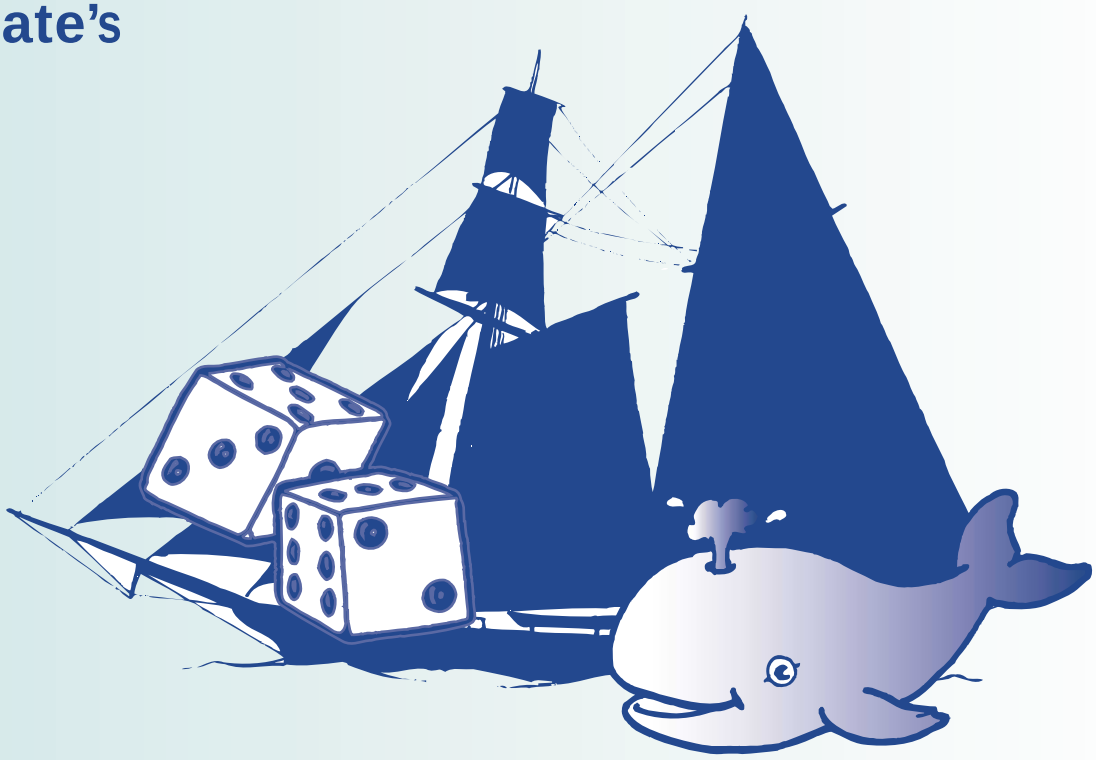
THE CONNECTICUT
Economy

A University of Connecticut Quarterly Review *Winter 2001*

Is the State's Economy Losing Steam?

The Regional Building Blocks of the State's Economy

How Would a Recession Feel Here?



Profiling the State's Regions—Spotlight on the East

The Editors

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CONNECTICUT ECONOMIC INDICATORS

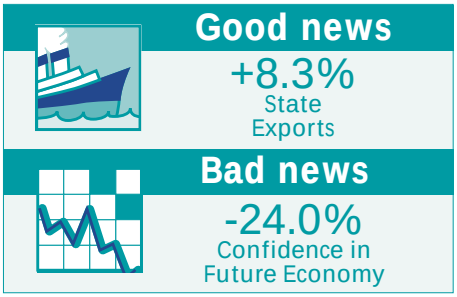
(Percent change: 1999-Q4 to 2000-Q4)

Indicators of Current Economic Activity

Total Nonfarm Jobs	+1.1%
Number Unemployed	-36.9%
Labor Force	+0.5%
Manufacturing	
Jobs	-1.0%
Avg. Weekly Hours	-0.4%
CT Mfg. Prod. Index	-1.1%
Avg. Hourly Earnings	+1.3%
New Auto Registrations	+1.0%
Travel and Tourism Index	-0.3%
Bradley Airport	
Passengers	+5.4%
Freight	-12.2%
State Taxes	
Sales	+6.7%
Income	+1.6%
Real Estate Conveyance	-0.2%
Normalized Electricity Use	+0.9%
State Exports ('99-Q3 to '00-Q3)	+8.3%
Personal Income	+5.1%
Retail Sales ('99-Q3 to '00-Q3)	+5.4%
Confidence in Current Economy	-11.6%
Coincident GDI	+0.6%

Indicators of Future Economic Activity

Help-Wanted Ads	
Hartford Courant	-8.8%
The Advocate of Stamford	+x.x%
Job Orders	-28.3%
Avg. Initial Unemp. Claims	-x.x%
Housing Permits	-7.5%
Net New Business Starts	-5.4%
Confidence in Future	-24.0%
Leading GDI	-0.8%



Bracing for a Slowdown

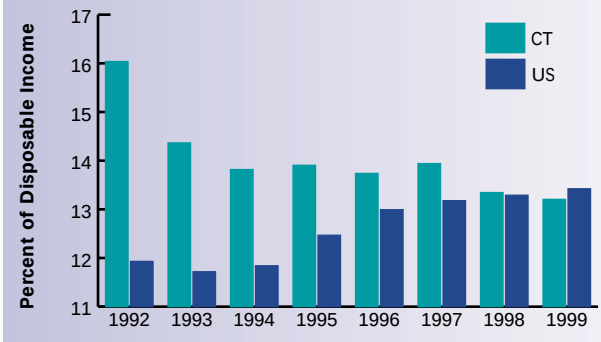
In 2000-Q4, the Connecticut economy finally started yielding to the rising tide of negative economic statistics. And the storm surge may still lie ahead.

The state added 19,300 new jobs between 1999-Q4 and 2000-Q4. That's still strong growth, but 17% below the average gain of 23,300 jobs in the first three quarters of the year, and 32% off from the 28,300 jobs in the four quarters of 1998.

Within the goods-producing industries, where the U.S. economy is beginning to feel the pinch, gains in construction offset losses in manufacturing. The major job losses occurred in machinery and computer equipment, down 500, and transportation equipment—a major export industry—where jobs fell by 1,200. Even so, state exports showed improvement in 2000-Q3 (the latest data available), growing 8.3% compared with 2.9% in 2000-Q2.

Weakness in the goods sector meant all of the quarter's net job gain was concentrated in services, which so far have been less affected by the softening economy. Business services added 5,300 jobs—up from a 4,600 increase the quarter before. "Other" services, too diverse to classify, grew by 4,200, and educational services gained 2,100. Connecticut added jobs in trade, too, though most were of the retail as opposed to the better-paying wholesale variety. And despite an 800-job cut in insurance, finance jobs grew by 1,100, resulting in a net gain for the high-paying FIRE sector.

Connecticut's Debt Servicing Burden Declines



Source: Developed by *The Connecticut Economy* based on data from the Federal Reserve and Economy.com

Beneath the relatively strong statewide jobs report lie pockets of developing weakness. The Hartford labor market lost jobs for the second straight quarter, the result of cuts in two old standbys: manufacturing and FIRE. And this time New Haven joined in, though its biggest cut came in retail trade. So, at least as gauged by jobs, fully half the Connecticut economy is losing ground.

In fact, that proportion may be much higher. Since the employment survey is biased toward large, established firms, it can underestimate job losses occurring late in the business cycle among smaller firms. (Note the 5.4% drop in net new business starts.) We won't know for sure until figures are updated, but the state's economy could already be experiencing a net job loss.

Aside from the employment report, there are enough weak numbers to satisfy even the most pessimistic of observers. In addition to the job losses, other signs of wobbliness in manufacturing include a 0.4% drop in weekly hours and a mere 1.3% increase in hourly earnings, which (after adjusting for price changes) translates into a 2.1% real earnings decline. Help wanted ads dropped 8.8% at *The Hartford Courant*, job orders are off 28.3%, housing permits are down 7.5%, and the leading GDI fell 0.8%.

With a 17.5% slump in overall Connecticut consumer confidence pointing toward fizzling optimism, retail sales have predictably slowed. But consumer spending now appears to be growing more in line with incomes. At its recent 2000-Q1 peak, retail sales advanced at a four-quarter clip of 9.1%, while incomes grew by only 6.2%. The latest third quarter data show sales growth of 5.4%, much closer to the current 5.1% income growth rate.

Years of robust spending have triggered fears that households may be too sapped to be of any help getting the economy moving again. Unquestionably, U.S. consumers have allowed their debts to mount (see chart above). But at the same time, Connecticut consumers have worked hard to get their finances in order. When the economy bottomed out in 1992, Connecticut consumer debt service absorbed 16.0% of disposable income, more than four percentage points above the U.S. average. By 1999, the most recent year for complete data, the figure for Connecticut had fallen to 13.2%, just under the 13.4% U.S. average. So as Connecticut braces for a slowdown, fortunately its households are in better shape financially than they've been in some time.

The Importance of Being Regional

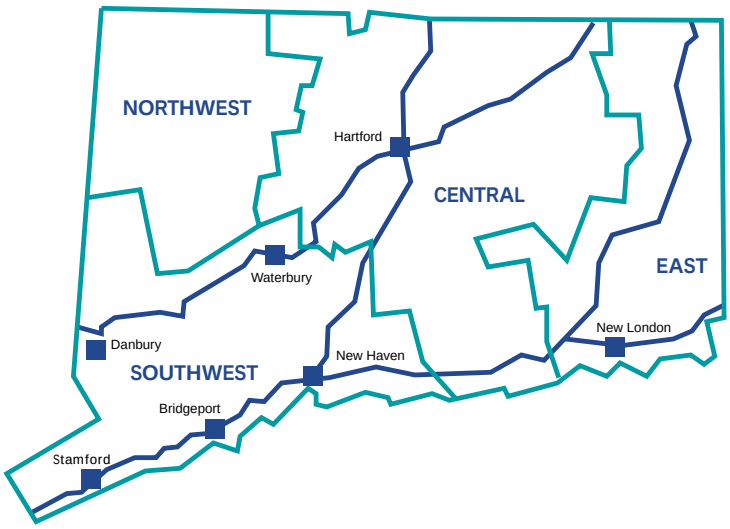
By Jim Moor

This issue begins a four-part series on Connecticut's regional economies. Though small in area, the state exhibits remarkable regional diversity of economic structure, performance, and prospects. In this first report, we examine Eastern Connecticut (New London and Windham Counties); page 18 contains a special story on the economic development of this region. In succeeding issues, we'll focus on the Central (Hartford, Tolland and Middlesex Counties), Northwestern (Litchfield County), and Southwestern (Fairfield and New Haven Counties) regions.

Being geographically small hasn't stopped us Nutmeggers from subdividing ourselves in many ways. Our 169 towns seem like a lot (some would say too many—see the backpage article) for a small state. Then there are ten labor market areas, eight counties and an assortment of "districts"—for schools; political representatives; probate court; and some utilities—which often cross town boundaries and further divide us. Each of these divisions no doubt has its purpose, but all are too small as units of analysis to gain much sense of what the Connecticut economy is or how it works.

At the same time, treating the state as a single economic unit can mask important regional variations that add to our understanding of the Connecticut economy and where it's headed. Moreover, by ignoring the sub-state regions we may miss links that extend beyond our borders—to New York, Massachusetts and Rhode Island, to the rest of the U.S., and to the world economy.

Our motive in planning the four-part series on regional economies is to single out and highlight the variety of the "Connecticut" economic experience and how it connects to what's going on beyond its borders. The accompanying map shows our conception of the state's economic regions.



