

THE CONNECTICUT Economy

A University of Connecticut Quarterly Review

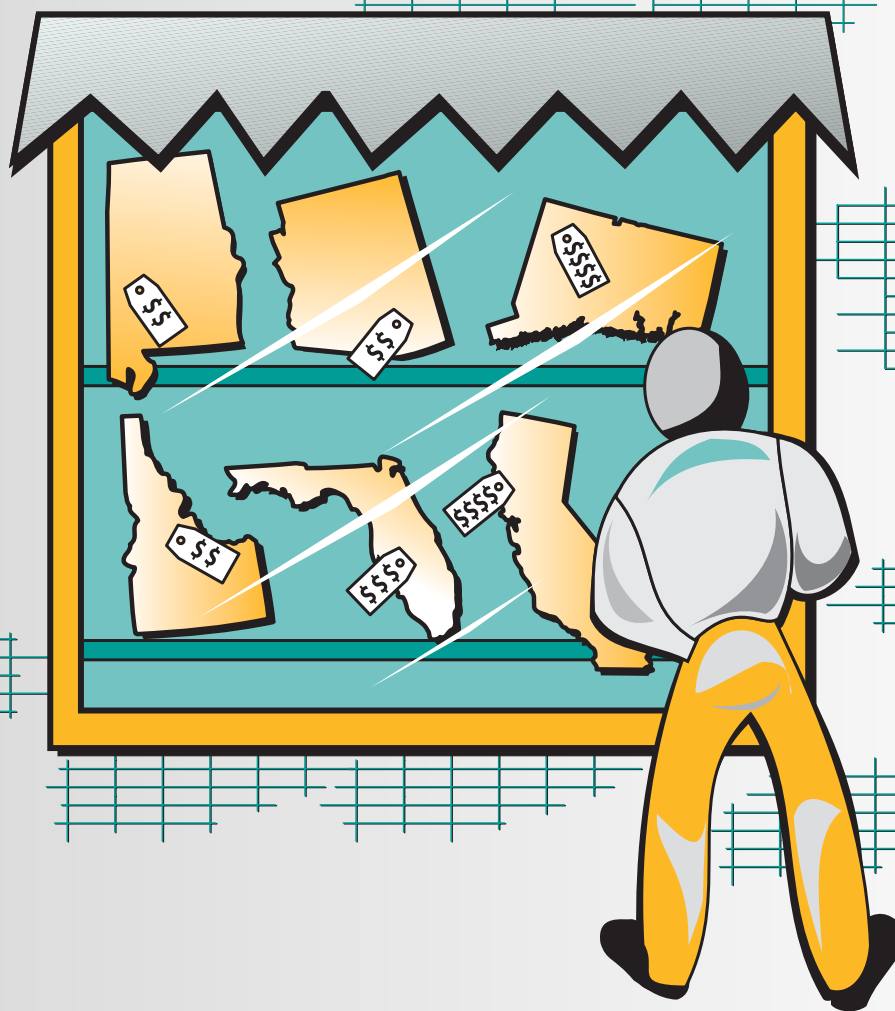


Summer 2003

Will Companies Locate in High-Cost States?

Quality-Adjusted House Prices Still on the Rise

...Yet
Connecticut
Housing
Has Become
"More
Affordable"



Connecticut: Good-Bye? ... or a Good Buy?

The Editors



Steven P. Lanza, Executive Editor, coordinates the production, publication, and distribution of *The Connecticut Economy*. He has taught at several universities, including the University of Connecticut, in fields that span economics, business, government and history, and has served as an economic consultant. He has appeared on NECN and CPTV, and has been quoted in the *New York Times* and the *Wall Street Journal*.



Dennis R. Heffley is a Professor of Economics at the University of Connecticut, and has taught courses in urban, health, and mathematical economics since 1973. His research, published in the *Journal of Health Economics*, *Journal of Urban Economics*, *Journal of Regional Science* and other leading professional journals, uses microeconomics to better understand market behavior and public policy.



James R. Moor, Jr., is Associate Professor in Residence in the School of Business and teaches in the University of Connecticut's MBA Programs. He was Chief Economist of The Hartford Financial Services Group, from 1984 to 2000. He has taught at several universities and is actively involved in economic development in the Hartford area.



Arthur W. Wright is Emeritus Professor of Economics at the University of Connecticut, where he was Department Head, 1979-1989, and taught courses in industrial organization and market regulation. He was the department's Honors Advisor and taught the Honors Seminar. His research has appeared in the *American Economic Review*, *National Tax Journal*, and *Journal of Comparative Economics*, among other professional journals.

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Correction: Due to an error in the source data, the results for Windsor and Windsor Locks were reported incorrectly in the Spring 2003 centerfold. The 1991 jobs per capita, 2001 jobs per capita, and 1991-2001 percentage changes should read as follows: Windsor; 0.66, 0.66, and 0.5%; Windsor Locks; 1.54, 1.21, and -21.5%.

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Editors: Dennis R. Heffley, James R. Moor, Jr., and Arthur W. Wright
Editors Emeritus: William A. McEachern, Raymond R. Beauregard and Edwin L. Caldwell
Research Associates: Anasua Bhattacharya and Nandika Weerasinghe

Executive Committee: Thomas G. Gutteridge, Kenneth J. Dautrich, Suman Singha, Fred V. Carstensen (Chair), Dennis R. Gruell, Peter deWilde Shapiro, and John P. O'Connor, Emeritus.
Project Development Officer: Peter deWilde Shapiro

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CONNECTICUT ECONOMIC INDICATORS

(Percent change: 2002-Q2 to 2003-Q2)

Indicators of Current Economic Activity

Total Nonfarm Jobs	-1.1%
Number Unemployed	+19.4%
Labor Force	+0.6%
Manufacturing	
Jobs	-4.1%
Avg. Weekly Hours	-1.0%
CT Mfg. Prod. Index	+1.6%
Avg. Hourly Earnings	+2.9%
New Auto Registrations	-3.6%
Travel and Tourism Index	-3.2%
Bradley Airport	
Passengers	-7.7%
Freight	-4.2%
State Tax Receipts	
Sales	+0.5%
Income	+2.6%
Real Estate Conveyance	-7.9%
Normalized Electricity Use	-0.4%
State Exports ('02-Q1 to '03-Q1)	-3.2%
Personal Income (est.)	+1.5%
Retail Sales ('02-Q1 to '03-Q1)	-1.3%
Confidence in Current Economy	-38.5%
Coincident GDI	-2.3%

Indicators of Future Economic Activity

Help-Wanted Ads	
<i>Hartford Courant</i>	-32.4%
<i>The Advocate of Stamford</i>	-19.9%
State Labor Dept. Postings	-42.3%
Avg. Initial Unemp. Claims	-1.5%
Housing Permits	+4.1%
Net New Business Starts	-33.4%
Confidence in Future	-1.5%
Leading GDI	+0.4%

Glimmers of Hope?—Tiny, But Timely

As the U.S. economy shows new life, Connecticut marks a modest improvement in its job outlook. For Nutmeggers grown weary of a two-and-a-half-year slump, that good omen couldn't have come any sooner.

A better-than-expected Q2 U.S. GDP report, rebounding corporate profits, and a stock market run-up are casting a brighter light on the U.S. economy. And in Connecticut, job losses slowed from a seasonally adjusted 4,200 in 2003-Q1 to 2,700 in 2003-Q2, for a 0.6% annual rate of decline. Connecticut has lost about 3,900 jobs per quarter since the current downturn began, so the Q2 losses were not only below the previous quarter's, they were below average for the recession.

There's hope this improvement might be sustainable. Initial unemployment claims, a harbinger of labor market health, have declined steadily since their peak in 2002-Q2. In 2003-Q2 they slipped to a weekly average of 4,855, thus finally reaching a threshold that tends to divide an expanding from a shrinking employment market (see chart).

The quarter's mild job losses are partly explained by an absence of big surprises in the state's goods-producing industries. Instead, these sectors lost jobs at their usual rate for the downturn. Construction jobs fell by 400 and manufacturing declined 2,800. Manufacturing, nevertheless, remains beleaguered. Total hours worked slid 5.1% compared with 2002-Q2 and state exports—primarily manufactured items—were down 3.2% in the four quarters ending 2003-Q1, the latest data available.

The quarter dealt a harsher blow to some usually stable sectors. Leisure and hospitality, which has grown even during the slump, lost 800 jobs; and other services, also typically an expanding sector, lost 700. Government jobs plummeted by 2,500 as state layoffs and early retirements kicked in.

Other industries showed notable strength. Two recently flat sectors—financial activities and transportation, trade and utilities (TTU)—added jobs. Financial jobs climbed by 1,400 and TTU by 4,600. Most promising, professional and business services, the growth engine of the 1990s, but second only to manufacturing for losses in the downturn, added 2,000 jobs, thus exceeding by about 300 its typical quarterly gain during the 1990s expansion.

Housing permits registered their third biggest quarter-to-quarter jump in 20 years, confirming the suspicion that Q1's permit slump was a weather-related phenomenon, not the start of a new trend. But we're not out of the woods. The recent sell-off in bonds is pushing up interest rates, including mortgage rates, threatening the housing market and the economy generally, both here and in the U.S.

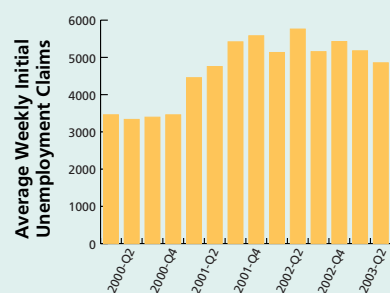
Inclement winter weather may also have been responsible for the freeze on Connecticut retail sales, which were down 1.3% in Q1 over the same period last year. Factor in April's modest rebound and, on a year over year basis, sales are up for the first third of 2003, but only by 0.3%. Besides climbing interest rates, sluggish income growth will also pose a challenge to future retail sales. The U.S. Bureau of Economic Analysis has revised downward its estimates for Connecticut personal income and the State's Labor Department forecasts slower-going ahead.

Despite the job losses this quarter, the number unemployed, which had been growing by 5,000 quarterly, held steady while the seasonally adjusted unemployment rate remained at 5.0%. That news isn't as good as it sounds since it's likely that frustrated job seekers are simply leaving the labor pool. The state's labor force has now posted two consecutive quarter-to-quarter declines and in this summer's *Webster-UConn Survey*, 55% of respondents thought jobs were "hard to get," up sharply from 28% the same time last year. Eleven quarters of declining job totals is clearly taking its toll.

This economic slump has been a protracted contest over one issue: could households hold on long enough for firms to resuscitate themselves? The improvement in the job market outlook may be tiny, but it offers a rare glimmer of hope for weary Nutmeggers.

With this issue, we begin to look at the challenges Connecticut will face as its economy regroups for growth. Our focus this time is on the cost of living and doing business in Connecticut.

Does A Fall in Initial Unemployment Claims Mean Job Growth is Ahead?



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

Good news

-1.5%
Average Initial
Unemployment Claims



Bad news

-33.4%
Net New Business Starts



Business Location: Two Sides of the Coin

By Dennis Heffley and Dean Hanink

Rising unemployment rates and a nagging state budget deficit have rekindled concerns about Connecticut's appeal as a place to do business. Given its high-cost image, how can Connecticut successfully retain its existing industry or compete with other states for new activity? Are there other factors, beyond production costs, that shape business location decisions? If so, how does Connecticut stack up against the competition when both costs and the other factors are considered?

Business location decisions are a complex mix of economic, institutional, managerial, and personal considerations, but market forces generally compel

managers to assess the profitability of their choices. Profit, of course, depends not just on costs, but also on revenues or other benefits of various locations. Lower costs boost profits, but so do higher potential revenues or other positive site characteristics. So, if we want to examine the relative attractiveness of different states, we need to evaluate both the costs and benefits that businesses face in each state. And, as we'll see, these costs and benefits are not entirely unrelated.

