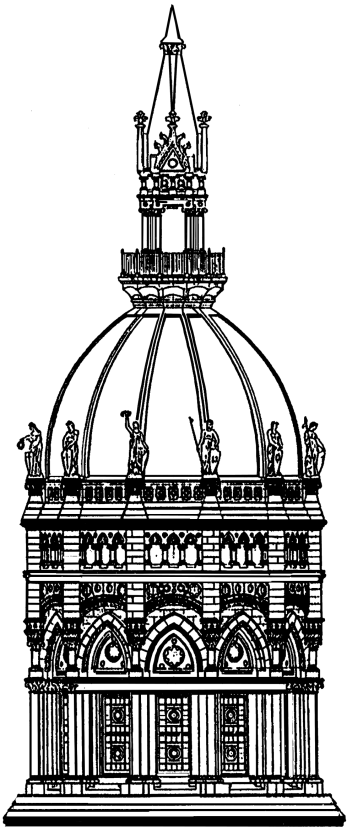
FY2009 MIDTERM
ECONOMIC REPORT OF THE GOVERNOR



M. JODI RELL, GOVERNOR

CONNECTICUT

February 6, 2008

Fiscal Year 2009 Midterm
Economic Report of the Governor

This publication, as required by Section 4-74a of the Connecticut General Statutes, is prepared by the Office of Policy and Management.

Office of the Secretary
Robert L. Genuario, Secretary
Michael J. Cicchetti, Deputy Secretary

Budget and Financial Management Division
John Bacewicz, Executive Budget Officer
Barry Sullivan, Assistant Executive Budget Officer

Economics, Capital, and Revenue Forecasting
Thomas Fiore, Section Director
Daniel Colter, Principal Budget Specialist
Lisa DuBois, Budget Analyst
Steven Kitowicz, Principal Budget Specialist
Kristin Lelyveld, Principal Budget Specialist
Ming J. Wu, Principal Budget Specialist

For information on data or analysis provided in this document or any questions or comments, please contact the Budget and Financial Management Division at (860) 418-6265.

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Office of Policy and Management
450 Capitol Avenue
Hartford, Connecticut 06106

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INTRODUCTION

This report fulfills the requirements of Section 4-74a of the General Statutes which stipulates that:

> "Part IV of the Budget Document shall consist of the recommendations of the Governor concerning the economy and shall include an analysis of the impact of both proposed spending and proposed revenue programs on the employment, production and purchasing power of the people and industries within the State".

This report is also designed to provide a brief profile of the State of Connecticut, the economy of the State, revenues and economic assumptions that support the Governor's Budget, and an analysis of the impact of both proposed spending and proposed revenue programs on the economy of the State of Connecticut.

The report will focus on eight areas including: (1) the general characteristics of the State; (2) the profile of employment in the State; (3) an in depth analysis of important Connecticut Sectors; (4) the performance indicators of three differing entities (the United States, the New England Region, and Connecticut); (5) a discussion of some of the important revenue raising taxes; (6) the economic assumptions of the Governor's Budget, including narratives on the foreign sector, the U.S. economy and the Connecticut economy, and a numerical comparison of some of the important indicators used in the preparation of the Governor's Budget; (7) the revenue forecasts of the General Fund and the Special Transportation Fund; and (8) the expected impact of the Governor's Budget on the economy of the State of Connecticut.

GENERAL CHARACTERISTICS OF THE STATE OF CONNECTICUT

Connecticut, settled in 1633, became the fifth state to ratify the United States Constitution in 1788. The State is the most southern of the New England States, located on the northeast coast and bordered by Long Island Sound, New York, Massachusetts and Rhode Island.

Connecticut enjoys a favorable location within New England and the rest of the Eastern seaboard markets. Over one-quarter of the total population of the United States and more than 50% of the Canadian population live within a 500-mile radius of Connecticut and are readily accessible by rail, truck and air, providing easy access to local and regional markets. Connecticut's Bradley International Airport is well situated for overseas airfreight operations and railroad service provides connections with the major eastern railroads, as well as direct access to Canadian markets. With operational harbors in Bridgeport and New Haven to accommodate most deep draft vessels and expansion and improvement projects completed in New London, proximity to the ports of New York and Boston provides favorable access to the European and Eastern South American export markets.

Connecticut is highly urbanized with a population density of 723 persons for each of its 4,845.4 square miles of land, compared with 85 persons per square mile of land for the United States (3,536,338 square miles), based on 2007 census estimate figures. Hartford, the capital, is a center for the insurance industry and a major service center for business and commerce. Industrial activity in the State is concentrated in two regions. The first, the Naugatuck Valley, extending from Bridgeport north, has a high concentration of heavy industry. The second, a belt extending from Hartford west to New Britain and Bristol, and south to the coast in New Haven, is typified by highly skilled precision metal products manufacturing. In addition, a large submarine-building firm, a major pharmaceutical research and development facility, and two casino gaming enterprises exist in the Groton-New London area. The Southwestern portion of the state has a high concentration of financial service activity, and also serves as headquarters to numerous Fortune 500 companies due to the talented labor pool which resides there, the amenable environment of the region and proximity to New York City.

Connecticut is a mature and highly developed state. Connecticut's leadership in the skills and techniques of modern manufacturing, trade, finance, insurance and other fields produced a record economic output and growth during the twentieth century while its revitalized transportation infrastructure made its products accessible to numerous markets. Connecticut's primary resources are the energies and skills of its citizens, who have benefited from the State's rich historical heritage and have continued its tradition of economic, social and cultural growth.

Census Information

On April 1, 2000, this nation's population was again counted. The 2000 Census of Population and Housing was the 22nd in a series that began in 1790, with a count of four million residents in 18 states. In 2000, the population totaled 281.4 million people in the 50 states and the District of Columbia. The Table on the following page displays the change in resident population for the U.S., New England and Connecticut with their corresponding census counts. Since 1930, the population has risen in all three data series for all decades. However, during the 1970s, 1980s

and 1990s, the population growth in Connecticut and New England was significantly lower than the prior three decades and lower than the nation for the recent periods.

TABLE 1
CENSUS POPULATION COUNTS*
(In Thousands)

	United States		New England		Connecticut	
Year	Number	% Growth	Number	% Growth	Number	% Growth
1930	123,203	16.3	8,166	10.3	1,607	16.3
1940	132,165	7.2	8,437	3.3	1,709	6.3
1950	151,326	14.5	9,314	10.3	2,007	17.4
1960	179,323	18.5	10,509	12.8	2,535	26.3
1970	203,302	13.4	11,847	12.6	3,032	19.6
1980	226,542	11.4	12,349	4.2	3,108	2.5
1990	248,710	9.8	13,207	6.9	3,287	5.8
2000	281,422	13.2	13,923	5.4	3,406	3.6

* The census is taken on April 1 of each census year.