1. Eastern Connecticut

The two main foci of economic activity in this area are Groton-New London-Norwich and the nearby high-stakes gaming complex. The region has discernible though weak ties to Providence via I-95 and to Worcester via I-395. Once a bastion of the military-industrial complex, today the East's leading sector is tourism. To the extent that tourist spending comes from other parts of Connecticut, this sector generates less "oomph" for statewide income than did building submarines. Offsetting that, though, may be a reduced sensitivity to the whims of world politics and Congressional budgets. For more on these points, see pages 12-13 and 18.

2. Central Connecticut

This region, which extends along I-91 from south-central Massachusetts on the north to the outskirts of New Haven on the south, is geographically larger and more diverse than the East. It boasts the state's only highly-developed air terminal, north-south axes of road and rail service along the Connecticut River Valley, a core of traditional and new-economy manufacturing, one of two concentrations of education and research in the state, and most of the offices of state government. The dominant economic feature of the region is the Hartford (some say the Hartford-Springfield) metro area. With its strength in financial services and aerospace manufacturing (even though both have shrunk lately), this region is a big net exporter to the rest of the state, the nation, and the world.

3. Northwestern Connecticut

Connecticut's northwestern hills are distinctly non-metro. Because the region preserves some of the amenities and lifestyle embodied in the term "New England," it holds cachet as a weekend or summer retreat for New Yorkers, and allure for out-of-state and in-state tourists alike, to whom it offers convenient day-trips. Bearing testament to its rural character, the region's primary transportation corridors are U.S. routes 7 and 202, state route 8, and the Appalachian Trail. Surprisingly, the Northwest has the highest share of employment in manufacturing among our four regions, though its share of total state employment in 1998 was only four percent.

4. The Southwest Metro Complex

This region is joined at the hip to the huge New York City metroplex. Linking its metro centers—Stamford, Bridgeport, and New Haven—is a highly-developed transportation-communication corridor combining rail, road, port, and fiber-optic facilities. Just north of the densely urban shoreline agglomeration lies a second set of markets centered in Danbury. The pull of New York makes suburban-office development perhaps the main growth vector in this region. The concomitant congestion, particularly along I-95 west of New Haven, finally prompted an all-day transportation "summit" last year, though concrete policy proposals, let alone actions, have yet to emerge.

Comparing Connecticut's Economic Regions

The table below shows just how varied Connecticut's four regions really are, based on the latest available county-level data.

Population: The boundaries of the Southwest Metro Complex (SW) encompass five of Connecticut's seven metro centers. Although just a quarter of the state in land area, the SW houses half of Connecticut's people. Even with its suburbs, smaller towns, and open space, the SW is still twice as densely populated as the state as a whole … and Connecticut is already the third most densely populated state (behind NJ and MA). Like the state, as a whole, the SW lost about as many people as it gained in the 1990s.

With more land and fewer people (though still a third of the state's total), the Central Region is not nearly as densely populated as the SW. It is the only region that saw a significant decline in population, 1992-1998; thus, Central almost single-handedly accounted for Connecticut's net loss of population in the 1990s.

By comparison, Connecticut's East and Northwest regions are sparsely populated, comprising close to 45% of the state's land area but only 16% of its people. In 1992-1998, Eastern Connecticut's population shrank just a bit (-0.2%), mostly in its urban areas, while the Northwest grew nearly 4%. In fact, over that time, all the state's less-urbanized counties gained population, while only Hartford, New Haven and New London counties shrank. This pattern is highly correlated with the stresses of the recession and the post-Cold War retrenchment in defense.

Employment: Jobs in the state rose everywhere over the 1992-1999 period. Using data for employment by place of work, the East surged nearly 14%, with the explosive growth in high-stakes gaming as propellant. The Northwest and Southwest also enjoyed strong job growth. The Central region's snail-like pace dragged the statewide average down. Record-low unemployment rates throughout the state suggest that all of Connecticut's economic regions added jobs last year as well.

Connecticut has been losing manufacturing jobs for decades, but so has the rest of the nation. Thus, at the turn of the new century, the state's proportion of jobs in manufacturing is on a par with the U.S. (While the Northwest and the East sport much higher proportions of manufacturing jobs, their small weight doesn't affect the state total much.) Connecticut has the second highest proportion of financial service jobs among the states, second only to New York, and those jobs are highly concentrated in the Central region. By the numbers, then, Hartford can still boast of being the insurance capital of the U.S., despite losing jobs to Des Moines, Iowa, and corporate headquarters to Manhattan (Travelers to Citigroup) and the Netherlands (ING).

The Industry Diversity Index, which measures the degree of heterogeneity among a region's industries, predictably shows the Central and SW regions closest to the statewide average. The two more rural regions, with their high concentrations of industrial employment, are significantly less diversified than the state as a whole. What's most interesting, however, doesn't show up in the table: Connecticut's economy as a whole became much more diversified in the 1990s, adding new high-tech businesses and more tourist attractions.

Income & Housing: The greatest disparity among regions shows up in the income and housing statistics. Well over half of 1996 state personal income went to the SW, especially Fairfield County. Not surprisingly, the average price of a house there was nearly $120,000 higher than in the Central region, and more than twice that in the East, in 1996. Interestingly, the rural Northwest comes in second, likely the reflection of up-scale second homes owned by rich New Yorkers. Last but definitely not least, per capita income in the regions has surged since 1992. This is testimony to the vaunted productivity of the Connecticut workforce, one of the nation's most skilled and experienced.

Regional Indicators

	East *New London* *Windham*	Central *Hartford* *Tolland* *Middlesex*	Southwest *Fairfield* *New Haven*	Northwest *Litchfield*	State
Population					
1998 Population (000)	356.3	1105.9	1627.2	181.9	3271.2
1998 Share	10.9%	33.8%	49.7%	5.6%	100.0%
Land Area (sq miles)	1179	1515	1232	920	4846
Population Density	302.2	730.0	1320.8	197.7	673.9
Population Growth, '92-'98	-0.2%	-1.4%	0.0%	3.9%	-0.3%
Employment					
1999 Jobs (000)	178.7	646.0	856.3	70.4	1751.3
1999 Share	10.2%	36.9%	48.9%	4.0%	100.0%
Job Growth, 1992-1999	13.9%	4.7%	11.3%	12.2%	9.1%
2000 Unemployment Rate	2.4%	2.3%	2.2%	1.8%	2.3%
Industry Diversity Index	0.85	0.99	0.95	0.74	1.00
Manufacturing Share	21.4%	16.1%	15.0%	27.7%	16.5%
Financial Services Share	2.0%	13.0%	6.2%	3.0%	8.2%
Income					
1998 Personal Income (mil)	$10,048	$37,318	$69,039	$5,786	$122,191
1998 Share	8.2%	30.5%	56.5%	4.7%	100.0%
1998 Per Capita Income	$28,561	$33,647	$42,346	$31,914	$37,338
Per Capita Growth, '92-'98	30%	28%	34%	25%	31%
Housing					
1996 Home Sales	5,355	17,618	30,307	3,192	56,333
Average Sale Price	$120,234	$141,355	$241,199	$157,833	$194,596

How Would Connecticut Fare in a U.S. Recession?

By Nandika Weerasinghe and Stanley McMillen

These days, no economic report is complete without mention of a change in the pace of the U.S. economy. From jittery investors and concerned consumers to the new President, everyone seems to be a little more concerned about the state of the economy. And the opinions vary across the board, ranging from continued strong growth to a recession, with a majority appearing to favor a slowdown, or soft landing, as being the most likely scenario.

Whether the U.S. is heading into a recession or just a soft landing, Connecticut residents may well be wondering how they'd fare if a recession materializes. The Connecticut Center for Economic Analysis (CCEA) calculated and compared how two different "what if" recession scenarios for the U.S. economy would affect the state, using the REMI dynamic model of the Connecticut economy. One scenario modeled a reduction in consumer spending, as might result from a stock market collapse or a severe decline in consumer confidence. The other modeled a drop in investment, as might occur if interest rates rose sharply or if business cut spending on plant and equipment because of excess capacity or a loss of confidence in future market growth. In each case, the simulated recession begins in 2001 and lasts the whole year.

In the first scenario, we lower consumer spending to 2.5% below its 2001 forecast, which results in a 1.7% drop in real GDP from 2000 to 2001. The second scenario produces a similar drop in the growth rate of real GDP, but this time it is driven by a drop in fixed private investment in 2001. We lower fixed investment spending to 8% below the level currently forecasted for 2001, which generates a 1.7% decline in real GDP from 2000 to 2001.

The two charts at left show levels of Connecticut employment and real GSP, along with accompanying U.S. figures, indexed so that year 2000 levels = 100. State employment in 2001 takes a bigger hit than the U.S. in a consumption-led recession: -3.1% in Connecticut versus -2.8% for the U.S. But real GSP keeps pace with the U.S. decline in 2001, and the next year Connecticut outperforms the nation in both variables.

In an investment-led recession, however, both employment and GSP do worse than in the national economy. State employment declines 2.8% versus the nation's 2.4%, and real GSP declines 2.0% compared with the nation's 1.8%. Connecticut's rebound in 2002, however, is once again stronger than the nation's.

CCEA also focused on how Connecticut's critical manufacturing and finance-insurance-and-real-estate (FIRE) sectors would fare under alternative slowdowns in the U.S. economy. The table shows the year-over-year change in employment in these two sectors under each scenario.

Connecticut's manufacturing sector loses more jobs than FIRE in each scenario, but it is hit harder in the investment-led recession. In the consumption-driven recession scenario, Connecticut manufacturing outperforms the U.S. manufacturing sector (dropping 5.1% versus the nation's 5.5%). In the investment-driven scenario, Connecticut manufacturing does slightly worse than the U.S. in 2001 (a 7.5% drop versus a 7.3% decline in the U.S.), but it performs better in 2002 and beyond. Connecticut's FIRE sector loses more jobs and performs worse than the U.S. in the consumption-led recession, and in both scenarios its recovery lags the nation's.

Thus, Connecticut's performance in the event of a national recession would depend on the nature of the U.S. downturn. A consumption-led recession would be easier on us than an investment-led recession. This is consistent with our relatively high wealth and incomes which drive consumer spending. But a consumption-led recession would hit our FIRE sector hard.

In an investment-led recession, Connecticut's manufacturing sector, which is capital-goods intensive, would suffer more than the rest of the nation's.

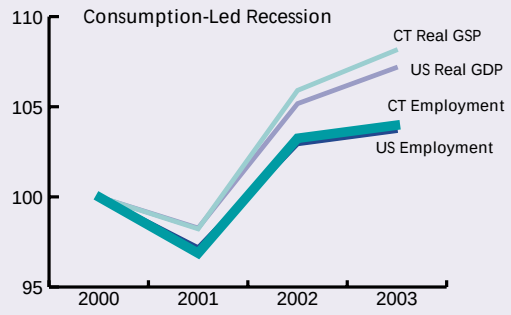
It seems that, for either kind of U.S. slowdown in 2001, Connecticut will feel the pinch initially, but longer term, the state economy seems to be more resilient than the national economy.

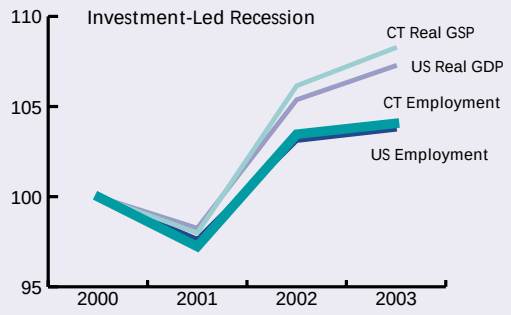
Connecticut Employment by Sector

	2001	2002	2003	2004
Consumption-Led Recession				
Manufacturing	-14,286	+15,818	+47	+450
FIRE	-7,829	+13,250	+150	+372
Investment-Led Recession				
Manufacturing	-20,951	+23,424	-456	+144
FIRE	-4,001	+9,783	-91	+232

Source: REMI Policy Insight, Version 3.0

Connecticut Feels the Pinch, but the Rebound is Stronger





Source: REMI Policy Insight, Version 3.0

Energy Costs Send Consumer Prices Skyward

By Steven P. Lanza

Prices are up across the U.S. and especially in Connecticut, according to surveys conducted by the Bureau of Labor Statistics and the Connecticut Center for Economic Analysis. The sign of an overheated economy that the Fed had so feared? Or the result of a supply shock like those that pitched us into recession in 1974, 1982 and 1990? The evidence points to the latter, but we don't yet know whether the slowdown will degenerate into full-blown recession. There's no question, though, that the surges in consumer prices were driven by higher energy costs.