The Cost Side

Economy.com annually evaluates business costs in all 50 states. Their 2003 *United States Business Cost Review*

offers a weighted "Cost of Doing Business Index" that incorporates unit labor costs (75%), energy costs (15%), and state and local tax burdens (10%). Among the 50 states, Connecticut has the 4th highest labor costs, 8th highest energy costs, and 21st highest nonfederal tax burden. Overall, the state ranks 4th in business costs with an index value of 112.9, exceeded only by New Jersey (113.0), Massachusetts (115.9), and Hawaii (117.0). Just below Connecticut is California (108.9). At the low-cost end are South Dakota (77.6), Wyoming (80.2), Nebraska (81.2), Oklahoma (85.7), and New Mexico (86.8).

Column (1) of the adjacent table shows how each state ranks based on the "Cost of Doing Business Index." The Economy.com rankings correspond pretty well with our intuition about business costs in various regions. The Northeast and California are relatively expensive places to operate; costs are generally lower in the South; and the Plains states are a downright bargain. Or are they?

The Benefit Side

If only costs mattered, South Dakota would be brimming with business. But South Dakota, like most states, works hard to attract firms. For all its other virtues, the state lacks some basics, like proximity to major population centers. This feature limits available labor as well as potential customers. For farm equipment suppliers and certain "footloose" businesses that can settle almost anywhere, South Dakota may be an excellent choice—for many others, it will not.

To provide a measure of access to markets, inside and outside a state, we've constructed a simple market potential index that incorporates each state's population, per capita income, and distances from all other states. Both population and income, within the state and in surrounding states, boost the index, while distance from other states lowers it. Thus, states with larger, wealthier populations, near to other such states, will have greater market potential than states that are less populated, poorer, isolated, or surrounded by similar states. To control for the fact that states differ widely in geographic size, and to capture the *intensity* of market potential within each state, we measure this market potential on a per square mile basis. While the index might be seen as a measure of retail potential, it will also capture business-to-business market potential if firms cluster in areas with high retail potential. Rankings for this market potential index are shown in column (2) of the table. Rhode Island, New Jersey, Connecticut, Massachusetts, and Delaware have the highest market potential per square mile. Alaska, Montana, Wyoming, North Dakota, and South Dakota are weakest by this measure. Already we begin to see that high-cost states often tend to have high market potential, but the imperfect match between columns (1) and (2) suggests that other factors must play a role.

What other features, besides proximity to markets, make a state attractive for business?—for starters, worker productivity, or output per employ-

Costs and Benefits: How States Rank

State	(1) Cost-of-Doing- Business Index	(2) Market Potential Index	(3) Productivity Index	(4) Livability Index
Hawaii	1	15	13	41
Massachusetts	2	4	7	9
New Jersey	3	2	6	12
CONNECTICUT	4	3	1	11
California	5	12	5	38
Maine	6	35	45	16
New York	7	7	4	33
Michigan	8	16	26	28
New Hampshire	9	13	21	3
Vermont	10	22	39	7
Illinois	11	11	11	30
Colorado	12	34	14	19
Maryland	13	8	28	39
Ohio	15	10	30	29
Alaska	16	50	2	32
Arizona	17	38	24	45
Washington	18	24	9	23
Pennsylvania	19	9	23	27
Virginia	20	14	15	5
Wisconsin	21	23	41	10
Nevada	22	43	19	31
Minnesota	23	31	27	1
Delaware	24	5	3	18
Texas	25	30	10	36
Missouri	26	28	32	25
Rhode Island	27	1	17	26
South Carolina	28	21	40	43
Louisiana	29	26	16	49
Kansas	30	40	36	6
Georgia	31	19	18	34
Utah	32	42	33	13
Indiana	33	17	35	22
West Virginia	34	27	50	46
Oregon	35	39	20	24
North Dakota	36	47	49	17
Tennessee	37	20	29	48
Alabama	38	29	38	47
North Carolina	39	18	25	42
Arkansas	40	36	47	44
Mississippi	41	33	46	50
Idaho	42	44	34	20
Montana	43	49	48	21
Kentucky	44	25	31	37
Iowa	45	32	44	2
New Mexico	46	45	22	40
Oklahoma	47	37	42	34
Nebraska	48	41	43	4
Wyoming	49	48	8	14
South Dakota	50	46	37	8

Source: *The Connecticut Economy* based on data from the *United States Business Cost Review*, 2003 Edition, Economy.com, Inc; the U.S. Department of Commerce; and Morgan Quitno Press.

ee. In competitive markets, however, higher productivity also commands higher wages. Since the Economy.com business cost index attaches a 75% weight to labor costs, we might expect to see a positive relationship between the cost index ranking in column (1) and the productivity ranking of states, as measured by gross state product (GSP) per nonfarm worker, in column (3). The simple correlation is 0.51, and among the seven most costly states—Hawaii, Massachusetts, New Jersey, Connecticut, California, Maine, and New York—only Hawaii and Maine rank worse than 7th in productivity. Connecticut, by the way, led all states in productivity with a GSP per worker of \$98,843 in 2001. West Virginia trailed the pack, with a GSP figure of only \$57,628 per worker.

Many of the features that attract people to a state also matter to firms. Quality of education, access to health care institutions and resources, public safety, transportation infrastructure, climate, and many other factors play a role in attracting qualified workers and running a competitive firm. Morgan Quitno Press (MQP), which specializes in state and city ranking publications, annually reports several composite rankings that reflect such characteristics. According to the most recent rankings, Connecticut is tops in MQP’s “smartest state” ranking, the 11th “healthiest state,” and the 15th “safest state.” By their even more comprehensive “livability” index, which incorporates 43 such factors, Connecticut ranks 11th, as shown in column (4) of the table.

Markets Work

Multiple regression analysis can be used to explore the statistical link between states’ business cost rankings and their rankings for market potential, productivity, and livability. Results indicate that market potential has the largest effect on business costs, followed by productivity and then livability, as illustrated in the bar graph. Each bar shows the estimated impact of a one-rank change in that factor on the business cost ranking. For example, moving up one spot in the market potential ranking tends to push a state almost half a spot higher in the business cost ranking, holding constant its other two rankings. The market potential and productivity effects are statistically significant; the effect of a change in the livability ranking is much less so. Based on the estimated relationship and Connecticut’s particular “benefit” rankings in columns (2)-(4) of the earlier table, the model predicts that the state would rank about 5th in business costs, very close to its actual rank (4th).

We shouldn’t be too surprised that high-benefit states also tend to be high-cost states. To see this, let’s think about what might happen if a particular state, or group of states, were doubly blessed with abnormally high benefits and abnormally low costs. Firms located in such states would be unusually profitable which, in turn, would encourage expansion of those firms, emergence of new business ventures, and the in-migration of firms from other less profitable states. Ultimately, though, this economic growth would boost the cost

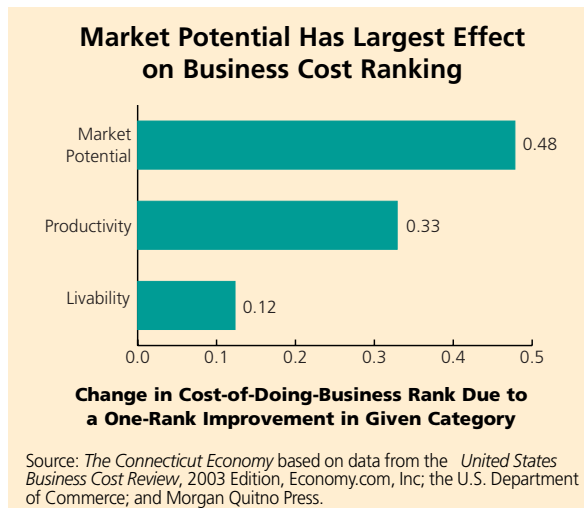
of doing business in the favored states: wages, commercial rents, utilities, and other input prices would be bid up. Such cost increases, coupled with the keener competition for sales in local markets, would trim profits, dulling the incentive for further expansion or more in-migration of firms.

Market processes and business mobility not only drag the favored states back to normal rates of profit, but also serve to boost profitability in less-favored states. As firms depart for favored states, local wages, commercial rents, and other input prices in the less-favored states fall. Remaining firms also face less competition in local markets for the sale of their goods. These adjustments raise the profitability of businesses that remain. In short, markets tend to equalize profitability or rates of return across locations, provided firms are sufficiently mobile. And even when business mobility is lacking, movement of labor and other inputs tends to serve the same end.

Why Compete?

Mobility tends to equalize profitability across different locations, but this ultimately means that high revenues or benefits are accompanied by high costs. This happens because the inherent attractions of a location—proximity to large markets, labor productivity, and the state’s livability—tend to get “capitalized” into the costs of doing business, as seen in our regression results. But, if rates of return across different locations tend to equalize anyway, are a state’s efforts to control costs or increase benefits to firms largely futile? Not necessarily. There are a couple of good economic reasons why it makes sense for states to actively compete for business. First, this “public competition” often prompts the mobility that serves to equalize profits across different locations, and it also forces governments to be more efficient. Second, market adjustments that occur in a growing economy (growth in wages, property values, etc.) are often more palatable than the adjustments forced upon a shrinking economy.

Sitting back and doing nothing to maintain or enhance the state’s business climate could lead to changes that few of us would fully welcome, especially if other states are working hard to attract business. Nonetheless, it’s equally important to understand that Connecticut’s relatively high cost of doing business reflects its unique location, highly productive workforce, and generally high quality of life. Any “business-friendly” policies that compromise these positive features of the state might have lasting negative effects on business, jobs, or state budgets.



Homing In on Connecticut Housing Affordability

By Steven P. Lanza

When firms decide where to locate, chief among their concerns are keeping business costs low and positioning themselves close to markets—wholesale or retail markets for goods and services, and supply markets for raw materials and labor. Individuals, by the same token, typically choose to live within easy reach of work and to hold the line on their own living expenses. And no single living cost looms larger than the cost of housing.

The Bureau of Labor Statistics, which tracks consumer prices, awards fully 36% of the weight in its consumer price index to changes in housing prices. Thus, the relative affordability of housing can be a determining factor—directly for individuals and indirectly for businesses—in key location decisions at both ends of the job market (see page 18 for more on Connecticut prices and the cost of living).

The Northeast in general, and Connecticut in particular, has a well-deserved reputation for being an expensive place to live. Taxes are relatively high, winters are bitter, energy is dear and homes are pricey. It may be cold comfort, but Connecticut does not have the least affordable housing market in the country. States in the Far West do worse, as do a couple of our closer neighbors. What's more, home prices in Connecticut are not unusually high, given the forces that determine prices in the housing market. For a state with our characteristics, homes here cost about what you'd expect. That's not all: the housing affordability picture in Connecticut has improved in recent years—dramatically. So, put in proper perspective, Connecticut's disadvantage in housing costs may not be quite the deal-breaker that it first appears.

Measuring Affordability

The standard way to measure housing affordability is with an index like the one published by the National Association of Realtors (NAR) for U.S.

metro areas. The idea is to compare a household's monthly income to the cost of a monthly mortgage payment to see whether income is sufficient to cover that expense. The NAR index is constructed by first calculating the monthly payment required to

buy a median-priced home in an area, based on going mortgage rates, a 30-year term, and a 20% down payment (see pages 12-13 for a critique of the median price measure). That monthly payment is then divided into 25% of the median monthly household income (as a bank loan officer might do to qualify a homebuyer). The resulting ratio (times 100) is the value of the index. An index of 110 means median income is 10% higher than needed to buy the median home; at 90, income falls 10% short of that amount.

I used the same methodology to construct affordability measures for each of the fifty states, based on Census data for median home values and median household incomes and mortgage rates from the Federal Home Loan Mortgage Corporation (FHLMC). The first map of the U.S. compares housing affordability across states, as measured by the resulting index. Homes are most affordable through the nation's mid-section and least affordable along the two coasts. For the average state, the affordability index measured 132, so median income was 32% higher than required to buy the median home. At 177, Missouri ranked first in affordability, while Hawaii, at 67, ranked last.

