.5	2362
Hartland	0.7	1.1	1616
Kent	1.2	2.7	2288
Litchfield	3.5	9.5	2763
Morris	0.8	1.5	1813
Norfolk	0.7	1.3	1793
North Canaan	0.3	0.4	1423
Salisbury	1.6	3.8	2325
Sharon	1.0	3.6	3583
Torrington	13.9	15.3	1098
Warren	0.6	1.4	2431

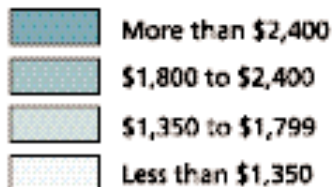
Waterbury LMA

Bethlehem	1.4	\$2.9	\$2033
Middlebury	2.9	10.2	3475
Naugatuck	12.2	13.1	1072
Prospect	3.5	6.3	1775
Southbury	7.7	18.5	2397
Thomaston	3.2	3.8	1197
Waterbury	38.4	29.7	775
Watertown	9.0	14.1	1568
Wolcott	6.1	10.0	1627
Woodbury	4.0	11.7	2907

Statewide 1,329.2 \$2,875.0 \$2163



Map shows the average tax per return in 1999



Income Tax for 1999

The Ups and Downs of the Connecticut Income Tax

By Steven P. Lanza

Taxes are the price we pay for government services, and according to the latest Connecticut income tax figures for 1999 that price, compared to the year before, is up...and it's down. It all depends on what group you fall into.

Taxes were up in 1999, over 1998, for some upper income taxpayers because their incomes rose. Taxes were down for some lower and middle-income taxpayers because their incomes failed to grow. On balance, Connecticut's income distribution grew more unequal across income groups and across towns. Even so, Connecticut's income tax remains progressive, overall, and incomes are only slightly less equally distributed in Connecticut than in the U.S. as a whole.

The average tax per Connecticut income tax return reached \$2,242 in 1999, up 5.3% from 1998. Why the jump? Tax rates themselves haven't increased. In fact, tax year 1999 brought yet another reduction in the effective tax rate. Moreover, the property tax credit rose in 1999 (and did so again in 2000).

No, what drove the state's higher tax take was the rising incomes of Connecticut residents. Adjusted gross income (AGI) per return reached an average of \$77,046 in 1999, an increase of 6.4% from 1998. Also, total AGI from all filers jumped 8.7%, total revenue from the income tax increased 7.6%, and the number of filers increased 2.1%. So with higher incomes offsetting both lower effective rates and expanded tax credits, the average Connecticut filer's tax bill went up.

By the Numbers

But changes in average taxes alone are not the whole story, because the burden of Connecticut's income tax is not shared equally. The rich pay an overwhelming share of the income tax in Connecticut, and that biases upward any estimate of the average tax burden. With taxes skewed toward high-income taxpayers, the median or middle taxpayer better represents the typical taxpayer. And for that taxpayer, the state income tax bill

the average tax per return for taxpayers in that group fell 5.1%, from \$662 to \$628.

One reason for the decline in taxes at the median is that middle and lower income individuals have benefited most from tax rate reductions and expansions of the property tax credit. In 1998, taxpayers filing jointly were taxed 3% on any AGI below \$15,000 and 4.5% on AGI above that amount. In 1999, however, the 3% bracket expanded to include all AGI below \$20,000. Moreover, in 1999 the property tax credit increased to \$425, though the wealthiest taxpayers were limited to a credit of just \$100.

But another reason for the decline in taxes at the median is that the AGI of the median taxpayer also declined. Between 1998 and 1999, the average AGI of all taxpayers at the median or below dropped from \$20,723 to \$20,620 or by 0.5%. That extends a trend dating back to 1992, the first full year of the income tax. Since then, the average AGI of this bottom half of the AGI distribution has fallen a total of 3.4% or by 0.5% per year. With lower AGIs, lower rates, and higher credits, the average tax paid by the poorest half of all filers declined 7.8%—from \$206 in 1998 to \$190 in 1999. As a group, these poorest Connecticut taxpayers earn just 13.5% of the total AGI reported by all filers and pay only 4.2% of all income taxes.

With the bottom half of taxpayers paying just 4.2%, that leaves the top half of the income earners paying the remaining 95.8% of income taxes. But growing incomes among this group of taxpayers have made that easier to do. In 1999, the top 50% of Connecticut income tax filers earned 86.5% of total reported AGI. That's up from 77.4% of total AGI in 1992. The average tax per return for these top-half filers increased 4.8% to \$4,319 between 1998 and 1999. At the same time, their average AGI rose to \$134,171—an increase of 6.5%. Since 1992, the average AGI of taxpayers above the median has jumped 41.6%.

Letting the Gini Out

Connecticut incomes are concentrated among a relatively small group of taxpayers, and the tax burden is borne disproportionately by those with higher incomes. But isolated comparisons of the mean to the median or the top to the bottom provide little intuition about the concentration of Connecticut incomes or the progressivity of Connecticut tax payments. For insights on these issues, economists use a simple graphical tool called a Lorenz curve and its numerical equivalent, the Gini coefficient.

The two panels in the graph opposite show Lorenz diagrams. The vertical and horizontal axes in the top panel measure the cumulative percentages of tax returns and AGI, respectively, with tax filers ordered so that those with the lowest AGIs come first, followed by those with increasingly higher incomes. A perfectly equal distribution of adjusted gross income would lie along the 45° line. Ten percent of the filers would account for 10% of

Who Pays the Connecticut Income Tax ?