The U.S. Experience

In 2000, U.S. prices jumped 3.3%. That pace hardly seems alarming but it represents a jump of half over 1999's rate, and a doubling of the 1998 pace. Was this uptick the result of widespread price pressures throughout the economy? Hardly. In most cases, price increases remained fairly constant between 1999 and 2000. U.S. food prices increased by 2.2% in both years. Apparel prices dropped 1.3% in 1999 and another 1.2% in 2000. Costs for medical care rose 3.5% in 1999, and by a comparable 3.9% in 2000. And entertainment prices were up 0.9% in 1999 and 1.2% in 2000. Actually, only two sectors of consumer spending were hit by accelerating prices: housing and transportation. Housing prices grew by 3.3% in 2000 compared with 2.2% in 1999, and transportation prices shot up 6.1% in 2000 compared with 2.0% in 1999.

Why was the price jump confined to these sectors? The reason, of course, is that housing and transportation are the most sensitive to increases in energy costs, and the big story of 2000 was the OPEC-orchestrated jump in oil prices. Energy costs represent about 11% of the cost of housing, about 15% of the cost of transportation, but only 6% of the overall CPI. And in 2000, energy costs jumped by 16.6%, compared with just a 3.6% increase in 1999. Heating oil shot up by half, from 90¢ per gallon in 1999, to $1.34 in 2000. Gasoline climbed by nearly a third, from $1.17 per gallon to $1.51, and natural gas moved from 69¢ to 79¢ per therm. Only (regulated) electricity prices held steady at about 8.7¢ per kilowatt-hour.

Thus, while the overall U.S. CPI advanced 3.3% with energy prices included, prices of all items less energy grew a full percentage point less, by just 2.3%. And that figure shows very little change from previous years: In 1999, prices apart from energy increased 2.0%, in 1998 2.3%, and in 1997 2.5%. So the added rise in the CPI in 2000 was due entirely to higher energy prices.

The Connecticut Experience

Connecticut's experience was a bit different. Prices, as reported by the CCEA's Connecticut Price Survey (CPS), lurched forward a stunning 6.7% in 2000. Food prices rose by 6.2%, housing by 8.9%, transportation by 5.6% and medical care by 9.3%—all at or above comparable U.S. figures. Excluding energy, prices behaved more reasonably, but not by much—the rate of increase still averaged 6.1%. Why was Connecticut's reported price change so high? Two reasons: measurement problems, and methodological differences. Adjusting for these differences, Connecticut's experience was more like that of the U.S.

The CPS is narrower and less exacting than the CPI. It samples a relatively small number of items at relatively few outlets and such small samples tend to be more volatile and more sensitive to sampling error. Consider this odd result. In 1999, the CPS reported that Connecticut's food and medical prices were unchanged from the previous year. Then, suddenly in 2000, those prices rose at more than double the U.S. rate. One way that can happen is if a survey misses a price change one year, but then records prices correctly the following year. The miscue has the effect of concentrating the entire two-year price change in the second year. A better measure of the actual price change would split the difference, assigning half the increase to 1999 and the other half to 2000. Adjusting food and medical prices this way (and preserving the previous adjustment for energy prices) Connecticut prices increased not by 6.7%, as reported, but by 5.3%.

Methodological differences may also help account for part of the discrepancy. The two surveys measure the cost of home ownership differently. The CPI uses the owner-equivalent rent method, which imputes to homeowners a cost of ownership equal to what the property would rent for on the open market. In contrast, the Connecticut price survey imputes to homeowners a cost of ownership equal to the size of a mortgage payment on a typical home sold in the most recent quarter. Therefore, whereas the CPS picks up the cost of mortgage financing, the U.S. CPI does not. And though interest rates declined during 2000, they remained higher than in 1999, and this gave the CPS an upward price bias. Excluding interest rates, and making the other adjustments suggested above, Connecticut's rate of price change in 2000 would have been about 4.0%. That's still nearly twice as high as the U.S. rate for all items less energy, but it's probably a more realistic figure than the one actually reported by the survey.

What It Means

Higher prices, a jittery stock market, falling confidence, sinking profits, and interest rates that still remain high are producing a potentially toxic economic brew. Our three most recent recessions have followed energy-related supply–side shocks, and energy prices may still be on the rise. But if prices are growing faster in Connecticut, you won't find any evidence in factor markets: average hourly manufacturing wages in Connecticut rose more slowly last year than in the U.S. as a whole for the first time in four years. What's more, historically high energy prices have made Connecticut relatively energy efficient, putting a blanket of insulation between its energy users and the energy market, that cushions the shock of higher prices. It's likely Connecticut may be more sensitive than most states to edginess on the stock market, but don't bet on higher energy prices keeping the Connecticut economy down for long.

Adjusted for Survey Differences, Connecticut Price Changes Look More Like the U.S.

Good News, Bad News

By Steven P. Lanza

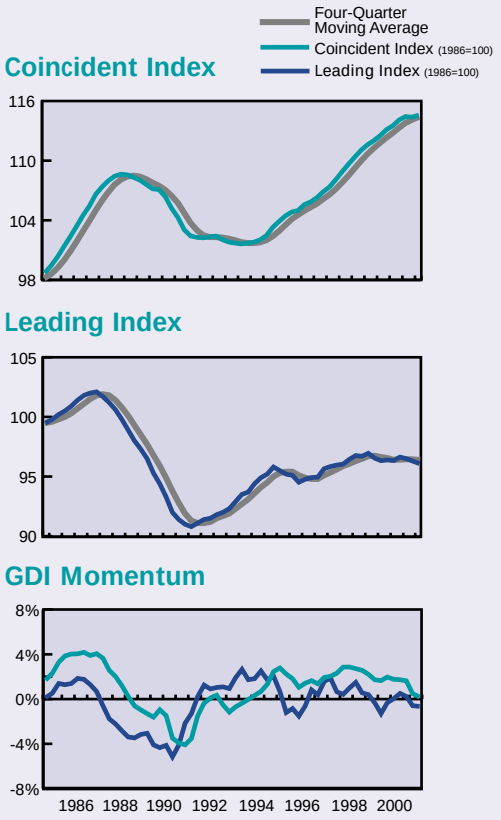
The good news is the GDI gained ground in 2000-Q4. The bad news is that revised figures for 2000-Q3 show that the GDI had actually slipped backward for the first time since Connecticut's Great Recession in the early 1990s.

The coincident GDI grew from a revised 114.4 in 2000-Q3 to 114.6 in 2000-Q4, or at an annual rate of 0.6%. The revision for 2000-Q3 means that the index had slipped back by a discouraging, but small, 0.2%. The last time the coincident GDI lost ground was 1993-Q4, when the state was still shaking off the effects of the recession. This quarter's rebound springs from an improvement of sorts in the Connecticut Manufacturing Production Index. The CMPI dropped 4.1% between 1999-Q3 and 2000-Q3, but only declined 1.1% in 2000-Q4. Without this "boost," the coincident GDI would have dropped another 0.2%. Jobs and real income grew slowly, by 1.1% and 1.6% respectively, but at least they grew.

The leading GDI has been signaling potential weakness in the coincident index for some time, dropping for seven of the last ten quarters, including a 0.8% decline in 2000-Q4. But the size of the declines has been modest, averaging 0.7%—a pace more like the "soft landing" in the mid-1990s than the crash dive in the early 1990s. Only a small drop in initial unemployment claims added strength to the leading index in 2000-Q4, though the decline was smaller than those in the previous five quarters. Housing permits, weekly hours, and help–wanted advertising each exerted a drag; permits held the index back less than in the previous two quarters, while the other two held the index back more.

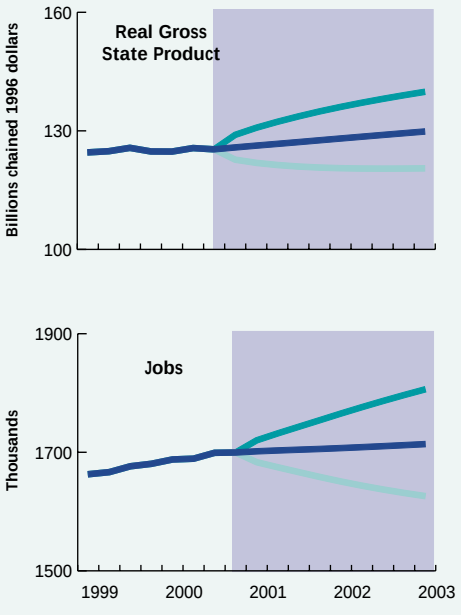
The GDI is a composite measure of the four-quarter change in three coincident and four leading economic variables, and is indexed so 1986 = 100.

GDI Components



The New Economy: Soft Landing or Crash Landing?

By Kathryn Parr



Where the lines branch out, the blue line shows the predicted values for RGSP and jobs, and the green lines show a one-standard deviation margin-of-error around the forecast.

As the 'R' word is increasingly bandied about, many economists are no longer asking when but rather how long and how deep the next economic slowdown will be. Will a combination of fiscal and monetary policy result in a soft landing, or are we headed for something much deeper and more severe?

With the national economy not expected to grow at all this quarter, Connecticut's economy is not far from the same mark. Revised estimates peg Real Gross State Product (RGSP) growth at a paltry 0.8% between 1999-Q4 and 2000-Q4. This year the economy is expected to rebound slightly, growing at 1.2% in 2001-Q1 but dipping to growth of 0.9% by 2001-Q2 before ending the year with fourth quarter growth at 1.4%.

The Connecticut employment picture is also less rosy. We expect job growth to slow from 1.1% in 2000-Q4 to 0.8% in 2001-Q1 and further to 0.4% by 2001-Q4. These numbers mean the total year-over-year job gain would be a mere 6,000 by the end of 2001. That figure is down significantly from the 22,000 new jobs generated in 2000. These changes augur a definite cooling of Connecticut's red-hot labor market.

Our other indicators also show signs of a slowing economy. Connecticut real manufacturing earnings, housing permits, and real personal income have all decreased slightly on a year-over-year basis. Slowing real personal income, in particular, may constrain consumer spending and thus limit prospects for economic growth.

Despite these warning flags, our forecast favors a soft landing for Connecticut. Growth nationally and statewide will approach zero, but current information suggests we will rebound to a modest pace of growth by the end of the year. Consumer confidence, dimmed by slowing income, higher energy prices and rising media hype, will play a key role in determining whether or not the economy slows or crashes. The next few quarters will give us more insight into how consumers will respond to the news that the economy is 'landing'. If confidence recovers, we are likely to see Greenspan's hoped-for soft anding rather than a crash landing.

Consumer Confidence Drops: Recession Ahead?