Source: U.S. Bureau of the Census

In the United States, the resident population, which excludes Armed Forces Overseas, increased from 248,709,873 in 1990 to 281,421,906 in 2000, an increase of 13.2% for the 1990s, and the greatest increase since the 1960s. New England's population increased 5.4% from 1990 to 2000, experiencing slower growth. Within New England, only Vermont and New Hampshire experienced growth significantly higher than the region. According to the latest projections released by the U.S. Bureau of the Census, this trend is likely to continue.

During the last few decades, the heavily populated states experienced a slowdown in the growth of their populations. This phenomenon was common in New England, the Middle Atlantic, the East North Central and the West North Central Regions. The fastest growing states were those in the West, the South, the Pacific and the southern portion of the Mountain regions. The apportionment of seats in the U.S. House of Representatives changed as a result of both the 1990 Census and the 2000 census. Also, Connecticut's federal aid levels for grants such as highway planning and construction, alcohol and drug abuse programs, low income energy assistance, community assistance grants and job training will continue to fall as the state's estimated population size, relative to the nation's, decreases each year.

Resident population in Connecticut, according to figures from the 2000 census, was 3,405,565 an increase of 118,449 from the 3,287,116 figure of 1990. This represented a growth of 3.6% for the decade, slower growth than was experienced by either the New England Region or the nation as a whole, for the third consecutive decade. In fact, between 1990 and 2000, the state's growth rate was the fourth lowest in the nation. During the recession of the early 1990s, Connecticut's population started declining as a result of the state's weak economy, the high relative cost of living, and a softened job market which collectively made the state less attractive. The minor population losses in the early 1990s were the result of small in-migration compared to a much larger out-migration. This net out-migration is not to be confused with overall population

declines, because a surplus of births and an influx of foreign migration have offset domestic out-migration in most years. The migration of population to and from Connecticut during the late 1980s and 1990s parallels the performance of the state's economy, rising during the expansion, declining at the time of the recession, and rising again during the last few years of the 1990s.

Population counts and growth patterns for Connecticut counties are shown in the following Table. Connecticut counties experiencing faster growth during the 1990s generally were those not dominated by large urban areas. Population counts by municipality are also available in the Appendix of this report.

TABLE 2
COUNTY POPULATION IN CONNECTICUT

County	1990 Census	1990 Percent	2000 Census	2000 Percent	Percent Change
Fairfield	827,645	25.2	882,567	25.9	6.6
Hartford	851,783	25.9	857,183	25.2	0.6
Litchfield	174,092	5.3	182,193	5.3	4.7
Middlesex	143,196	4.4	155,071	4.6	8.3
New Haven	804,219	24.5	824,008	24.2	2.5
New London	254,957	7.7	259,088	7.6	1.6
Tolland	128,699	3.9	136,364	4.0	6.0
Windham	102,525	3.1	109,091	3.2	6.4
TOTAL	3,287,116	100.0	3,405,565	100.0	3.6

Source: U.S. Bureau of the Census, U.S. Department of Commerce

The national population is estimated monthly by the United States Bureau of the Census for total population which includes Armed Forces Overseas, resident population and civilian population. Population growth is a primary long-run determinant of the potential expansion path of the economy from both the supply and demand sides of the economy. The growth of the population and its composition have profound impacts on the labor force, education, housing, and the demand for consumer goods and services.

Annual estimates of population as of mid-calendar year for each state are vital for comparing standards of living through per capita income, productivity through per capita Gross State Product, or a state's private activity bond limitation which, under federal law, is capped at a level dependent upon the size of the population. Estimates are prepared by the U.S. Bureau of the Census based on the number of births and deaths as well as a variety of factors to approximate net migration changes. These factors can include Medicare enrollees, motor vehicle registrations, building permits, licensed drivers, school enrollments, etc. To comply with the Connecticut General Statutes concerning state aid to municipalities, the Department of Public Health also prepares an annual mid-year estimate of population based on the number of births, deaths and school age population. The following Table shows the Bureau of the Census

estimates for mid-year population for the United States, the New England Region and Connecticut.

TABLE 3
MID-YEAR POPULATION
(In Thousands)

Mid	United States		New England		Connecticut	
Year	Number	% Growth	Number	% Growth	Number	% Growth
1998	275,854	1.2	13,734	0.7	3,365	0.5
1999	279,040	1.2	13,838	0.8	3,386	0.6
2000	282,194	1.1	13,954	0.8	3,412	0.8
2001	285,112	1.0	14,050	0.7	3,430	0.5
2002	287,888	1.0	14,132	0.6	3,452	0.6
2003	290,448	0.9	14,187	0.4	3,473	0.6
2004	293,192	0.9	14,210	0.2	3,482	0.3
2005	295,896	0.9	14,217	0.0	3,486	0.1
2006	298,755	1.0	14,239	0.2	3,496	0.3
2007	301,621	1.0	14,264	0.2	3,502	0.2

Source: U.S. Bureau of the Census, U.S. Department of Commerce

Natural Change Rates

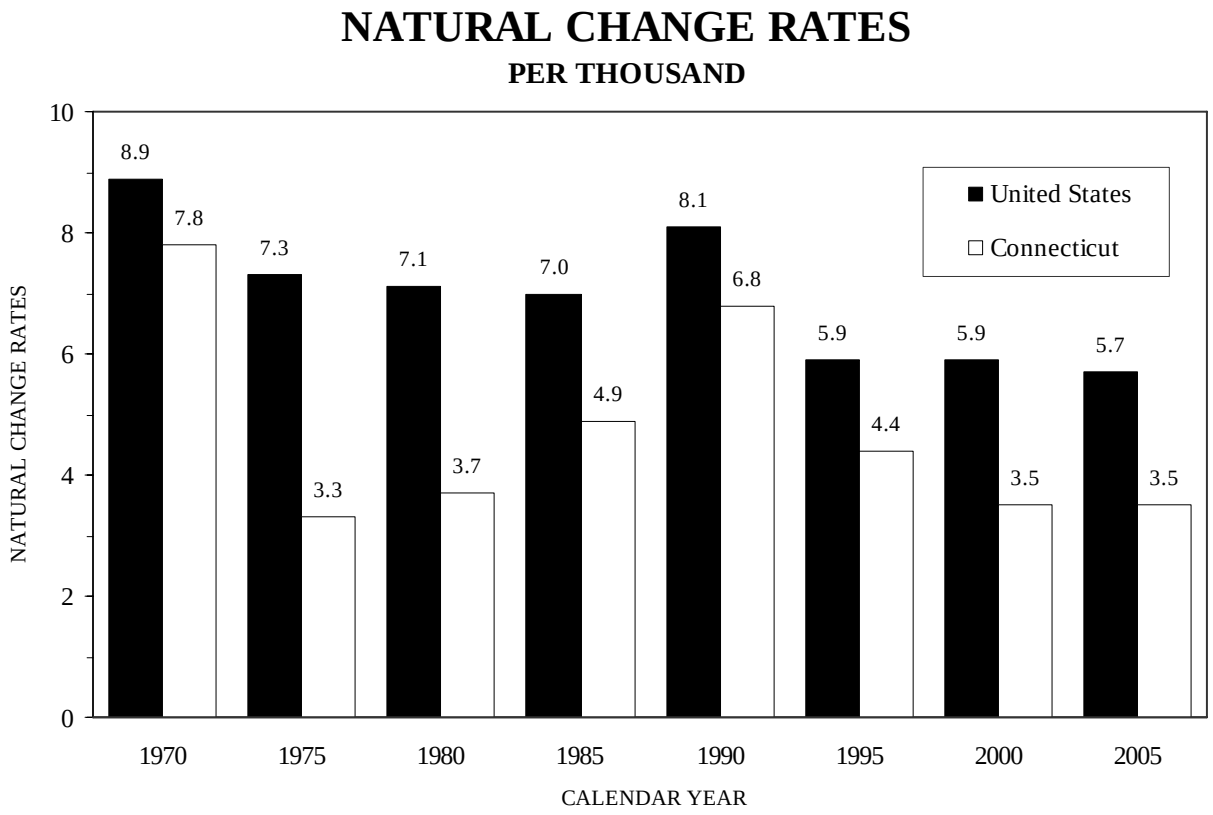
The natural change rate is defined as the difference between birth and death rates. The birth rate in Connecticut has consistently remained below the national average, declining during the 1960s and 1970s and then slowly reversing itself, increasing gradually since the early 1980s and finally peaking in 1990. However, since reaching its peak of 15.2 births per 1,000, Connecticut's trend has followed that of the nation, declining gradually through the 1990s and beyond. In 2005, the Connecticut birth rate was approximately 11.9 per 1,000, compared to the national average of 14.0. This is a decrease from the 12.6 in 2000 and 12.0 in 2004. The mortality rate for both Connecticut and the nation for several years had been fairly stable, while the death rate for both appears to be on a downward trend. This has occurred because of improvements in medicine and health care and has led to the aging of the population. The following Table shows the natural change rates for the United States and Connecticut.

