

THE CONNECTICUT Economy



A University of Connecticut Quarterly Review

Winter 1999

Connecticut's Not-So-Secret Weapon

Job-Rich and Job-Poor Towns

Do High Incomes Trump High Prices?



Is Location Irrelevant in an Internet World?

The Editors



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CONNECTICUT ECONOMIC INDICATORS

(Percent change: 1997-Q4 to 1998-Q4)

INDICATORS OF CURRENT ECONOMIC ACTIVITY

Total Nonfarm Jobs	+1.3%
Number Unemployed	-25.6%
Manufacturing	
Jobs	-0.4%
Avg. Weekly Hours	+0.5%
Output Index	+0.7%
Avg. Hourly Earnings	+2.2%
New Auto Registrations	+12.4%
Travel and Tourism Index	+4.8%
Bradley Airport	
Passengers	+8.5%
Freight	+0.9%
State Taxes:	
Sales	+5.7%
Income	+9.6%
Real Estate	+4.2%
Normalized Electricity Use	-1.6%
State Exports ('97-Q3 to '98-Q3)	+19.0%
Overall Consumer Confidence	+10.2%
Coincident GDI ('98-Q3 to '98-Q4)	+0.7%

INDICATORS OF FUTURE ECONOMIC ACTIVITY

Help-Wanted Ads	
<i>Hartford Courant</i>	-5.6%
<i>The Advocate</i> of Stamford	+2.5%
Job Orders	+2.6%
Avg. Initial Unemp. Claims	-2.9%
Housing Permits	+47.2%
Net New Business Starts	+17.7%
Confidence in Future	-1.1%
Leading GDI ('98-Q3 to '98-Q4)	+1.1%

Strong Fourth Quarter Reverses Slowing Trend

Connecticut job growth jumped in the fourth quarter of 1998, reversing a pattern of slower growth experienced during the first three quarters. Job totals, seasonally adjusted, grew by 11,000 between the third and fourth quarters, or by 2.7% at an annual rate. As you can see from the accompanying chart, that was the fastest growth since the fourth quarter of 1997.

Led by strong growth in the service sectors, jobs increased about 21,000, or 1.3%, between the fourth quarter of 1997 and the fourth quarter of 1998. Services, such as business services and health services, accounted for 12,000 of this increase, a gain in that sector of 2.3%. Finance, insurance and real estate added 3,500 jobs, or 2.6%. Wholesale and retail trade picked up 3,000 jobs, or 0.8%. Construction jobs rose 2,400, or 4.1%. And government, which now includes the casinos, added 400 jobs, or 0.2% (though state government shed 1,600 jobs, or 2.6%).

On the down side, manufacturing jobs declined but manufacturing hours and earnings were up. Manufacturing jobs dropped by 1200, or 0.4%. The average work week in manufacturing increased by 12 minutes, or 0.5%, to 43 hours 18 minutes. Since manufacturing jobs declined by 0.4%, but the work week increased 0.5%, total labor hours actually increased a bit. Average hourly earnings in manufacturing rose 33 cents, or 2.2%.

Long-suffering Eastern Connecticut seems on the mend. Statewide, the number unemployed dropped from 72,700 in the fourth quarter of 1997 to 54,100 in the fourth quarter of 1998, a decline of 18,600, or 25.6%. Unemployment totals dropped by double digits in all ten labor market areas. Danielson dropped the most — 35.4%, followed by the New London-Norwich labor market area, down 30.4%.

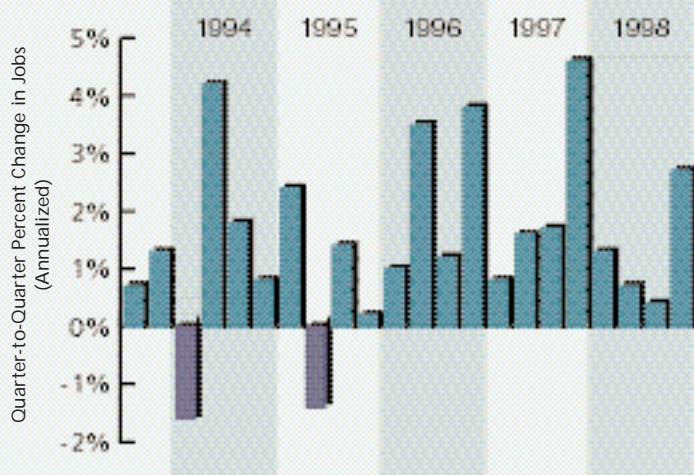
With the labor force flat, the only way to fill new jobs is by dipping into the pool of unemployed or by getting workers to take second jobs. The 18,600 decline in the number unemployed in the last year nearly matched the 21,000 increase in jobs. The unemployment rate declined from 4.2% in the fourth quarter of 1997 to 3.2% in the fourth quarter of 1998, the lowest level of the decade (to review all job figures by labor market area, see pages 16 and 17).

More generally, 1998 will enter the books as another strong year of expansion in Connecticut. New housing had a constructive year, with new permits jumping 27.5% to the highest level of the decade. And banner auto sales made 1998 the Year of the Car. New auto registrations topped 212,000 for the year, up 18.7% from 1997, and the highest total since records began in 1963.

On the national level, real gross domestic product roared ahead in the fourth quarter at an annual pace of 5.6%, far outstripping expectations. So the economy begins a new year by getting a bounce from the final quarter of 1998. In the Chinese calendar, 1999 is the Year of the Rabbit, perhaps an auspicious sign that our economy will keep hopping along. In Connecticut we expect job growth to continue, though the tightening labor market could draw a noose around the expansion (for a forecast of jobs and output, see page 8).

Job Growth in State Surges in Fourth Quarter After Slowing During the First Three

Source: Developed by *The Connecticut Economy* based on seasonally-adjusted quarterly averages of monthly estimates from the Connecticut Department of Labor



Good news

+47.2%
Housing Permits

Better news

-25.6%
Number Unemployed

Connecticut's Not-So-Secret Weapon — Skilled Workers

By Edwin L. Caldwell

This issue focuses on characteristics that influence the location of economic activities. This article looks at some of the attributes of the Connecticut labor force that surely play a prominent role in the locational and expansion decisions of new firms contemplating entry into the state or those already here in deciding whether to stay or go.

Skill Potentials

Investigators generally agree that there is a close correlation between educational levels and the skill potentials of a population. Connecticut's population scores well by this criterion. Thirty percent of adults have college degrees. That ranks us third in the nation behind Massachusetts (33%) and Maryland (32%) and well above the national level of 24%.

Doctoral scientists and engineers are usually accorded an especially important place in promoting the efficiency of the labor force. Connecticut has almost three of them per 1,000 population to rank seventh among the states.

Evidence of Superior Skills

Does this well-educated population deliver the goods on the job? There is substantial evidence that it does. The gross state product per worker in the Connecticut workforce averaged \$78,342 in 1996, second only to Alaska and well ahead of the national average of \$63,833. Of course, other factors, such as physical capital, are important contributors to high levels of output, but their efficient use ultimately depends on the skills of the labor force.

Our manufacturing establishment, long the backbone of the economy, is still efficient. The average production worker in our plants in 1996 created \$161,484 of value added by the manufacturing process to rank Connecticut thirteenth among the states in this respect. Here also, other factors are important in determining the level of value added per worker, such as the extent of automation and nature of demand for the product.

Is our workforce inventive as well as efficient? It seems so. In 1996 Connecticut ranked second only to Delaware in the number of patents issued per one million population (Delaware's top rank is an artifact of its incorporation laws). That was almost twice the national average. And these inventions have a good chance of coming to market. The state ranked sixth among the states in dollars of venture capital invested per worker in 1997.

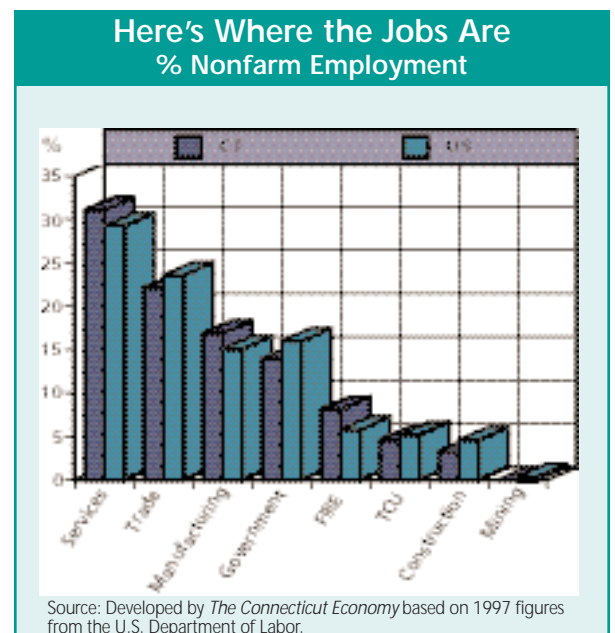
Perhaps the most convincing evidence of superior skills and efficiency is high pay. According to economic theory, you are paid based on the market value of your contribution to the productive process. That contribution is reflected in per capita personal income. Property income and government transfers are also included, but the great majority of it is pay for work done. In 1997 Connecticut continued to occupy its position at the top of the heap with a per capita income of \$36,263, 11% above second-ranking New Jersey and 42% above the national average. Furthermore, the state's per capita personal income grew faster than that of any other state in 1997 — 6.3% compared with the national average of 4.7%.

Adaptability

An oft-repeated bit of folk wisdom reminds us that nothing is permanent but change. In the context of our present discussion, that means that an adaptable workforce is very useful to employers. In his article in the previous issue of *The Connecticut Economy*, Dennis Heffley presented a striking chart that illustrated the sea change in the structure of the state's labor force in the post-World War II years. Manufacturing's share of employment fell from 63% in 1943 to 17% now; service employment rose from 7% to 31%; and all other activities rose from 29% to 52%.

The accompanying chart illustrates in more detail the present industrial structure of Connecticut's workforce. The relative importance of employment in the financial sector stands out in the chart, as well as the comparatively small share of employment in government. That share would be still smaller were it not for the curious reasoning that classifies employment at the casinos under the heading of government. Deducting employment at the casinos reduces government's share in Connecticut from the 13.9% shown in the chart to 12.9%.

More evidence of the adaptability of the state's labor force, not shown in the chart, is the fact that



almost 10% of it is employed in high tech jobs. That ranks the state in a tie for sixth with California in this category, one that was hardly noticeable until a fairly short time ago.

Labor Supply

Connecticut's labor force participation rate is slightly higher than the nation's because a larger percent of our women want to work than their national counterparts. Sixty-two and one-half percent of our adult female population consider themselves in the labor force, compared with 59.3% in the nation. With the men, the rates are almost the same — 74.5% in the state and 74.9% in the nation. The state and the nation have close to identical percentages of their male and female populations in the prime 18-65 age groups — 61.4% in Connecticut and 61.3% in the nation.

In spite of these favorable participation rates and age structure, the state posted lower unemployment rates than the nation in every year since 1977 except 1991 (tie), 1992, and 1996. The last half of the eighties was a period of critical labor shortages, and so is the present. The unemployment rate in the state in 1998-Q4 was 3.2%.

Connecticut handled the shortages of labor in the eighties with help from its friends in less booming parts of the nation. Southern and Southwestern license plates abounded in the state. But the troubles of the early nineties sent most of them home. At present there are few pockets of surplus labor to be found anywhere in the nation, so it is doubtful that much of our current labor shortage can be handled by importing workers.

So we have to look to other means to expand our labor force. One way is to move people from welfare to work. In 1996 Congress passed welfare reform that set limits during which parents receiving welfare were to find a job. Connecticut started its program a year earlier and set a 21-month limit. The federal government also provided help for child and health care. At the same time, the state expanded its job-training capabilities, and many private companies formed their own welfare-to-work programs. Connecticut's state and private efforts seem to be working well. More than 58% of our welfare families have one or more members employed, compared with 28% in the nation. Recently the welfare-to-work program of the Fleet Financial Group was singled out as a model for other corporations in a White House ceremony. In 1998, Fleet hired 800 workers through its welfare-to-work program.