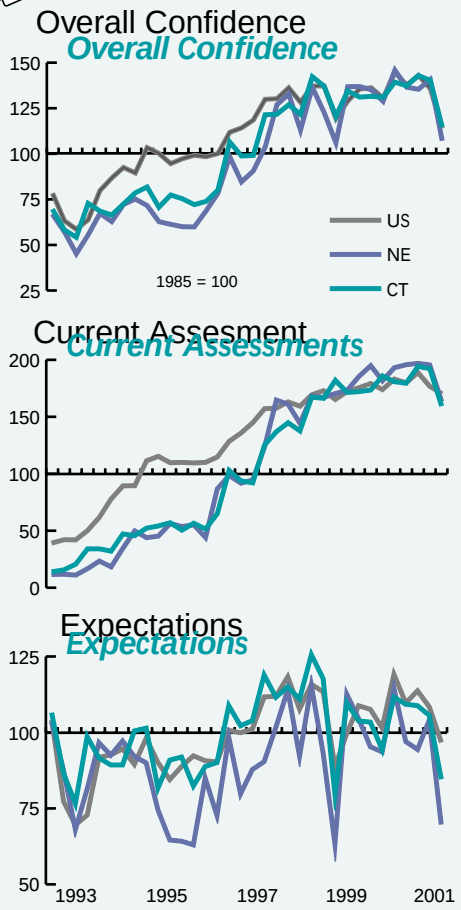
By Chase Harrison, CSRA

Since October, consumer confidence has dropped sharply in Connecticut, New England, and the nation, reaching its lowest levels in over three and a half years. The plunge was sharper in Connecticut and New England than in the nation as a whole. The national drop was driven substantially by lowered future expectations; regionally and locally, current assessments also declined rather steeply. Although October saw regional and statewide confidence levels above those in the nation at large, by January New England consumer confidence had sunk below the overall national measure, while in Connecticut it is about even with national figures.

Although economists are still divided over whether the national economy will head into a recession in the next year, Connecticut residents seem rather pessimistic. Nearly two thirds of Connecticut residents (62%) think it is at least fairly likely that there will be a recession in the country in the next 12 months, and one-fifth (20%) think it's extremely likely. In contrast, only one Connecticut resident in ten thinks that a recession in the next year is not at all likely.

Connecticut residents, however, are more positive about how their state will fare compared with the U.S. as a whole in the next year. Twenty-seven percent think that we'll do better than the national economy, compared with only 12% who think we'll fare worse.

Consumer Confidence Survey



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

Residents Opine on Regional Issues

By Chase Harrison, CSRA

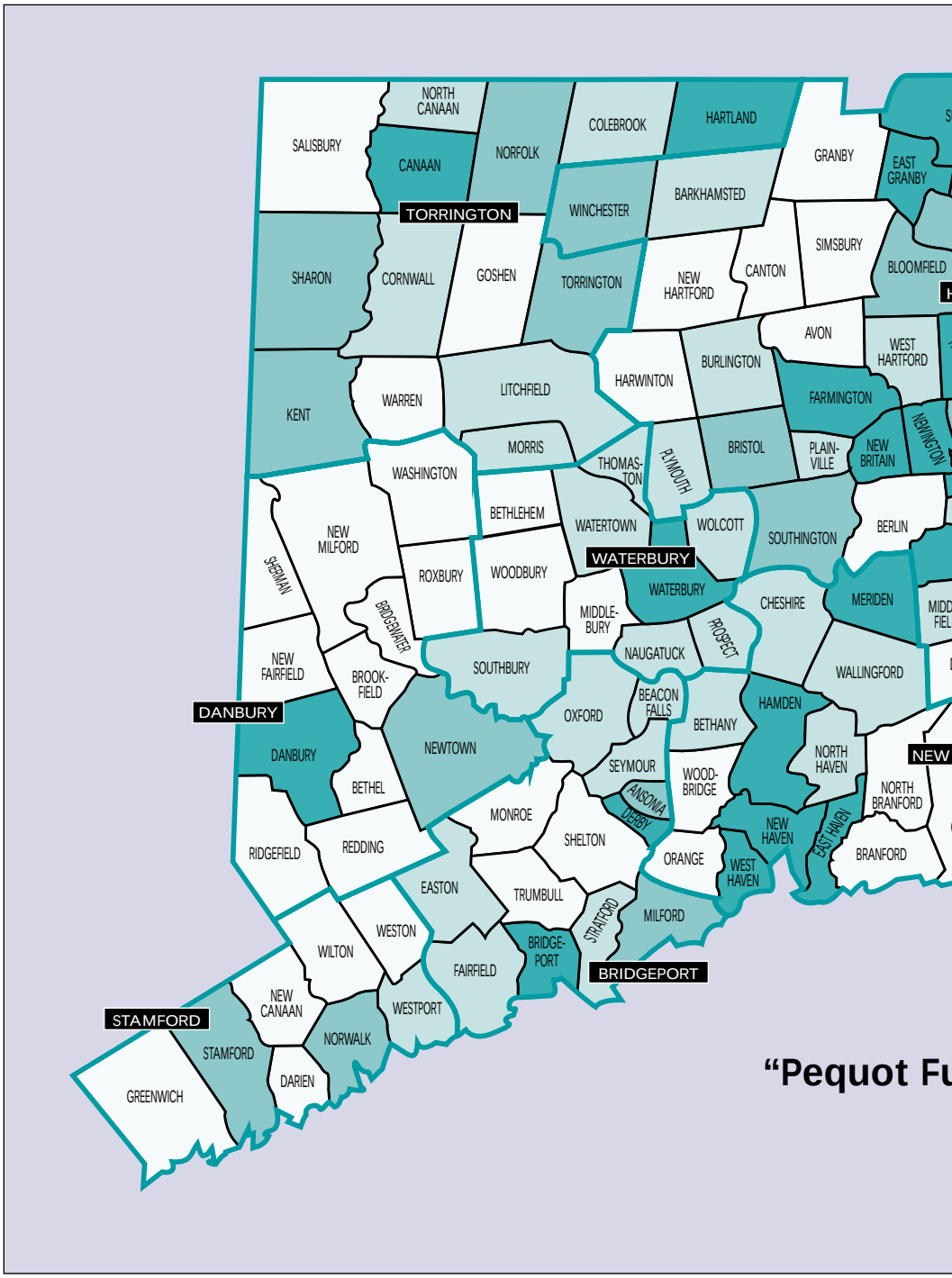
A recent survey sponsored by *The Connecticut Economy* asked residents their thoughts about two issues of a distinctly regional nature. One involves the longstanding proposal for a system of regional government to solve problems that cross town borders. The other concerns the place of casinos in our economic and social lives.

In Connecticut, unlike many other states, local governments are much stronger than regional or county governments. But according to the survey, residents have no strong desire for change. A third of respondents think that regional government would perform worse than the current system, compared with 28% who think it would perform better. Nearly half of residents surveyed think that the present system, without regional government, is a good thing, though 40% would prefer regional government. But if we were to adopt a regional system, 58% of Connecticut residents would favor their town's participation in the system, with only 37% opposed. Yet when pressed for specifics on which government activities should be regional, residents overwhelmingly supported local control of all key services. Some 70% prefer local control of both police/fire/snow-removal and public education.

Since casino gaming first came to Connecticut in 1992, an increasing percentage of residents have visited either Foxwoods or Mohegan Sun. Nearly two-thirds (66%) of residents have visited at least one of the casinos. This is up from 51% of Connecticut residents in 1997, 44% in 1995, 28% in 1994, and 16% in 1993.

Connecticut residents have had consistently favorable attitudes toward legalized gambling in Connecticut. The recent survey found that 63% think the casinos in the Ledyard area have been good for Connecticut, while only 11% think they have been bad. These results are virtually identical to findings from CSRA surveys in 1994 and 1995. When asked whether the impact of the casinos has been better or worse than expected when the casinos first opened, about one Connecticut resident in three says that the impact has been better than they initially expected, compared with only 7% who think it has been worse than expected. These results are also essentially unchanged from 1994. A slim majority of Connecticut residents (54%) are satisfied with the current level of casino gambling in Connecticut; 30% want less casino gaming and 9% want more.

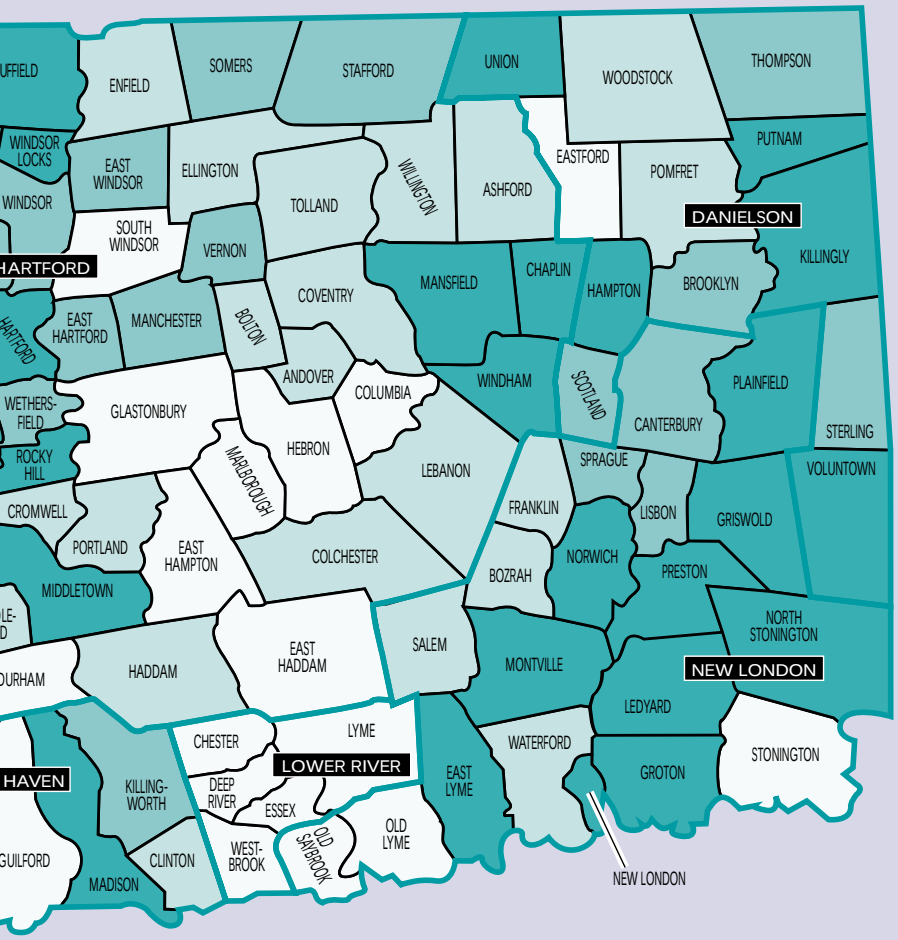
	Population (000s) '98	Pequot Grants (000s) '00-'01	Per Capita
Bridgeport LMA			
Ansonia	17.7	$467.7	$26.4
Beacon Falls	5.2	82.2	15.8
Bridgeport	137.4	15790.8	114.9
Derby	119.4	649.5	54.4
Easton	1.5	15.9	11.0
Fairfield	53.7	996.2	18.5
Milford	50.0	1016.8	20.3
Monroe	18.6	102.4	5.5
Oxford	9.3	184.2	19.8
Seymour	14.2	175.7	12.3
Shelton	37.9	235.9	6.2
Stratford	48.9	706.4	14.5
Trumbull	33.5	152.7	4.6
Danbury LMA			
Bethel	17.9	$135.0	$7.6
Bridgewater	1.7	11.2	6.4
Brookfield	14.7	69.1	4.7
Danbury	65.8	2423.6	36.8
New Fairfield	13.5	89.9	6.7
New Milford	28.3	250.1	8.8
Newtown	23.5	589.0	25.1
Redding	8.2	57.2	7.0
Ridgefield	22.2	143.5	6.5
Roxbury	2.0	11.1	5.5
Sherman	3.0	14.7	4.9
Washington	4.0	18.8	4.7
Danielson LMA			
Brooklyn	6.9	$147.3	$21.3
Eastford	4.4	24.2	5.5
Hampton	1.6	56.2	34.3
Killingly	16.1	538.1	33.5
Pomfret	3.4	51.2	14.9
Putnam	8.9	333.2	37.5
Scotland	1.4	30.2	20.9
Sterling	2.8	74.4	26.4
Thompson	9.0	216.7	24.1
Union	0.7	57.3	83.8
Voluntown	2.2	235.8	106.8
Woodstock	6.6	69.7	10.6
Hartford LMA			
Andover	2.9	$44.1	$15.5
Ashford	3.9	65.0	16.5
Avon	14.1	58.9	4.2
Barkhamsted	3.5	36.4	10.3
Berlin	17.2	119.0	6.9
Bloomfield	19.0	402.0	21.2
Bolton	4.8	66.0	13.9
Bristol	59.2	1509.0	25.5
Burlington	7.9	79.2	10.0
Canton	8.1	50.5	6.2
Chaplin	2.3	213.0	94.3
Colchester	12.7	211.9	16.7
Columbia	4.8	42.3	8.7
Coventry	11.1	164.6	14.9
Cromwell	12.6	168.0	13.3
Durham	6.6	58.5	8.9
East Granby	7.5	471.8	63.0
East Haddam	11.1	69.8	6.3
East Hampton	47.4	186.7	3.9
East Hartford	26.7	$785.2	$29.4
East Windsor	6.7	151.0	22.4
Ellington	11.7	124.4	10.6
Enfield	43.1	821.7	19.1
Farmington	21.2	1478.8	69.9
Glastonbury	28.8	121.5	4.2
Granby	9.6	59.5	6.2
Haddam	7.2	94.0	13.0
Hartford	131.5	19283.3	146.6
Harwinton	5.4	39.9	7.4
Hebron	8.0	74.3	9.2
Lebanon	6.3	97.5	15.5
Manchester	51.7	1524.4	29.5
Mansfield	19.1	2951.0	154.8
Marlborough	5.8	54.0	9.4
Middlefield	4.1	45.0	11.0
Middletown	43.6	$3193.7	$73.2
New Britain	70.5	5857.7	83.1
New Hartford	6.1	60.0	9.8
Newington	23.9	855.1	35.8
Plainville	16.8	221.7	13.2
Plymouth	12.0	210.2	17.5
Portland	8.8	106.5	12.1
Rocky Hill	16.7	718.3	42.9
Simsbury	21.8	106.4	4.9
Somers	9.5	215.4	22.8
South Windsor	38.7	138.4	3.6
Southington	16.6	416.5	25.1
Stafford	11.5	304.0	26.4
Suffield	11.3	651.3	57.6
Tolland	12.4	139.5	11.3
Vernon	29.3	735.3	25.1