TABLE 4
NATURAL CHANGE RATES PER THOUSAND POPULATION

	1970	1975	1980	1985	1990	1995	2000	2005
Birth Rates:								
United States	18.4	16.1	15.9	15.8	16.7	14.6	14.4	14.0
Connecticut	16.7	11.6	12.5	13.7	15.2	13.3	12.6	11.9
Death Rates:								
United States	9.5	8.8	8.8	8.8	8.6	8.7	8.5	8.3
Connecticut	8.9	8.3	8.8	8.8	8.4	8.9	9.1	8.4
Natural Change Rates:								
United States	8.9	7.3	7.1	7.0	8.1	5.9	5.9	5.7
Connecticut	7.8	3.3	3.7	4.9	6.8	4.4	3.5	3.5

Source: Connecticut Department of Health & National Center for Health Statistics

The following Chart provides a graphic presentation of the natural change rates for the United States and Connecticut.



Source: Connecticut Department of Health & National Center for Health Statistics

Households

Demand for goods and services depends upon the level of household income and the total number of households. The number of households is a function of household size and population: for example, for a given population, as the size of the household declines, the number of households increases, which causes higher demand for housing and automobiles as well as household goods and services. The Table on the following page shows the change in household structure for the United States and Connecticut between 1995 and 2005.

The number of households in Connecticut, in 2005, was 1,323,838, up 8.3% from the 1995 count, but up only 1.7% from the 2000 Census estimate. This is not unexpected in that it reflects the slow growth in Connecticut's population over the last several years. Family households include a householder and one or more other persons living in the same household who are related by birth, marriage or adoption. Non-family households include a householder living alone or with non-relatives. The structural makeup or distribution of household types for Connecticut is similar to that of the nation. Even growth patterns in various structural components for the U.S. and Connecticut were similar, with one significant exception. For both the state and the nation, significant growth has been experienced in non-family households and in family households headed by males with no wife present, with most of the growth occurring between 1995 and

2000 in both cases. Where the state and the U.S. differ, however, is in the growth of households with married couples present. While the U.S. saw growth over the ten-year period, the state experienced a decrease in such households between 2000 and 2005, with virtually no change between 1995 and 2005.

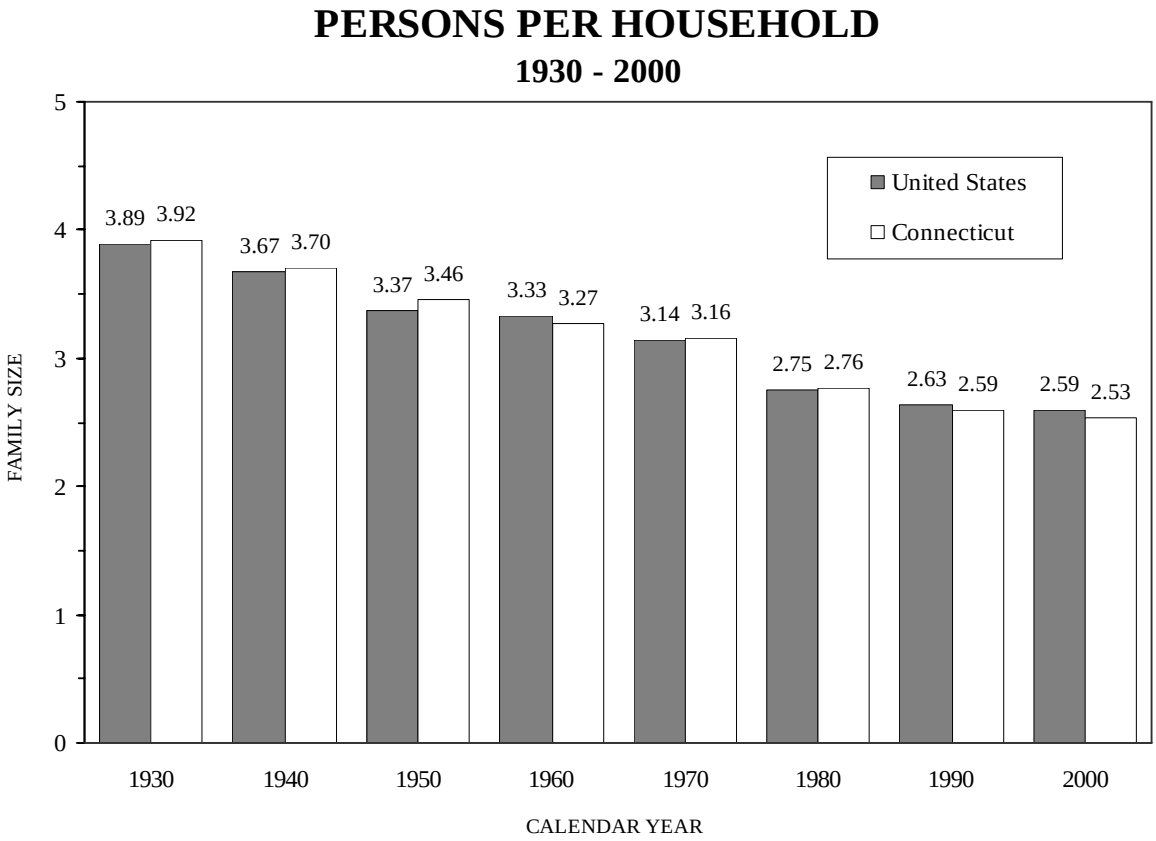
TABLE 5
HOUSEHOLD STRUCTURE
(In Thousands)