Employer Satisfaction

Connecticut employers seem to be rather satisfied with their workforce. The latest survey of the Connecticut Business and Industry Association, conducted in the fourth quarter of 1998, indicated that 44% of the respondents expected productivity to increase this year and 48% thought it would hold steady. Only 8% thought it would decrease. And, most important and gratifying of all, 92% of the in-state companies that plan to expand in 1999 will do so in the state.

Job Location: Big Projects... or the Small Stuff?

By Dennis Heffley and Michael Moore*

Recent Connecticut events show that states and cities will do plenty to buck-up their economies. Some supporters of the Patriots deal tout the "image" benefits of luring an NFL team to Hartford, but the promise of new jobs is the popular reason for public investment in the Patriots' 75-mile move. Do big projects like the proposed Hartford stadium and Adriaen's Landing produce jobs, or are there more common traits of a town that affect its job base? The evidence actually supports both views. Much of the variation in jobs across Connecticut's 169 towns is associated with differences in geographic features, local public policies, and socioeconomic characteristics, but our analysis also shows that some major facilities have created a large number of local jobs.

A Job Location Model

Big cities have many jobs; rural towns have few. This simple observation suggests that a model of job location should begin with the relationship between jobs in an area and its population. But a quick look at reported job and population figures for Connecticut towns shows that this "starter" model is too simple. If firms merely set up shop where people lived, the ratio of jobs-to-population would be fairly uniform. Across our 169 towns, however, the number of jobs per 100 residents, in June 1997, ranged from 5.6 in rural Colebrook to 123.9 in Farmington (see pp.10-11, column 2). Even Connecticut's major cities varied sharply, from 34.5 jobs per 100 residents in Bridgeport to 93.4 in Hartford. Between these extremes were Waterbury (41.6), New Haven (58.0), Stamford (60.8), and Danbury (65.7). Businesses choosing a site clearly do more than count heads.

We expand the model by anticipating that other factors, besides population, influence the number of jobs in each town. These factors, listed in the table below, include several fixed geographic features, some local policies that can be altered, and several socioeconomic attributes of the local population. Multiple regression methods allow us to consider all of these factors at once and to isolate the relationship between jobs and each variable. The table gives the regression results — a positive or negative relationship — along with a possible explanation of each. Keep in mind that each result is derived from a procedure that "controls for" or "holds constant" the other factors.

Local Jobs - What Does Matter?

Town Characteristics	Impact	Explanation
* Population	+	Large labor pool and local market.
* Land area	+	Cheaper land for firms and households.
* Ed. spending per pupil	+	Attracts households and improves labor quality.
* Noned. spending per capita	+	Public services enhance private output.
* Percent 25+ with BA	+	Skilled workforce attracts firms.
Enterprise zone	-	EZ books jobs, but job poor towns adopt EZ's
* Equalized mill rate	-	Local property taxes increase costs.
* Distance from Hartford	-	Access to state economic center.
* Distance from New York	-	Access to regional economic center.
* Miles of roads	-	Roads facilitate access and trade, but occupy land.
* Income per capita	-	Stronger market, but higher wages, rents, restrictions.
Median age	-	More job experience, but less flexibility.

Positive (+) or negative (-) signs are based on estimated multiple linear regression model. Asterisks (*) denote variables with statistically significant coefficients.

Results

Across Connecticut's 169 towns, the reported number of local jobs ranged from 80 (Colebrook) to 123,260 (Hartford) in June 1997. The twelve factors listed in the table account for nearly 90% of this large variation. As anticipated, the number of jobs is positively related to a town's population, land area, educational spending, noneducational spending, and the percent of residents who are 25+ with at least a bachelor's degree.

Enterprise zones — 17 towns have them — are designed to add jobs, but results show a negative relationship. This outcome could simply reflect a more complex, two-way link. Enterprise zones might create jobs, as intended, but towns most likely to establish a zone are those that have “too few” jobs. Dominance of the latter effect might explain the overall negative relationship between jobs and enterprise zones in the regression.

Higher property tax rates deter job formation. Jobs also decline with distances from Hartford and New York, though the “New York effect” is weak. More roads in a town also seem to imply fewer jobs. Roads preclude intensive business or residential use of the land they consume and, especially in cities, cover a significant portion of total land area. This loss of developable land may swamp the benefits of improved road access. Remember, we're talking about the effect of more roads in the town, holding other things constant, including the town's land area.

The negative relationship between local jobs and per capita income could indicate that, in wealthy towns, the adverse effects of higher wages and land costs outweigh the draw of a stronger local market. Stricter zoning and environmental standards in affluent towns also discourage some types of business. Finally, towns with an older population also seem to have fewer jobs.

Job-Machine to Job-Lean

Beyond identifying the characteristics that favor or inhibit job growth, the model can tell us a bit about which towns have more (or less) than their expected share of jobs. Substituting each town's twelve characteristics into the estimated relation-

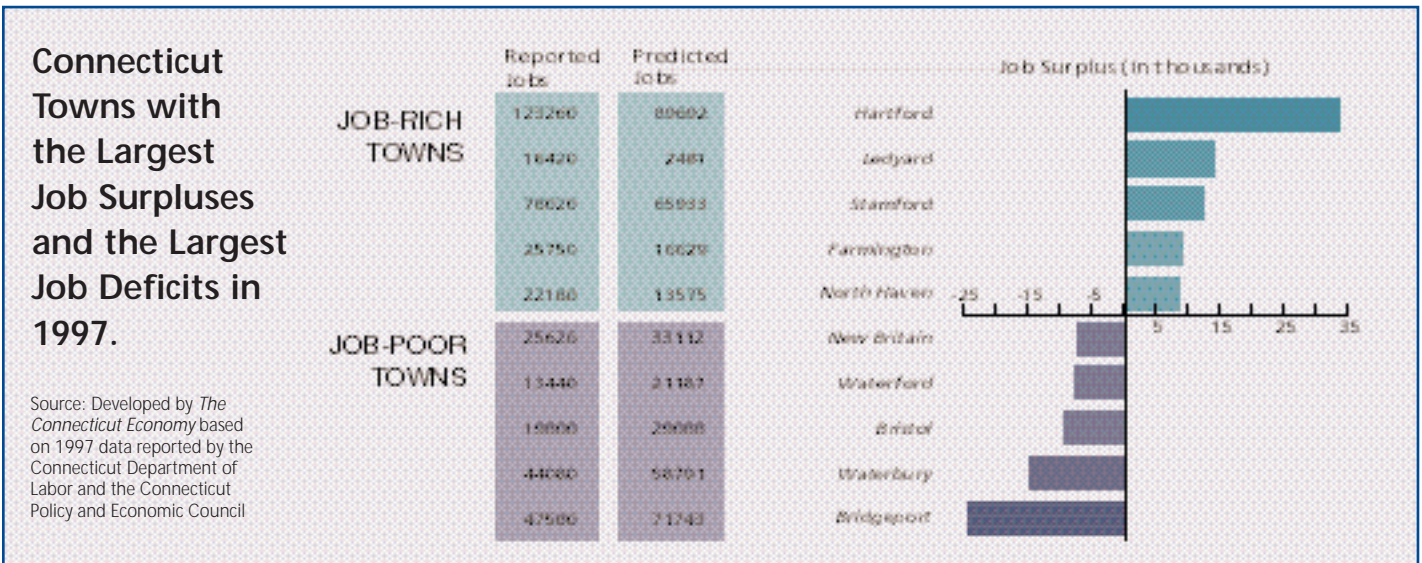
ship, the model predicts a number of jobs for that town. This predicted figure is then compared with the number of jobs reported by the Connecticut Department of Labor. Reported jobs exceed predicted jobs in “job-rich” towns; a “job-poor” town has fewer reported jobs than the model predicts for a town with such features. The exhibit below lists the five towns generating the largest job surpluses and the five with the largest job deficits.

Predictably, Stamford's robust economy shows a healthy job-surplus. Hartford's even larger surplus, on the other hand, seems to contradict lingering concerns about the capital's economy. But the fact that Hartford has more than its predicted number of jobs does not ensure that city residents have full access to these opportunities. Urban economists have shown renewed interest in the “spatial mismatch” problem — the notion that many urban residents struggle to secure higher-paying office jobs in the city center, but face long reverse-commutes to suburban jobs. The problem is aggravated by employment bias, exclusionary practices in housing markets, and limited public transportation. Yet, job-poor towns like Bridgeport and Waterbury face an even more basic challenge: a large shortage in the total number of urban jobs, even before spatial mismatch problems are considered.

The exhibit below also shows that some big projects do create jobs. Foxwoods Resort Casino accounts for most of Ledyard's large job-surplus — likewise for the Mohegan Sun Casino in neighboring Montville (not in exhibit). Similarly, Farmington's fourth place in the job-rich list reflects the impact of the UConn Health Center. Each of these examples involves a major facility that operates full-time and around-the-clock, a good recipe for abundant jobs.

Can Bridgeport, Waterbury, and other job-poor towns convert their job deficits to surpluses by finding their own big project? Perhaps, but public officials throughout the state should remember that most of the variation in jobs across Connecticut towns is associated with more routine community features — some controllable, others not.

* Michael Moore is a student in the University's MPA Program.



Low Inflation and High Incomes Temper Connecticut Prices

By Steven P. Lanza

Prices hit you where you live. And Connecticut residents live in one of the highest-cost states in the country. Though 1998 came and went leaving 1997 prices much as it had found them, what remains are prices that are, as they have been for some time, higher than U.S. averages by one fifth. Still, the state enjoys a commanding lead in per-capita income. And that high income more than compensates for those high prices.

The Primacy of Location

Just as home buyers pay a premium for real estate with an ocean view, residents of New England and the Far West pay a premium for settling in America's coastal regions. The cost of living is highest along the east and west coasts, but drops as one moves progressively inland. What's more, within the already pricey New England region, Connecticut residents pay more than do their neighbors for a comparable market basket of goods and services.

According to the most recent data from the American Chamber of Commerce Research Association (ACCRA) price survey and our own similar survey, Connecticut prices in 1998-Q3 were about 20% higher than average for the country as a whole. For the forty-six states included in the ACCRA survey, Connecticut's prices are, after Alaska's, the highest in the country. But two states not represented in the survey—New Jersey and Hawaii—also have relatively high costs of living.

By region, New England ranks highest on the cost of living scale. Prices in the New England states average 12% higher than the U.S. as a whole. Prices in the Far West follow closely behind, measuring 11% higher than average. The cost of living, fueled in both these regions by relatively expensive housing and grocery prices, is further stoked in New England by the highest utility prices in the nation. In America's Southland, where housing is cheapest, overall prices are their lowest, some 5% to 6% below average. In the broad center swath of the country that stretches from the Rockies to the Plains to the Great Lakes, prices are more representative of the nation as a whole, measuring 1% below, 4% below, and again 1% below average respectively.

But Connecticut, like most states in the Northeast, can take some consolation. Public perceptions to the contrary (see page 9), per-capita income exceeds the national average by a greater degree than prices exceed national averages. Therefore, high prices impose a relatively small burden on Connecticut residents. In 1997 (see *The Connecticut Economy*, Volume 5, Number 4), we developed an index of relative price burden, measured as a scaled ratio of prices to incomes. This year, that index ranged from a low of 78 to a high of 124, with an average of 100. Connecticut, where incomes exceed the national average by 42%, had the lowest price burden. West Virginia, with the lowest incomes in the country after Mississippi, had the highest price burden. Viewed by relative price burden, the Northeast's high prices are put in an entirely different light. Because average incomes are so high, the burden of prices in New England and the Middle Atlantic states are, at 91 and 87 respectively, the lowest of all the regions in the country. And despite low prices in the South, lower-than-average incomes make that region, where the index measures 105, one with an exceptionally high price burden.