"Pequot Fu

	Population (000s) '98	Pequot Grants (000s) '00-'01	Per Capita
West Hartford	51.6	$838.4	$16.2
Wethersfield	25.1	558.5	22.3
Willington	6.1	111.4	18.2
Winchester	11.3	289.8	25.6
Windham	21.4	1965.8	91.7
Windsor	11.9	265.7	22.2
Windsor Locks	27.5	1134.5	41.3
Lower River LMA			
Chester	3.8	$31.2	$8.2
Deep River	4.5	43.0	9.6
Essex	6.1	32.0	5.2
Lyme	2.0	18.7	9.5
Westbrook	56.0	49.5	0.9

	Population (000s) '98	Pequot Grants (000s) '00-'01	Per Capita
New Haven LMA			
Bethany	4.8	$59.8	$12.4
Branford	27.1	181.1	6.7
Cheshire	26.5	307.1	11.6
Clinton	13.1	137.7	10.5
East Haven	15.8	507.8	32.1
Guilford	20.2	89.5	4.4
Hamden	53.0	2393.1	45.1
Killingworth	5.7	120.3	21.1
Madison	16.2	517.7	32.0
Meriden	56.7	2311.4	40.8
New Haven	123.2	17732.9	143.9
North Branford	14.0	137.6	9.9
North Haven	22.1	403.7	18.2
Orange	12.4	43.5	3.5
Wallingford	41.0	559.4	13.6



Map shows per capita Mashantucket Pequot and Mohegan Fund Grant, 2000-2001

More than $30
$20 to $30
$10 to $19.9
Less than $10

und" Payouts

	Population (000s) '98	Pequot Grants (000s) '00-'01	Per Capita
West Haven	5.6	$1437.9	$256.0
Woodbridge	8.3	22.8	2.8
New London LMA			
Bozrah	2.3	$36.8	$16.0
Canterbury	4.7	108.1	23.0
East Lyme	10.0	733.7	73.2
Franklin	1.7	31.6	18.1
Griswold	10.5	315.3	30.0
Groton	41.3	3061.7	74.2
Ledyard	14.5	689.1	47.6
Lisbon	3.9	82.5	21.3
Montville	16.6	567.5	34.2
New London	25.5	3981.9	156.1
North Stonington	4.9	326.7	66.9
Norwich	34.9	2498.1	71.5
Old Lyme	6.4	47.8	7.4
Old Saybrook	9.7	54.5	5.6
Plainfield	14.6	490.3	33.6
Preston	5.0	957.3	190.5
Salem	3.5	56.8	16.2
Sprague	2.9	71.5	24.9
Stonington	16.5	99.0	6.0
Waterford	17.9	220.7	12.3
Stamford LMA			
Darien	18.1	$33.0	$1.8
Greenwich	58.3	540.6	9.3
New Canaan	18.1	13.5	0.7
Norwalk	78.1	2181.3	27.9
Stamford	110.7	2360.8	21.3
Weston	8.8	11.7	1.3
Westport	24.2	325.6	13.4
Wilton	16.6	33.7	2.0
Torrington LMA			
Canaan	1.1	$50.3	$47.8
Colebrook	1.4	17.8	12.4
Cornwall	1.5	15.0	10.1
Goshen	2.5	18.0	7.3
Hartland	2.0	108.3	55.0
Kent	3.1	73.5	24.0
Litchfield	8.7	115.4	13.2
Morris	2.1	21.4	10.2
Norfolk	2.0	45.9	22.7
North Canaan	3.4	64.5	18.8
Salisbury	4.1	13.9	3.4
Sharon	2.9	81.6	27.7
Torrington	34.5	871.7	25.3
Warren	1.3	10.9	8.3
Waterbury LMA			
Bethlehem	3.3	$28.1	$8.6
Middlebury	6.1	39.8	6.6
Naugatuck	30.2	538.3	17.8
Prospect	8.3	93.7	11.3
Southbury	22.7	313.7	13.8
Thomaston	7.3	123.3	16.9
Waterbury	105.3	7784.8	73.9
Watertown	21.7	249.8	11.5
Wolcott	14.7	168.5	11.5
Woodbury	8.7	42.9	4.9
Statewide	**3,272.6**	**$135,000**	**$41.25**

On This Roll of the Dice, Southestern Connecticut (And the Rest of Us) Got Lucky

By Arthur W. Wright

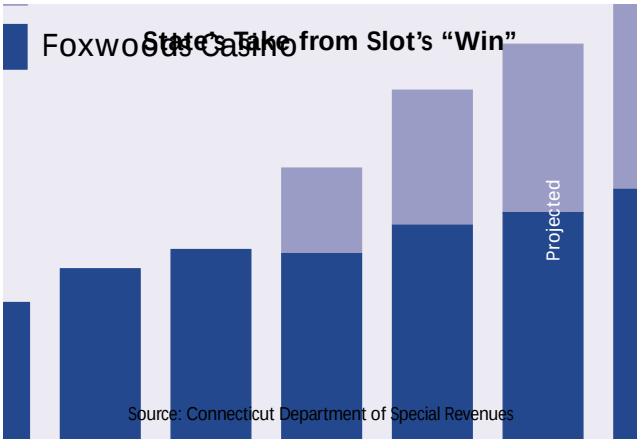
The economy of southeastern Connecticut without the Foxwoods and Mohegan Sun casinos would be "Hamlet" without the Prince of Denmark. In the 1980s, the region's economy was submarines, tourism, and ... submarines. Then post-Cold-War cuts in submarine procurement dealt the area a haymaker blow, and despair loomed. But wait—the Mashantucket Pequot Tribal Nation began construction of Foxwoods in May 1991, and work began on Mohegan Sun in 1995. Today, high-stakes casinos are the mainstay of the economy in and around New London County.

Thanks to location and entrepreneurship, and despite fierce state and local opposition, the southeast corner of Connecticut has become a major destination for high-stakes casino gaming. The spectacular growth of the casinos since 1992 has created immense net gains for the state's economy and the State of Connecticut. Some negatives—e.g., local traffic and crime, and worries about compulsive gambling—have so far failed to dim the luster of the gleaming complexes that rise up out of the second-growth forests of rural New London County.

Important questions remain, of course, like the proverbial other shoe waiting to drop. Will business at Foxwoods and Mohegan Sun prove resistant to a national recession? And will one of the steadily growing number of recognized Native American tribes be able to raise table stakes to challenge the dominant Foxwoods-Mohegan complex?

How We Got Here (in Brief)

The implausible saga of who brought Foxwoods into being, and how, has been told in depth in two recently published books—Jeff Benedict's *Without Reservation* (HarperCollins, 2000) and Kim Eisler's *Revenge of the Pequots* (Simon & Schuster, 2001). I need focus only on a few salient points here.



Only in 1993, a year after Foxwoods opened its doors, did the State of Connecticut, after kicking and screaming most of the way, finally reach a full *modus vivendi* with the Mashantucket Pequots. Having lost its battle to squelch the tribe's hopes and dreams for a casino, the State struck a deal: In return for allowing Foxwoods—alone—to install highly profitable slot machines in Connecticut, the State would receive 25% of the "win" (gross revenues less direct costs) from the slots, but not less than $100 million a year from 1994 on. To date, the minimum has never applied, as the graph belows shows. (The centerfold map in this issue details the State payments per capita from the Mashantucket Pequot and Mohegan Fund in the current fiscal year; the total of $135 million is some 40 percent of the State's projected take from the Fund and constitutes 7% of all "statutory formula grants" to municipalities.)

Governor Weicker, who used executive powers to cut the deal, thereby avoided legalizing slot machines everywhere in the state. But it was a devil's bargain, for the maneuver also gave Foxwoods a highly effective barrier to entry. The Pequots made an exception for Mohegan Sun (which pays the State the same slots royalty as Foxwoods), but the grant of the "crown monopoly," and the State's budgetary reliance on its cut of the proceeds, have effectively thwarted two separate tries by Las Vegas interests to enter the Connecticut gaming market.

Toting up the Gains

It's not rocket science that adding some 20,000 new casino jobs in southeastern Connecticut in less than a decade would make a noticeable difference, statewide as well as regionally. Two studies of Foxwoods' economic impact have indeed found significant gains in jobs and earnings in the region, plus attendant positive effects on house prices and public welfare programs.

In 1993, a team of private consultants to Foxwoods (including the present author and another editor of *The Quarterly*, Dennis Heffley), using economic base analysis, found that (in the long run) every new casino job adds 1.107 jobs in New London County and 0.74 jobs elsewhere in Connecticut. Including Mohegan Sun, those multipliers translate 20,000 new casino jobs today into another 37,000 in the state. (By comparison, Electric Boat is down 10,000 workers since 1990). Using average earnings per job, the casinos are generating extra earnings (in today's dollars) of more than $1.25 billion per year in New London County and another half billion dollars elsewhere in Connecticut.

Late last year the Connecticut Center for Economic Analysis (CCEA), which also publishes *The Quarterly*, published the results of a more elaborate study of Foxwoods' economic impact. Using a macroeconomic forecasting model, supported by an intersectoral or "input-output" model for the state, the CCEA concluded that Foxwoods

alone is adding $1.2 billion in gross state product (an increase of 0.89%) and more than 41,000 jobs (+1.80%), above a baseline forecast absent the casino. Again scaling up to include Mohegan Sun, the CCEA's findings are consistent with the 1993 results.