Taxpayers:	1999 Amount	1998-99 % Change	1992-99 % Change	% of Total
Average				
Tax	\$2,242	5.3	40.7	NA
AGI	\$77,046	6.4	44.6	NA
Average below Median				
Tax	\$190	-7.8	-40.0	4.2
AGI	\$20,620	-0.5	-3.4	13.5
Average above Median				
Tax	\$4,319	4.8	32.8	95.8
AGI	\$134,171	6.5	41.6	86.5

went down in 1999 compared with 1998. In both years, the median taxpayer reported an adjusted gross income of between \$35,000 and \$40,000, but

the AGI, 50% of filers 50% of the AGI and so on. With AGIs unequally distributed, however, the Lorenz curve dips below the 45° line. The more the Lorenz curve bows away from the 45° line, the more unequal the income distribution. There are two such bowed lines here, one for the the United States and one for Connecticut. Their shapes demonstrate that AGIs are not equally distributed among tax filers.

A numerical expression of the degree of inequality is the Gini coefficient, which is the ratio of the area between the 45° line and the Lorenz curve to the total area below the 45° line. The Gini coefficient can vary from zero, where incomes are equally distributed and the Lorenz curve is the 45° line, to a value of one, where a single individual has all the income.

Connecticut's Gini coefficient for AGI measured 0.61, according to the 1999 data. Thus, incomes are distributed relatively unequally among the state's tax filers. Moreover, the distribution has grown more unequal over time: In 1992 the Gini was 0.51. Though the numbers may suggest a high degree of inequality in Connecticut, they nearly match measures obtained using comparable U.S. tax figures. In 1998, for example, the U.S. Gini coefficient for AGI was 0.57. So AGIs are not much more concentrated in Connecticut than in the U.S. as a whole.

A similar Gini coefficient can show the distribution of the tax burden among income tax filers. Now, however, higher coefficients would correspond to a more progressive tax system (where higher income earners pay an increasing share of taxes). Here, Connecticut's tax Gini coefficient is relatively low, measuring 0.13 in 1999. This measure of the distribution of the tax burden has held fairly constant over the history of the income tax: it was 0.14 in 1992. But a comparable calculation for the U.S. shows a more progressive tax structure. In 1998, the U.S. tax Gini measured 0.29.

The greater progressivity of the U.S. tax structure comes from its increasing marginal tax rates. Connecticut, by contrast, has only two marginal rates, 3% and 4.5%. Our structure is made more progressive by exempting many low-income earners from any tax, which effectively taxes them at a 0% rate. The tax Gini described above misses this group and hence understates the overall progressivity of Connecticut's tax system, because the 0% ratepayers don't all file state tax returns even though most have to file federal returns.

This hitch can be overcome by constructing a modified Connecticut tax Gini that compares the AGIs of Connecticut residents who pay federal taxes with the state income taxes paid by those people. The latest data, for 1997, show that under this broader measure of AGI, Connecticut's tax Gini rises from 0.14 to 0.17. It's an improvement, but still far below the 0.29 measure for the federal income tax. This difference is reflected in the Lorenz curves in the lower panel of the graph.

A State of Contrasts

Just as Connecticut AGIs are becoming increasingly concentrated among income groups, tax data by town suggest that average income taxes per return, and hence the underlying taxable incomes, are showing increasing geographic concentration.

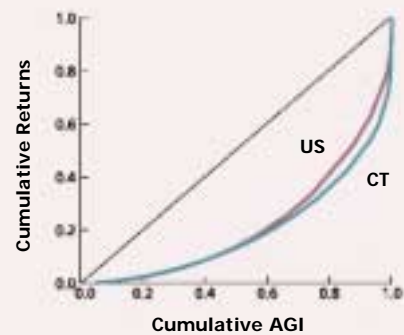
The centerfold (pages 10-11) maps the average tax per return in 1999 by town. The five highest towns were, from the top, New Canaan, Greenwich, Weston, Darien, and Westport. All five are in Fairfield County, all five appeared in the same order in 1998, and all five also topped the list in 1992. The five lowest towns were, from the bottom, Hartford, and Bridgeport—the state's poorest central cities—and Sterling, Thompson, and Killingly—rural towns along the Rhode Island border. The same five towns ranked in the bottom six in 1998 and in the bottom seven in 1992.

Although the top and bottom town rankings have remained stable over the years, the geographic distribution of the tax burden has not. By treating each town as an equal unit, arraying them by average tax per return from lowest to highest and plotting each town's proportion of the total average tax burden, we can construct a Gini coefficient for the geographic dispersion of average tax per return. In 1992, it equaled 0.23. By 1998 it had risen to 0.31, and in 1999 it reached 0.34.

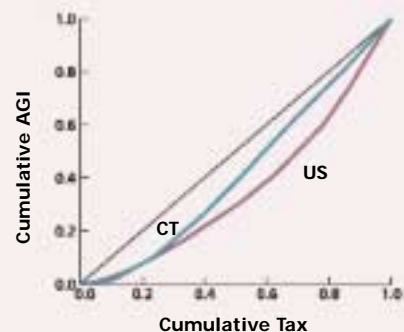
Remembering that higher ratios correspond to greater levels of concentration, the rising Gini tells us that the average tax per return across towns has grown more unequal over time. Thus, the tax burden, and the underlying taxable incomes, have become more concentrated among the richest Connecticut towns.

The bottom line: Connecticut's income tax, with its "front end" exemptions, is very progressive for low income filers, but the flat rates at higher incomes make the tax less progressive, overall, than the federal income tax, with its increasing marginal rates.