Prices Through Time

Connecticut not only has an exceptionally low price burden, there appears to be little pressure on the price side for that burden to worsen.

During the six years in which we have tracked Connecticut prices, inflation has been, in a word, anemic. In that time, U.S. prices have risen an average 2.4%. Last year, a good growing season, rock-bottom interest rates and tumbling oil prices produced unusually low price pressure in food, housing, and transportation. Overall inflation reached a low 1.6% nationwide in 1998. By comparison, between 1993 and 1998, Connecticut prices have risen an average 1.1%. And in 1998, state prices inched up just 0.1%.

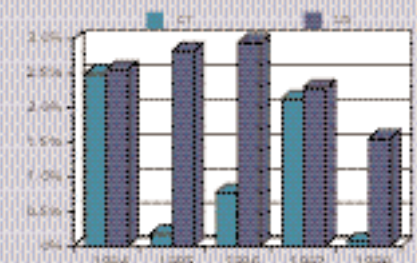
Connecticut's relatively low inflation rate is primarily the result of a flat market for housing. While housing costs have grown an average 2.6% per year nationwide in the past six years, those costs have barely moved at all in the state, advancing just 0.2% per year. And in 1998, Connecticut housing prices dropped 1.2%. The mortgage payment on a typical home, for example, fell 2.8%, from

\$1,142 to \$1,109. Meanwhile, typical rents on two-bedroom apartments fell from \$643 to \$638 in Hartford (though they rose from \$1,445 to \$1,515 in Stamford). Transportation costs, which dropped faster in Connecticut than they did nationally, also contributed to the state's lower-than-average inflation rate. A cut in the state gas tax and an ample world supply of petroleum brought Connecticut a 21¢ decrease, from \$1.41 per gallon in 1997 to \$1.20 in 1998, in the price of regular unleaded gasoline. Across the U.S., by comparison, gasoline prices fell an average 17¢, from \$1.23 to \$1.06. So while transportation prices were down 1.9% nationally, they dropped 3% in Connecticut.

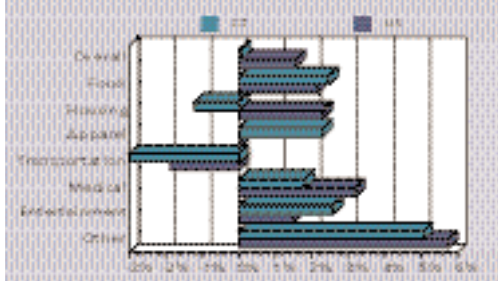
Other Connecticut price changes last year tracked the U.S. indices more closely. Food prices rose 2.5% in Connecticut and 2.2% in the U.S. as a whole. In both the state and the nation, apparel prices advanced at the same 2.3% rate. And the prices of miscellaneous goods and services, from education to personal care items, increased 5.1% in Connecticut and 5.7% nationally.

Despite the state's high prices, Connecticut inflation has held below U.S. rates for six years. But that achievement will be tested. La Nina has replaced El Nino. Interest rates, as the ad says, will never go to zero. And the state's housing market appears to be on the rebound. So long, however, as Connecticut retains the income advantages it shares with its Northeastern neighbors, it is poised to withstand the trial.

Overall inflation in full retreat...



...though some sectors see advances in 1998.



Surprising GDI Resilience

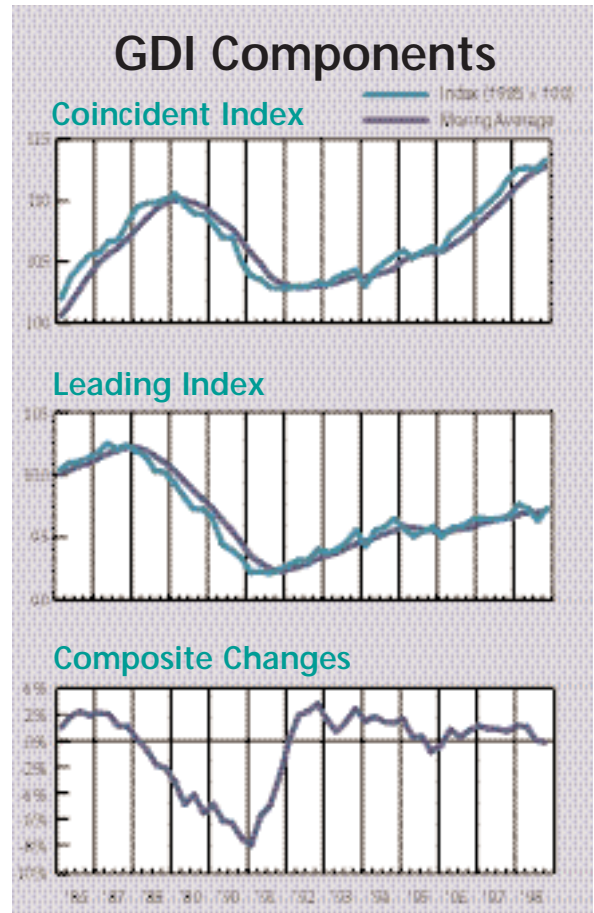
By Steven P. Lanza

The ongoing expansion remains surprisingly resilient. In 1998-Q3, the GDI coincident index almost dipped below its moving average line, but has now rebounded to a new high in 1998-Q4. From a revised 112.6, in 1998-Q3, the coincident index grew to 113.3 in 1998-Q4. Equally promising, the GDI leading index reversed two quarters of declines and crossed above its moving average line—a sign that this index, too, is now advancing faster than its four-quarter trend. In 1998-Q4 the leading index reached 97.4, up from a revised 96.3 in 1998-Q3. Indexed so 1985= 100, the coincident and leading indices measure quarter-to-quarter changes in seven seasonally-adjusted measures of economic activity.

The rally in the coincident index was remarkably broad-based. Each of the three variables advanced and did so at rates that exceeded

their averages for the recovery. Employment, which has typically shown 0.3% quarter-to-quarter growth during the recovery, grew 0.7% between 1998-Q3 and 1998-Q4. Manufacturing output grew 0.4%, compared to a recovery average of 0.3%, and real personal income advanced 0.9%, compared to a recovery average of 0.6%.

The leading index, too, showed similar strength. Only one measure of future economic activity, the index of help-wanted advertising, made a poor showing by dropping 1.0%. Even so, this was an improvement over the 11% stumble it took the previous quarter. The remaining measures showed better than average progress. Weekly manufacturing hours grew 2.3% compared to a recovery average of 0.1%. New housing permits, which have been growing an average 1.1% during the recovery, grew 1.2% last quarter. And initial unemployment claims, which have typically declined by 2.3%, dropped a stunning 16.8% in 1998-Q4.



Connecticut's Economy Still Chugging Along

By Kathryn Parr and Fernando Lugo-Camacho

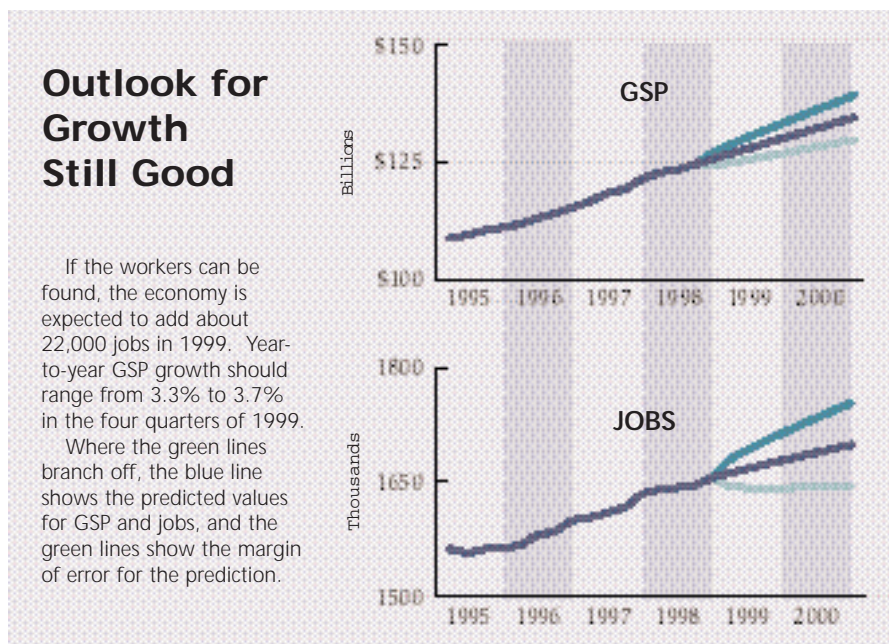
Real Gross State Product grew at annualized rates of 3.5% and 3.3% respectively in the final two quarters of 1998. This reflects a moderating trend in the economy from the dramatically rapid growth we have seen over the past year.

Although we expect the economy to continue to slow, the outlook remains good. Growth in the construction, financial and service sectors, particularly in the computer sector, has fueled job growth in Connecticut. And we expect the economy to add a total of about 22,000 new jobs in 1999 if the workers can be found.

Our forecast of housing permits, a leading indicator for the economy, shows moderate declines throughout 1999. We expect job growth in the financial and service sectors to remain strong. Real earnings in the manufacturing sector in Connecticut are expected to remain steady over the next year.

The forecast of real gross state product (GSP) tells a similar story to that of employment. GSP is the value of all goods and services produced in the Connecticut economy adjusted for inflation. While GSP reached its peak in the fourth quarter of 1997 at an annualized growth rate of 5.4%, the economy has

continued to grow at a slower but moderate pace. In annualized terms, we expect GSP growth to range from 3.3% to 3.7% in the four quarters of 1999. As inflation remains low and economic growth in the region and nation remains strong, Connecticut will continue to chug along.



Outlook for Growth Still Good

If the workers can be found, the economy is expected to add about 22,000 jobs in 1999. Year-to-year GSP growth should range from 3.3% to 3.7% in the four quarters of 1999.

Where the green lines branch off, the blue line shows the predicted values for GSP and jobs, and the green lines show the margin of error for the prediction.

Consumer Confidence Increases Slightly Despite Brazilian Crisis

By Chase H. Harrison
Center for Survey Research and Analysis

Consumer confidence has risen slightly across the nation, New England, and in Connecticut since facing a sudden drop in the third quarter of 1998. Although the changes in the final quarter do not signal a significant change in any overall interpretation of consumer confidence since last October, consumer moods seem to have stabilized somewhat. Consumers remain optimistic about the present.

Although consumer assessments of current economic circumstances have risen slightly across the nation and the region, the rise in overall confidence is principally driven by more optimistic expectations for economic prospects. Connecticut assessments of the current economy dropped slightly from the historic high recorded in October. Still, the measure of current assessments remains extremely high.

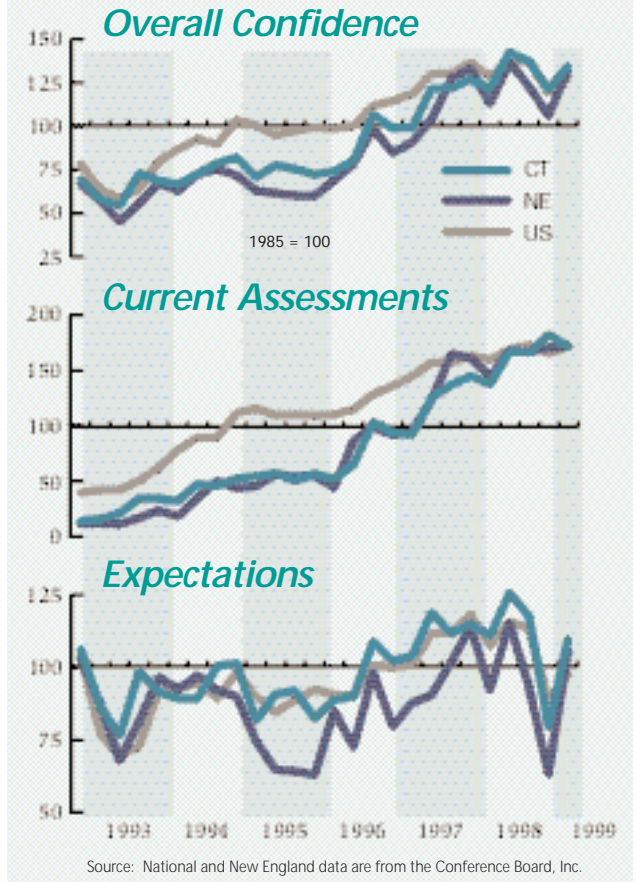
The U.S. Consumer Confidence Index (CCI) for January is 127.6, up from 119.3 last October. The New England CCI for January registers 132.3, compared to 106.1 in October, while the Connecticut CCI stands at 134.5, compared to an October reading of 120.6. Current assessments rose in the nation and the region, but dropped slightly in the state. The national index of assessments of current economic circumstances stood at 172.1, up from an October measure of 165.2, while the New England current assessment measure stood at 171.9, compared to an October measure of 170.4. The Connecticut measure of 171.4 was down

slightly from the October measure of 182.0.