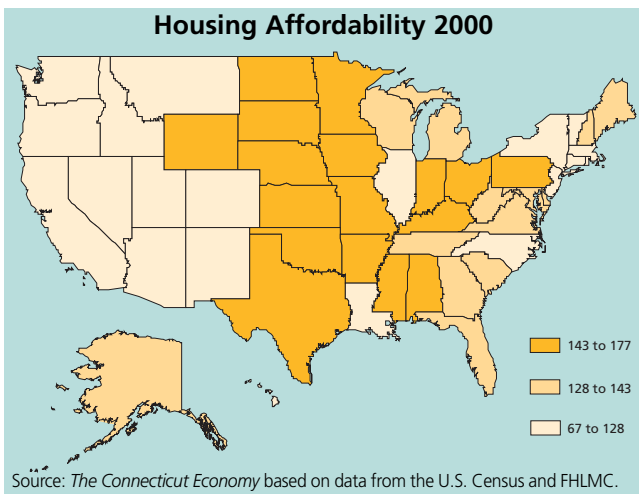
Connecticut's reading of 106 placed it 42nd in the affordability rankings. The median household can afford the median home in the Nutmeg State, though with little to spare. Connecticut, however, is not the most costly spot in New England or in the Northeast. That distinction rests with our neighbor to the north, Massachusetts, with an index value of 89. New York, at 97, is less affordable than Connecticut. So too is New Jersey, at 104.

Changes in Affordability

Homeownership is costly in Connecticut, but there are important qualifications to this conclusion. Housing has grown more affordable across states during the 1990 to 2000 period, especially here in the Nutmeg State. In 1990, the affordability index for the average state was just 120, so its 2000 measure of 132 represents a 10% increase over those ten years. The second U.S. map shows how the states compare in affordability *change*. Most striking is the fact that affordability climbed especially fast in high-cost areas like the Northeast and parts of the Far West.

In New England, affordability is up 61%, and in Connecticut it is up 65%. In 2000, Nutmeggers could more than make their mortgage payments out of their so-called qualifying income, but in 1990 residents could afford barely half the median mortgage. Connecticut ranked 8th among states in increased affordability during the 1990s. Hawaii ranked first and Idaho ranked last.

This issue's centerfold maps the changes in housing affordability across Connecticut towns, using the same source data and methodology as used for the states (see pages 10-11). Between 1990 and 2000, housing affordability increased in all 169 towns. New Canaan posted the smallest increase, 11.5%, while Putnam, at 108.1% posted the largest. As these two towns suggest, housing



affordability improved the most in eastern Connecticut and improved the least in southwestern Connecticut. Housing affordability generally grew faster in the cities and more slowly in the suburbs.

What's behind this affordability surge? Homebuyers everywhere have benefited from declining interest rates which help to make mortgage payments more manageable. And in most places, strong income growth has helped put owner-occupied housing within reach of many, even as prices have continued to rise. In Connecticut and throughout the Northeast generally, income growth has been sub-par, so the big contributor to improved housing affordability has been an exceptionally slow rise (or even decline) in home prices over the decade. That's been bad news for existing owners who may see their homes as their single biggest investment and who perhaps had hoped to tap their home equity as a source of cash for other uses. But it's good news for new entrants and first time homebuyers who might have been priced out of the market otherwise.

Are Homes Priced Right?

Even where homes are costly, they may be more or less expensive than one might predict, given the factors likely to influence home prices. Homes are not a homogeneous good. In the Northeast they have full basements; in the South and West many have air conditioning and swimming pools. Naturally, we would expect prices to reflect such differences, even if these differences are not always easy to measure. But simple economic models of housing markets suggest that price variations across regions largely reflect factors that *are* relatively easy to measure, such as population growth and density, and the cost of new construction. All else equal, homes tend to be costlier in areas that are densely populated, growing quickly, and where construction costs are high.

To estimate a relationship between home prices and these explanatory variables, we can use the latest Census figures to calculate population density for each state along with the household growth rate. The Office of Federal Housing Enterprise Oversight (OFHEO) tracks the dollar value of new home building across states and regions, which on a unit basis offers a rough measure of construction costs. As expected, the resulting model estimates a positive and significant relationship between each of these variables and the median price of homes in each state. A 10% increase in population density, for example, is associated with a 1.2% increase in home prices. If the rate of household formation were to rise by a point, from say a 16% rate of increase over the decade to 17%, we'd expect home prices to go up by about \$1200. And if the cost of building a new home were to rise by \$1000, the price of existing homes would likely increase by about \$970. These three variables alone explain more than half the total variation in home prices across states.

As high as home prices are in Connecticut, they are lower than expected, given the factors that seem to be important in determining price. In

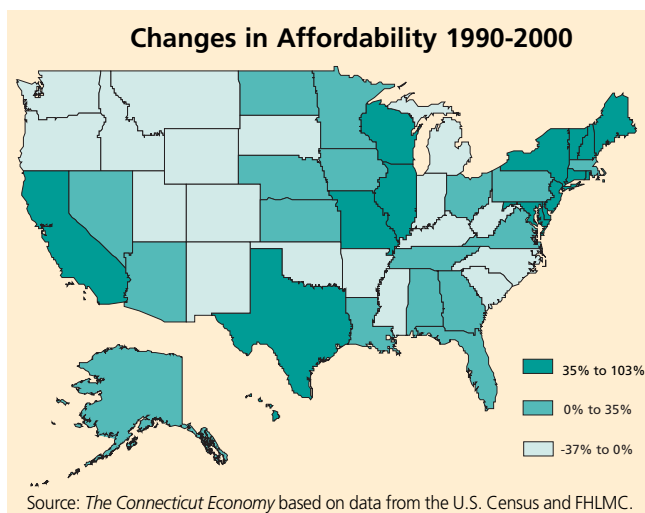
2000, the median home in Connecticut was valued at \$167,000. With our state's population growth and density, and its cost of new housing, the model predicts a median price of \$176,000, so home prices in the Nutmeg State are about 5% lower than anticipated. By contrast, our next-door neighbor, New York, has a median home price that is lower than ours but higher than expected.

There, the median price was about \$149,000 compared with a predicted price of about \$119,000—a difference of 25%. Besides New York, 17 other states have home prices that are lower than Connecticut's but higher than one might expect.

These findings—that Connecticut prices are high, but not unexpectedly so—accord with at least some residents' feelings about whether housing in Connecticut is worth its price. In the most recent *Webster-UConn Survey*, Nutmeggers were asked whether they believed that a home in Connecticut, given its cost, was a better or worse value than elsewhere. The plurality responded it was about the same. Of the remaining respondents, however, more said it was a poor value than said it was a good value (see pages 8-9).

Housing and Growth

Given its importance in consumer budgets, the cost of housing can be a key influence on where people choose to live and work. Connecticut has the 6th highest median home price in the country, and even after accounting for ability to pay only 7 states rank below Connecticut in affordability. Do Connecticut's high home prices disadvantage the state in keeping workers and firms here and in attracting new entrants? While such choices involve many idiosyncracies, a couple factors suggest this particular cost of living may not be as burdensome as it first appears. Often, what's implied in characterizing an area's cost of living as high is that costs are "too high" given the factors that determine them. By this measure, Connecticut actually ranks in the middle of the pack. Given the influences that seem important in determining prices, home prices in Connecticut are about what you'd expect them to be. Moreover, between 1990 and 2000, housing affordability improved more in Connecticut than in most other states. So Connecticut's relative position in housing costs—compared to where it should be or where it's been—looks better than at first glance. The state's housing market may not make it a magnet for new entrants, but it probably doesn't scare away as many as one might imagine.



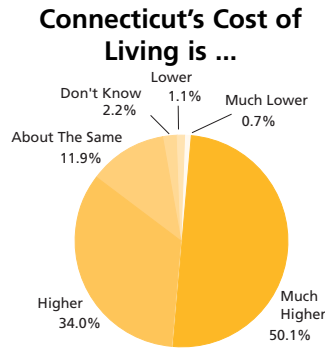
Survey Says ... The High Cost of Connecticut Matters

By James R. Moor, Jr.

When devising the cost-of-living (COL) questions for the latest *Webster-UConn Survey*, we fully expected folks on Main Street to tell us that Connecticut is an expensive place to live and do business. But we didn't think their opinions about why and what that might mean would be quite so dramatic.

First, let's review the two central questions.

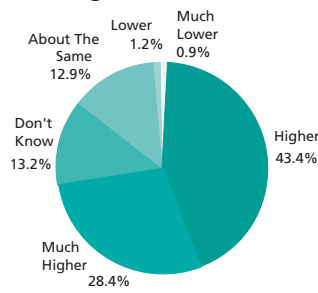
Asked to characterize Connecticut's COL relative to other states, 84% of respondents said either "higher" or "much higher," with a majority choosing "much higher." Only 2% said "lower" or "much lower;" 12% thought "about the same." So even if Nutmeggers aren't familiar with cost-of-living studies that invariably rank Connecticut in the top five, they've learned their lesson. The first pie chart details the responses.



Residents were also asked to characterize

Connecticut's cost-of-doing-business (CODB), and the plurality (43%) responded "higher" rather than "much higher" (28.4%). And in this assessment Nutmeggers would be wrong, at least judging by the recent estimates of CODB which rank Connecticut among the nation's highest-cost business environments. Compared to the earlier question, more people simply "didn't know," but that's understandable since not all respondents participate in the workplace.

Connecticut's Cost of Doing Business is ...

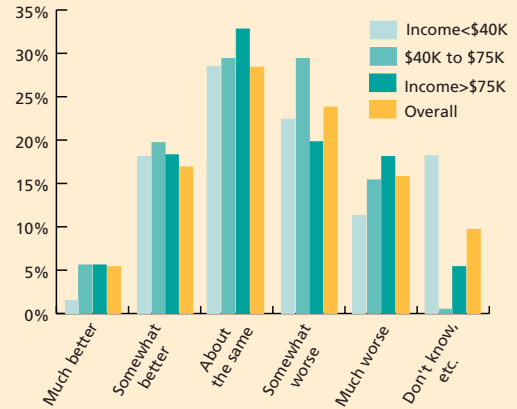


There were no statistically significant differences among the COL responses by age group, income level, gender, or sub-state geography. When it came to the CODB, though, people in Fairfield County and East of the River clustered significantly more towards the middle. It seems answers are tempered by surroundings: compared to New York City, Fairfield County business costs seem reasonable.

Asked why they think the COL is so high, a clear majority of Nutmeggers told us that the costs of housing and taxes contributed "a lot" to their assessment. Then, asked what all of this means, residents responded loudly and clearly! The following bar charts summarize those results and show how some of them differed significantly by demographic group.

Given its Cost, is Connecticut's Housing a Better or Worse Value Than in Other States?

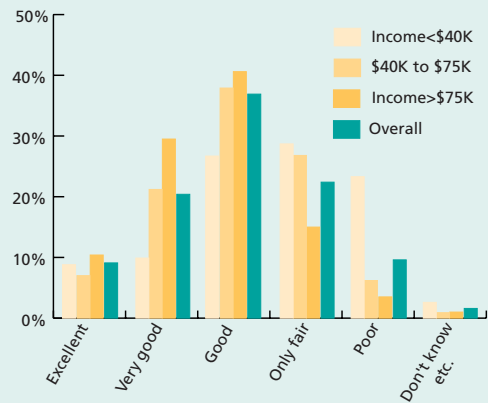
Survey Says ... About the Same.



A plurality of respondents thinks Connecticut's high cost of housing buys them neither more nor less "housing value" than in other states. The rest split unevenly, with more saying housing is a "worse value"; fewer saying "better value." As income level rises, opinion tends to become somewhat less negative, but remains skewed to the downside.