Measuring Inequality in Income...



...And in the Tax Burden



The shape of a curve measures the degree of income or tax inequality—the more bowed away from the straight line, the more unequal the distribution.

Developed by The Connecticut Economy based on data from the Connecticut Department of Revenue Services and the U.S. Internal Revenue Service.

Losing Our Grip?

By Steven P. Lanza

If Connecticut hopes to sustain its climb in labor market activity, the areas along the coast will have to hold firm because interior portions of the state are already losing their grip, at least as measured by the Labor Market Index, or LMI. Hartford, the state's largest labor market area, and Danbury now join Torrington, Waterbury and Bridgeport in reporting a four-quarter drop in their LMIs.

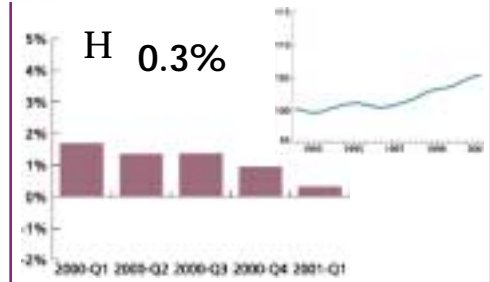
The latest benchmark revisions to the labor market data show that the state emerged from 2000 stronger than first believed. Initial figures suggested an average statewide LMI growth rate of 1.0% for last year. The new numbers put that average at 1.3%. But the latest quarterly data, from 2000-Q1, tell a different story. Jobs grew by less than 1.0% for the first time in five years, and the labor force shrank 0.6% after nearly two years of steady expansion. Job gains in construction offset losses in manufacturing, leaving the services as the sector of net new job creation. Four areas—Hartford, Bridgeport, Torrington and

Danielson—which together account for half the state's employment, saw job totals drop. Add to those losses a continuing downward trend in real manufacturing earnings, and the product is a scant 0.3% increase in the statewide LMI in 2001-Q1.

The LMI measures the four-quarter change in a composite index of labor activity for each labor market region and for the state as a whole. The index includes five variables: the labor force, jobs, the number unemployed, weekly manufacturing hours, and real hourly earnings in manufacturing, and is indexed so 1992 = 100. The line graphs show index levels, while the bar graphs show the recent percentage changes.

Statewide

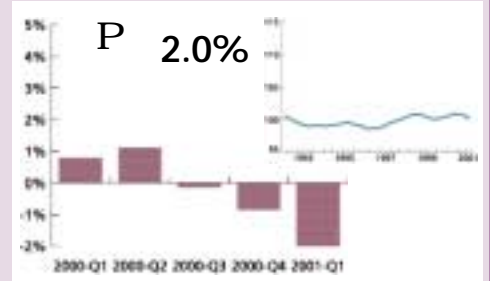
H 0.3%



Bridgeport

If any labor market area is suffering a slump it's Bridgeport, whose LMI dropped 2.0% between 2000-Q1 and 2001-Q1—its third year-over-year decline in as many quarters. The only good news to report is a drop of 1900 in the number unemployed and an improvement of 0.9 points in the unemployment rate. Real hourly wages fell 5.5%, and manufacturing hours slipped 3.5%, which sent real weekly earnings down a stunning 9.0%. The construction and transport-communications-utilities (TCU) sectors managed to add jobs in the four quarters ending 2001-Q1, but losses in all other industries swamped those modest gains.

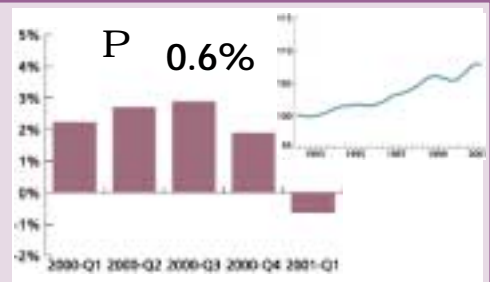
P 2.0%



Danbury

Simply put, Danbury's LMI just ran out of steam. After a 1.9% four-quarter jump in 2000-Q4, the index suffered a 0.6% decline. Granted, the number unemployed fell by nearly 400, but a comparable decline in the labor force robbed that statistic of its significance. And jobs did grow but not by much. Surprisingly, what strength there was came from the goods rather than the service industries. Construction and manufacturing both grew modestly, while losses in TCU and trade offset gains in FIRE and the services. Despite the improvement in manufacturing, a 5.6% drop in real manufacturing earnings and a 1.1% drop in average hours meant that real weekly earnings dropped 6.7%.

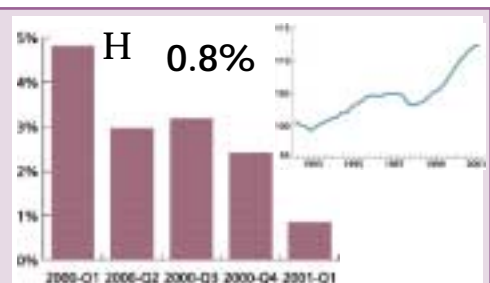
P 0.6%



Danielson

Danielson held on to positive LMI growth for yet another quarter, on the strength of improvements in the number unemployed and in hourly manufacturing earnings. The number unemployed fell 21.1%, and real hourly earnings climbed 2.0%. So, despite a 0.6% drop in hours worked, real weekly earnings in manufacturing grew 1.4%. Still, this small LMA lost jobs, and also members of its labor force. Job gains in construction and manufacturing notwithstanding, losses within FIRE, trade and government led to a small net decrease in area jobs.