	United States			Connecticut		
	1995 Number of Households	2000 Number of Households	2005 Number of Households	1995 Number of Households	2000 Number of Households	2005 Number of Households
Family	69,305	71,787	74,341	857	881	893
• Married	53,858	54,493	55,225	675	676	675
• Male	3,227	4,394	5,098	39	48	56
• Female	12,220	12,900	14,019	143	157	162
Non-Family	29,685	33,693	36,749	365	421	431
Total	98,990	105,480	111,091	1,222	1,302	1,324
	Percent of Households	Percent of Households	Percent of Households	Percent of Households	Percent of Households	Percent of Households
Family	70.0	68.1	66.9	70.1	67.7	67.5
• Married	54.4	51.7	49.7	55.2	51.9	51.0
• Male	3.3	4.2	4.6	3.2	3.7	4.3
• Female	12.3	12.2	12.6	11.7	12.1	12.2
Non-Family	30.0	31.9	33.1	29.9	32.3	32.5
Total	100.0	100.0	100.0	100.0	100.0	100.0
	% Change 1995-2000	% Change 2000-2005	% Change 1995-2005	% Change 1995-2000	% Change 2000-2005	% Change 1995-2005
Family	3.6	3.6	7.3	2.8	1.4	4.2
• Married	1.2	1.3	2.5	0.1	(0.1)	0.0
• Male	36.2	16.0	58.0	23.1	16.7	43.6
• Female	5.6	8.7	14.7	9.8	3.2	13.3
Non-Family	13.5	9.1	23.8	15.3	2.4	18.1
Total	6.6	5.3	12.2	6.5	1.7	8.3

Source: U.S. Bureau of the Census (Some numbers may not add due to rounding.)

Between 1990 and 2000, the relatively stable population, the increasing number of households, and the changing mix in the types of households in Connecticut resulted in a decrease in average population per household in the state. The following Chart shows that household size

has generally been edging downward in the state and for the nation. This relationship is important in forecasting Connecticut's household size.



Source: U.S. Bureau of the Census

The declines in household size can be considered indicators of social change. Society is adjusting its mores to fit the demands of new generations including: delaying marriage, both delaying and having fewer children and the establishment of one or two person households by career minded men and women. Other social changes that result in smaller households are the increase in the elderly population and the increasing numbers of one parent families that are the consequence of the general rise in the number of divorces.

Age Cohorts

According to the latest data available, the distribution of Connecticut's population between age cohorts is somewhat different from that of the U.S. average. As shown in the Table below, the state has a lower concentration of persons aged 18 to 44 years than either New England or the Nation as a whole, and a higher concentration of persons aged 65 and over (especially 85 and over) than the Nation as a whole. Growth in this older age cohort in Connecticut will accelerate as baby boomers age. The aging population will put pressure on state spending requirements, which could be exacerbated by state revenues which may not grow at the same rate as during the late 1990s. The National Center for Health Statistics estimated average life expectancy at birth to be 77.9 years in 2005, up from 73.7 years in 1980, 75.4 years in 1990, and 77.0 years in

2000. As life spans continue to increase nationally, this trend is expected to impact retirement, social security, pension systems, health care, etc.

TABLE 6
POPULATION DISTRIBUTION BY AGE IN 2006
(In Thousands)

	17 & Less	18 to 24	25 to 44	45 to 64	65 +	85 +	Total
United States	73,577	29,391	83,902	74,704	37,180	5,285	298,755
% of Total	24.6	9.8	28.1	25.0	12.4	1.8	100.0
New England	3,209	1,364	3,929	3,826	1,908	300	14,235
% of Total	22.5	9.6	27.6	26.9	13.4	2.1	100.0
Connecticut	816	319	952	940	469	76	3,496
% of Total	23.3	9.1	27.2	26.9	13.4	2.2	100.0

Source: U.S. Bureau of the Census

Population Projections

The U.S. Department of Commerce, Bureau of the Census, has published population projections for the United States and the 50 states.

TABLE 7
PROJECTIONS OF THE POPULATION IN CONNECTICUT
(Mid-Year Resident Population In Thousands)

	1990	2000	Projections			% Change
Age Group	Census	Census	2010	2020	2030	2000-2030
Total	3,287.1	3,405.6	3,577.5	3,675.7	3,688.6	8.3%
0-17	737.6	841.7	814.0	816.3	823.4	(2.2%)
18-44	1,452.3	1,304.3	1,257.5	1,258.5	1,217.9	(6.6%)
45-64	651.3	789.4	990.4	958.2	852.9	8.0%
65 & Over	445.9	470.2	515.6	642.5	794.4	68.9%
85 & Over	47.1	64.3	93.7	105.6	132.4	105.9%
Ratio 18-64/65+	4.7	4.5	4.4	3.5	2.6	(41.5%)
Median Age	34.4	37.4	39.6	39.7	41.1	9.9%

Source: U.S. Department of Commerce, Bureau of the Census, April 2005

Based on these projections, the elderly population (defined as those 65 years and over) continues to grow substantially. For every person over the age of 65, the number of workers, aged 18 to 64, is expected to decrease 41.5 percent, from 4.5 workers in 2000 to 2.6 workers in 2030. The size of this cohort is not only growing rapidly, the average age is also increasing. The

most senior subset, which are those aged 85 and older, is increasing at a faster rate than the total elderly population in Connecticut. This significant growth will impact both the size and complexity of the demand for services required by this segment of Connecticut's population. There will be increased demand for health care facilities, public transportation, elderly housing, etc. The burden of caring for the elderly may become much greater as the baby boom generation begin to reach the age of sixty-five in the year 2011.

More specifically, the following three Tables call attention to some significant trends with particular implications to be considered as resource allocation decisions are made for the future. First, as shown in the following Table, Connecticut is and will remain a very densely populated state in a very densely populated region of the country. This has implications for housing, transportation, law enforcement and natural resources, as well as other areas.

TABLE 8
POPULATION DENSITY BY YEAR
(Persons per Square Mile)

	1990 Census	2000 Census	2007 Estimate	2010 Projection	2020 Projection	2030 Projection
United States	70.3	79.6	85.3	87.4	95.0	102.8
Northeast	313.1	330.3	337.0	343.8	352.1	355.4
Connecticut	678.4	702.8	722.8	738.3	758.6	761.3

Source: U.S. Bureau of the Census

In addition, a change is occurring in the age distribution of the population. As shown in Table 9, not only are the elderly increasing in number, but the non-elderly, on a relative scale, are decreasing, with the young and very young remaining a relatively stable portion of the total. This means that increasing pressure will be brought upon those between the ages of 18 and 65 to provide social and support services for the young and the elderly, particularly for the elderly.