When Income is Taken Into Account as Well as Costs, Is Living in Connecticut a "Good Value"?

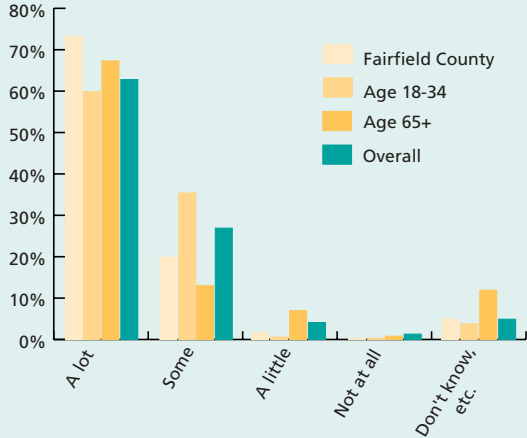
Survey Says ... Income Matters.



Here opinion is almost perfectly balanced overall, with a plurality of residents choosing the middle response: that Connecticut is a "good value." But the response pattern differs dramatically by income group. Lower-income respondents are decidedly negative ("only fair" or "poor" value), while the highest-income respondents are almost entirely in the other camp ("very good" or "excellent" value). It appears, then, that income-earning opportunities color residents' assessments about whether living in the Nutmeg State is a good value.

For Job Seekers, What Impact Would The Cost-of-Living Have on Choosing to Look in Connecticut?

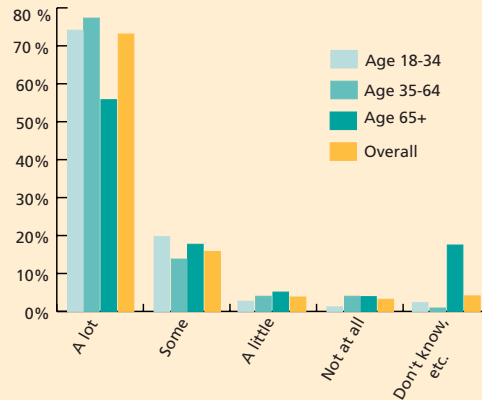
Survey Says ... Lots.



Overall, opinion is decidedly not balanced. A substantial majority chose the top response: that the COL would have "a lot of impact" on whether or not to search for a job here. Most of the rest chose "some impact." There are no significant differences in the response pattern by income group. Residents are most likely to have an opinion if they live in Fairfield County or are young; if they're over 65 years old, about 12% aren't sure or don't think it matters.

For New Retirees, Would the Cost-of-Living Have an Impact on Choosing to Live in Connecticut?

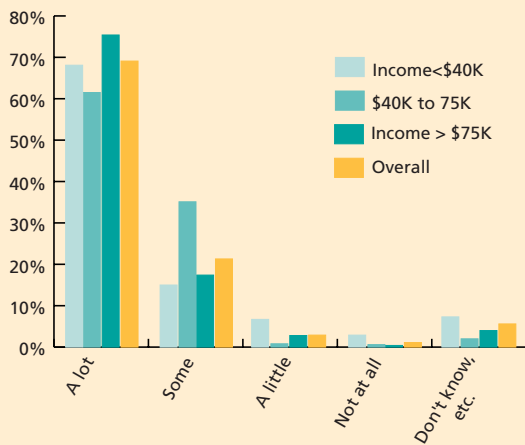
Survey Says ... You Bet.



A clear majority of residents said that the COL would have "a lot of impact" on whether or not to retire in Connecticut. Virtually all the rest chose the next most positive response: "some impact." Responses differ significantly by age group. The youngest residents (under 35) were almost unanimously sure that COL would have a meaningful impact on a retirement choice. The middle-aged group (35 to 64) is just as sure, but an even higher proportion chose "a lot of impact" ... and they're the ones typically facing a retirement decision.

If a Business were Considering Relocating to Connecticut, How Much of an Impact Would the CODB Have on Their Decision?

Survey Says ... A Big Impact.



Overall, respondents overwhelmingly chose either "a lot of impact" or "some impact," with more than two-thirds choosing the top response. The responses by income group follow that same general pattern, but the highest income group is far and away the most certain that Connecticut's high CODB would affect a business relocation decision. What's most interesting about that outcome is the fact that business decision-makers are most likely to be found in this group.

How Much Do the COL and CODB Have to Do With Your Anticipated Relocation Decision?

Survey Says ... That's the Reason.



Last, we asked the one-third of respondents who actually said they would eventually be relocating out of Connecticut for a better business opportunity or to retire, what the COL and CODB had to do with that decision. Overall, more than half said "a lot" and another one-fourth said "some." But those answers were quite different by age group. As the bar chart shows, nearly two-thirds of 35 to 64 year-olds said a lot, compared to none of those over 65 years of age, who may be seeking a warmer climate or the like. These results are consistent with my study published in the Summer 2002 issue of *The Connecticut Economy*, which showed that Connecticut is losing younger and older workers at unusually high rates. Apparently, given our cost-of-living, this situation will be hard to reverse.

'00 Median House Value, ('000s) '00 Housing Afford. Index % Increase in Index, '90-'00

Bridgeport LMA

Ansonia	\$140.0	108.4	65.3%
Beacon Falls	154.6	129.2	62.9
Bridgeport	117.5	104.1	79.8
Derby	136.6	118.0	68.2
Easton	455.7	97.2	67.0
Fairfield	325.9	90.4	39.4
Milford	168.9	127.8	69.5
Monroe	256.6	116.9	52.8
Oxford	207.8	131.0	71.9
Seymour	157.7	117.3	66.6
Shelton	217.3	109.3	54.8
Stratford	163.4	115.5	66.7
Trumbull	260.4	107.7	46.1

Danbury LMA

Bethel	\$219.2	110.9	45.4%
Bridgewater	280.3	101.2	45.6
Brookfield	248.7	117.3	50.6
Danbury	186.5	101.5	48.5
New Fairfield	229.3	129.8	58.2
New Milford	184.9	124.7	57.0
Newtown	260.9	122.0	56.8
Redding	393.7	93.3	42.6
Ridgefield	439.0	86.3	31.3
Roxbury	355.7	87.1	68.9
Sherman	259.5	103.6	48.4
Washington	235.5	97.8	59.3

Danielson LMA

Brooklyn	\$126.7	138.6	73.5%
Eastford	139.2	144.9	94.3
Hampton	129.4	148.5	82.2
Killingly	109.1	132.9	70.6
Pomfret	158.4	129.1	59.8
Putnam	108.0	140.5	108.1
Scotland	133.1	150.7	71.2
Sterling	116.7	148.7	85.6
Thompson	119.4	136.1	62.4
Union	141.4	145.3	90.0
Voluntown	124.2	161.4	85.2
Woodstock	134.9	144.7	62.9

Hartford LMA

Andover	\$153.0	155.6	82.5%
Ashford	136.6	142.1	76.1
Avon	252.0	127.3	65.5
Barkhamsted	161.2	144.4	61.5
Berlin	171.3	140.2	82.2
Bloomfield	134.4	141.3	63.9
Bolton	173.7	136.9	71.6
Bristol	129.3	129.4	76.2
Burlington	199.9	146.0	72.7
Canton	178.8	128.3	55.6
Chaplin	119.3	152.6	73.6
Colchester	160.4	142.6	68.8
Columbia	159.4	155.4	74.3
Coventry	144.7	157.7	72.5
Cromwell	143.5	149.2	76.0
Durham	192.9	142.0	68.2
East Granby	168.8	143.6	82.2
East Haddam	166.1	132.3	72.9
East Hampton	149.5	156.5	82.6

'00 Median House Value, ('000s) '00 Housing Afford. Index % Increase in Index, '90-'00

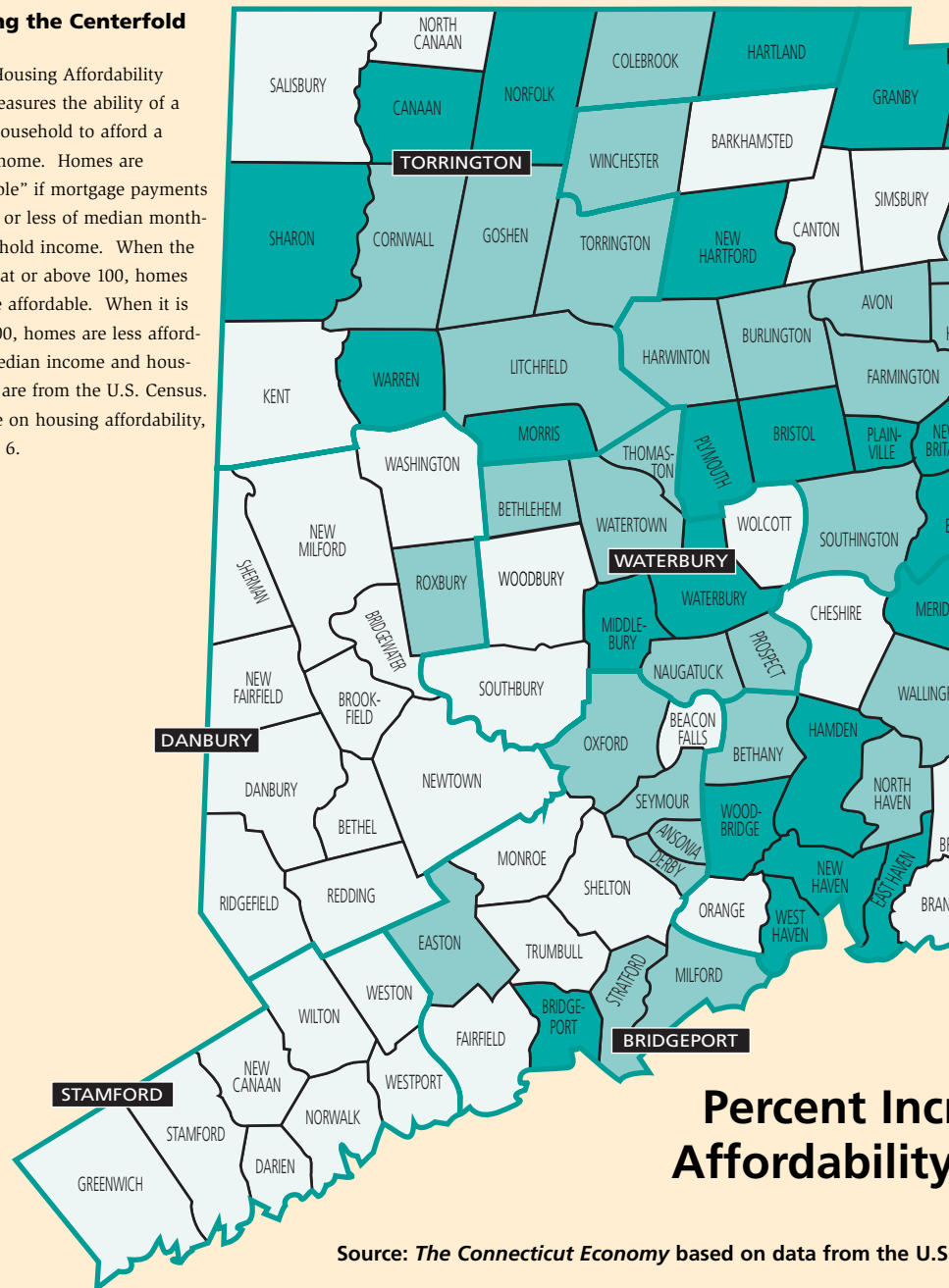
East Hartford	\$112.8	129.6	75.4%
East Windsor	136.4	132.2	65.1
Ellington	158.0	139.4	71.7
Enfield	124.5	149.7	63.8
Farmington	194.3	121.8	65.8
Glastonbury	218.9	130.0	76.3
Granby	177.2	161.6	78.6
Haddam	175.6	157.9	96.5
Hartford	93.9	93.3	91.3
Harwinton	159.7	146.3	72.4
Hebron	168.8	157.1	78.2
Lebanon	139.1	155.2	84.5
Manchester	125.0	139.5	76.9
Mansfield	146.3	117.9	67.5
Marlborough	180.1	157.2	69.2
Middlefield	162.7	128.9	61.5

'00 Median House Value, ('000s) '00 Housing Afford. Index % Increase in Index, '90-'00

Middletown	\$140.4	118.5	67.4%
New Britain	96.9	124.5	95.4
New Hartford	178.9	136.7	73.8
Newington	144.8	139.2	72.1
Plainville	128.1	132.6	75.7
Plymouth	124.0	152.9	82.1
Portland	151.8	147.1	86.1
Rocky Hill	165.4	128.5	60.1
Simsbury	229.3	127.7	56.8
Somers	191.5	120.3	60.6
South Windsor	167.5	155.9	68.6
Southington	164.5	129.8	67.2
Stafford	128.2	145.0	82.7
Suffield	172.5	136.4	70.4
Tolland	165.2	165.3	72.1
Vernon	137.3	122.9	62.7

Reading the Centerfold

The Housing Affordability Index measures the ability of a typical household to afford a median home. Homes are "affordable" if mortgage payments are 25% or less of median monthly household income. When the Index is at or above 100, homes are more affordable. When it is below 100, homes are less affordable. Median income and housing data are from the U.S. Census. For more on housing affordability, see page 6.