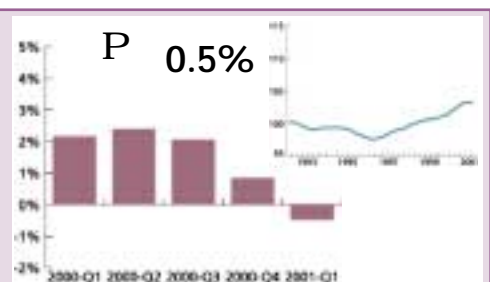
H 0.8%



Hartford

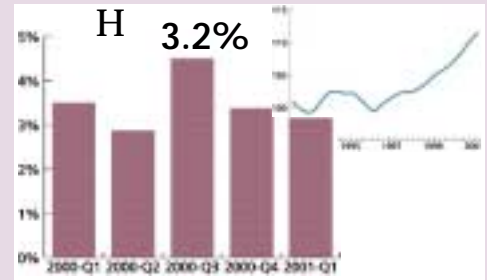
Hartford's LMI shipped a bit this quarter. Jobs dropped 0.3% between 2000-Q1 and 2001-Q1; manufacturing hours and real earnings also fell, and the labor force shrank 1.2%. Only a reduction in the number unemployed, small in actual size though big in percentage terms, offered the area a lift, though not by enough to yield a gain for the index. Goods and service industries alike suffered job losses, with services bearing the brunt. Gains in business services balanced losses in health care but were insufficient to cover the cuts in retail trade jobs.

P 0.5%



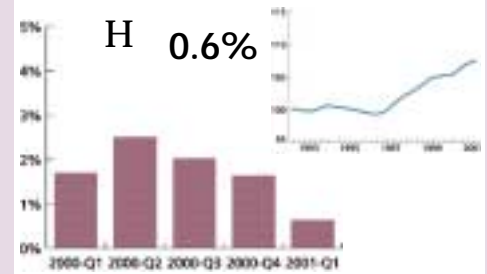
Lower River

Tiny Lower River this quarter relished its proximity to the New London and New Haven labor market areas. Sandwiched between these two larger markets, the area enjoyed New London-sized job growth and New Haven-sized labor force expansion. Lower River's labor force climbed 1.9% between 2000-Q1 and 2001-Q1, and jobs grew 3.4%, thanks to new additions in trade and in the services. What's more, a four-quarter 2.7% increase in real hourly manufacturing earnings more than compensated for a 0.2% cut in hours worked, producing a 2.5% bigger real weekly paycheck.



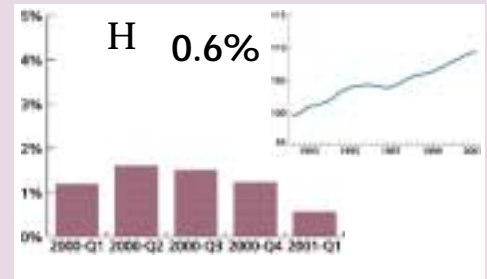
New Haven

Slowing but still growing, New Haven's LMI gained 0.6% between 2000-Q1 and 2001-Q1. A 22.6% drop in the number unemployed accounted for most of the increase, though the area also added new jobs and saw its labor force grow by 600. New Haven lost jobs in durable goods manufacturing, but made offsetting gains in non-durables and in construction. Net new job growth came from more jobs in government and an addition of 1,100 jobs in business services. Real hourly manufacturing earnings fell 1.4%, and because of a 0.2% drop in hours worked, weekly earnings declined 1.6%.



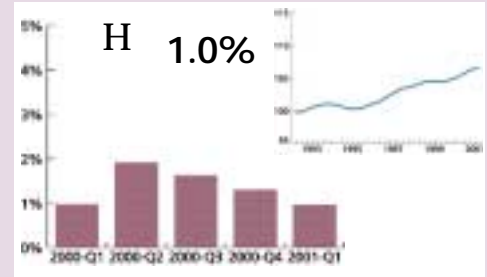
New London

Shorter manufacturing hours and a shrinking labor pool kept New London from making better progress in 2001-Q1, but the area still managed a 0.6% improvement in its LMI. Real hourly manufacturing earnings grew 0.2% between 2000-Q1 and 2001-Q1, but a 1.0% drop in hours worked meant real weekly wages declined 0.8%. New London added 600 jobs in the four quarters ending 2001-Q1—a modest achievement but twice the gain of the prior quarter and all the more impressive, given the 0.3% drop in the labor force. Job totals in the goods industries held steady, while new retail jobs gave the services sectors a boost. Government, home to all those casino jobs, grew by just 100.



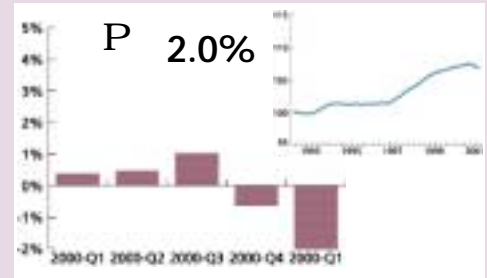
Stamford

Talk of recession doesn't appear to faze Stamford. The area's LMI grew at the same 1.0% pace in 2001-Q1 as it had a year earlier. Stamford added jobs at a four-quarter rate of 1.1%, though few were in the vaunted FIRE sector. Business services and retail trade, which each added more than 1,000 jobs, together accounted for the entire increase in private-sector positions. Labor force growth slowed to 0.5%, an abrupt deceleration from an average four-quarter gain of 2.2% during 2000. The decline in real hourly manufacturing earnings continued, though a 1.8% jump in manufacturing hours cushioned the 1.4% fall in real weekly earnings.