TABLE 9
DEPENDENCY RATIOS*
(Number of Dependent Population per 100 Provider Population)

Dependency Ratio	1980	1990	2000	2010	2020	2030
United States	65.1	61.5	61.6	59.0	67.2	76.1
Northeast	63.9	59.0	61.6	57.7	64.9	75.4
Connecticut	61.9	57.0	62.7	59.2	65.8	78.1
Youth Dependency						
United States	46.5	41.3	41.5	38.3	40.0	41.5
Northeast	43.6	37.3	39.3	35.4	36.3	38.4
Connecticut	42.9	35.8	40.2	36.2	36.8	39.8
Aged Dependency						
United States	18.6	20.2	20.1	20.7	27.2	34.6
Northeast	20.3	21.7	22.2	22.4	28.6	37.0
Connecticut	19.0	21.2	22.5	22.9	29.0	38.4
Aged Female Dependency Ratio						
United States	11.1	12.1	11.8	12.0	15.4	19.4
Northeast	12.3	13.3	13.3	13.2	16.6	21.3
Connecticut	11.5	12.8	13.4	13.6	17.0	22.5

* The Dependency Ratio is the number of the target dependent population (i.e., the aged or youth or the two groups combined) divided by the segment of the population which has traditionally provided for the dependent population, through taxes for health and social programs, volunteer activities, etc. The provider group is generally considered to be those older than 17 and less than 65 years of age.

Source: U.S. Bureau of the Census, Population Distribution Branch

Finally, as shown in Table 10, cultural implications might be suggested by the racial distribution of the population in the state. The white population is decreasing as a percentage of the total, as both the African-American and Hispanic groups increase as a percentage of the total population, with the Hispanic growth rate outpacing the African-American growth rate. Although Asians make up a very small percentage of the total population, Asians comprise the fastest growing group, while the American Indian population remains fairly stable. These same trends are occurring in the nation and the region.

TABLE 10
POPULATION DISTRIBUTION BY RACE AND YEAR
(Percent of Total Population Based On Each Census)

	United States			Northeast Region			Connecticut		
	1980	1990	2000	1980	1990	2000	1980	1990	2000
White	86.0	83.9	77.0	88.5	85.6	79.3	92.0	89.6	83.5
African-American	11.8	12.3	12.6	10.1	11.4	11.6	7.1	8.6	9.3
Asian	1.6	3.0	3.7	1.2	2.7	4.0	0.7	1.6	2.5
American Indian	0.6	0.8	0.9	0.2	0.3	0.3	0.2	0.2	0.3
Other	-	-	5.8	-	-	4.8	-	-	4.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Hispanic Origin	6.4	9.0	12.5	5.4	7.6	9.8	4.1	6.5	9.4

Note: The method of counting by race changed in 2000. Definitions of various race categories were changed and, for the first time, a respondent could check off more than one race.

Source: U.S. Bureau of the Census

Housing

During fiscal 2007, the national housing market experienced a pronounced slowdown after five consecutive years of growth. Overall, housing starts in the U.S. fell 24.2% with 1.5 million starts being recorded nationally during fiscal 2007.

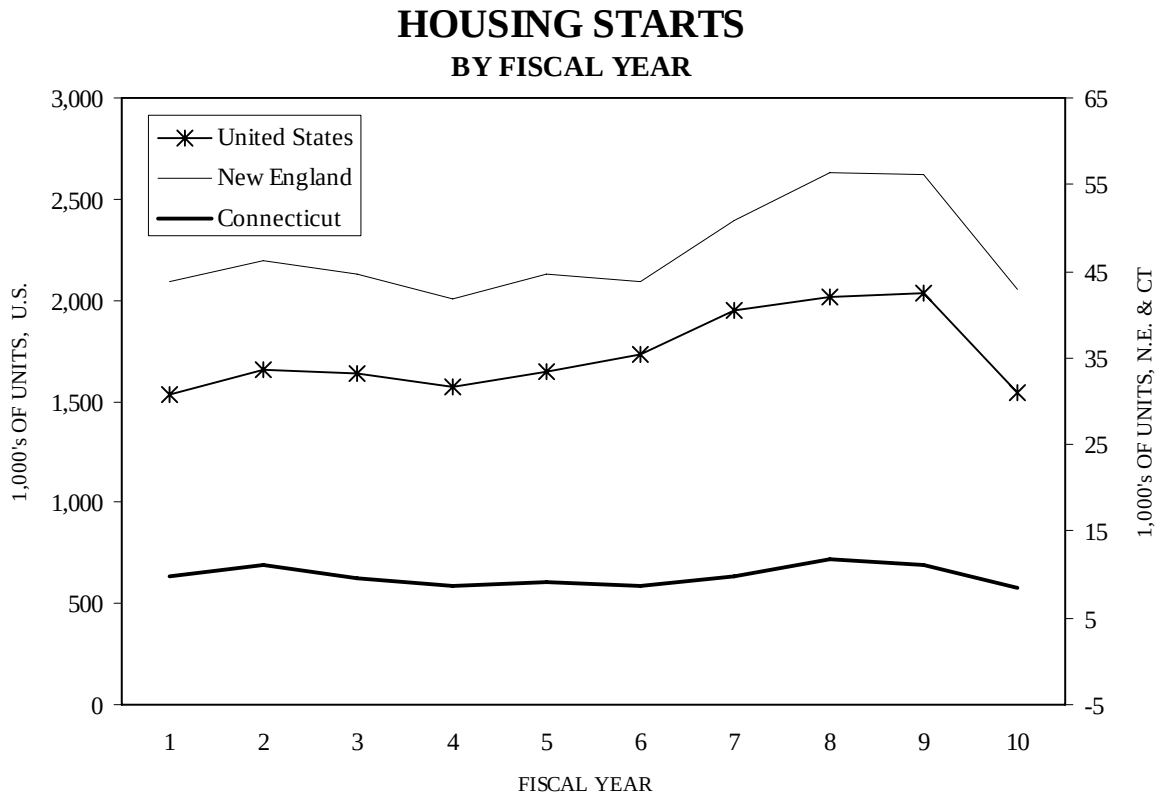
The housing sector, which only just a year ago was one of the strongest pillars of the economy, is now exhibiting characteristics that emphasize its weakened position. A very weak increase in housing prices from fiscal year 2006 is combined with the prominent negative growth in housing starts as well as a significant change in the mortgage market due to subprime mortgage resets. Potential negative factors impacting housing demand include inflationary pressures (with an expanding economy), increasing energy costs, and the tightening of lending standards. If inflation remains subdued, interest rates should remain low, which may help alleviate some of the pressure placed on the housing market in today's economy.

The Table and chart below provides a ten year historical profile of housing starts in the United States, the New England Region, and Connecticut.