Expectations rose across the board. The national measure stands at 97.3, up from 88.7, while the New England measure of 105.9 is up dramatically from an October measure of 63.3, and the Connecticut measure of 109.8 represents a significant increase from the October measure of 79.6.

Last year's substantial drop in expectations may have been due in part to exaggerated consumer reactions to news of economic crises in Asia. These reactions were particularly acute in parts of the country whose economies are heavily dependent on financial services, such as New England in general and Connecticut in particular. Although the current measurement cycle has witnessed a financial crisis closer to home — the devaluation of the Brazilian real — consumers have not reacted as strongly to this foreign crisis as they did to those in Asia. The recent experience of having witnessed an economic crisis in Asia, and seen the relatively minimal short-term effects on most consumers'

Consumer Confidence Survey



pocketbooks, may have modified reactions to the bad news from Brazil.

High Incomes and High Prices: What Connecticut Residents Think

By Chase H. Harrison
Center for Survey Research and Analysis

Economic statistics paint a picture of Connecticut as an expensive place to live, but a state with incomes that, on the whole, more than compensate for this (See article by Steven P. Lanza, p.7). But do the perceptions of Connecticut residents match this analysis? A survey sponsored by *The Connecticut Economy* and conducted by the University of Connecticut Center for Survey Research and Analysis asked 501 Connecticut residents about their perceptions of prices and incomes in the state.

Most Connecticut residents know that the cost of living is higher in Connecticut than in most other states. Eighty-nine percent of Connecticut residents say the cost of living is higher in Connecticut (55% say significantly higher), compared to only one percent who say lower. A substantial majority also say that

incomes and salaries are higher in Connecticut than in other states — 73% say higher, compared to 6% who say lower.

Do higher incomes more than offset higher prices? Most Connecticut residents don't think so. Nearly half (45%) of Connecticut residents say that people in Connecticut end up with about as much money as people in other states after adjusting for higher prices. One-third say people in Connecticut end up with less money than people in other states, while 17% think that people in Connecticut end up with more money.

Of course, a high income isn't the only reason people will pay higher prices for goods and services. Nearly half (49%) of Connecticut residents say the quality of life is better in Connecticut than in most other states, compared to only 11% who think it is worse. People will also pay higher prices as an investment in a job or career — where opportunities can pay-off both in terms of long-term income and quality of life. Thirty-six percent of Connecticut residents think opportunities for advancement in jobs and careers are better in Connecticut, compared to only 12% who think they are worse.

Local jobs per 100 residents
June 92 June 97 %Chg

Bridgeport LMA	40.2	41.1	2.2
Ansonia	27.1	24.6	-9.1
Beacon Falls	15.3	15.4	0.8
Bridgeport	37.9	34.5	-8.9
Derby	41.6	41.4	-0.5
Easton	10.5	11.6	9.8
Fairfield	37.2	41.7	12.1
Milford	54.2	60.6	11.8
Monroe	21.1	32.5	54.3
Oxford	15.0	17.5	16.9
Seymour	25.0	28.6	14.6
Shelton	42.7	52.4	22.9
Stratford	60.4	53.7	-11.1
Trumbull	41.3	42.1	2.1

Danbury LMA	42.4	42.3	-0.3
Bethel	35.4	33.9	-4.2
Bridgewater	12.6	12.7	0.6
Brookfield	43.4	48.6	11.9
Danbury	65.7	65.7	0.0
New Fairfield	8.8	10.9	23.9
New Milford	36.2	34.9	-3.7
Newtown	33.4	28.4	-14.9
Redding	11.9	10.7	-10.6
Ridgefield	34.7	39.2	13.2
Roxbury	9.8	11.1	13.5
Sherman	7.9	11.2	42.4
Washington	33.6	35.4	5.3

Danielson LMA	30.8	33.1	7.3
Brooklyn	16.5	17.6	6.4
Eastford	21.5	28.8	33.9
Hampton	10.6	10.6	0.0
Killingly	44.8	44.8	0.0
Pomfret	39.2	50.8	29.7
Putnam	54.2	61.6	13.8
Scotland	5.6	10.0	77.5
Sterling	12.4	13.8	11.2
Thompson	17.2	17.2	0.1
Union	19.7	13.6	-30.9
Voluntown	6.4	12.0	87.0
Woodstock	21.0	22.8	8.9

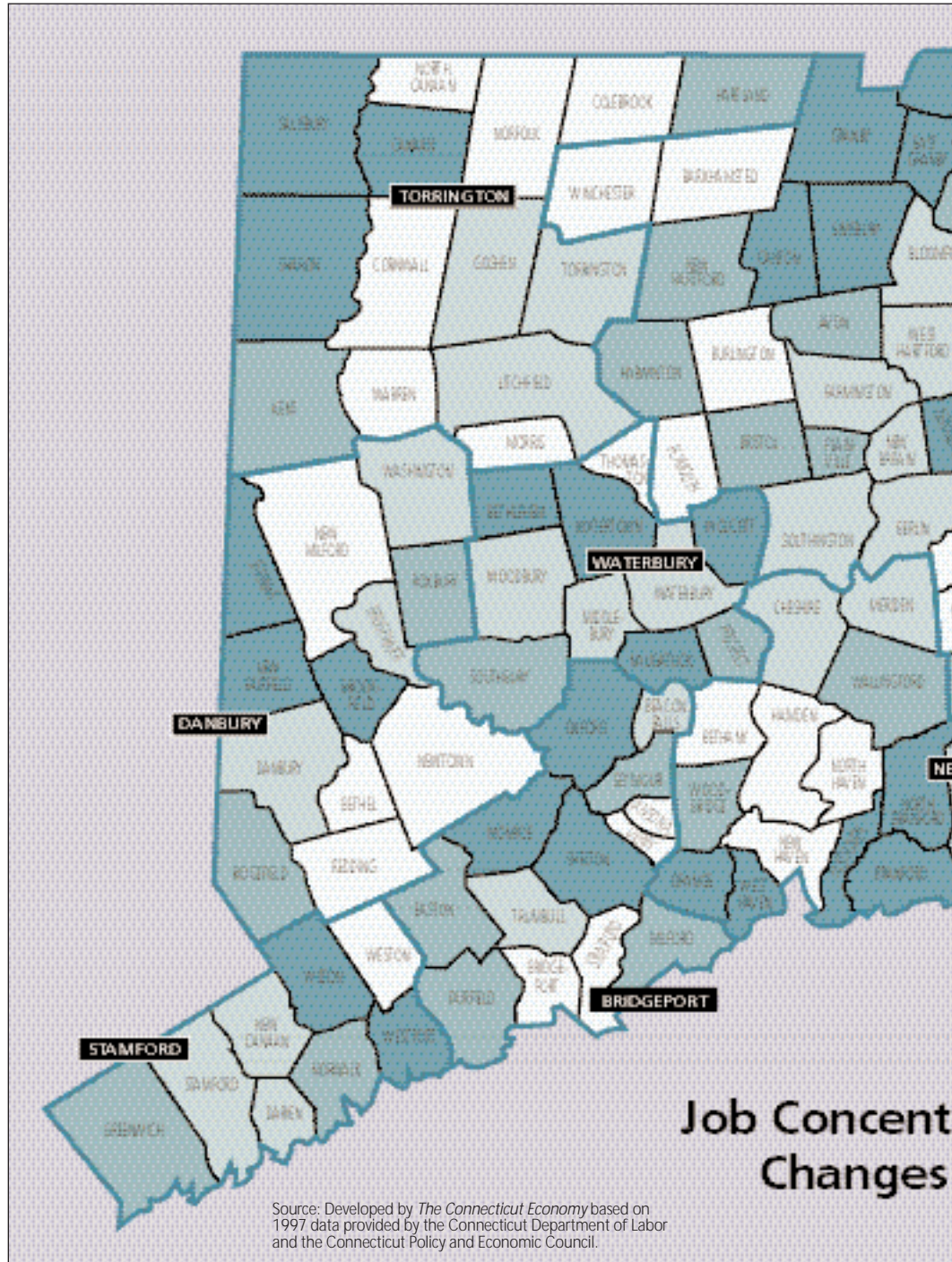
Hartford LMA	50.7	52.2	3.0
Andover	9.0	10.6	17.3
Ashford	9.4	10.5	11.8
Avon	53.8	60.8	12.9
Barkhamsted	18.3	16.8	-8.4
Berlin	58.6	62.2	6.3
Bloomfield	84.2	88.2	4.8
Bolton	18.6	21.9	18.0
Bristol	31.1	33.5	7.8
Burlington	11.4	11.2	-2.5
Canton	25.2	29.7	18.0
Chaplin	10.2	14.5	41.2
Colchester	24.0	25.8	7.6
Columbia	15.0	15.6	4.1
Coventry	9.2	9.5	3.8
Cromwell	35.3	46.3	31.1
Durham	22.4	23.8	6.2
East Granby	83.1	97.4	17.3
East Haddam	21.4	23.0	7.7
East Hampton	15.4	15.2	-1.5

Local jobs per 100 residents
June 92 June 97 %Chg

East Hartford	71.7	65.2	-9.1
East Windsor	50.3	61.3	21.9
Ellington	17.8	20.5	15.2
Enfield	38.5	44.7	16.1
Farmington	118.5	123.9	4.6
Glastonbury	43.5	47.5	9.3
Granby	12.7	22.7	79.0
Haddam	26.0	18.5	-29.1
Hartford	97.1	93.4	-3.8
Harwinton	8.4	9.3	11.2
Hebron	16.7	18.1	8.3
Lebanon	8.8	11.7	32.7
Manchester	49.1	58.0	18.1
Mansfield	45.4	48.1	5.9
Marlborough	20.9	24.0	15.1
Middlefield	34.9	32.6	-6.4

Local jobs per 100 residents
June 92 June 97 %Chg

Middletown	65.8	65.4	-0.6
New Britain	35.5	36.1	1.8
New Hartford	21.0	22.7	8.1
Newington	51.9	61.6	18.7
Plainville	47.1	50.7	7.8
Plymouth	20.6	20.5	-0.6
Portland	35.9	32.3	-10.1
Rocky Hill	62.2	70.3	13.1
Simsbury	40.3	56.3	39.7
Somers	26.1	21.5	-17.9
South Windsor	46.7	49.8	6.7
Southington	43.1	43.6	1.0
Stafford	32.2	34.6	7.4
Suffield	26.7	31.5	18.2
Tolland	22.4	23.7	5.9
Vernon	31.2	32.7	4.9



Local jobs per 100 residents
June 92 June 97 %Chg

West Hartford	43.8	46.8	6.8
Wethersfield	42.6	39.8	-6.5
Willington	10.0	15.3	52.5
Winchester	36.7	35.7	-2.8
Windham	42.4	41.6	-2.1
Windsor	62.0	70.4	13.5
Windsor Locks	137.4	123.4	-10.2
Lower River LMA	41.5	43.6	5.1
Chester	49.3	48.4	-1.7
Deep River	29.2	29.0	-1.0
Essex	53.9	57.2	6.2
Lyme	7.6	6.5	-15.2
Westbrook	45.4	50.6	11.4