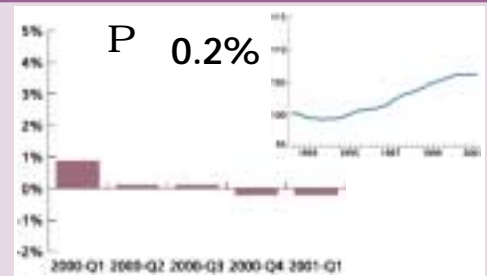
Torrington

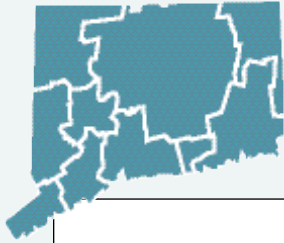
Last quarter's modest dip in the Torrington LMI became this quarter's big plunge. A falling labor force and sluggish improvements in unemployment produced this area's largest four-quarter LMI retreat since the series began. Though the number unemployed dropped a little, the labor force dropped a lot, and the area lost jobs. Real hourly manufacturing wages grew 0.8%, but weekly hours shrank by enough to cut weekly earnings 5.7%. None of the major industries escaped job losses, with construction, manufacturing and government the major job losers.



Waterbury

Waterbury joins Bridgeport and Torrington in reporting yet another decline in its LMI, though its slump was far less severe. Much of the news in Waterbury was, in fact, quite good, but a 6.8% four-quarter plunge in average manufacturing hours and a 1.7% drop in real hourly earnings produced just enough drag to bring the index down. The area's labor force, however, grew 0.4% over the same period; the number unemployed also fell, and jobs grew by a healthy 2.4%. Waterbury added jobs in every sector. Services grew by nearly 1,000, trade gained more than 300, and manufacturing, yes even manufacturing, added 500 jobs.





Labor Market Data

Labor Market Area	Labor Force		Nonfarm Jobs		Manufacturing Jobs	
	2001-Q1 (000)	% Change Year Ago	2001-Q1 (000)	% Change Year Ago	2001-Q1 (000)	% Change Year Ago
Bridgeport	211.8	-1.6	183.0	-0.5	36.4	-1.2
Danbury	109.1	-0.3	88.3	0.4	19.0	0.9
Danielson	34.0	-1.0	21.6	-0.2	5.6	1.2
Hartford	584.3	-1.2	611.6	-0.3	88.7	-1.5
Lower River	12.6	1.9	10.0	3.4	2.7	0.0
New Haven-Meriden	279.0	0.2	262.4	0.9	38.0	-1.3
New London-Norwich	151.7	-0.3	138.6	0.5	22.4	-1.9
Stamford	193.8	0.5	206.9	1.1	24.2	-4.5
Torrington	37.2	-2.4	28.1	-2.0	5.3	-3.0
Waterbury	116.1	1.3	87.3	2.4	18.2	2.8
Statewide	1,712.6	-0.6	1,679.1	0.9	259.8	-1.1

Labor Market Area	Construction Jobs		Trade Jobs		FIRE* Jobs	
	2001-Q1 (000)	% Change Year Ago	2001-Q1 (000)	% Change Year Ago	2001-Q1 (000)	% Change Year Ago
Bridgeport	6.4	4.3	41.4	0.0	13.4	6.6
Danbury	4.0	4.4	20.6	-2.1	6.9	6.6
Danielson	1.0	14.8	5.2	-3.1	0.5	-16.7
Hartford	21.5	4.2	123.5	-0.8	72.3	-0.3
Lower River	0.4	0.0	2.1	8.6	0.3	0.0
New Haven-Meriden	10.5	8.2	53.2	0.6	12.3	-2.1
New London-Norwich	5.3	7.5	27.5	1.6	3.4	-1.9
Stamford	6.2	2.7	45.1	2.9	26.3	0.8
Torrington	1.9	-4.9	6.4	-0.5	0.8	-7.4
Waterbury	3.2	2.1	18.3	1.9	3.2	1.0
Statewide	62.0	3.7	358.8	0.4	140.8	0.7

* Finance, Insurance & Real Estate

Labor Market Area	Service Jobs		Government Jobs		TCU* Jobs	
	2001-Q1 (000)	% Change Year Ago	2001-Q1 (000)	% Change Year Ago	2001-Q1 (000)	% Change Year Ago
Bridgeport	56.8	-2.6	20.9	-1.7	7.8	3.1
Danbury	25.1	0.9	11.0	-0.6	2.7	-3.6
Danielson	5.3	2.6	3.3	-2.9	0.6	0.0
Hartford	178.2	0.1	100.0	0.0	27.4	0.5
Lower River	3.2	9.1	1.0	0.0	0.3	-25.0
New Haven-Meriden	96.0	0.5	36.4	3.9	16.9	0.6
New London-Norwich	35.6	0.8	37.6	0.3	6.9	-0.5
Stamford	76.7	2.5	18.5	-0.4	9.9	-0.7
Torrington	9.6	-0.3	3.4	-4.7	0.5	0.0
Waterbury	27.4	3.7	13.1	0.3	3.8	2.7
Statewide	531.9	1.6	246.1	1.3	79.9	2.4

*Transportation, Communications, and Utilities

Sources: Quarterly figures prepared by *The Connecticut Economy* based on monthly estimates from the Connecticut Department of Labor. Figures are not seasonally adjusted. Statewide totals are not necessarily the sums of individual labor market areas. Housing permits are quarterly averages based on monthly figures from the Connecticut Department of Economic and Community Development and are not seasonally adjusted. Housing prices, from UConn's Center for Real Estate and Urban Economic Studies, are preliminary.