TABLE 11
HOUSING STARTS
(In Thousands)

Fiscal	United States		New England		Connecticut	
Year	Number	% Growth	Number	% Growth	Number	% Growth
1997-98	1,530.2	5.0	43.8	8.9	9.9	11.3
1998-99	1,659.3	8.4	46.3	5.7	11.1	11.8
1999-00	1,637.8	(1.3)	44.6	(3.7)	9.6	(14.2)
2000-01	1,570.7	(4.1)	41.8	(6.2)	8.6	(10.0)
2001-02	1,645.9	4.8	44.7	6.8	9.2	7.2
2002-03	1,729.2	5.1	43.7	(2.1)	8.6	(7.1)
2003-04	1,945.3	12.5	50.9	16.3	9.9	15.2
2004-05	2,016.3	3.7	56.3	10.7	11.7	18.6
2005-06	2,039.3	1.1	56.1	(0.4)	11.2	(4.0)
2006-07	1,545.9	(24.2)	42.9	(23.5)	8.4	(25.1)

Source: U.S. Department of Commerce, Bureau of the Census



Source: U.S. Department of Commerce, Bureau of the Census

In Connecticut, starts for new dwelling units decreased in fiscal 2007 to an annual rate of 8,410 units, the lowest level in ten years. While housing activity in Connecticut has weakened, any decline is expected to be less severe than the real estate downturn of the early 1990s. Low mortgage rates, a still expanding economy, and the lack of any significant overbuilding anywhere in Connecticut should soften the correction currently underway in the housing market.

A major indicator of housing activity is the number of building permits authorizing construction issued by local authorities. The Connecticut Department of Economic & Community Development (DECD), the lead agency for all matters relating to housing, tabulates this information and presents it in its annual report "Connecticut Housing Production & Permit Authorized Construction". It should be noted that construction is ultimately undertaken for all but a very small percentage of housing units authorized by permits. A major portion typically gets under way during the month of permit issuance and most of the remainder begins within the three following months. Because of this lag, housing permits reported do not represent the number of units actually put into construction for the period shown and should therefore not be interpreted as housing starts.

The Table below shows the Connecticut counties in which privately owned housing permits were issued in calendar 2006, indicating the geographic distribution of housing construction activity.

According to the report, calendar 2006 registered a 22.3% decrease in housing permit activity. Permit activity totaling 9,236 units, down from 11,885 in 2005, was authorized. The City of Danbury led all Connecticut communities with 310 permits issued, followed by Hartford and Milford.

TABLE 12
CONNECTICUT HOUSING PERMIT ACTIVITY
Calendar Year 2006

County	Total Units Authorized	% of Total	% Growth Over CY 2005
Fairfield	1,939	21.0	(37.8)
Hartford	2,305	24.9	(7.3)
Litchfield	541	5.8	(20.2)
Middlesex	634	6.9	(20.3)
New Haven	1,654	17.9	(26.5)
New London	1,006	10.9	(16.7)
Tolland	699	7.6	(7.3)
Windham	458	5.0	(22.8)
State Total	9,236	100.0	(22.3)

Source: Connecticut State Department of Economic and Community Development

In addition, residential demolition permits issued during calendar 2006 totaled 1,509. Bridgeport issued the most demolition permits with 240, followed by Greenwich and Westport. These three cities accounted for 33.9% of all demolition permits**.** As a result, the net gain to

Connecticut's housing inventory totaled 7,652 units in calendar 2006. This was a decrease of 27.1% from 2005's net gain of 10,499 units. At the end of 2006, an estimated 1,439,221 housing units existed in Connecticut. The following Table shows changes in Connecticut's housing unit inventory on a calendar basis from 2005 to 2006.

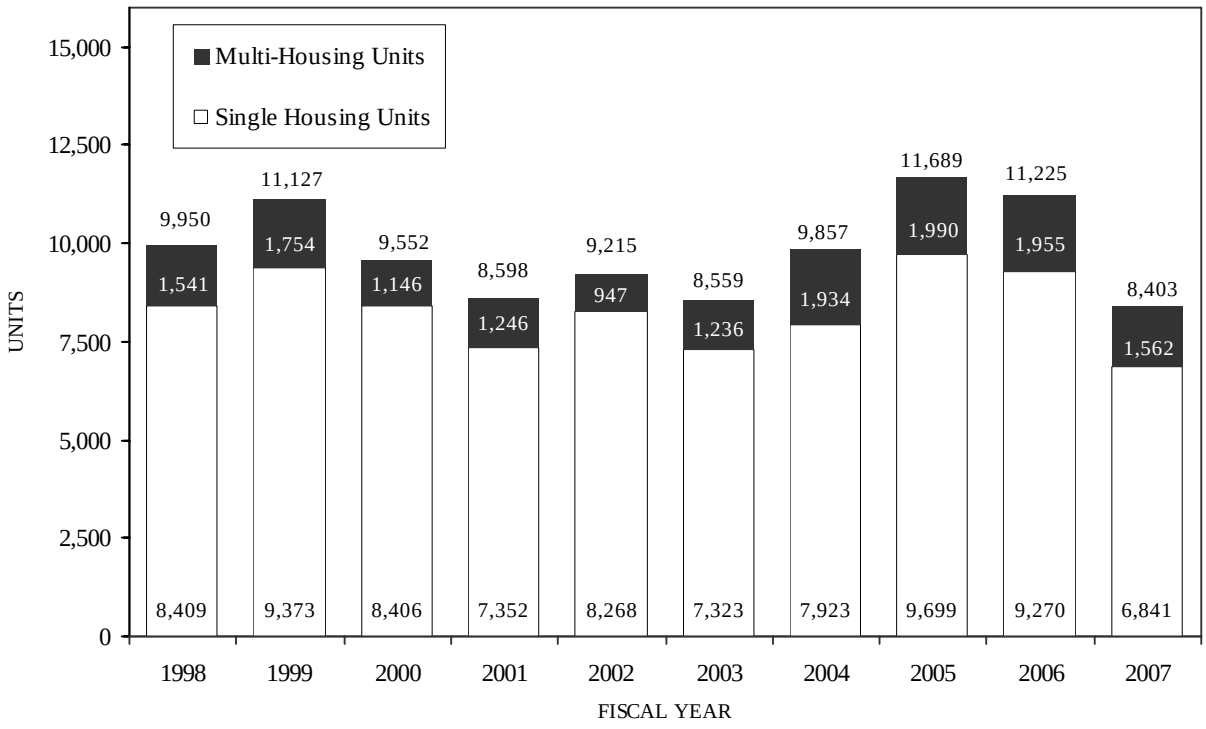
TABLE 13
CONNECTICUT HOUSING INVENTORY

Structure Type	Inventory 2005	% of Total	Inventory 2006	% of Total	Net Gain	Growth Rate
One-Unit	925,962	64.7	932,000	64.7	6,038	0.7%
Two-Units	119,901	8.4	120,115	8.4	214	0.2%
Three & Four Units	126,951	8.8	126,882	8.8	(69)	(0.1%)
Five Or More Units	246,561	17.2	248,039	17.2	1,478	0.6%
Other	12,194	0.9	12,185	0.9	(9)	(0.1%)
Total Inventory	1,431,569	100.0	1,439,221	100.0	7,652	0.5%

Source: Connecticut State Department of Economic and Community Development

As shown in the following Chart, the mix of housing construction in Connecticut (i.e., single unit versus multi-unit) has varied during the last ten fiscal years. In addition to the interest rate, there are other factors that influence both the demand for and mix of housing including age of buyer or renter and changes in the mortgage market.