Percent Increase in Housing Affordability

Source: *The Connecticut Economy* based on data from the U.S. Census Bureau

	'00 Median House Value, ('000s)	'00 Housing Afford. Index	% Increase in Index, '90-'00
West Hartford	\$176.4	123.3	70.4%
Wethersfield	159.3	118.0	65.5
Willington	141.2	129.2	68.7
Winchester	127.1	129.6	67.2
Windham	105.2	117.7	72.7
Windsor	142.2	159.1	81.8
Windsor Locks	121.3	142.1	61.2

Lower River LMA

Chester	\$183.3	125.4	86.4%
Deep River	162.2	112.4	71.6
Essex	235.2	100.1	63.1
Lyme	289.3	89.3	69.8
Westbrook	194.2	104.5	85.5

New Haven LMA

Bethany	\$222.5	118.8	65.7%
Branford	184.4	111.0	59.3
Cheshire	212.0	133.9	57.3
Clinton	167.4	127.5	65.3
East Haven	127.1	133.1	74.8
Guilford	230.0	117.9	64.1
Hamden	139.7	132.2	76.2
Killingworth	238.6	119.5	88.2
Madison	259.6	118.9	61.5
Meriden	119.0	128.2	75.6
New Haven	109.2	95.7	81.9
North Branford	179.0	127.0	54.2
North Haven	178.7	129.7	68.8
Orange	254.9	109.9	54.8
Wallingford	161.9	124.9	68.4

West Haven	\$118.6	126.1	75.8%
Woodbridge	319.7	112.7	79.2

New London LMA

Bozrah	\$140.8	143.0	53.1%
Canterbury	129.7	151.1	63.3
East Lyme	164.5	142.7	81.5
Franklin	142.4	153.8	95.7
Griswold	122.8	144.1	88.1
Groton	140.4	116.0	72.0
Ledyard	144.3	153.2	63.5
Lisbon	133.5	145.8	78.1
Montville	125.6	145.7	72.3
New London	107.9	110.6	82.5
North Stonington	151.4	134.9	60.3
Norwich	110.9	124.7	81.1
Old Lyme	245.1	98.4	45.5
Old Saybrook	193.5	114.4	60.1
Plainfield	106.9	141.4	62.0
Preston	139.3	139.2	59.2
Salem	179.1	135.4	63.8
Sprague	133.0	114.4	39.0
Stonington	168.2	110.0	60.8
Waterford	153.0	129.3	59.6

Stamford LMA

Darien	\$711.0	72.8	27.7%
Greenwich	781.5	44.7	17.1
New Canaan	831.0	60.2	11.5
Norwalk	270.1	78.2	32.8
Stamford	362.3	59.0	18.4
Weston	633.9	81.7	23.3
Westport	625.8	67.6	20.8
Wilton	561.1	88.9	40.2

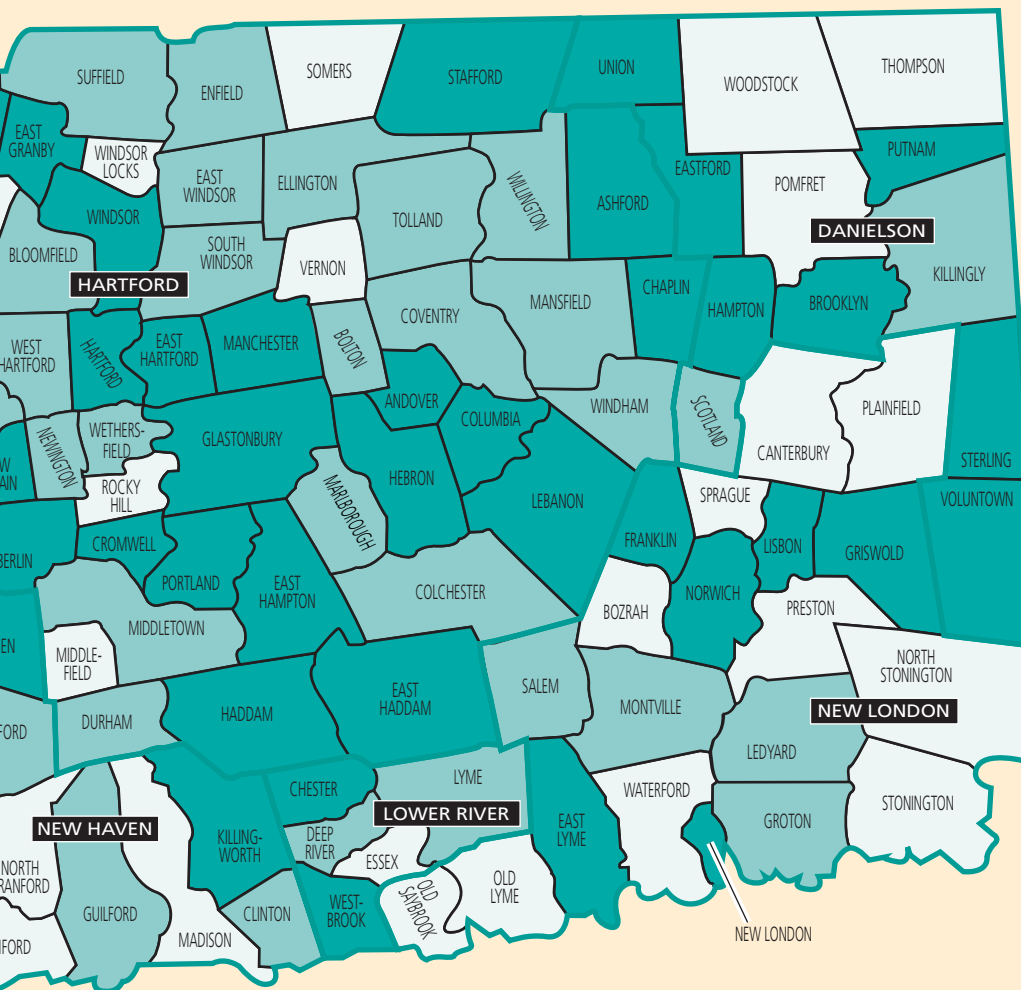
Torrington LMA

Canaan	\$164.6	117.2	82.3%
Colebrook	170.2	121.7	71.0
Cornwall	197.7	98.0	68.8
Goshen	210.7	107.9	68.8
Hartland	162.3	140.6	80.6
Kent	188.3	101.0	52.0
Litchfield	179.9	114.6	66.2
Morris	180.1	113.7	75.7
Norfolk	166.7	124.7	86.7
North Canaan	127.7	107.8	46.7
Salisbury	228.1	82.1	53.8
Sharon	179.4	104.2	87.5
Torrington	117.4	125.8	71.7
Warren	203.7	108.8	74.5

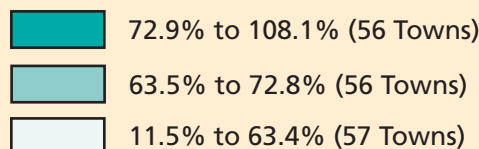
Waterbury LMA

Bethlehem	\$213.8	113.1	71.9%
Middlebury	198.6	125.2	78.5
Naugatuck	133.0	136.0	64.8
Prospect	180.7	131.9	64.5
Southbury	209.1	104.5	45.9
Thomaston	135.8	141.1	68.5
Watertown	148.3	141.4	64.9
Wolcott	143.4	151.0	62.7
Woodbury	235.0	102.6	55.3

Connecticut	\$166.9	126.2	82.1%
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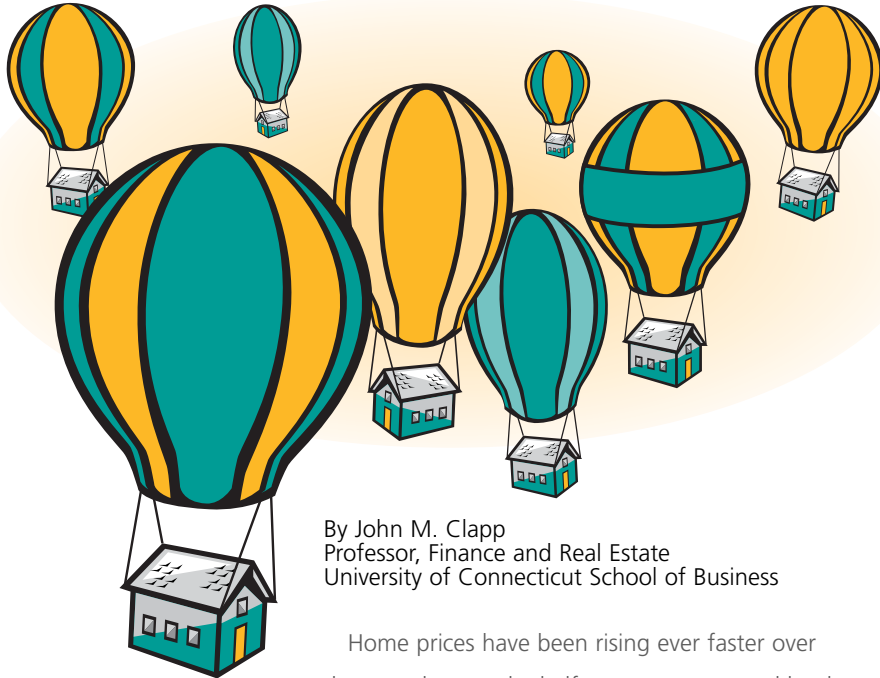


Increase in Housing Affordability Index, 1990-2000



Source: U.S. Bureau of the Census, and the Federal Home Loan Mortgage Corporation.

Connecticut House Prices Accelerate Upward - Into Thin Air?



By John M. Clapp
Professor, Finance and Real Estate
University of Connecticut School of Business

Home prices have been rising ever faster over the past three and a half years, as measured by the UConn Real Estate Center's constant-quality house price index. Over the past year, the price of a typical house in Connecticut has increased between 10.5 and 12.5 percent (see graph below). The constant quality house price index estimates the price of the same house as if it sold once each quarter. This is done with regression techniques that control for house size, number of bathrooms, age and location (town).

The rate of increase in constant-quality house prices was more than two percentage points higher over the last four quarters than it was in the previous four. In fact, the first two and a half years of the new millennium (2000 through the middle of 2002) displayed robust growth in house prices.

The typical house in Connecticut recently sold for over \$330,000, compared to about \$250,000 at the beginning of the year 2000, an increase of nearly 35%.