Labor Market Data

Labor Market Area	Number Unemployed		Unemployment Rate (%)		Initial Unemployment Claims	
	2001-Q1 (000)	% Change Year Ago	2001-Q1	2000-Q1	2001-Q1	% Change Year Ago
Bridgeport	5.9	-24.6	2.8	3.7	2,043	20.0
Danbury	1.9	-17.6	1.7	2.1	617	13.3
Danielson	1.0	-21.1	2.9	3.7	563	56.5
Hartford	14.1	-24.8	2.4	3.2	5,208	23.0
Lower River	0.2	-25.0	1.6	2.2	*	*
New Haven-Meriden	6.5	-20.2	2.3	2.9	1,973	12.4
New London-Norwich	3.4	-28.5	2.3	3.2	1,196	28.1
Stamford	3.0	-19.5	1.6	2.0	844	31.5
Torrington	0.9	-13.3	2.3	2.6	563	24.4
Waterbury	3.6	-18.9	3.1	3.8	1,741	43.1
Statewide	39.8	-23.3	2.3	3.0	14,749	24.5

* Lower River included in Hartford LMA.

Manufacturing Labor Market Area	Average Weekly Earnings		Average Weekly Hours		Average Hourly Earnings	
	2001-Q1	% Change Year Ago	2001-Q1	% Change Year Ago	2001-Q1	% Change Year Ago
Bridgeport	\$617.32	-5.9	40.2	-3.6	\$15.34	-2.4
Danbury	633.11	-3.5	40.6	-1.1	15.63	-2.4
Danielson	537.76	4.8	40.8	-0.6	13.17	5.5
Hartford	723.89	-0.4	43.0	-1.4	16.83	1.0
Lower River	582.79	6.0	41.0	-0.2	14.22	6.2
New Haven-Meriden	645.14	1.7	42.3	-0.2	15.26	2.0
New London-Norwich	708.09	2.5	41.7	-1.0	16.97	3.6
Stamford	556.54	1.9	40.2	1.8	13.86	0.1
Torrington	580.21	-2.5	38.5	-6.4	15.09	4.2
Waterbury	628.98	-5.2	42.4	-6.7	14.85	1.7
Statewide	\$682.29	2.3	42.9	0.5	\$15.92	1.7

Labor Market Area	State Job Service Postings		Housing Prices*		Housing Permits	
	2001-Q1	% Change Year Ago	2001-Q1 (000)	% Change Year Ago	2001-Q1	% Change Year Ago
Bridgeport	506	-16.0	246.9	7.6	168	0.6
Danbury	196	-15.9	321.0	11.6	167	-2.9
Danielson	119	1.1	★	★	52	8.3
Hartford	1,226	-18.9	148.1	8.9	599	-13.8
Lower River	F	F	★	★	21	-63.8
New Haven-Meriden	623	-21.4	150.1	10.8	210	-28.1
New London-Norwich	291	-15.8	171.7	4.7	135	-24.6
Stamford	243	0.0	577.4	7.9	669	58.2
Torrington	80	-36.2	113.5	2.7	22	-8.3
Waterbury	335	-46.6	171.6	2.6	73	-34.8
Statewide	3,618	21.3	\$230.7	6.1	2,116	-2.5

* Current period's housing prices are a four-quarter moving average of the selling price of a typical home.

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

Data Updates Offer GDI a Reprieve

By Steven P. Lanza

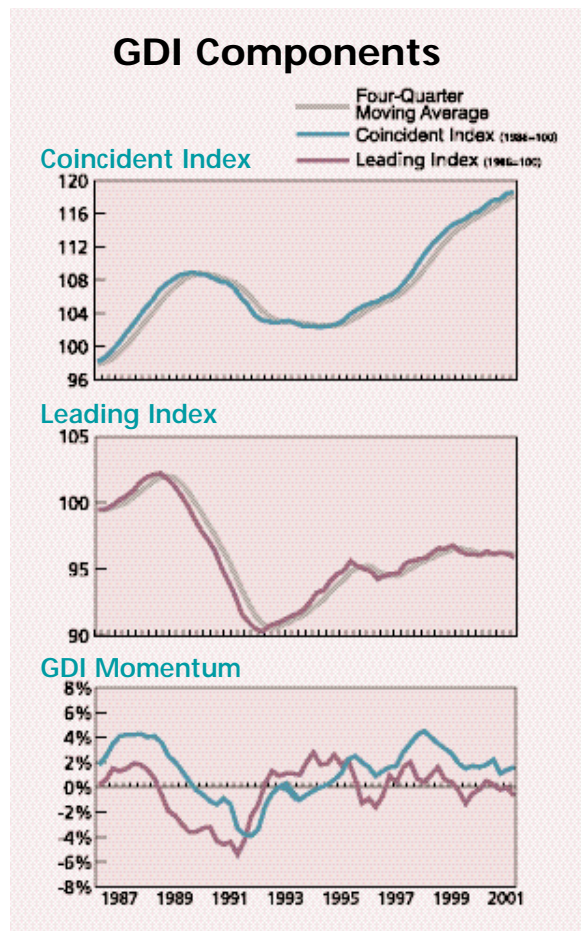
What a difference a data revision can make. Initial figures for jobs, output, and income suggested that the GDI had dropped by 0.2% in 2000-Q3 and had managed only a modest 1.4% improvement for all of 2000. Revised figures now show positive GDI growth in each quarter of 2000 and an average increase of 1.7% for the year. That's a reprieve—but it's not yet a pardon.