CONNECTICUT HOUSING STARTS



Source: U.S. Department of Commerce, Bureau of the Census

Median Sales Price Of Housing

Median sales price is the sales price at which half of the sales are above and half below the price. The median sales price data is for the sale of single-family homes. As shown in the Table below, the median sales price in Connecticut in 2006 was $315,230, up 54.5% since 2001. The increase however, was only 2.9% in fiscal year 2006 significantly lower than the 9.8% growth that was realized in fiscal year 2005 or the 13.6% growth which occurred between fiscal year 2002 and 2003. The rise in housing prices is partially attributed to historically low interest rates. Since 1997, capital gains of up to $250,000 ($500,000 for married couples) resulting from the sale of a primary residence have been tax exempt. Furthermore, steady population growth combined with rising employment has kept homes in short supply. As a result, home price appreciation in Connecticut rose 2.9% in 2006 despite an 8.9% rise in the national average for thirty-year fixed mortgage interest rates over the same time period.

To interpret the housing affordability index, a value of 100 means that a family with the median income has exactly enough income to qualify for a mortgage on a median-priced home. An index above 100 signifies that a family earning the median income has more than enough income to qualify for a mortgage loan on a median-priced home, assuming a 20% down payment. The chart below indicates that overall housing affordability has fallen in the U.S. and Connecticut over the past 6 years, indicating that housing prices are outpacing income increases, which may also be contributing to the current correction in the housing market.

TABLE 14
SALES PRICE OF HOMES IN CONNECTICUT AND THE UNITED STATES
(By Calendar Year)

	2001	2002	2003	2004	2005	2006	2001-06 (Change)
CT Median Price	$204,000	$224,740	$255,390	$278,980	$306,360	$315,230	$111,230
% Change	*3.4%*	*10.2%*	*13.6%*	*9.2%*	*9.8%*	*2.9%*	*54.5%*
U.S. Median Price	$147,150	$159,040	$172,310	$192,290	$215,260	$218,290	$71,140
% Change	*6.1%*	*8.1%*	*8.3%*	*11.6%*	*11.9%*	*1.4%*	*56.3%*
CT as a % of U.S.	139	141	148	145	142	144	
CT Affordability Index	127.93	123.68	122.15	117.92	110.86	106.15	(21.77)
% Change	*4.7%*	*(3.3%)*	*(1.2%)*	*(3.5%)*	*(6.0%)*	*(4.2%)*	*(17.0%)*
U.S. Affordability Index	144.40	144.30	147.76	141.50	132.67	126.21	(18.19)
% Change	*5.7%*	*(0.1%)*	*2.4%*	*(4.2%)*	*(6.2%)*	*(4.9%)*	*(12.6%)*

Source: Moody's Economy.Com

Age of Buyer or Renter

As Table 7 demonstrates, current population projections anticipate a decline in the 18-44 year old age group of 3.6% between 2000 and 2010, a decline of 3.2% between 2010 and 2030, and an

overall decline of 6.6% between the years 2000 and 2030. This is significant for the housing market for two reasons. First, this age group is the prime source of household formation. Consequently, a declining population of this age group, similar to what occurred in Connecticut during the 1990s, will slow the formation of new households, thus reducing the demand for starter homes. Moreover, weak demand for starter homes makes it harder for maturing families who already own starter homes to move up, thus reducing demand and appreciation throughout the housing market.

Table 7 also illustrates that the age group of citizens 65 and older grew during the 1990s, at a healthy rate of 5.6%. This age group is projected to grow rapidly during the next twenty-five years. Projected growth rates of the 65 and older age group are: 9.7% from 2000 to 2010, 24.6% from 2010 to 2020, and 68.9% between the years 2000 and 2030. With the growth in this demographic, the housing market will see a shift in the type of housing units that are sought after. As more baby-boomers turn into empty-nesters, they will trade-down their large homes for smaller, easier to maintain condos and second homes. Demand for easier to maintain rental or condo units, particularly those targeted toward the elderly, will accelerate and boost the state's housing market, but at a cost. As the elderly population expands, additional benefits and services to care for this group will be required. How society will pay for these ever-expanding needs has yet to be determined.

Changes in the Mortgage Market

Fiscal year 2007 began with averages for the thirty-year fixed and one-year adjustable rate mortgages of 6.8% and 6.5% respectively. Throughout fiscal year 2007, thirty-year fixed rates fell to a low of 6.2% in December 2006 and then rose again. By fiscal year end, rates averaged 6.7%, essentially the same as the previous June. The same pattern was repeated for fifteen-year and adjustable rate mortgages.

The good news is that interest rates have stabilized, but at higher level than just 2 years ago when the average thirty-year fixed rate was 5.8%. Higher interest rates also negatively impact homeowners' discretionary spending. Homeowners face higher monthly mortgage costs and a drop in cash-out and general rate reduction refinancing opportunities. Refinancing as a percentage of total mortgage applications has dropped from a high of 80.5% in March of 2003 to 47.0% in October 2007. The reduction in the number of refinancing applications suggests that consumers who could benefit from the record low interest rates have already refinanced, and thus no additional consumer savings in this area is anticipated in the near future. Refinancing applications are not expected to drop to zero as consumers look to move to fixed rate mortgages from their rapidly rising adjustable rate mortgages.

The Effects of Subprime Lending on the Mortgage Market

According to the U.S. Department of Treasury the term "subprime" refers to the credit characteristics of individual borrowers. Subprime borrowers typically display reduced repayment capacity as measured by credit scores, debt-to-income ratios, or other criteria that may encompass borrowers with incomplete credit histories. They may also have weakened credit histories that include payment delinquencies, and possibly more severe problems such as charge-offs, judgments, and bankruptcies. Subprime loans or lending are loans to borrowers displaying one or more of these characteristics at the time of origination or purchase. Such

loans have a higher risk of default than loans to prime borrowers. To compensate for the increased credit risk associated with these loans, higher interest rates are usually charged.

According to the U.S. Department of Housing and Urban Development, subprime mortgage lending expanded during the 1990s. Market analysts estimate that lenders originated about $160 billion worth of subprime loans in 1999, up from $40 billion in 1994. A number of factors accounted for this growth: federal legislation preempting state restrictions on allowable rates and loan features, the tax reform act of 1986, increased demand for and availability of consumer debt, and an increase in subprime securitization. According to the Center for Responsible Lending, subprime origination rose steadily through this decade reaching $665 billion by 2005.