Somewhat different patterns of price acceleration took place in Connecticut's largest metropolitan areas. For example, Stamford (and, more recently, Danbury) felt relatively less influence from falling interest rates. Instead, these areas have long been driven by strong fundamentals as high paying jobs migrate from New York City. The result is generally faster price growth in Stamford and Danbury. The New London LMA has had the fastest acceleration, as the casinos remain strong centers of employment growth. Hartford has performed most like the state as a whole.

What accounts for this acceleration in the rate of change in house prices? Has the housing market climbed too high, too fast? Are we in the stratosphere with little company other than some ill-fated climbers on Mount Everest? Could the housing market take a big tumble over the next three to five years, losing most of its current high ground?

The market remains strong, despite job losses in the private sector, major layoffs of state workers, and general uncertainty about the future direction of the Connecticut economy. High returns from real estate stand in stark contrast to the low rates of return in stocks and bonds over a comparable time period.

Why have housing prices been rising faster? Two factors have made housing one of the few high climbers in today's sluggish economy:

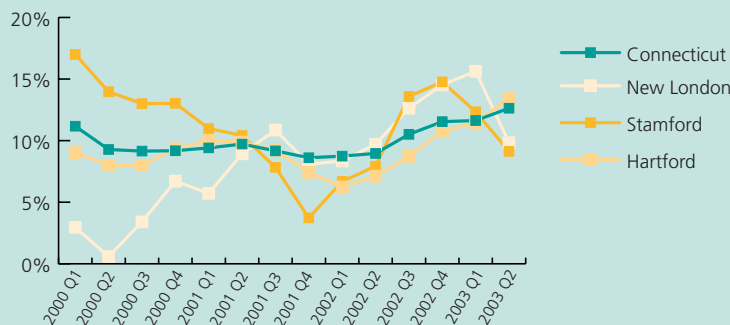
First, though mortgage rates have crept up recently, that is after declining nearly 1.5 percentage points inside of a year: in June, 30-year mortgages averaged 5.23%, compared to 6.65% one year earlier and 8.21% at the beginning of 2000. Mortgage rates are now at levels unseen since the 1950s. Buyers look at house payments relative to their income, so they are willing to pay a lot more for the house when low interest rates keep their monthly payments manageable.

Second, real estate currently is an attractive investment relative to stocks and bonds. With interest rates so low, the risk is that bonds will decline in value. Stocks have been highly volatile and generally declining over most of the period

since 2000. Thus, people looking for a place to put their money are more likely to buy a house and pay more money for that house than they would have when stocks and bonds were more attractive investments.

Even apart from these relative performance differences, "transparency" makes real estate a more attractive investment in uncertain times. The purchase of a stock is actually the purchase of an earning and dividend stream from the ownership

Comparing Constant Quality House Prices in Connecticut LMAs



Source: University of Connecticut; Center for Real Estate and Urban Economic Studies.

of that stock. Accounting procedures, stock options, and outright fraud make it difficult to determine the future earning stream from the ownership of stocks. The benefits from owning real estate are relatively transparent; one can see the value of the local schools, the benefits from other locational characteristics, and the strengths and weaknesses of the interior of the house. One might be uncertain about the future course of house prices, but one can be reasonably certain about the stream of benefits associated with occupying the house.

Headed for a Tumble?

Over the next five years, there are serious risks to Connecticut house prices. This can be appreciated by looking at the number of closed transactions in the state. UConn's index of transactions (adjusted for noise and seasonality) has declined by over one third since the first quarter of 2000, and these decreases have occurred in every quarter. This suggests a substantial decline in the supply of houses for sale. A likely explanation is that owners are reluctant to sell and move up to better or bigger housing, and many first time homebuyers are priced out of the market. Thus, supply offered on the market has been reduced while those buyers who remain in the market are willing to pay higher and higher prices: i.e., the market is heavily dependent on low interest rates.

The good news here is that new construction has remained modest, despite the rapid increase in house prices. Thus, we do not have the excessive construction boom that caused a surplus of new houses and condominiums in the late 1980s.

Over the next year, mortgage rates are likely to stay low as the economy struggles with slow growth and possible deflation. Over a longer period, the major risk is that mortgage rates will increase. This is likely to happen when the economy recovers and deficit spending spurs inflation. The difficult question is how much will mortgage rates increase? If the increase is modest, say to the 6% range, then house prices will remain near their current level. But, if interest rates return to the 8% range, then it is likely that house prices will decline substantially.

Many readers may be surprised by the information in the graph on the facing page because they have seen different numbers in *The Hartford Courant* and other newspapers. We turn to an explanation of these differences.

Why Rely on Constant Quality House Prices?

The popular press often uses house prices ("median" prices) that are uncorrected for the physical and locational characteristics of the house. (See articles by Robin Stansbury in *The Hartford*

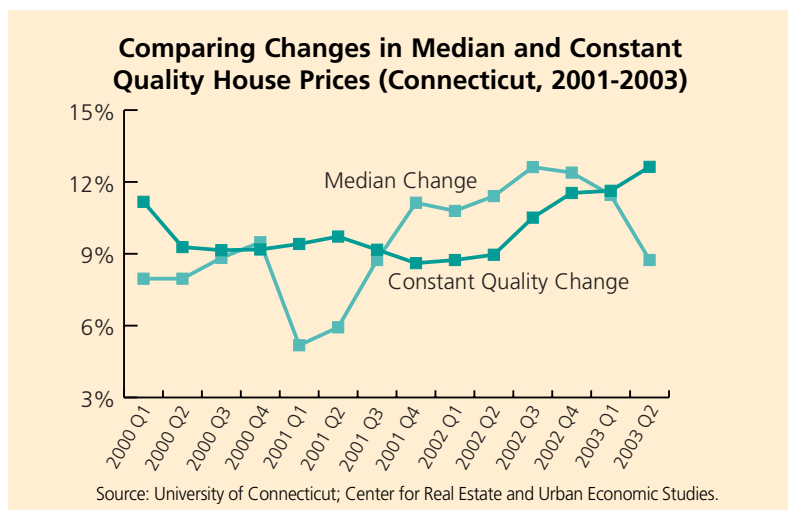
Courant, Sunday April 6, 2003; Tuesday April 15, 2003; and Friday, July 11, 2003). The problem is that the median house changes over time. When prices are rising strongly, buyers are likely to select smaller, more poorly located houses, so quality decreases. In this case, the price indices discussed in the popular press will be biased downward. In another situation, they might be skewed in the opposite direction. Since the median house will sometimes be larger, sometimes smaller, median price indices contain random noise not present in the constant-quality indices.

The graph below compares the rate of increase in UConn's constant-quality house prices with the rate of increase in the median price index, which does not control for quality. Both lines are for Connecticut as a whole, an average (weighted by number of transactions) of individual town indices. Both lines use the same data and the same method to average town indices.

Clearly, the rates of change in the median numbers understate the actual appreciation for constant quality in the most recent quarter (by nearly 4 percentage points) and over the entire time period (by an average of ½ percentage point). More importantly, the median number is much more volatile than the constant-quality number: it is too low and then too high by large amounts.

The problems with the median house price index are magnified at the metropolitan area and town levels: that is, the averages in the graph below allow some of the random noise at the town level to cancel out. The errors involved in using median prices are large and important to homeowners and policy makers in the state, as they plan to deal with the very unusual housing market that currently exists. UConn's constant quality numbers provide a more accurate view of price changes for a house with a given set of characteristics. Likewise, UConn's transactions indices are based on all closed transactions, not just those handled by Realtors™, and they have been processed to reduce random noise and seasonality.

You can download UConn's house price and transactions indices by clicking "RE Indices" at www.sba.uconn.edu/RealEstate/.



Where'd the Mo Go?

By Steven P. Lanza

Let's just say the labor market areas didn't gain much momentum in 2003-Q2. Revisions to 2003-Q1 labor market figures generally showed the regional economies to be fitter than first thought. So although the Q2 LMI report looks nominally like last issue's, it actually shows the regional economies coming up a little short. With the exception of New London, which just matched its Q1 performance, all the other areas did worse. The state's three largest markets—Hartford, New Haven and Stamford—posted LMI declines.

The main reason for the reversal in momentum is that employers cut jobs and hours at a faster four-quarter rate

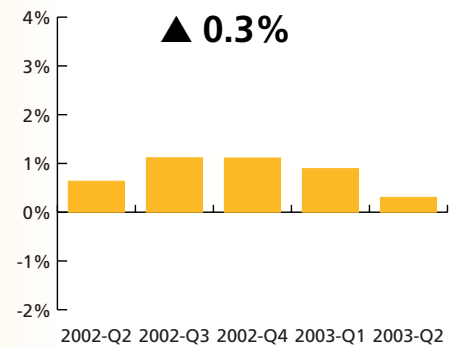
in Q2 than in Q1. Bridgeport and Waterbury, two of five areas that had shown job increases in Q1, lost jobs in Q2. What's more, the labor force, where it's growing, generally showed a slowing advance. On the plus side, the rise in the number unemployed is still losing speed and real hourly earnings in manufacturing are up.

The LMI measures the four-quarter change in a composite index of labor activity for every labor market region for which data are available. The index includes five variables: the labor force, jobs, the number unemployed, weekly manufacturing hours, and real hourly earnings in manufacturing. (Stamford's index excludes the last two variables). The bar graphs show the recent percentage changes in the LMI.



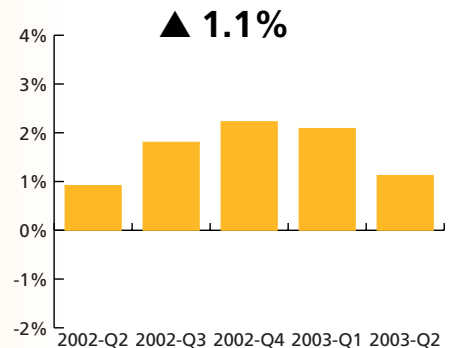
Bridgeport

- Jobs slipped a bit on balance. Government and education-and-health services tied for the biggest gains while manufacturing suffered the steepest losses.
- The area added 2,400 to its labor force, although that same number ended up in the unemployment column.
- The manufacturing workweek shrank by 108 minutes, but a 6.3% jump in hourly earnings led to a 1.8% increase in real weekly paychecks.
- With the first job decline in four quarters, future job growth looks uncertain; the next four quarters could see job gains of several hundred, or job losses of twice that number.



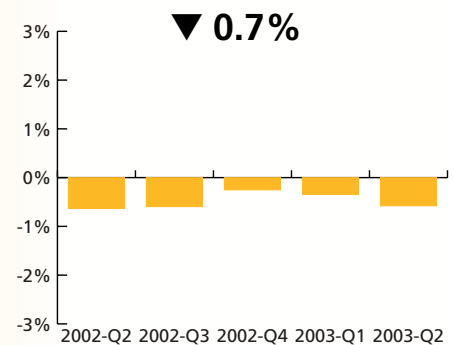
Danbury

- Professional and business service jobs dropped by 600, but all other sectors posted gains, especially education-and-health, leisure-and-hospitality and TTU.
- New entrants to the labor force, 3,100 strong, are finding work—the number of jobless grew by just 300.
- A two-hour-plus reduction in the average workweek combined with a cut in hourly pay meant an 8% drop in real weekly earnings.
- Danbury's job gains, 2,000 in Q1 and 1,900 in Q2, may slow to 800 by early next year, but the area will remain one of the state's best for job growth.



Hartford

- Hartford continues to hemorrhage jobs, particularly in manufacturing, but also in professional and business services.
- The labor force grew by 1,800, but four times that number joined the ranks of the unemployed.
- Manufacturers cut jobs, but added 72 minutes to the average workweek and raised real hourly pay 1.5%, so price-adjusted weekly earnings grew 4.4%.
- There's no real end in sight for the job losses, but with any luck the rate of decline will be trimmed from about 6,000 to about 4,000 early next year.