Despite upward revisions to jobs, output, and income last year, and faster-than-expected growth in the GDI, the trend still shows slowing momentum right through 2001-Q1. The coincident index inched up from a revised 118.4 in 2000-Q4 to 118.6 in 2001-Q1, or at a 0.7% annual rate. Individual components of the index either advanced slightly or held steady. Jobs grew just 0.9% in the four quarters ending 2001-Q1, and real incomes inched up a meager 1.0%. The Connecticut Manufacturing Production Index, a

measure of manufacturing output, remained unchanged over the period.

The leading index offers little reason to expect accelerated GDI growth any time soon. After falling at a revised 0.5% annual rate between 2000-Q3 and 2000-Q4, the leading GDI dropped at an annual rate of 1.0% in 2000-Q1. Even so, the component series of the leading GDI are not unanimously pessimistic. After dropping in 2000-Q4, weekly hours rose 0.5% for the four quarters ending 2001-Q1. And in the newly invigorated housing market, building permits jumped 11.2% over the same period. But the bad news outweighed the good and dragged the index down. Help wanted advertising shrank 18.6% and initial unemployment claims shot up 23.8%.

The GDI is a composite measure of the four-quarter change in three coincident and four leading economic variables, and is indexed so 1986 = 100.

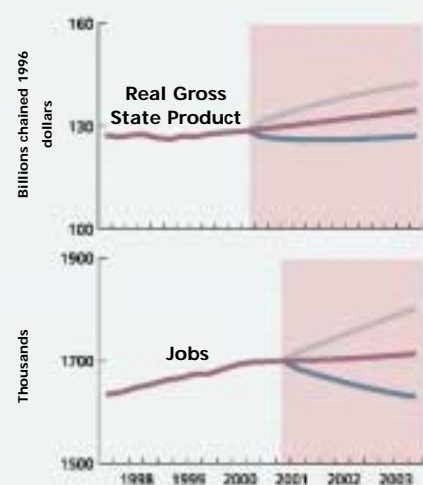


CENTER FOR ECONOMIC ANALYSIS

Better Than a Recession...

By Kathryn Parr

As the Federal Reserve lowered interest rates and Congress promised tax cuts, the economy listened. Despite fears of a



Despite mixed signals, the Connecticut economy is expected to grow at a moderate pace. We project Real GSP will increase by 1.4% over the next year. Connecticut will add new jobs at an average rate of 0.3% over the next year.

recession, most economists were pleasantly surprised by first quarter performance. The reported national economic growth rate of 2%—a figure, which less than a year ago would have been greeted with dismay—was seen as a sign that the worst may be over. In general, a more buoyant national economy is good news for us here in Connecticut. The real story, however, is more complicated.

In Connecticut, first quarter economic growth slowed, with different economic measures sending mixed signals. Connecticut's Real Gross State Product (RGSP) grew an estimated 1.2% between 2000-Q1 and 2001-Q1. For the current quarter, we expect growth to remain at 1.2%. In our outlook for the coming year, the economy picks up only slightly. By the first quarter of 2002, we forecast slow but steady annual growth of 1.4%. This suggests that modest economic growth will continue, with no major downswings on the horizon.

Employment growth, however, will continue to soften over the coming year. Posting a year-over-year increase of only 0.9% in 2000-Q1, total nonfarm employment is expected to expand 0.5% in

2001-Q2 and to grow even more slowly by year's end.

Other indicators also give a mixed picture. Housing permits continued to decline on a year-over-year basis, while real personal income grew by 1.5%.

The real story may lie behind these numbers, on the production side of the economy. The most recent CBIA survey of Connecticut managers suggests that local businesses remain wary about the economy and anticipate only meager growth in new orders and employment. Real manufacturing earnings in Connecticut, on a year-over-year basis, have declined in recent quarters. With a clear slowdown in output, it seems unlikely that the economy will soon return to the dizzying heights of less than a year ago.

Employment and production, both economic tangibles, indicate that the economy has cooled over the first quarter. Nevertheless, we seem to be achieving the soft—if somewhat bumpy—landing promised months ago when interest rates began to climb. Here in Connecticut, we can expect the economy to continue expanding at a moderate pace.



The Connecticut Travel and Tourism Index

The overall index decreased 3.4% in the first quarter compared with the same quarter the year before. The index consists of hotel-motel revenues, slot machine revenues, attendance at six major tourist attractions, and traffic on five tourist roads.

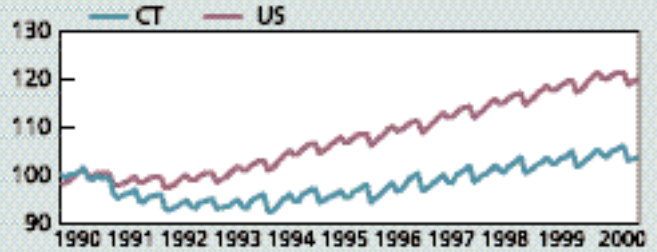
Hotel/Motel Rev.	H	6.9%
Slot Machine Rev.	H	0.2%
Attendance	P	19.6%
Traffic	P	1.1%
Overall	P	3.4%