Local jobs per 100 residents
June 92 June 97 %Chg

New Haven LMA	44.9	46.6	3.8
Bethany	23.0	20.9	-9.1
Branford	42.8	51.1	19.4
Cheshire	46.8	48.5	3.7
Clinton	28.7	32.6	13.5
East Haven	21.6	25.3	16.9
Guilford	26.8	28.7	7.3
Hamden	37.3	35.8	-3.9
Killingworth	11.8	10.8	-8.3
Madison	26.5	30.4	14.7
Meriden	40.7	42.7	4.9
New Haven	59.2	58.0	-2.1
North Branford	19.6	25.6	30.5
North Haven	106.1	100.7	-5.1
Orange	56.5	67.3	19.0
Wallingford	53.5	57.6	7.5

Local jobs per 100 residents
June 92 June 97 %Chg

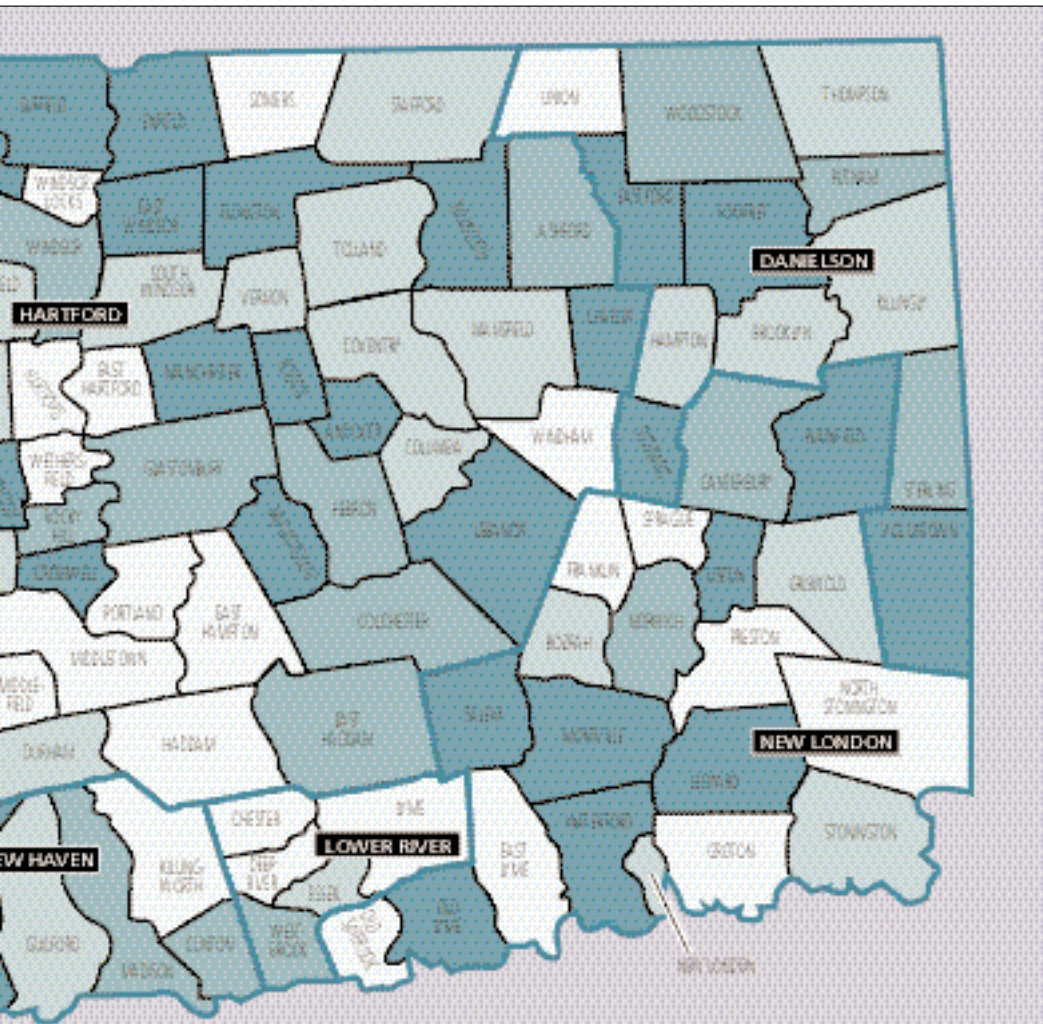
West Haven	29.0	34.1	17.6
Woodbridge	32.4	37.1	14.7
New London LMA	44.3	51.6	16.4
Bozrah	30.8	31.4	1.9
Canterbury	8.8	9.9	12.4
East Lyme	30.9	29.0	-6.2
Franklin	48.0	44.0	-8.4
Griswold	15.9	16.6	4.6
Groton	69.8	65.4	-6.3
Ledyard	36.9	110.7	200.1
Lisbon	9.9	15.3	54.6
Montville	17.0	54.0	218.3
New London	65.4	65.7	0.3
North Stonington	29.4	29.1	-0.9
Norwich	41.8	46.6	11.4
Old Lyme	25.3	30.3	19.7
Old Saybrook	60.7	57.3	-5.6
Plainfield	28.4	32.8	15.4
Preston	28.9	22.1	-23.5
Salem	13.7	19.7	43.6
Sprague	30.7	29.5	-3.7
Stonington	39.8	42.4	6.4
Waterford	62.0	74.1	19.6

Stamford LMA	55.3	60.8	10.1
Darien	43.7	44.6	2.2
Greenwich	53.0	60.0	13.2
New Canaan	29.2	30.8	5.6
Norwalk	54.9	62.3	13.5
Stamford	67.6	70.9	4.9
Weston	13.6	11.1	-18.5
Westport	55.9	67.6	21.1
Wilton	48.0	56.1	16.8

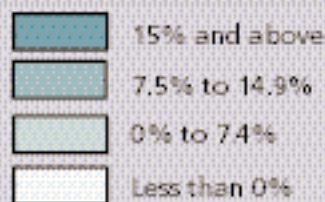
Torrington LMA	40.0	40.8	1.9
Canaan	71.7	84.0	17.2
Colebrook	5.9	5.6	-5.1
Cornwall	27.0	23.5	-12.9
Goshen	18.5	19.3	4.2
Hartland	8.0	8.9	11.0
Kent	33.8	38.2	13.1
Litchfield	40.6	40.9	0.7
Morris	33.6	11.4	-66.2
Norfolk	18.4	17.1	-6.9
North Canaan	57.5	46.9	-18.3
Salisbury	42.0	55.0	30.9
Sharon	30.0	43.0	43.2
Torrington	46.5	47.1	1.3
Warren	8.2	6.2	-24.5

Waterbury LMA	36.7	38.9	5.9
Bethlehem	11.1	12.9	16.0
Middlebury	53.0	56.3	6.2
Naugatuck	23.6	29.8	26.2
Prospect	24.4	26.9	10.2
Southbury	50.1	54.7	9.2
Thomaston	48.0	40.7	-15.3
Waterbury	41.3	41.6	0.7
Watertown	39.3	45.9	16.7
Wolcott	19.2	22.3	16.2
Woodbury	23.1	24.3	5.5

Statewide	46.2	48.5	4.8
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Map shows the percent change of jobs in town per 100 residents between June 1992 and June 1997



Migration By Town: in the 1990s

The Persistence of Place in an Internet World

By William A. McEachern

The revolution spawned by the invention of the microchip is decentralizing the acquisition, analysis, and transmission of information. The Internet erases distance, reducing the need to locate activities in a central place. For example, at least one Hartford insurer is solving its Y2K problem using a team of programmers in India. These days, people who say they work at the home office are often referring, not to corporate headquarters, but to the room just off their kitchen. The question addressed here is: How does a wired world affect the value of location?

During the Industrial Revolution, production shifted from rural cottages to centrally powered factories built along rivers. Factory towns sprang up along these sources of water power. The introduction of steam power, and later electricity, liberated the factory from the river. Lower transportation and communication costs gave cities a production advantage.

The technological and regulatory advances in transportation and communication, however, gradually reduced the manufacturing advantage of central cities. For example, the nation's freight bill as a percentage of GDP has been declining for decades. Economic activity has now spread throughout a metropolitan region. The powerful central city with channels of activity radiating from its center has been replaced by a network containing many nodes of varying strength, linked by a web of distribution and communication arteries.

These events have now led to a sharp fall in the geographic concentration of manufacturing in recent years. Manufacturing has disappeared faster from central cities, especially big cities, than it has from the nation as a whole. The cost to manufacturers of an urban location now largely outweighs the benefits. On a national and global level, some manufacturers have also migrated from industrial states to other states and other nations.

Connecticut, a largely urban state, was dominant in manufacturing right after World War II. What did this dominance do for the state's per capita income? Connecticut's per capita income ranked sixth in the nation in 1950. Since then, Connecticut has lost its manufacturing lead, with our employment profile converging toward the national profile. Has our income profile also come to look more like the nation's? Not really.

Location, Location, Location

Connecticut is located in the most productive region of the most productive nation in the world. Positioned between Boston and Metropolitan New York and New Jersey, Connecticut is blessed with a strategic location ideal for reaching fertile markets of the Northeast and the entire East Coast. In terms of per capita income, Connecticut, New Jersey, Massachusetts, and New York rank one through four in the nation.

Not only is per capita income high, the overall size of the four-state economy is substantial. The gross state product of the four states totaled \$1.2 trillion most recently, about one-sixth of the U.S. gross domestic product. Moreover, this four-state total exceeds that of all but three other nations (Japan, Germany, and China).

Connecticut's location in the thick of other productive states boosts our high per capita income. Interstate trade of goods and services generates more jobs and income than does international trade. For example, one study of trade patterns found that trade linkages between Canadian provinces were 20 times more prevalent than those between Canadian provinces and U.S. states of similar size and distance. Comparable results were found for trade patterns within other developed countries.

If the information revolution has somehow diminished the importance of location, then what explains the national dominance of Connecticut, which has ranked first in the country in per capita income for more than a decade and whose lead has increased most recently? In fact, location has favored Connecticut, New Jersey, and Massachusetts, all of which gained ground since 1950, when they ranked sixth, eighth, and twelfth nationally in per capita income (then, as now, New York ranked fourth).

And, if the advantage of location has been eroded over time by technology, why has per capita income in Fairfield County increased relative to the rest of the state? Per capita income in Fairfield County was 27% above the state average in 1989; that lead stretched to 40% by 1996. No doubt, at least some of Fairfield County's lofty status springs from its proximity to Metropolitan New York.

More generally, if technology has eroded the advantage of location, then we should observe a decline in the income advantage that metropolitan areas have over nonmetropolitan areas. But the opposite has occurred, at least in Connecticut. The per capita income of metropolitan areas in Connecticut exceeded that of nonmetropolitan areas by 14% in 1989 but by 28% in 1996. Nationally, the metro-to-nonmetro advantage also increased but more modestly from 39% in 1989 to 40% in 1996. So the information revolution has not diminished the dominance of metropolitan areas, at least not so far.

Viewed in another way, if technology has reduced the advantage of a particular metropolitan



location in Connecticut, then income differences across metropolitan areas should decline. According to federal definitions, Connecticut has three metropolitan areas: Hartford, New London-Norwich, and the New Haven-Bridgeport-Stamford-Danbury-Waterbury metropolitan area (or the state's Southwestern metro area). What has happened to income differences across these areas? In 1989, the Southwestern metro region's per capita income was 12% above that of the Hartford metro area and 34% above that of New London-Norwich. By 1996, per capita income in Connecticut's Southwestern metro area was 28% higher than that of the Hartford metro area and 42% above that of the New London-Norwich area. So the income advantage of Connecticut's Southwestern metro area increased rather than decreased.