Both studies concluded that the casino-derived gains in jobs and earnings translate into discernible drops in the numbers of people receiving AFDC welfare payments statewide, and sizeable increases in single-home prices in New London County. Further, both sets of estimates are long-run and enduring, so long as the casinos continue to prosper. And the same caveat applies to both: they ignore the effects of offsetting activities displaced by the casinos (e.g., dog racing) or deterred from starting up by the existence of the casinos. Even with hefty discounts for such offsets, though, the weight of the evidence compellingly shows large net positive gains for the southeastern region and the rest of Connecticut.

Downsides

Traffic congestion. Crime. Gambling addiction. Lower profits for organized crime. Legalized high-stakes gaming has its downsides, to be sure, but to an extent they are in the eye of the beholder. Doubtless the New England Mob finds Foxwoods and Mohegan Sun "unfair competition". (Why would anyone prefer shooting craps in the warm comfort of a casino, where the drinks are cheap and the security discreet, instead of on the third deck of a downtown Hartford parking garage at night, where the "late charge" on a loan may be a broken kneecap?) Many economists argue for legalizing certain criminal activities, among them gambling, because they are "victimless". Their point is that most of the violence and corruption associated with such crimes is a product more of the illegality than of the activity itself.

The economists' arguments assume rational human behavior, but what of pathological behaviors? The victims of compulsive gaming, besides the individuals themselves, include their families and other dependents, plus employers, and creditors. Interestingly, gambling addiction has received growing attention only in the past two decades—coincident with the growth of legalized commercial (as opposed to charitable) gambling, which of course includes all those state lotteries. Only in 1994 did the American Psychiatric Association add pathological gambling to its standard manual of mental disorders. Because the problem is mainly self-reported, we lack the data to compare the incidence of the pathology before and after Foxwoods opened. The Pequots and Mohegans both publicly acknowledge the potential for addiction, are at pains to identify and "cut off" problem gamblers, and support treatment and research financially.

The towns around the Mashantucket Pequot and Mohegan reservations also are victims of the traffic congestion and increased crime that have been thrust on them. Economic change always engenders losers as well as gainers. The economist's standard nostrum—find ways to compensate the losers—is easier said than done. Intangible costs like unexpectedly losing a peaceful rural lifestyle are hard to measure and expensive to remedy, even imperfectly. The towns around Foxwoods spurned the cash and payments in lieu of taxes that the tribe offered them early on. Today, town officials (at least publicly) do not regard the improved property tax bases and State aid from the slots Fund as adequate compensation for the congestion dumped in their laps by the huge success of high-stakes gaming in their nook of the Quiet Corner.

Gainers and losers? One immediate effect of Foxwoods' opening its doors was reportedly that local businesses lost much of their hired help, lured away by casino jobs.

Will the Other Shoe Drop?

The news media are abuzz about a national economic slowdown that may become a r————n. If the dreaded r-word comes to pass, it will be the first one since Foxwoods opened in February 1992. Would or will it take the bloom off southeastern Connecticut's rose?

Maybe yes, maybe no. High-stakes gaming may be as sensitive to hard times as any other consumer good or service. But Foxwoods did, after all, take off like a shot while New England, and especially Connecticut, were still mired in the economic pit dug for them in the early 1990s by defense cuts, the financial-sector meltdown, and the concomitant real estate collapse. Also, an economic downturn often affects entertainment providers unequally; e.g., gamblers may play at home instead of flying to Monaco. The experiment that will decide this question may be imminent.

The day before the Bush-II inaugural, the acting director of the U.S. Bureau of Indian Affairs (BIA) granted preliminary recognition to the Nipmucs, who have made noises about building a casino in northeastern Connecticut. The Nipmucs are but one of many groups in the region seeking BIA recognition.

How would the Pequots and the Mohegans respond to a third tribe's entry into Connecticut's crown-monopoly sweepstakes? Should the State of Connecticut try to enforce its deal with the two existing casinos? Would Connecticut's stance alter thinking in Boston or Providence? More fundamentally, would the regional gaming market support a third big casino? The same imponderables, of course, would give pause to prospective lenders to the Nipmucs.

So you thought the controversy about legal gaming in Connecticut was over? Stay tuned.

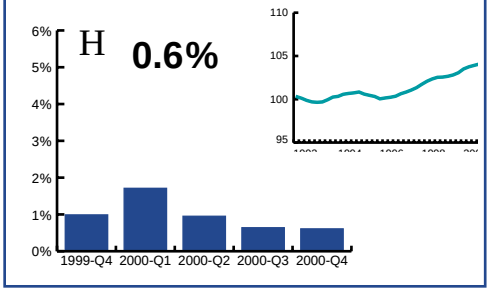
The Labor Markets Still Simmer

By Steven P. Lanza

The state's labor market areas may be off the boil, but they are still asimmer. Though the trend of the past year has shown slowing growth in the statewide Labor Market Index, or LMI, the index posted a 0.6% advance between 1999-Q4 and 2000-Q4, matching its 2000-Q3 performance. LMI growth had reached 1.7% in 2000-Q1 so the last half of the year may feel slow by comparison, but it sure beats no growth at all. Across labor market areas, the news was a mixed bag—half grew at least as fast as in the previous quarter, half did not—and of the latter, two showed actual declines. Statewide, the LMI's overall growth evinced a balance. Decreases in the number unemployed and gains in jobs and in the labor force offset losses in manufacturing hours and real earnings. A slowing manufacturing sector produced a workweek that was 12 minutes shorter than one year earlier, and weekly earnings that were, in real terms, some $9.89 lower. But jobs grew 1.1% overall, the labor force expanded by 0.5%, and the number unemployed dropped a seemingly stunning 36.8%. But don't be misled: that last figure is mainly the product of the state's very low unemployment rate, making even slight changes large in percentage terms.

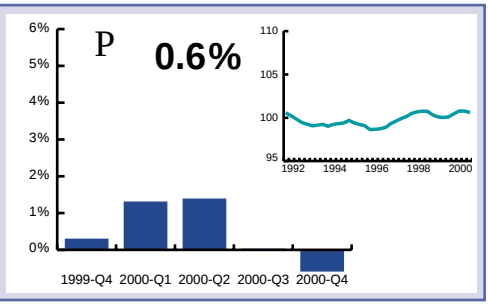
The LMI measures the four-quarter change in a composite index of labor activity for each labor market area and for the state as a whole. The index includes five variables: the labor force, jobs, the number unemployed, weekly manufacturing hours, and real hourly earnings in manufacturing, and is indexed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

Statewide



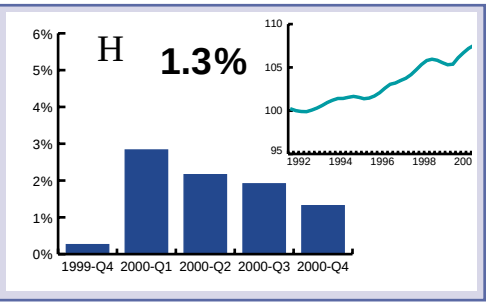
Bridgeport

Bridgeport is the exception that proves the rule. Erosion in the region's manufacturing sector between 1999-Q4 and 2000-Q4 was simply too much for new jobs, a growing labor force and a drop in the number unemployed to offset. Manufacturing hours dropped 2.4%, cutting the workweek a full hour. Meanwhile, real hourly earnings sank 5.7%, producing an 8.0% slump in real weekly earnings. Nevertheless, the labor force managed to attract enough entrants to grow by 0.9%, and the number unemployed dropped 39.2% as other sectors added jobs. Chief among the growing sectors: trade, the services and FIRE.



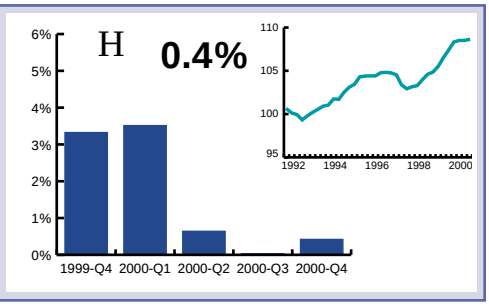
Danbury

Danbury, unlike Bridgeport, followed the state's script virtually to the letter. Manufacturing jobs dropped, as did hourly and weekly earnings, yet the economy's resilience elsewhere helped give the region's LMI a big boost. Danbury's manufacturing jobs slipped 0.2%, and real hourly earnings fell 1.2% between 1999-Q4 and 2000-Q4. A 0.9% increase in the workweek held the reduction in real weekly earnings to just $1.25. But total jobs increased 0.3%, with many of the new additions coming from the high-paying FIRE sector. Other sectors showing strength included construction and transportation, communication and utilities. The number unemployed dropped 37.9%, and the labor force edged up 1.1%.



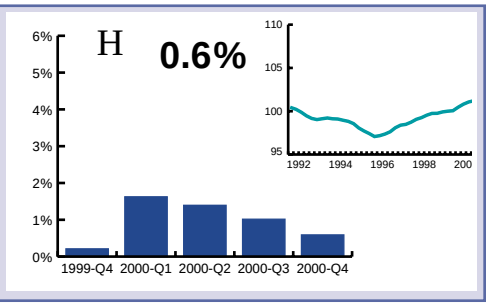
Danielson

After starting out fast in 2000-Q1, Danielson has found it tough to keep up the pace, and 2000-Q4 was no exception. Danielson, part of the Eastern Connecticut regional economy featured this issue, has hardly hit on the recipe for success of late. Between 1999-Q4 and 2000-Q4, jobs fell 0.8%, with the biggest losses coming in manufacturing and trade. Along with the cut in manufacturing jobs, hours remained flat, and real earnings dropped 6.5%. The region owes its weakly positive LMI performance to an improvement in unemployment: the number unemployed dropped 29.0%.



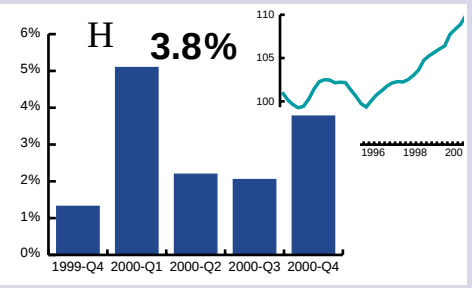
Hartford

A drop in jobs and real earnings together with a flat labor force led to a further slowdown in Hartford's LMI growth this quarter. Only a dazzling 46% reduction in the number unemployed kept the index afloat. Jobs fell 0.4% between 1999-Q4 and 2000-Q4, with the losses divided among manufacturing, trade and especially FIRE. Real hourly manufacturing earnings tracked the job loss, dropping 2.0%. And with hours up just 0.2%, real weekly earnings fell by a comparable 1.9%. The service sector, however, showed strength, adding 1,600 jobs. But as losses outnumbered the gains, Hartford logged its second consecutive quarter with fewer jobs than the year before.



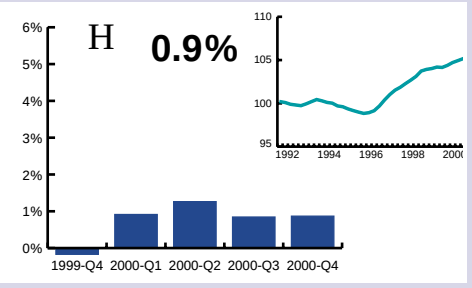
Lower River

After logging record LMI growth in 2000-Q1, Lower River took a two-quarter breather. But it now appears to be on the move again. Lower River's LMI advanced 3.8% between 1999-Q4 and 2000-Q4, owing largely to a plunge of 42.9% in the number unemployed. But the region also showed improvement in all the other measures of labor market performance. Jobs grew 1.7%, with gains concentrated in government, FIRE and trade, and the labor force expanded 1.4%. Though Lower River did not add manufacturing jobs, the workweek grew 0.2% longer, and real hourly earnings grew by 0.7%.