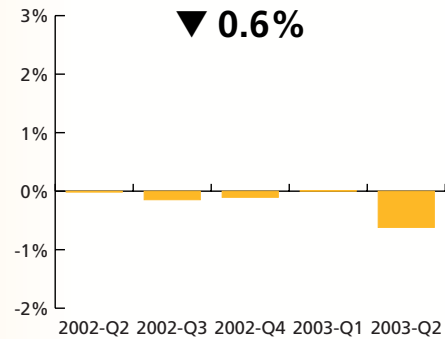
New Haven

▶ A significant cut in government and TTU jobs plus continued weakness in manufacturing more than erased shallow growth in a broad group of other sectors.

▶ The labor force grew by 2,600, but as an indication of the weakened job market, the number unemployed was also up 2,700.

▶ Manufacturers trimmed hours as they sliced jobs, and reduced price-adjusted hourly earnings by 40¢, so real weekly earnings dropped 4.5%.

▶ The region could resume adding 1,000 to 1,500 jobs per quarter in the coming year, though more job losses aren't out of the question.



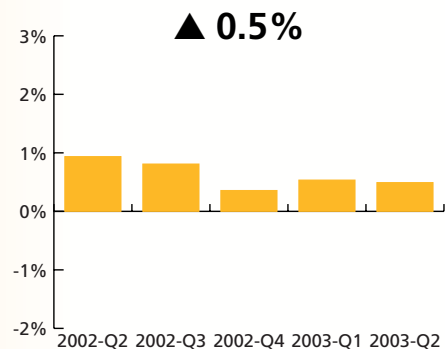
New London

▶ New casino jobs plus growth in education-and-health services offset cuts in the manufacturing and construction sectors.

▶ A 26-minute reduction in the average manufacturing workweek and a 1.2% decline in real hourly earnings produced a 2.2% drop in real weekly pay.

▶ New London's relatively strong labor market absorbed most of the new entrants to the workforce without a corresponding jump in the number unemployed.

▶ The last several quarters have brought slower job growth to New London, but after Q3 the area should start to pick up the pace.



Stamford

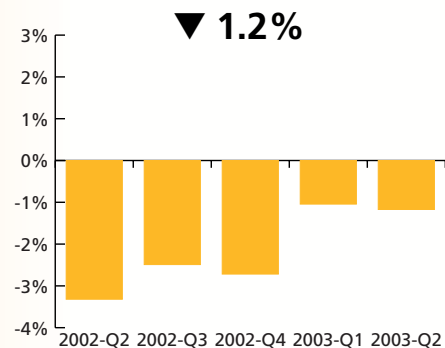
Note: Stamford's index excludes weekly hours and hourly earnings and is not directly comparable with indices for other LMAs.

▶ Job losses remain broad-based with the biggest cuts coming in TTU and in professional-and-business services.

▶ Payrolls did, however, grow in financial services, education-and-health services, government, and in other services.

▶ Despite losing 1,700 members of its labor force, the Stamford area added 200 to the number unemployed.

▶ Job cuts won't end anytime soon, but the size of the losses should shrink from more than 3000 currently to about 1000 by 2004-Q2.



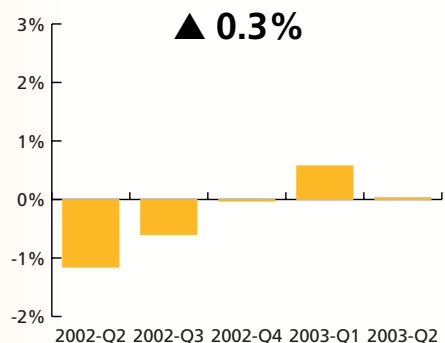
Waterbury

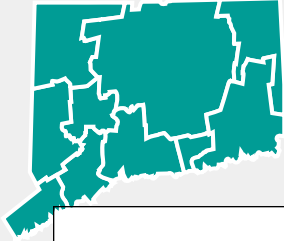
▶ After showing job growth in 2003-Q1, Waterbury suffered a relapse in 2003-Q2, as losses in declining sectors quickened and gains in advancing sectors slowed.

▶ Adjusted for inflation, weekly manufacturing earnings rose 3.8%, the result of a 14-minute increase in the workweek and a 3.2% jump in real hourly wages.

▶ Waterbury's labor force dipped by 300, even as the number unemployed swelled by 900.

▶ Though 2003-Q2's disappointing performance has darkened the view for future quarters, the picture should improve as job losses slow to just 500 by 2004-Q2.





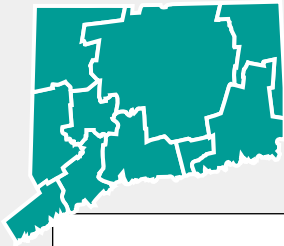
Labor Market Data

Labor Market Area	Labor Force		Nonfarm Jobs		Unemployment Rate (%)	
	2003-Q2 (000)	% Change Year Ago	2003-Q2 (000)	% Change Year Ago	2003-Q2	2002-Q2
Bridgeport	228.0	1.1	187.3	0.0	6.3	5.3
Danbury	117.0	2.7	91.5	2.1	3.5	3.3
Danielson	37.3	1.4	N/A	N/A	5.5	4.5
Hartford	605.0	0.3	605.3	-1.0	5.5	4.3
Lower River	13.3	-0.3	N/A	N/A	3.8	3.3
New Haven-Meriden	289.6	0.9	261.6	-0.3	4.9	4.0
New London-Norwich	167.6	2.4	146.5	0.8	4.5	3.7
Stamford	191.3	-0.9	197.5	-1.8	3.4	3.3
Torrington	38.1	-2.6	N/A	N/A	4.4	4.1
Waterbury	117.3	-0.3	83.5	-1.3	6.9	6.1
Statewide	1,785.1	0.6	1,661.1	-1.1	5.1	4.3

Labor Market Area	Housing Permits		Housing Prices		Manufacturing Jobs	
	2003-Q2	% Change Year Ago	2003-Q2 (000)	% Change Year Ago	2003-Q2 (000)	% Change Year Ago
Bridgeport	249	-0.4	\$332.8	12.4	29.1	-5.5
Danbury	215	-17.6	425.2	12.7	14.2	0.7
Danielson	108	3.8	N/A	N/A	N/A	N/A
Hartford	1,299	24.0	197.8	13.4	74.8	-5.3
Lower River	28	-28.2	N/A	N/A	N/A	N/A
New Haven-Meriden	254	-17.3	231.4	14.1	32.2	-1.2
New London-Norwich	282	6.8	189.0	9.8	19.7	-1.5
Stamford	162	-39.8	719.0	9.1	11.7	-5.9
Torrington	93	27.4	137.1	0.8	N/A	N/A
Waterbury	225	21.6	174.1	14.3	12.6	-7.8
Statewide	2,915	4.1	332.3	12.6	204.7	-4.1

Labor Market Area	Average Weekly Earnings		Average Weekly Hours		Average Hourly Earnings	
	2003-Q2	% Change Year Ago	2003-Q2	% Change Year Ago	2003-Q2	% Change Year Ago
Bridgeport	\$745.38	3.7	40.3	-4.3	\$18.51	8.4
Danbury	704.95	-7.5	39.6	-5.0	17.80	-2.5
Danielson	N/A	N/A	N/A	N/A	N/A	N/A
Hartford	795.01	6.7	42.8	2.9	18.56	3.7
Lower River	N/A	N/A	N/A	N/A	N/A	N/A
New Haven-Meriden	741.04	-1.6	43.0	-0.2	17.23	-1.4
New London-Norwich	733.69	-0.5	41.5	-1.0	17.69	0.5
Stamford	N/A	N/A	N/A	N/A	N/A	N/A
Torrington	N/A	N/A	N/A	N/A	N/A	N/A
Waterbury	643.25	4.9	38.0	0.6	16.91	4.3
Statewide	728.04	1.8	41.2	-1.0	17.66	2.9

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 totals 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.



L a b o r M a r k e t D a t a

Labor Market Area	Construction* Jobs		TTU** Jobs		Information Jobs	
	2003-Q2 (000)	% Change Year Ago	2003-Q2 (000)	% Change Year Ago	2003-Q2 (000)	% Change Year Ago
Bridgeport	6.6	-7.9	38.1	2.1	5.0	10.2
Danbury	4.4	3.1	18.6	2.8	3.0	1.1
Danielson	N/A	N/A	N/A	N/A	N/A	N/A
Hartford	22.3	-2.8	106.4	-0.1	11.0	-9.1
Lower River	N/A	N/A	N/A	N/A	N/A	N/A
New Haven-Meriden	11.0	2.5	46.6	-1.2	9.9	3.5
New London-Norwich	4.3	-8.5	24.2	0.6	2.4	-4.0
Stamford	6.2	-1.6	34.0	-5.0	6.6	-5.3
Torrington	N/A	N/A	N/A	N/A	N/A	N/A
Waterbury	3.7	-3.4	15.0	-2.8	1.4	0.0
Statewide	61.9	-5.9	309.8	-0.4	39.9	-3.9

* Includes Natural Resources & Mining
** Trade, Transportation & Utilities

Labor Market Area	Financial Activities Jobs		Professional* Jobs		Education & Health Jobs	
	2003-Q2 (000)	% Change Year Ago	2003-Q2 (000)	% Change Year Ago	2003-Q2 (000)	% Change Year Ago
Bridgeport	10.8	-7.4	20.0	-5.8	32.8	4.2
Danbury	4.3	2.4	10.5	-5.4	13.0	4.3
Danielson	N/A	N/A	N/A	N/A	N/A	N/A
Hartford	71.6	-1.2	60.8	-3.2	89.0	1.8
Lower River	N/A	N/A	N/A	N/A	N/A	N/A
New Haven-Meriden	13.9	0.5	27.9	1.1	59.0	0.3
New London-Norwich	3.6	-1.8	11.3	0.6	19.0	2.9
Stamford	28.1	2.3	43.5	-3.5	22.6	1.2
Torrington	N/A	N/A	N/A	N/A	N/A	N/A
Waterbury	3.8	2.7	8.1	-2.4	15.2	1.6
Statewide	142.4	-0.2	200.6	-1.9	263.7	1.9

* Includes Business Services

Labor Market Area	Leisure & Hospitality Jobs		Other Service Jobs		Government Jobs**	
	2003-Q2 (000)	% Change Year Ago	2003-Q2 (000)	% Change Year Ago	2003-Q2 (000)	% Change Year Ago
Bridgeport	13.8	2.2	7.0	1.0	24.2	5.8
Danbury	7.4	6.8	3.9	2.7	12.3	4.5
Danielson	N/A	N/A	N/A	N/A	N/A	N/A
Hartford	41.2	0.5	25.9	5.7	102.1	-0.3
Lower River	N/A	N/A	N/A	N/A	N/A	N/A
New Haven-Meriden	17.9	1.9	10.1	-0.7	33.3	-3.6
New London-Norwich	15.5	0.2	4.3	1.6	42.2	2.8
Stamford	15.9	-1.2	9.1	1.1	19.7	1.2
Torrington	N/A	N/A	N/A	N/A	N/A	N/A
Waterbury	6.3	5.2	3.5	4.0	13.4	-0.2
Statewide	127.1	0.7	62.9	-0.7	248.0	-1.9

** Includes Casinos

In State's Cost of Living, Shelter, Utilities Hold Sway

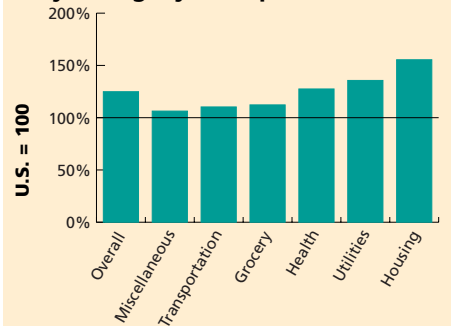
By Stan McMillen

Analysis of comparative cost of living data shows that the high cost of housing and utilities makes Connecticut a relatively expensive place to live.