The Case for Place and Face-to-Face

What could explain the growing advantage of metropolitan areas more generally and of specific metro areas in particular? New firms are more likely locate near industries that draw on similar resources. And competition between similar firms spurs new ideas. Research shows that a new patent much more likely cites a patent from a firm that is geographically close.

Metropolitan areas, particularly those densely packed with firms, are incubators for the production of ideas, ideas that nurture economic growth. The geographic proximity created within metropolitan areas allows ideas to travel more rapidly. As people interact, they exchange ideas, spreading knowledge more quickly. Some ideas piggyback on workers shifting among firms. Urban density accelerates the interaction among people. As Alfred Marshall said back in 1890, in regions thick with firms, "the mysteries of the trade become no mystery but are, as it were, in the air."

Some recent research shows that sharing a labor pool is a key reason why firms locate together. Insurance companies in the Hartford region benefit from having a pool of industry-trained workers. Dense labor markets also benefit workers, giving them more job opportunities and some recourse should their employer's business sour.

But doesn't teleconferencing and the Internet trump the need for proximity? After all, contact is just a satellite feed or a mouse-click away. Subtle nuances in the tone of voice or facial expression are difficult to transmit electronically. Thus, metropolitan areas will remain places where face-to-face encounters can occur. What's more, virtual contact must be planned, at least by one party, and this eliminates the serendipitous meetings that can occur in dense areas. Some researchers argue that such chance encounters are particularly good sources of ideas that promote growth.

The Internet may be more of a complement to, rather than a substitute for, face-to-face contact. People are more likely to want to meet those with whom they have had some interaction. For example, despite the rise of the Internet, the conference and convention business thrives. Business travel has also risen significantly since the late 1980s. As

demonstrated by Silicon Valley, the rise of cutting-edge technology encourages, rather than eliminates, the need for geographic proximity.

Branding Connecticut

Given our geographic advantage, we should pay more attention to the national and global image of Connecticut. If we do not define ourselves, others will. What do people think when they hear of Connecticut? What is Connecticut's brand?

In fiction, Connecticut has been characterized as a place of mindless drones, bores, snobs, or angst-ridden rich people. For example, wives existed in a perpetually blissful state in the mythical town of Stepford, Connecticut. The dysfunctional family in Eugene O'Neill's greatest play, *Long Day's Journey Into Night*, spent that long day at their summer home in New London. Edwin Albee's Pulitzer Prize winning play, *A Delicate Balance*, examines another dysfunctional Connecticut family. Ditto for the family in *The Ice Storm*.

On a lighter note, Rebecca, a lead character in *Cheers*, was a UConn graduate. In one episode Norm ribbed her about the prowess of the school's football team. "What were they called" he jibed, "the Fighting Insurance Salesmen?"

We must continue to work on Connecticut's public image to nurture what in the new century may turn out to be an incredibly valuable asset. Although "the land of steady habits" may have some appeal in a turbulent world, it reinforces a hidebound stereotype. The current slogan, "The state that thinks like a business," is better but makes it sound as if the state is run by actuaries.

As I see it, there are two Connecticut qualities the world should know more about. First, we have good schools and colleges, which turn out a well-educated and highly-trained work force. Our work force produces some of the most technologically sophisticated products on earth—from computer programs to life-saving drugs to jet engines. Second, Connecticut is an emerging player in the arts, sports, and leisure industries. In the arts, the state has an impressive array of galleries, museums, concert halls, and playhouses, and is home to the Yale School of Drama, with graduates such as Jodie Foster, John Turturro, Frances McDormand, Meryl Streep, Paul Newman, Sigourney Weaver, Elia Kazan, and Oliver Stone. In sports, Connecticut has an exciting college basketball program, boasts competitive minor league teams, and, soon, the New England Patriots, is home to ESPN, the most successful sports broadcaster in history, and has several auto-racing venues, the largest spectator sport in the country. In the leisure industry, Connecticut offers the charm of New England's countryside and seaports along with two of the largest casinos in the world, plus attractions such as Mystic Aquarium and Mystic Seaport. Note that all these features are very much a part of Connecticut—they are location specific.

How about promoting an image that captures these two facets of the state—something like "In Connecticut, we work smarter and play harder." Just a thought.



The Regions: Still Moving Along At a Steady Clip

By Edwin L. Caldwell

The regions advanced in the fourth quarter of 1998 more slowly than in the second quarter. Two of the ten regions experienced a very small drop in nonfarm employment compared with 1997-Q4, while three regions suffered a year-to-year shortfall in the previous quarter. But, as was also true of the previous quarter, all 10 regions posted year-to-year reductions in the unemployment rate. Four regions — Danbury, Lower River, Stamford, and Torrington — registered less than 3% of their labor forces as unemployed. Permits for the construction of new housing took a major leap in the fourth quarter, compared with the same period last year. All 10 regions posted substantial gains.



BRIDGEPORT

Bridgeport was one of the regions to experience a very small reduction in nonfarm employment in 1998-Q4 from the same period a year ago — 130 out of a total of 186,000. Small losses were sustained in manufacturing; transportation, communications and utilities (TCU¹); finance, insurance and real estate (FIRE²), and government, but these were nearly counterbalanced by gains in construction, trade, and the services. The unemployment rate dropped to 3.9% from 5.0% the year earlier, the first time it has been under 4% in a long time. A glance at the accompanying chart indicates that the rate almost reached 10% in 1992. Permits for the construction of new housing posted a large 44% increase over last year with Fairfield, Milford, and Shelton leading the pack. The President's recently-submitted defense budget contained good news and bad news for Stratford's Sikorsky Aircraft. It continues funding for all the company's major projects but provides for the purchase of only 24 new Blackhawk helicopters. The company figures it needs an order for 36 to maintain present staffing.



DANBURY

Danbury added another 1,100 jobs from 1997-Q4 to this latest quarter. Very strong gains were posted in TCU¹ and FIRE² and more modest ones in construction, the services, and government. Manufacturing and trade sustained losses. The unemployment rate dropped to 2.2% from 2.6% over the year to tie

Stamford for the lowest rate in the state. And it could go still lower, assuming the bodies can be found, because job openings registered with the Connecticut State Job Service remain at about the same strong level as this time last year. The accompanying charts show that Danbury, Lower River, and Stamford are the long-term champions with respect to low

unemployment rates. The Danbury region more than doubled the number of housing permits issued in the fourth quarter, compared with the same period last year. Danbury itself accounted for most of that surge. Energy Research Corp., a Danbury-based maker of fuel cells, is spinning off its battery division, named Evercel, and expects to expand its workforce by 25 to meet increasing demand.



DANIELSON

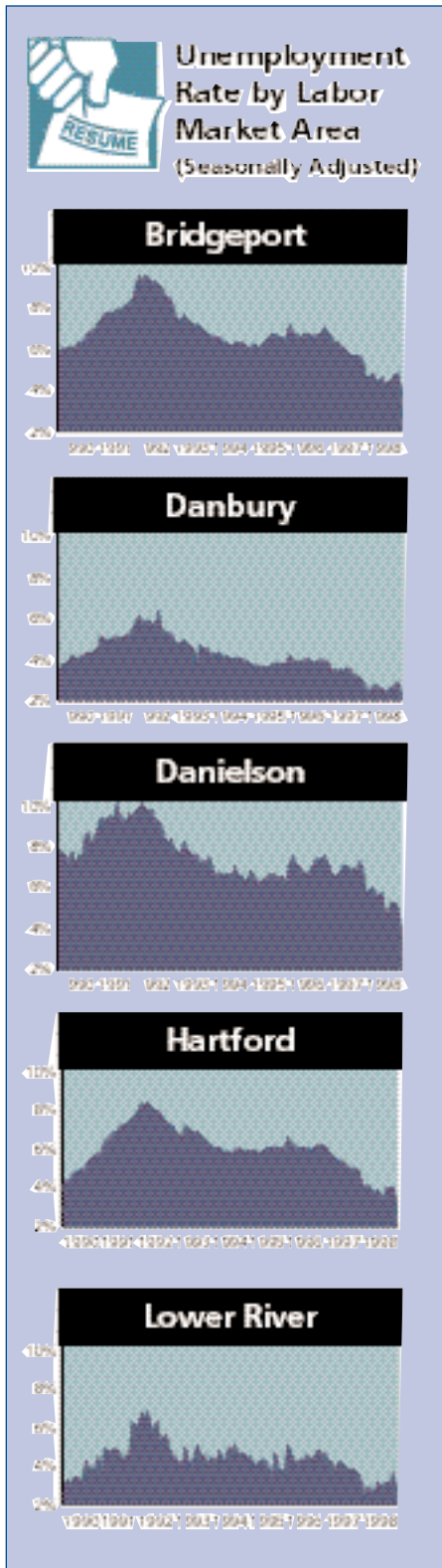
Danielson added 400 new nonfarm jobs between 1997-Q4 and the same period a year later. That represented the second largest percentage increase among the regions. One-hundred of those jobs were in construction. Manufacturing, TCU¹, and FIRE² held steady over the year while trade, the services, and government scored gains. The unemployment rate dropped to 4.2% in 1998-Q4 from 6.5% the year earlier but remained the highest among the regions. However, as the accompanying chart illustrates, this latest rate represents a remarkable recovery from 1992, when the rate exceeded 10% for a short period. Danielson almost tripled the number of housing permits issued in the fourth quarter compared to last year. Brooklyn provided most of the strength. Killingly-based United Natural Foods, the largest distributor of natural foods in the nation, closed its New Hampshire operation and merged it into its Killingly operation with the addition of 100 jobs.



HARTFORD

Hartford added nearly 2,700 nonfarm jobs over the year to bring its 1998-Q4 total to 607,600. Manufacturing managed to score a small gain in Hartford, the only region where it advanced. Average weekly earnings in manufacturing rose to \$697 to retain their spot as highest among the regions. TCU¹ also added jobs, as did FIRE², the services, and government. Construction and trade lagged. The unemployment rate dropped to 3.2% in this latest period from 4.4% a year ago. The number of housing permits jumped a strong 41% over last year. Strength was widespread throughout the region, with Cromwell, Farmington, and Manchester supplying much of it.

A new company, Connecticut Reassurance, will open in Hartford in the near future and will likely create several hundred jobs. An international company that makes ejection seats for fighter jets, IBP Aerospace, will establish new headquarters and manufacturing facilities in



Prestige Park in East Hartford. Plans are now funded to create Coltsville Heritage Park, a project which will turn the old armory into a new complex with an industrial heritage museum, apartments, and shops. Rainbow Growers Group, a Dutch cooperative, plans to spend \$13 million to build an 18-acre greenhouse in Suffield, the latest step toward opening a major perishables center near Bradley. It will create about 50 new jobs. Pratt & Whitney is giving a boost to the local housing market by transferring 800 engineers from its Florida operation. In turn, the recently-announced defense budget, if passed, gives a boost to Pratt & Whitney by funding the continuation of its most important programs. The retailing scene in Willimantic got a welcome addition with the opening of a new 75,000 square foot facility by BJ's discount operation.