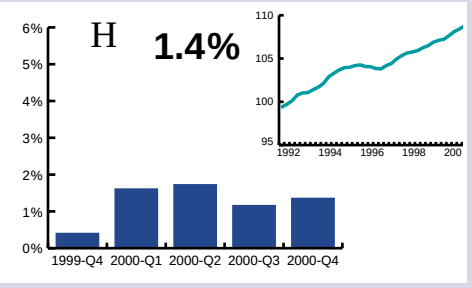
New Haven

The growth in New Haven's LMI held steady in 2000-Q4, despite a small loss in non-farm jobs. Most of the strength in the index came from a healthy 31.2% decline in the number unemployed, although a 0.5% advance in real hourly manufacturing earnings and a tiny 0.1% increase in the labor force also contributed to the fourth-quarter gain. The manufacturing sector added jobs at a 0.6% rate, but a matching cut in average hours worked trimmed real weekly earnings by 0.1%. Government jobs grew 1.3%, but jobs in the private sector, especially in trade, FIRE, and the services, took a hit.



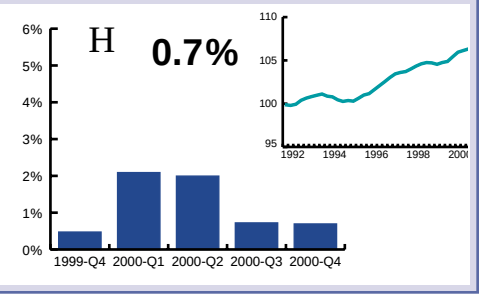
New London

New London, also part of the region featured in this issue, boasted a strong 2000-Q4 performance. A 41.7% drop in the number unemployed accounted for most of the gain in this quarter's index. Jobs grew 0.6% between the fourth quarters of 1999 and 2000, though the increase was confined to the government sector, which includes the casinos. The manufacturing workweek declined again, marking its fourth straight drop. But real hourly earnings grew 1.5%—enough to give real weekly earnings a slight lift despite the slump in hours. A leader in labor force growth earlier in the year, the region's 2000-Q4 labor force expansion rate slowed to a below-average 0.4%.



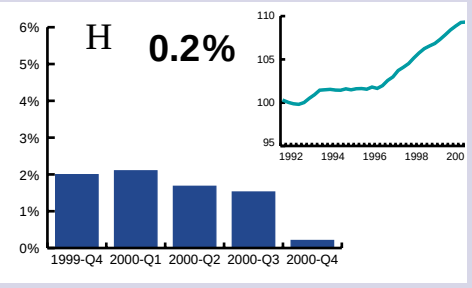
Stamford

Stamford held on to a 0.7% LMI growth rate despite continuing weakness in the region's manufacturing sector. Along with the rest of the state, Stamford posted a big 40.4% decline in the number unemployed between 1999-Q4 and 2000-Q4. Moreover, the region gained 1,100 jobs net, with more than that number added in the high-paying FIRE sector alone. But Stamford also lost 1,000 manufacturing jobs, and the average workweek shrank by 34 minutes. With real hourly earnings slipping 0.8% as well, real weekly earnings were off by 7.4%. The region also gained jobs in construction and in services but lost them in trade and in transportation, communications and utilities.



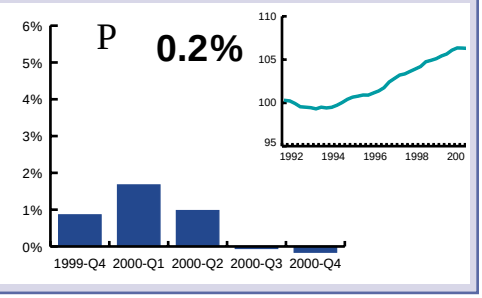
Torrington

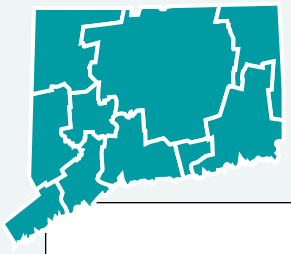
Torrington gained jobs and reduced the number unemployed, but took two knocks in manufacturing big enough to produce the area's worst LMI performance in 17 quarters. Ironically, all of Torrington's new jobs, net, were added in manufacturing. But a loss of hours and earnings offset the gain in jobs. Between 1999-Q4 and 2000-Q4, weekly manufacturing hours dropped 2.9%—the worst of any LMA—and real hourly earnings declined 3.5%. Combined, that meant a 6.2% reduction in real weekly earnings for manufacturing workers. The labor force grew 0.7%, and the number unemployed fell 31.8%.



Waterbury

Like Bridgeport, Waterbury failed to muster sufficient strength elsewhere in its economy to overcome setbacks in manufacturing. Jobs in Waterbury grew 1.1% between 1999-Q4 and 2000-Q4, the best showing of any area. In fact, Waterbury gained jobs in every sector save services and government. Moreover, this LMA led the rest with a 1.7% jump in its labor force. But a 2.5% drop in manufacturing hours (which trimmed the workweek 66 minutes), and a 4.4% slide in real hourly earnings more than offset the improvement in jobs and the labor force. The area's loss of earnings was its worst in the eight-year stretch of the LMI.





Labor Market Data

Labor Market Area	Labor Force		Nonfarm Jobs		Manufacturing Jobs	
	2000-Q4 (000)	% Change Year Ago	2000-Q4 (000)	% Change Year Ago	2000-Q4 (000)	% Change Year Ago
Bridgeport	215.7	0.9	191.1	0.9	36.6	-1.4
Danbury	109.7	1.1	90.6	0.3	18.9	-0.2
Danielson	32.7	0.5	21.2	-0.8	5.3	-2.5
Hartford	574.6	0.0	616.1	-0.4	89.1	-1.5
Lower River	12.4	1.4	10.1	1.7	2.8	0.0
New Haven-Meriden	272.1	0.1	262.4	-0.4	40.1	0.6
New London-Norwich	150.6	0.4	141.1	0.6	23.3	-2.2
Stamford	193.8	0.8	212.5	0.5	24.5	-4.0
Torrington	39.4	0.7	30.8	0.4	6.2	2.2
Waterbury	116.4	1.7	89.8	1.1	19.3	6.4
Statewide	1,700.6	0.5	1,718.4	1.1	264.7	-1.0

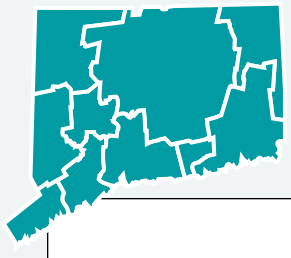
Labor Market Area	Construction Jobs		Trade Jobs		FIRE* Jobs	
	2000-Q4 (000)	% Change Year Ago	2000-Q4 (000)	% Change Year Ago	2000-Q4 (000)	% Change Year Ago
Bridgeport	7.0	2.4	43.9	1.9	11.9	2.3
Danbury	4.2	2.5	21.4	-2.0	6.0	9.0
Danielson	1.0	0.0	5.3	-1.9	0.6	0.0
Hartford	22.8	0.6	124.1	-0.9	71.9	-2.2
Lower River	0.4	0.0	2.1	1.6	0.4	20.0
New Haven-Meriden	9.9	-2.0	55.1	-1.0	12.5	-3.1
New London-Norwich	5.2	2.6	28.5	2.4	3.5	-7.0
Stamford	6.8	2.5	45.2	-1.2	28.7	4.2
Torrington	2.1	-5.9	7.1	1.9	1.0	7.4
Waterbury	3.8	7.6	19.2	1.6	4.0	0.8
Statewide	66.1	3.2	371.7	1.0	142.2	0.4

* Finance, Insurance & Real Estate

Labor Market Area	Service Jobs		Government Jobs		TCU* Jobs	
	2000-Q4 (000)	% Change Year Ago	2000-Q4 (000)	% Change Year Ago	2000-Q4 (000)	% Change Year Ago
Bridgeport	62.5	1.0	22.0	1.2	7.2	0.5
Danbury	26.0	0.8	10.8	-2.7	3.2	6.7
Danielson	5.2	0.0	3.3	4.2	0.5	-11.8
Hartford	182.5	0.9	98.4	0.4	27.3	-1.1
Lower River	3.1	0.0	1.0	11.1	0.3	-10.0
New Haven-Meriden	94.9	-0.5	33.3	1.3	16.6	0.2
New London-Norwich	36.1	1.2	37.7	2.4	6.7	-6.0
Stamford	79.2	2.1	17.8	-1.1	10.2	-0.6
Torrington	10.5	1.3	3.4	-2.9	0.5	-16.7
Waterbury	26.6	-1.5	12.8	-3.5	4.2	2.4
Statewide	545.1	2.0	248.8	1.8	79.8	0.5

*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. Housing permits are quarterly averages based on monthly figures from the Connecticut Department of Economic and Community Development and are not seasonally adjusted. Housing prices, from UConn's Center for Real Estate and Urban Economic Studies, are preliminary.



Labor Market Data

Labor Market Area	Number Unemployed		Unemployment Rate (%)		Initial Unemployment Claims	
	2000-Q4 (000)	% Change Year Ago	2000-Q4	1999-Q4	2000-Q4	% Change Year Ago
Bridgeport	4.3	-39.2	2.0	3.3	1,351	-5.6
Danbury	1.2	-37.9	1.1	1.8	328	-5.8
Danielson	0.7	-29.0	2.2	3.2	249	18.2
Hartford	10.2	-37.7	1.8	2.8	3,217	-7.4
Lower River	0.1	-42.9	1.1	1.9	*	*
New Haven-Meriden	5.0	-31.2	1.8	2.7	1,503	0.6
New London-Norwich	2.6	-41.7	1.7	2.9	596	-11.4
Stamford	2.2	-40.4	1.1	1.9	634	11.9
Torrington	0.5	-31.8	1.3	1.9	344	0.1
Waterbury	2.4	-30.5	2.1	3.1	856	5.3
Statewide	28.8	-36.9	1.7	2.7	9,078	-3.0

* Lower River included in Hartford LMA.

Manufacturing Labor Market Area	Average Weekly Earnings		Average Weekly Hours		Average Hourly Earnings	
	2000-Q4	% Change Year Ago	2000-Q4	% Change Year Ago	2000-Q4	% Change Year Ago
Bridgeport	$644.45	-4.8	41.4	-2.4	$15.57	-2.4
Danbury	665.68	3.4	42.0	0.9	15.85	2.5
Danielson	529.30	-0.6	41.6	0.1	12.71	-0.7
Hartford	736.29	1.7	43.9	0.2	16.78	1.6
Lower River	562.47	4.7	40.3	0.2	13.96	4.5
New Haven-Meriden	664.88	3.3	42.5	-0.6	15.66	4.0
New London-Norwich	719.54	3.5	42.4	-1.3	16.96	4.9
Stamford	520.98	-4.2	39.6	-1.4	13.17	-2.9
Torrington	574.69	-3.0	40.7	-2.9	14.11	-0.1
Waterbury	634.87	-3.2	43.3	-2.5	14.66	-0.7
Statewide	$677.07	0.9	42.7	-0.4	$15.84	1.3

Labor Market Area	State Job Service Postings		Housing Prices*		Housing Permits	
	2000-Q4	% Change Year Ago	2000-Q4 (000)	% Change Year Ago	2000-Q4	% Change Year Ago
Bridgeport	598	21.1	246.8	10.9	197	-1.5
Danbury	185	-10.6	315.5	12.0	271	3.8
Danielson	124	-8.6	★	★	57	-20.8
Hartford	1,094	-11.2	145.2	8.7	765	-11.1
Lower River	F	F	★	★	32	-30.4
New Haven-Meriden	390	-66.0	147.5	11.1	359	14.3
New London-Norwich	435	-22.8	N/A		192	9.7
Stamford	211	-18.4	573.0	10.2	159	-44.4
Torrington	50	-85.3	113.6	2.3	54	-1.8
Waterbury	492	-19.8	171.4	4.2	151	2.0
Statewide	3,578	-28.3	$232.5	9.2	2,237	-7.5

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

F Lower River included in Hartford LMA.