The Connecticut Center for Economic Analysis participates in a cost of living survey organized by ACCRA. The survey collects prices for 60 separate goods and services in hundreds of metro areas around the country. These prices are weighted by their relative importance in consumers' budgets and aggregated into an index that shows the relative cost of living in the participating areas.

According to ACCRA data for the period 2000-Q1 to 2003-Q1, the overall cost of living in Connecticut is about 25% above the U.S. average. Connecticut data is based on price surveys of four metropolitan areas in the state: Hartford, New Haven, New London and Stamford. Costs in all categories of consumer spending tend to be higher in Connecticut than nationally, particularly for housing and utilities. Housing expenses, which include rents

How Connecticut Living Costs Vary by Category, Compared to U.S.



Source: 2001-Q1 to 2003-Q1 averages based on ACCRA data.

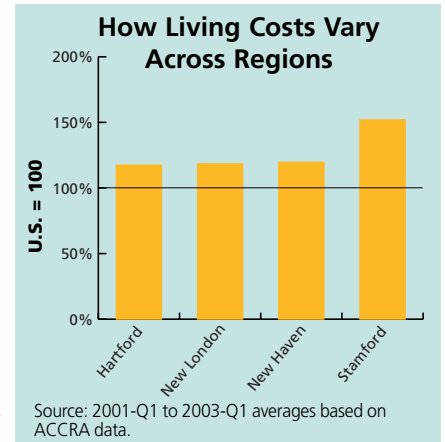
for two-bedroom apartments and mortgage costs for new, 2,400 square foot homes, are about 55% higher than the U.S. average. Utility prices, which include heat, electricity and telephone, run about 36% higher than average.

These differentials appear to have changed little over time. In

1993-Q1, ACCRA collected price data in Hartford and New Haven. Prices averaged higher than the U.S. by 28% overall, by 55% for housing and by 38% for utilities.

Just as housing determines much of the cost differential between Connecticut and the U.S., it also explains why costs differ across regions of the state. Overall living costs are steepest in Stamford—52% above the rest of the country—where housing expenses are 2½ times the U.S. norm. In the state's other areas where costs only run 18% to 20% above the U.S. average, housing prices exceed the U.S. average by just 30% to 40%.

Connecticut may be high-priced, but costs in some surrounding metro areas are even loftier. In 2003-Q1 costs exceeded the U.S. average by 38% in Boston, 85% in Jersey City, and 119% in Manhattan.

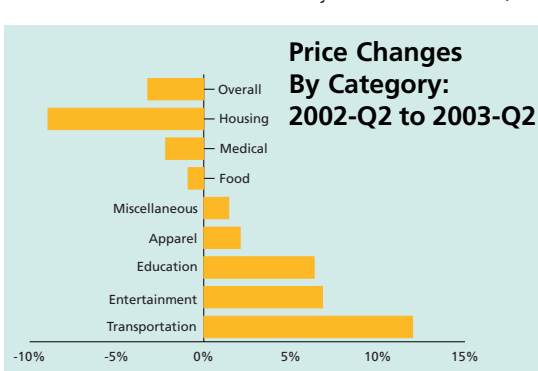


Transportation Prices on a Roll, but Housing Helps Keep Overall Prices in Check

By Madhuri Saripalle

Connecticut prices fell in 2003-Q2 compared with 2002-Q2, dropping 3.2% overall. But not all prices were down. Among categories, prices rose fastest in transportation (12.0%), followed by entertainment (6.8%) and education (6.3%). Apparel prices rose 2.1% while miscellaneous prices rose 1.4%. The 8.9% decline in housing costs was due mostly to falling mortgage interest rates. Medical prices also have fallen by 2.2%, mostly due to lower recorded prices for a hospital room stay. Food prices are down 0.9%.

Gasoline accounts for the major share of the price rise in transportation. In entertainment, bowling and newspaper subscription rates drove the increase. Within food, food at home and fast food have declined by 0.7% and 1.0%, respectively.



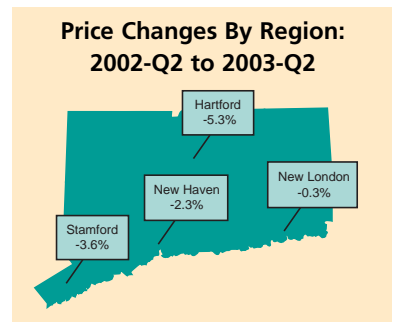
Soft credit prices haven't changed, but prices for the hard stuff have gone up by 0.8%. With the exception of mortgage and

electricity costs, all other housing cost components have shown increases. But the 9.2% slide in mortgage payments was enough to pull down the overall housing index by 8.9%. Without housing, overall inflation for the state is 1.3%.

Analysis of Connecticut's four regions shows price

declines in each. Hartford and Stamford prices have fallen by 5.3% and 3.6%, while New Haven and New London prices have fallen by a more modest 2.3% and 0.3% respectively. Food prices have fallen in New Haven, New London and Stamford, with the largest decline, 12.3%, coming in New London. The housing index is down the most in Hartford (-13.2%), but it picked up 3.2% in New London. Excluding housing, prices increased in Hartford, New Haven and Stamford by 1.3%, 1.1% and 1.3%, respectively, and fell 1.9% in New London.

Apparel prices dropped 21.9% in New London but increased everywhere else by as much as 14.0%. Medical prices increased modestly in Stamford (3.4%), but fell by 2.2% to 6.0% in the other three regions. Entertainment prices increased everywhere, rising fastest in Hartford (10.2%). Miscellaneous prices increased by 2.7% to 6.0% in all four regions except for Hartford, where they decreased by 2.7%.



Elusive Employment Growth

By Peter E. Gunther

By 2004-Q2, seasonally adjusted Connecticut Real Gross State Product (RGSP), measured in 1996 dollars at annual levels, should exceed its previous peak of \$156 billion attained in 2001-Q1. RGSP has been climbing from its 2001-Q4 low of \$152 billion and should continue to grow at annual rates of 2.2% over the next two years.

The employment outlook is for only modest recovery. The accompanying chart shows that seasonally adjusted Connecticut employment has fallen by 46,000 to 1,652,000 since its 2000-Q3 peak. It is expected to fall by another 2,000 before flattening out and eventually

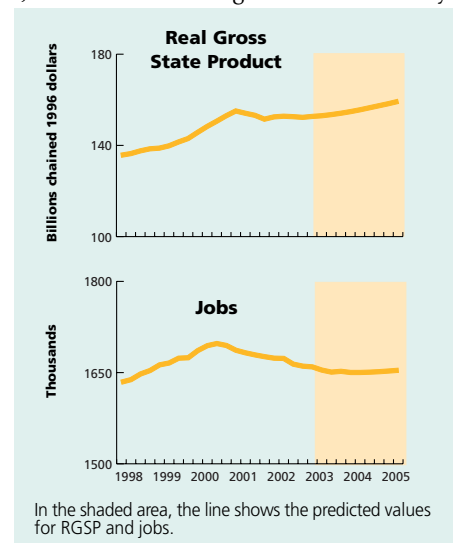
trending gradually higher beginning a year or so from now.

The good news: seasonally adjusted housing permits recovered in Q2 to 2,670, well above 2003-Q1's 1,922 and 2002-Q2's 2,522.

But even this news is tempered by the declining value of permits. The construction value of housing permits fell to \$701 million in the first half of 2003 from \$742 million in the first half of 2002, or by \$11,200 per unit. That decline primarily reflects a shift from single to multi-unit housing in Hartford County. In its effect on future RGSP and employment, declining construction values more than offsets the rise in the number of permits.

This forecast is sensitive to the rate of growth in National Real Gross Domestic Product (RGDP) and future housing permits. Seasonally adjusted RGDP is expected to rise at an average annual rate of 2.5%, slightly outpacing Connecticut's RGSP growth rate. This forecast also views some of the Q2 recovery in housing permits as making up for the sluggish Q1 performance. Permits should trend downward to 2,348 by 2005-Q2.

Accelerated and prolonged RGDP growth and/or sustained growth in residential construction could push economic performance above forecast values. External shocks, such as major plant openings, closings, and government hirings or layoffs, could further affect employment and RGSP.



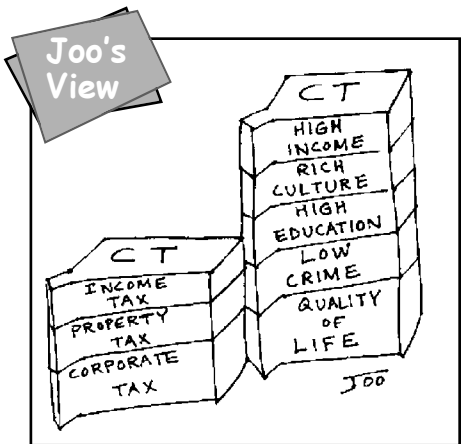
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The Connecticut Travel and Tourism Index

The overall index decreased 3.2% in 2003-Q2 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.	▼	7.8%
Slot Machine Rev.	▲	5.6%
Attendance	▼	8.8%
Traffic	▼	1.8%
Overall	▼	3.2%

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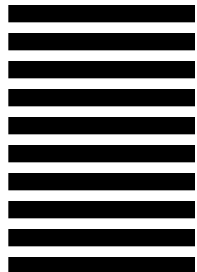
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Connecticut Business: Global Opportunities, Local Challenges

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



Connecticut businesses are competing in an increasingly global marketplace that poses high risks but also offers great rewards for companies of all sizes. The question is, are firms getting all the help they need to meet the challenges of such a competitive world?

According to recent CBIA surveys, about 50% of Connecticut manufacturers are already involved in international trade, but they face stiff foreign competition. For these firms to compete in the global arena it is critical that trade agreements be administered fairly. Moreover, Connecticut should strengthen its business climate so local companies can compete more aggressively. The ability of Connecticut businesses to compete on an ever-widening scale is a matter of survival for them—and for our state’s overall economy.

What should be done to ensure the future viability of our companies and economy? A solid competitive foundation will be built on at least of five major underpinnings, including:

- Reasonable cost structures that avoid noncompetitive and unanticipated increases in the cost of doing business;
- Competitive, responsive government policy that encourages business investment in equipment and R&D to improve innovation and productivity;
- Adequate numbers of highly skilled, trained and productive workers developed in exemplary education and workforce-development systems;
- Efficient, effective and responsive state and local government services; and
- World-class infrastructures for transportation, energy and telecommunications to support rapidly changing business developments.

While Connecticut will never be a low-cost state, we must not allow unreasonable costs to hinder operations that use advanced technologies and processes that have become so widespread and essential. Thanks to an improved, lower-cost business climate, Connecticut companies blossomed and expanded in the latter half of the 1990s. Now, however, rapidly rising health-insurance costs, taxes, energy costs and other workplace expenses are causing companies grave concern—and affecting their strategic decisions. Thousands of jobs are at stake.

Businesses must also be able to quickly replace outdated equipment with the latest technologies; state tax policy should facilitate these investments. Our regulatory and tax policies must also encourage innovation and new strategies that take Connecticut products and services into international markets.

Despite high costs, Connecticut companies can, and do, compete with superior ingenuity, adaptability and productivity. But technology grows increasingly complex, so our success depends upon continuously replenishing the pool of skilled workers.

And to be world-class, our transportation, energy and telecommunications infrastructures all need significant improvement. We must foster forward-looking legislative and regulatory strategies to achieve these critical upgrades. Building a quality infrastructure network will increase our connectivity to other markets, make it easier to recruit new companies to the state, and encourage existing businesses to expand.

These are all significant challenges, but Connecticut has the resources and resilience to meet them and compete successfully. Working together, government and business can equip our economy to compete in the new global marketplace—bringing a renewed, healthy growth in jobs, state and local revenues, and a higher quality of life for all of our citizens.

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