LOWER RIVER

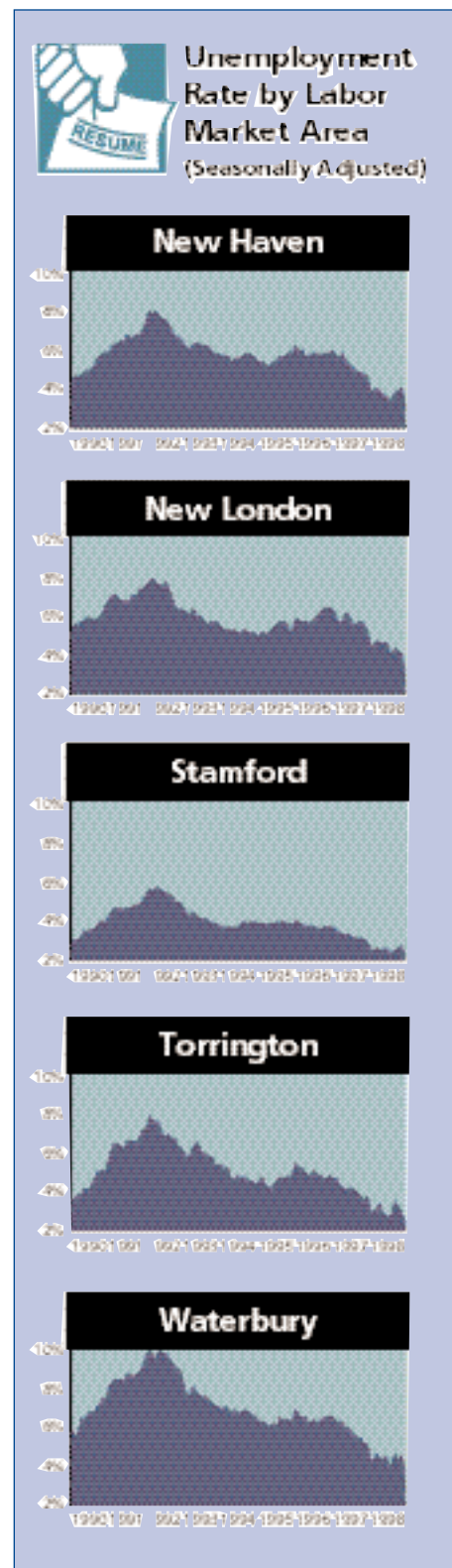
Little Lower River set the pace in this latest reporting period. It added 300 jobs between 1997-Q4 and 1998-Q4 for a rate of growth exceeding 3%. That was more than twice the rate of any other region. TCU¹, trade, and FIRE² accounted for most of the growth. The services added a few jobs and construction and government held steady. The region's unemployment rate fell to 2.7% in 1998-Q4 from 3.3% a year earlier but three other regions had a still lower rate, which points out the extreme tightness of the labor market in the state. The number of permits for the construction of new housing rose 28% over last year, with Essex supplying half of the increase.

NEW HAVEN

New Haven added about 300 nonfarm jobs over the year from 1997-Q4 to 1998-Q4 to bring the total to 253,500. The gain came from TCU¹, trade, the services, and government. Construction, manufacturing, and FIRE² came up a little short. The unemployment rate dropped from 4.2% to 3.2% over the year. At 8%, New Haven posted the smallest percentage increase in housing permits among the regions, with the increase rather evenly divided among the 17 towns. The Federated Department Stores are expanding their facilities in Cheshire which house the mail operations of their Macy and Bloomingdale units. They have 500 employees now and are hiring more. The Meriden Parkade will welcome another major retailer in March, Hancock Fabrics, which has 480 stores across the nation.

NEW LONDON

New London added 1,830 jobs over the year, with gains chalked up by construction, TCU¹, trade, FIRE², the services, and government. Manufacturing lost 330 jobs. The unemployment rate dropped from 5.0% in 1997-Q4 to 3.5% in 1998-Q4. Housing permits scored a substantial gain of 29%.



East Lyme, Groton, Old Lyme, and Stonington were the leaders. President Clinton's budget recommends the direction of more repair and maintenance work to Electric Boat than it has received in the past. If passed, the funds could create hundreds of new jobs.

STAMFORD

Stamford added 2,800 new jobs in 1998-Q4 compared with the same period a year earlier. The majority of the increase occurred in FIRE² and the services. Trade also added to its payrolls. Construction, TCU¹, and government experienced losses. Stamford tied with Danbury in posting the lowest unemployment rates among the regions in the fourth quarter — 2.2%. Permits granted for the construction of new housing rose 24% over a year ago. Greenwich, Norwalk, and Stamford led this region of eight towns.

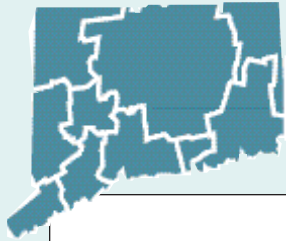
TORRINGTON

Torrington joined Bridgeport as one of only two regions to post losses in jobs over the year. The loss was spread among construction, manufacturing, TCU¹, and government. FIRE² held steady and trade added jobs. Torrington's unemployment rate of 2.3% was only a hair above the lows of 2.2% recorded by Danbury and Stamford. Permits granted for the construction of new housing units in 1998-Q4 increased 25% over the same period a year ago, with most of the increase coming from Torrington.

WATERBURY

Waterbury added 2,170 jobs in 1998-Q4 over the same period a year earlier. Construction, trade, the services, and government contributed to the growth. Manufacturing, TCU¹, and FIRE² sustained losses. Waterbury's unemployment rate experienced a substantial drop from 4.7% in 1997-Q4 to 3.6% in 1998-Q4, bringing nine regions to rates under 4%. Permits granted for the construction of new housing increased by a third over the year with strength distributed rather evenly over this region of ten towns. The leaders were Southbury and Wolcott. Three national chains have announced that they will add their shops to the Brass Mill Center early this year — Limited Too, Lerner's New York, and Motherhood.

¹TCU - Transportation, Communication, and Utilities
²FIRE - Finance, Insurance, and Real Estate



LABOR MARKET DATA

Labor Market Area	Labor Force		Nonfarm Jobs		Manufacturing Jobs	
	1998-Q4 (000)	% Change Year Ago	1998-Q4 (000)	% Change Year Ago	1998-Q4 (000)	% Change Year Ago
Bridgeport	216.5	-0.9	186.0	-0.1	39.4	-1.6
Danbury	110.2	0.9	89.1	1.3	18.4	-3.0
Danielson	33.1	-0.8	20.9	2.0	6.1	0.0
Hartford	580.7	-0.6	607.6	0.4	94.4	0.8
Lower River	12.5	2.5	9.9	3.1	3.0	-2.2
New Haven-Meriden	269.1	-0.9	253.5	0.1	39.1	-0.8
New London-Norwich	153.5	-0.2	140.0	1.3	24.0	-1.4
Stamford	197.3	0.7	211.2	1.3	26.5	-4.3
Torrington	38.3	-1.2	29.0	-0.8	6.2	-2.6
Waterbury	119.5	0.4	90.0	1.3	18.9	-1.4
Statewide	1714.2	-0.3	1675.6	1.3	276.5	-0.4

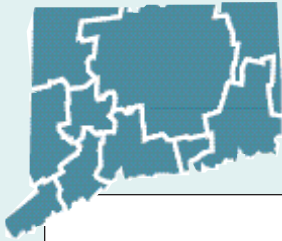
Labor Market Area	Construction Jobs		Trade Jobs		FIRE* Jobs	
	1998-Q4 (000)	% Change Year Ago	1998-Q4 (000)	% Change Year Ago	1998-Q4 (000)	% Change Year Ago
Bridgeport	7.2	6.4	42.5	1.0	10.3	-1.0
Danbury	3.9	7.3	22.7	-0.9	5.1	8.5
Danielson	1.0	11.5	4.7	1.4	0.6	0.0
Hartford	19.8	-1.8	126.6	-0.2	68.6	0.0
Lower River	0.3	0.0	2.3	7.8	0.4	20.0
New Haven-Meriden	9.4	-0.7	53.8	0.1	12.8	-0.3
New London-Norwich	4.9	5.0	29.1	1.2	3.9	5.4
Stamford	5.8	-3.9	48.1	1.8	26.6	7.0
Torrington	2.1	-6.0	6.8	3.5	0.9	0.0
Waterbury	3.8	9.5	19.6	2.3	4.2	-3.1
Statewide	62.8	4.1	369.5	0.8	136.1	2.6

* Finance, Insurance & Real Estate

Labor Market Area	Service Jobs		Government Jobs		TCU* Jobs	
	1998-Q4 (000)	% Change Year Ago	1998-Q4 (000)	% Change Year Ago	1998-Q4 (000)	% Change Year Ago
Bridgeport	58.6	0.2	21.1	-1.2	7.1	-1.4
Danbury	25.4	2.7	10.7	2.5	2.8	10.5
Danielson	4.8	2.1	3.2	4.3	0.5	0.0
Hartford	174.0	0.8	96.3	0.9	27.7	1.5
Lower River	2.6	1.3	0.9	0.0	0.4	33.3
New Haven-Meriden	90.3	0.3	31.5	0.2	16.7	2.2
New London-Norwich	35.0	1.9	36.5	1.6	6.6	2.6
Stamford	76.3	2.9	18.0	-1.3	9.9	-2.3
Torrington	9.1	0.4	3.3	-2.9	0.5	-16.7
Waterbury	27.3	2.2	12.5	2.2	3.5	-1.9
Statewide	521.5	2.3	232.0	0.2	77.2	1.4

*Transportation, Communications, and Utilities

Sources: Quarterly figures developed 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.



LABOR MARKET DATA

Labor Market Area	Number Unemployed		Unemployment Rate (%)		Initial Unemployment Claims	
	1998-Q4 (000)	% Change Year Ago	1998-Q4	1997-Q4	1998-Q4	% Change Year Ago
Bridgeport	8.5	-22.5	3.9	5.0	1703	17.6
Danbury	2.4	-15.3	2.2	2.6	491	17.4
Danielson	1.4	-35.4	4.2	6.5	247	-32.7
Hartford	18.7	-27.6	3.2	4.4	3,768	-5.1
Lower River	0.3	-16.7	2.7	3.3	*	*
New Haven-Meriden	8.6	-24.6	3.2	4.2	1635	9.2
New London-Norwich	5.3	-30.4	3.5	5.0	648	-22.1
Stamford	4.3	-18.8	2.2	2.7	674	7.3
Torrington	0.9	-25.7	2.3	3.0	398	-4.7
Waterbury	4.3	-22.9	3.6	4.7	912	-11.0
Statewide	54.1	-25.6	3.2	4.2	10,474	-1.2

* Lower River included in Hartford LMA.

Labor Market Area	Average Weekly Earnings		Average Weekly Hours		Average Hourly Earnings	
	1998-Q4	% Change Year Ago	1998-Q4	% Change Year Ago	1998-Q4	% Change Year Ago
Bridgeport	\$649.92	-0.3	42.4	-2.3	\$15.34	2.1
Danbury	625.93	-4.5	42.0	-4.8	14.89	0.3
Danielson	489.89	3.8	41.4	1.8	11.82	2.0
Hartford	696.65	1.1	44.1	-0.2	15.78	1.3
Lower River	553.33	9.5	41.9	4.1	13.20	5.2
New Haven-Meriden	636.32	1.9	42.6	0.2	14.94	1.7
New London-Norwich	671.86	3.9	43.0	0.4	15.64	3.5
Stamford	543.95	-3.5	39.6	-2.3	13.75	-1.2
Torrington	536.04	-2.9	41.6	-2.1	12.88	-0.8
Waterbury	623.09	5.3	44.0	1.0	14.15	4.2
Statewide	\$649.88	2.8	43.3	0.5	\$15.00	2.2

Labor Market Area	State Job Service Postings		Housing Prices		Housing Permits	
	1998-Q4	% Change Year Ago	1998-Q4 (000)	% Change Year Ago	1998-Q4	% Change Year Ago
Bridgeport	1551	-21.8	203.7	7.8	330	43.5
Danbury	458	-3.7	271.7	7.2	512	109.0
Danielson	138	-34.6	*	*	149	166.1
Hartford	4,274	8.9	128.1	4.0	1104	40.8
Lower River	*	*	*	*	32	28.0
New Haven-Meriden	1,447	4.9	128.1	10.4	262	8.3
New London-Norwich	338	-16.1	170.3	10.0	224	28.1
Stamford	460	-5.3	508.1	6.5	143	24.3
Torrington	509	26.9	95.4	-2.0	55	25.0
Waterbury	2,349	72.5	146.7	1.3	160	33.3
Statewide	10,907	2.6	\$201.9	6.1	2971	47.2

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

Sources: Quarterly figures developed 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.

Car Sales and Road Traffic.

Humorist Art Buchwald once argued "As the economy gets better, everything else gets worse." He went on, "The more cars that are sold, the bigger the pollution and traffic problems you have." He might get some support based on Connecticut's experience during the 1990s.