★Markets are too small for reliable estimates.

Eastern Connecticut Hops Up Development Efforts

By Dennis Heffley

Eastern Connecticut, often seen as an economic backwater, has been coming to life again. Only the historians know just how vibrant this area was a century ago. In its heyday, Willimantic boasted the world's largest thread factory, some of the country's finest Victorian homes, an opera house, and five movie theaters. Not unlike the dot.com boom of the 1990s, the earlier revolution in construction and manufacturing methods yielded huge rewards to clever innovators and those who found new applications—Eastern Connecticut had more than its share.

A pioneer in the early revolution, Eastern Connecticut later felt the impact of major shifts in the mix and location of economic activity. After World War II, textiles and manufacturing headed south or overseas to find cheaper labor and lower rents. Also, breakthroughs in ground, air, and even space transportation called for new skills and new investments in new places, mostly in southern and western states.

Now we've entered a new era, one that offers hopes of economic renewal in a once-prosperous region. The key question is whether the new activities can gain a foothold before a recession sets in and stalls this historic area's youthful recovery.

It's Not Easy Being Green

Anyone who has recently entered Willimantic from the south, along Route 32, has seen the city's new bridge and its latest contribution to art: a matched quartet of six-foot tall blue-green frogs with bulging gold eyes, casually perched atop huge cement spools—a tribute to the Thread City's economic heritage and a not-so-subtle reminder of the noisy amphibians that early townsfolk mistook for an attack by French and Indian forces. Locals may debate whether the monument signals the area's rebirth or an unhealthy obsession with the past, but Eastern Connecticut has more than this bronze foursome to show for the last decade.

Connecticut's eastern counties were hammered by defense cutbacks. While some of the job cuts reflected out-sourcing, and may have created new jobs in smaller firms, New London and Windham counties lost about 5,700 manufacturing jobs (-17%) between 1993 and 1998. Yet,

Photo by Amy Crocker

despite sharp cuts in core manufacturing, the same two eastern counties gained about 18,000 nonfarm jobs between 1993 and 1998, despite a slight population decline. Even more impressive than the overall growth is the scope of new activities that have surfaced.

New Territory

The pond's biggest newcomer was gaming (pages 12-13). Since Foxwoods opened in 1992, followed by the Mohegan Sun in 1996, gaming employment has mushroomed to about 20,000. Besides offsetting defense layoffs, gaming has generated "export" income—dollars flowing into the state from outside. The casinos also have expanded the region's hotel–conference facilities and entertainment options. Foxwoods' three hotels (1,400 + rooms) will soon face competition when the Mohegan Sun opens 1,200 + rooms as part of its $1.065 billion expansion.

Some local residents feel poorly compensated for the negative aspects of this growth. The tribal nations enjoy some tax exemptions, but a quarter of the net proceeds from slots has been paid to the State and its 169 towns, with heavier per capita distribution in nearby and poorer towns (pages 10-11). In FY 99/00, payments topped $318 million, up from $113 million in FY 93/94, the first full fiscal year of gaming. In all, the state has collected $1.67 billion from the casinos since gaming hit town.

Besides concerns about the local impacts and social costs of gaming, some feared that gaming would simply siphon bodies and bucks away from shoreline attractions, rather than boosting the region's tourist base. Anecdotes abound, but data indicate those fears were unfounded. Gaming has changed the nature of tourism in the area, but combined yearly attendance at Mystic Seaport and Mystic Aquarium grew nearly 11% from 1994 to 1999. New London's highly successful OpSail 2000 also focused new attention on Southeast Connecticut as a tourist site.

What did hurt the area was last year's tragic fire in Downtown Mystic. The multi–year renovation of the Mystic Drawbridge—a critical link between the Seaport-Aquarium-Mystic Village complex and the historic Downtown Mystic-Noank area—won't help either. Rapid rebuilding of the burned shops and completion of drawbridge repairs should be high on the state's economic–development and historic–preservation agendas for this area.

A pleasant economic surprise in the region has been Putnam's emergence as a major antique center. Nestled between Hartford, Boston, and Providence, just west of I-395, Putnam now boasts several hundred dealers in 17 venues, serving customers from throughout the U.S. and abroad. The antique hounds also patronize local bed-and-breakfasts, restaurants, wineries, and other tourist-related businesses in the Quiet Corner.

Besides tourist activities, a variety of new projects will serve the region's businesses and residents. The projects range from Pfizer's massive new research complex in New London to local redevelopment efforts. In Willimantic, for example, seven of the granite threadmill buildings (quarried from the bed of the Willimantic River) are being renovated by the Windham Mills Development Corporation. Fittingly, the mill's electric wiring—the first for a commercial building and overseen by Thomas Edison himself—has been replaced by broadband fiber-optic cable. New occupants include small technology firms and public/nonprofit agencies. Farther south, in Norwich, another revamped factory will serve a different group of clients. Like its Hartford predecessor, Norwich ArtSpace will offer affordable housing, studio space, and gallery facilities for local artists. A similar facility is on the drawing boards at Windham Mills.

A Slippery Rock?

Eastern Connecticut's efforts to compete in a modern economy and regain some former economic glory are impressive, but are they enough? The unprecedented expansion of the 1990s was a great time to launch new initiatives. With capital more abundant, disposable incomes up, and government budgets in the black, good ideas seemed even better. And even a few good ideas, if they catch on, can transform a regional economy. Eastern Connecticut has weathered defense cuts better than many expected, and it seems poised to become far more than a wooded Las Vegas with beaches, but a major recession could slow or even halt projects that would strengthen and diversify the economy and highlight the region's historical assets. Fortunately, recessions, like frogs, come and go. Long-term, my bet's with the frogs.

The Connecticut Travel and Tourism Index

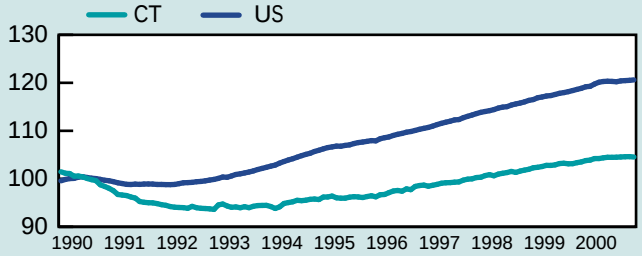
The overall index decreased 0.3% in the third quarter compared with the same quarter the year before. The index consists of hotel-motel revenues, slot machine revenues, attendance at six major tourist attractions, and traffic on five tourist roads.

Hotel/Motel Rev.	H	10.8%
Slot Machine Rev.	H	2.4%
Attendance	P	-12.4%
Traffic	P	-1.9%
Overall	P	-0.3%

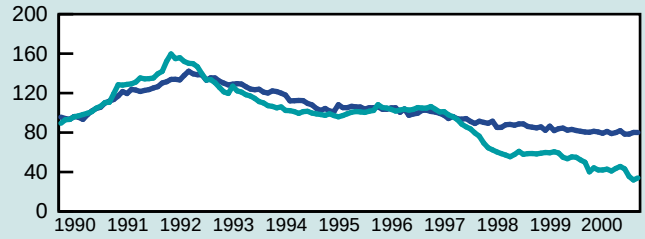
INDEX OF ECONOMIC INDICATORS

Indexed so 1990 = 100

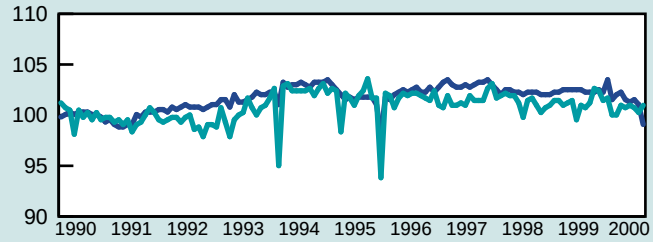
Job Totals
(seasonally adjusted)



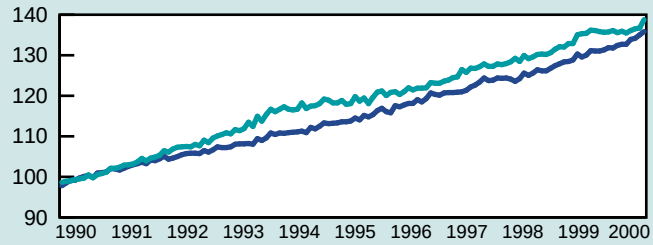
Number Unemployed
(seasonally adjusted)



Weekly Manufacturing Hours
(seasonally adjusted)



Hourly Manufacturing Earnings
(not seasonally adjusted)



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Sprawl, Growth, and Political Boundaries: A Potent Mix

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Connecticut
a forward look...

Whether in pursuit of the mythical simpler life of old New England or just cheaper building space, Connecticut residents have increasingly moved to small towns over the past several decades. The result is suburban sprawl, the oxymoronic "built-up countryside," that ensures fewer of us actually get to live the myth. What's seldom recognized, though, is that scatter-shot development owes much to the way we govern ourselves, or fail to.

Perhaps we cling to our gridwork of 169 separate cities and towns out of a sense of identity ("I'm from Orange!"). Yet our lives sprawl out in ever wider regional arcs: we live in one town, shop in another, work in a third, see a movie in a fourth, visit friends in a fifth, and sometimes even go into a city for a club or concert.

Political boundaries are less and less relevant to our daily lives, yet they profoundly affect the ways we live. In particular, the old borders help create the very sprawl we profess to detest. On the one hand, they make it easy to deny the reality that most of us go about our daily business in multi-town regions not single towns. On the other hand, municipal boundaries often prevent us from recognizing, or admitting, mutual interests and collaborating to further them.

A case in point from the Connecticut shoreline: Town A wants the real estate taxes but not the traffic that go with a mall. So it directs the developers to the edge of town, next to Town B. A gets the taxes, B the traffic.

Or consider River Town, which stiffly resisted joining a plan to improve the Connecticut River waterfront in Big City and Little Big City. Why? Town officials said they would lose control of their park budget. Of course, River Town residents would still be able to enjoy the waterfront park. Had River Town not been pressured to join up, its residents would have enjoyed a "free ride" at the expense of citizens of other towns on the river.

We face a choice in Connecticut. We can continue to rely on the old political boundaries, on the sanctity of "home rule", to try to foist the problems of growth onto others. Or we can design some new mechanisms with the muscle and authority to cope with problems that cross town lines.

Existing state laws on formal intertown cooperation—for example, on schools and purchases of town supplies—work pretty well. But there is more to latter-day growth than school buses and snow removal. The key to controlling and shaping suburban growth lies in a town's land use decisions. Towns are, nominally, required to consult each other. But actual collaboration is too often wanting for lack of incentives or penalties.

There is no swift, simple solution to our regional shortcomings, which have taken decades to emerge and be recognized. Nor will mere calls for "comprehensive" regional planning do the trick. But there's no reason not to begin with some modest first steps. A good place to start might be to induce or force towns to take into account the external as well as internal effects of their land-use decisions. Another possibility is to move a step or two towards regional revenue sharing, beyond the existing state grants to municipalities.

If we don't recognize soon that one town's actions can redound to the benefit, or harm, of its neighbors, we'll just keep building farther and farther out, finding new political boundaries to live behind, sprawling into what will no longer be the countryside. Oops! Time to move again!

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