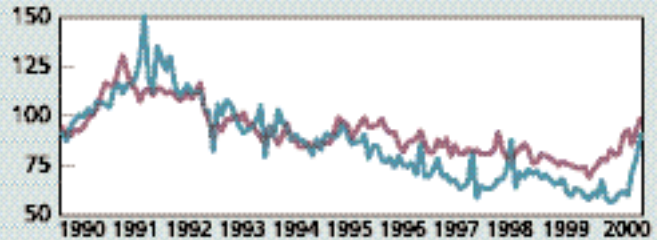
INDEX OF ECONOMIC INDICATORS

Indexed so 1990 = 100

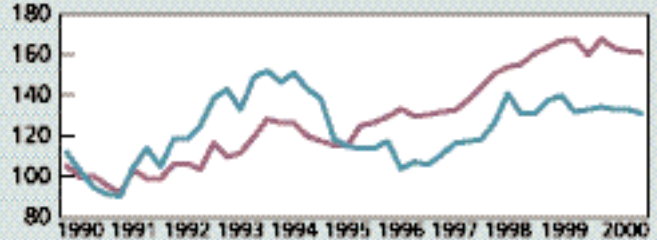
Job Totals (not seasonally adjusted)



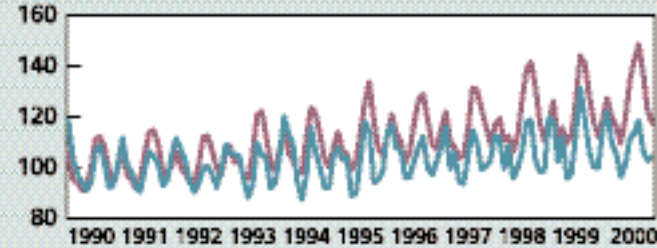
Initial Unemployment Claims (seasonally adjusted)



Housing Sales (seasonally adjusted)

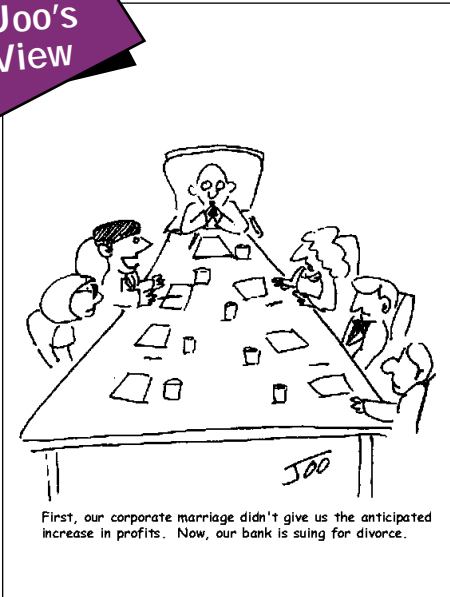


Electricity Usage (not seasonally adjusted)



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Transportation: The Time To Act Is Now

By Moira Lyons
Speaker of the House, CT General Assembly



Transportation solutions—or the lack of them—will affect the quality of life of every Connecticut resident. The problem is so critical that if we don't act now, our state will become, in the words of transportation consultant Michael Gallis, a cul-de-sac, cut off from future growth and economic development.

With this realization, I convened a statewide transportation summit last fall. The response to the summit was unprecedented and overwhelming. As important as the solutions suggested is the immense outpouring of public support it generated for reform. We must capture the momentum—the interest that now exists—to move our state from gridlock to growth.

The key legislative initiative to come out of the summit was the creation of a 15-member Connecticut Transportation Strategy Board, charged with creating a 10-year statewide transportation plan. The membership of the Board allows for diverse representation from the public sector, the private sector, and different areas of our state.

The Strategy Board must focus on three important areas:

F the linkage between transportation planning, economic development, and our quality of life;

F the “connectivity” among different forms of transportation, recognizing that our residents have increasingly complex commuting and travel needs;

F and the creation of objective criteria to evaluate projects for funding so that the best projects move to the front of the queue.

Though I wish I could wave a magic wand and change everything in an instant, we all know that the bricks-and-mortar of major transportation projects take years to complete. With that in mind, the Transportation Strategy Board has targeted \$50 million for transportation projects throughout the

state to provide immediate, though short-term, relief to our most congested areas. While southwestern Connecticut is the most notable pressure point, we must also target the growing congestion in the central part of the state. Initial steps include a rail line linking New Haven, Hartford and Springfield; support for the Hartford-New Britain busway; and expanded express bus service throughout the area.

Our intent is to make the Transportation Strategy Board a vehicle for action rather than just another source of studies filling a filing cabinet at DOT.

A recent Quinnipiac University poll told us what we already knew: three in five residents said transportation congestion is a “very serious problem in Connecticut”; transportation was ranked the fourth most important problem in our state.

The creation of an integrated, statewide transportation plan requires all of us to be part of the solution. Decisions must not be made based on “my town—my street—my train station.” Every one of us will be asked to sacrifice—to be inconvenienced—at one time or another, in order to be part of the solution. Every one of our 169 cities and towns has the opportunity to be part of the team that will bring about solutions—or to be an ostrich with its head in the sand saying, “I know we have a problem—but it’s your problem, not mine, and you have to solve it yourself.”

I ask you to support a statewide, interconnected transportation system that allows people to travel by plane, bus, train, bike or ferry in a safe, affordable and convenient way—and thus preserve our quality of life and stimulate economic growth.

Please bill me \$50.00 for 4 quarterly issues of *The Connecticut Economy*.

I have marked address corrections, if any, on the label below.

My telephone number is _____ Signature _____

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