You're not imagining things if you think Connecticut roads have grown more congested. The top panel in the chart shows the annual percent change during the 1990s in traffic volume on the 37 Connecticut roads monitored by the Department of Transportation. Despite the state's flat population, traffic volume has increased each year since 1991, with the largest jump occurring in 1998. Overall, traffic has increased by a total of 17.5% since 1991.

How come traffic has increased and population hasn't? More jobs mean more commuting and more income, and more income means more shopping and more recreational driving.

More income also means more auto sales. The bottom panel in the chart shows new auto registrations in Connecticut during those same years. Note how changes in traffic volume closely relate to new registrations. For example, new auto registrations declined in 1990 and 1991, and so did road traffic. Registrations increased during the next three years and road traffic grew by successively larger amounts. Registrations dropped in 1995 and 1996, and traffic

growth cooled. Finally, registrations increased in the last two years, as did the rate of traffic growth.

Incidentally, *The Connecticut Economy* has found that road traffic is usually a reliable measure of economic activity such as employment and gross state product. What's more, traffic data are typically available more quickly than nearly all other measures.

Metropolitan Connecticut

For federal statistical purposes, the U.S. Office of Management and Budget sorts the United States into 315 metropolitan areas. There are three such areas in Connecticut: (1) Hartford, (2) New London-Norwich, and (3) the New Haven-Bridgeport-Stamford-Danbury-Waterbury metropolitan area, or the state's Southwestern metro area. These three metro areas in 1996 captured 91% of the state's population and 93% of personal income.

Nationally, metro areas included 80% of the U.S. population and 85% of personal income. Put another way, non-metro, or rural, areas in Connecticut made up only 9% of the state population and 7% of the income, compared to U.S. figures of 20% and 15% respectively. So rural residents are only half as significant in Connecticut as in the nation, whether measured by population or their share of income.

Both in Connecticut and in the nation, metro per capita income exceeds that in rural areas. In Connecticut, metro per capita income is 28% higher than rural per capita income. Nationally, metropolitan per capita income is 40% higher. So the metropolitan income advantage is less in Connecticut than in the nation. You might argue that because Connecticut is so geographically small, its rural areas aren't quite so rural.

Let's examine each metropolitan area. Per capita income in Connecticut's Southwestern metro area was \$38,962 in 1996, the most recent year available, ranking it second among the 315 U.S. metro areas (San Francisco ranked first, a mere 2% higher). The Hartford metro's per capita income of \$30,473 ranked it 15th in the country, ahead of 300 other metro areas. The Southwestern and Hartford metro areas also ranked first and second in New England.

Per capita income of \$27,385 in New London-Norwich ranked that metro area 34th nationally. So the state's poorest metro area still outranked 281 other U.S. metro areas. There are only four other

New England metro areas—Boston, which ranked 16th, Portland 47th, Providence 86th, and Springfield 112th.

Our Southwest metro area accounted for 50% of the state's population and 57% of the personal income; the Hartford area, 34% and 30%; and New London-Norwich, 8% and 6%, respectively.

Two Ends of the State

In this issue, Cathy E. Minehan, President of the Boston Federal Reserve Bank, makes some telling points about the link between education and income (see the back cover). She also calls attention to income differences across Connecticut's counties, noting that most recently per capita income in Fairfield County was twice that of Windham County.

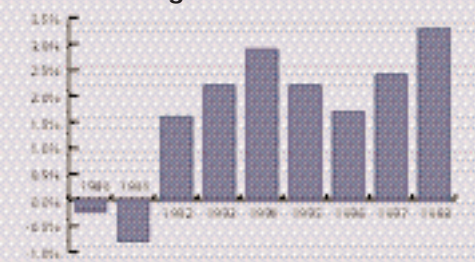
Such a difference may seem unusual in view of Connecticut's small size, but the per capita income of the top-ranked county was at least twice that of the bottom-ranked county in 36 other states. In five states, the top ranked county was at least three times that of the bottom ranked county. And in two states (New York and Nebraska), the top ranked county was at least four times that of the bottom ranked county. In most of the remaining states, where the top-to-bottom multiple was less than two, county per capita income levels were typically below the national average.

Fairfield County is, by any standard, exceptional, consisting of 23 wealthy urban localities in arguably the most prosperous region of the world. Fairfield County's per capita income ranked second among some three-thousand U.S. counties. In terms of population, Fairfield County is about eight times larger than Windham County.

Windham County consists of 15 rural towns in the Northeast corner of the state. Although relatively poor by Connecticut standards, its per capita income exceeds the national average for rural areas by 20%. In addition, 48 other states had poorer counties, and Windham County's per capita income would top all counties in three states (Louisiana, Mississippi, and Montana).

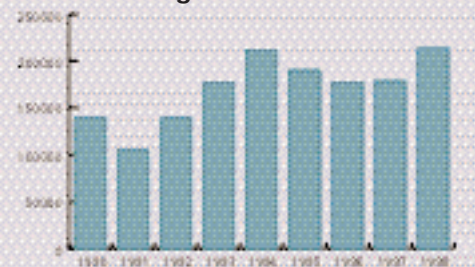
Thus, the income disparity between Connecticut's top and bottom counties springs not so much from unusually low per capita income in Windham County, but from unusually high per capita income in Fairfield County. What are the public policy implications? To echo Minehan, education is the key. Fairfield County has more than twice the proportion of college graduates as Windham County.

Annual Change in Connecticut Traffic



Source: Developed by *The Connecticut Economy* based on the traffic volume recorded at the 37 continuous-count stations monitored by the Connecticut Department of Transportation.

New Auto Registrations in the State



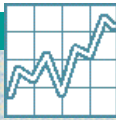
Source: Developed by *The Connecticut Economy* based on figures from the Connecticut Department of Motor Vehicles.

Odds and Ends

• In 1974, when the U.S. economy was in the OPEC recession, the U.S. Department of Commerce projected that by 1990 Connecticut's per capita income would rank third in the nation, 14.8% above the national average. They also projected the New England economy would exceed the national average by 7.2%. As it turned out, Connecticut ended up 36.2% above the national average in 1990, first in the nation. New England exceeded the national average by 17.5%.

• According to a recent estimate, there are about four thousand farms in Connecticut. Connecticut farms average about 100 acres. It is no surprise that the states with the smallest average farm size—Connecticut, Massachusetts, New Jersey and Rhode Island—are also the most densely populated. The more dense the population, the higher the cost of land (a key resource in farming), and the smaller the farm size.

• By the middle of 1998, total personal income in Connecticut reached \$122.3 billion at an annual rate. This exceeded by 20% the total personal income of Maine, New Hampshire, Rhode Island and Vermont put together.

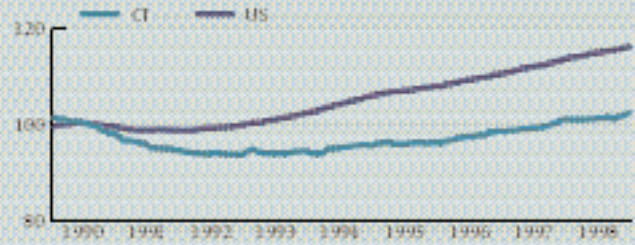


INDEX OF ECONOMIC INDICATORS

Indexed so 1990 = 100

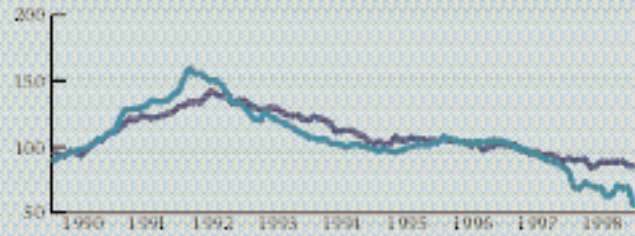
Job Totals

(seasonally adjusted)



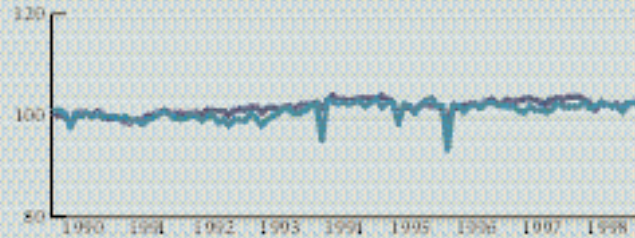
Number Unemployed

(seasonally adjusted)



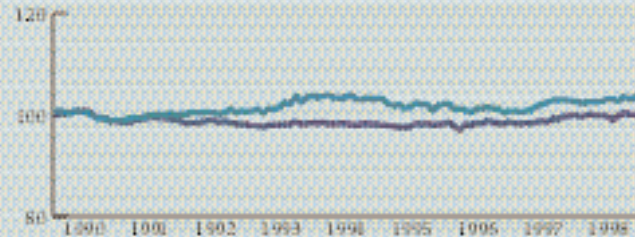
Weekly Manufacturing Hours

(seasonally adjusted)



Real Weekly Manufacturing Earnings

(seasonally adjusted)



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Connecticut Travel and Tourism Index

The overall index increased 4.8% in the fourth quarter compared to the same quarter the year before. The index consists of hotel-motel revenues, hotel-motel occupancy rates, attendance at six major tourist attractions, and traffic on five tourist roads.

Hotel/Motel Rev. H 12.4%

Occupancy Rate P -0.9%

Attendance H 4.7%

Traffic H 3.0%

Overall H 4.8%

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Education for a Strong Future

By Cathy E. Minehan, President,
Federal Reserve Bank of Boston



The start of a new year is a natural time to pause—to look back on the road we have traveled and forward to try to see what lies ahead. It is also a time for resolutions and, thus, in my view, an opportunity to redouble our commitment to improving educational opportunities. In the face of an uncertain future, education is the best way to ensure that prosperity continues and is shared by all.

A long recovery

It is almost a decade now since Connecticut suffered a double whammy—a sharp recession concurrent with secular employment declines in the state’s traditional stalwarts of defense and insurance. Today, after a decade of recovery, Connecticut stands poised to reach its pre-recession employment peak. And, perhaps more significant, per capita personal income remains the highest of any state in the nation.

Not all Connecticut’s difficulties are in the past. The impact of the global slowdown that began in Asia has started to diminish demand and employment growth across New England. And pressures to reduce costs and improve productivity in defense and other industries most likely will continue, as will the forces driving consolidation in the insurance industry. But, the vitality of Connecticut firms is heartening, notes the New England Economic Project, with seven of fifteen 1998 additions to the “Courant 100” resulting from initial public offerings or spin-offs of existing companies.

Nevertheless, the fruits of economic recovery have not been shared equally. Connecticut, the third smallest state in area, has especially wide disparities in income: Fairfield County’s per capita personal income is double that in Windham County. Poverty rates in Hartford are more than four times poverty rates in Stamford.

Not surprisingly, disparities in economic opportunity are closely connected to educational attainment. In Stamford, 80 percent of adults have completed high school and 35 percent have four or more years of college. In Hartford and Bridgeport, only about 60 percent have completed high school and less than 15 percent have finished college.

The key is education

As a well-established economy with a slow-growing labor force, Connecticut must pay particular attention to working “smarter.” The state needs to adopt new technologies, improve the skills of its work force, and steer new and displaced workers into occupations where demand and incomes are likely to grow.

A focus on public education is especially important if the state is to reduce income inequality and increase economic opportunity for all residents. As chairman of the Boston Private Industry Council, I have seen the city’s School-to-Career effort produce motivated students who stay in school longer, get better grades, and go on to two- and four-year post-secondary education at much higher rates than their peers. And I have also seen publicly funded, but privately run, adult career centers make considerable headway in placing workers in new jobs. I know such programs exist in Connecticut, but they cannot succeed without public and private support from government, industry, and higher education.

So, in this new year, let us resolve to strengthen our efforts at improving education. Education remains key to building a strong future and ensuring that prosperity reaches all corners of the state.

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

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

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