Many of these subprime mortgages were originated with an adjustable-rate mortgage (ARM). With an ARM, the interest rate changes periodically, usually in relation to an index and payments may go up or down accordingly. As these interest rates reset at higher rates that are prevalent in today's economy, many of these subprime borrowers are unable to make their monthly mortgage payments, thereby resulting in nationwide foreclosures and bank repossessions.

These foreclosures and bank repossessions are in addition to the previously mentioned declines in home sales and prices and strengthens concerns that consumer spending may drop and push the economy into recession. In addition, according to Bloomberg News, defaults on mortgages to borrowers with poor credit histories have forced the world's biggest banks, including Citigroup, Inc., and Merrill Lynch & Co. to record losses of more than $45 billion on collateralized debt obligations.

In calendar year 2006, foreclosure actions were initiated on 500,000 subprime home loans nationwide. The Congressional Joint Economic Committee estimates that nearly two million subprime mortgages could go into foreclosure during the next eighteen months. According to Global Insight in "The Mortgage Crisis: Economic and Fiscal Implications for Metro Areas," the foreclosure crisis is expected to have profound economic effects in 2008. It is anticipated that the U.S. GDP will be dramatically lower in 2008 because new residential investment will be weaker thereby lowering spending and income across the construction industries. In addition, homeowners' property values are expected to decline by $1.2 trillion in 2008. The decline is a result of a combination of weaker market demand and large inventories.

The following table highlights subprime mortgage loans as a percentage of total loans outstanding as well as the percentage of subprime loans that are seriously delinquent. As the table details, Connecticut's exposure to subprime mortgages equates to 12.50% of all mortgage loans outstanding and is below the national average of 13.62%. Connecticut, along with most other New England states, ranks in the middle for the percentage of subprime loans nationwide. The outlier, Vermont, ranks 47 in the nation with 8.11% of all mortgage loans being subprime.

TABLE 15
SUBPRIME MORTGAGE LOANS SERVICED & OUTSTANDING
Second Quarter of Calendar Year 2007

Subprime Loans As A Percentage of Total Loans			Percentage of Subprime Loans 90+ Days Past Due or In Foreclosure		
State	Percent	Rank	State	Percent	Rank
Nevada	19.61%	1	Ohio	16.53%	1
Mississippi	17.07%	2	Michigan	16.22%	2
Arizona	16.89%	3	Indiana	13.84%	3
Florida	16.68%	4	Mississippi	12.79%	4
Ohio	16.21%	5	Minnesota	12.64%	5
Rhode Island	15.15%	8	Rhode Island	11.66%	8
Maine	14.09%	15	Massachusetts	11.45%	10
Connecticut	**12.50%**	**25**	Maine	11.24%	13
New Hampshire	12.37%	27	Vermont	9.14%	19
Massachusetts	11.57%	30	**Connecticut**	**8.42%**	**30**
Iowa	8.63%	45	Washington	4.47%	46
Vermont	8.11%	47	Wyoming	4.34%	47
Montana	6.32%	48	Oregon	4.13%	48
South Dakota	5.76%	49	Utah	3.76%	49
North Dakota	4.84%	50	Alaska	3.29%	50
United States	13.62%		United States	9.27%	

Source: Mortgage Bankers Association

Of the 12.50% of subprime mortgage loans outstanding in Connecticut, 35% are fixed rate mortgages, 32% are two-year hybrid loans with the remainder being various other term hybrid loans. In addition, the percentage of subprime loans that are at least 90 days past due in Connecticut is also below the national average and ranks thirtieth in the nation. While the subprime mortgage crisis is not impacting Connecticut in the most severe manner it is definitely having an effect on the state's housing market and economy. According to Realty Trac, Connecticut reported 1,564 foreclosure filings in October, a 16% increase from the previous month and 36% above the number reported in October 2006. The state ranked twenty-fourth in the country in total foreclosures reported for October. The state's foreclosure rate of one foreclosure filing for every 893 households ranked it eighteenth among the 50 states.

Programs that attempt to mitigate the effects of the subprime mortgage crisis and keep families in their homes have been created on both the federal and state levels. Two notable federal initiatives, FHASecure and HOPE NOW, are in the process of helping subprime families stay out of foreclosure. FHASecure is a government-insured foreclosure avoidance initiative created in September 2007. Through this program, families avoid foreclosure by refinancing their subprime loans with the U.S. Department of Housing and Urban Development's (HUD) new government backed mortgage product. As of December 3, 2007, more than 33,000 borrowers have refinanced their subprime loans with an additional 20,000 in the pipeline for approval in

December 2007, bringing the total to more than 53,000 nationwide during this four month period.

Another federal initiative, HOPE NOW is a national alliance made up of the nation's leading counselors, servicers, and investors whose mission is to identify and reach out to struggling homeowners. One of the main goals of this effort is to implement a unified, aggressive outreach strategy in an attempt to educate more homeowners about their mortgage options. One of the methods employed by this group is a direct mail campaign which provides concise information about foreclosure prevention and the options available which result in a more affordable solution for families.

President Bush announced in December, 2007 that the administration had reached an agreement with the mortgage industry on a plan to freeze interest rates for up to five years for some of those homeowners who bought houses in the last few years with subprime loans. The plan will allow distressed borrowers who are current on their payments to keep their low introductory rates and escape an increase of 30% or more in their monthly payments when the rates expire. This plan does not cover those borrowers who have been delinquent, about 22% of all subprime borrowers.

In November, 2007 Governor Rell announced a $50 million "CT Families" refinancing program to assist subprime borrowers. Under this program, borrowers with a subprime mortgage who cannot make their mortgage payment can apply to the Connecticut Housing Finance Authority (CHFA) for refinancing. The new CT Families program will refinance the subprime mortgages with a 30-year, fixed rate amortizing loan. Such loans will be offered at 0.25% above CHFA's regular rate which is currently 6.00%

The previously mentioned federal and state programs will assist homeowners in refinancing their subprime mortgage rather than allow those individuals to be forced into foreclosure. The subprime mortgage crisis has forced many subprime mortgage lenders to fail or file for bankruptcy which has, in turn, caused prices in the mortgage backed securities market to falter, threatening broader impacts on the U.S. housing market and the economy as a whole. While some economists believe that the worst is yet to come nationally, it is anticipated that housing prices will not fall too dramatically in Connecticut. Rather home values are expected to remain flat or slightly depressed as the excesses of the subprime mortgage crisis are unwound.

For further information regarding any assistance, services, or publications on the CT Families program, please contact the following:

State of Connecticut
Connecticut Housing Finance Authority
999 West Street
Rocky Hill, Connecticut 06067
(860) 721-9501 or (860) 571-3500

EMPLOYMENT PROFILE

Employment Estimates

The employment estimates for most of the tables included in this section are obtained through the U.S. Bureau of Labor Statistics and the Connecticut State Labor Department. They are developed as part of the federal-state cooperative Current Employment Statistics (CES) Program. The estimates for the state and the labor market areas are based on the responses to surveys of 5,000 Connecticut employers registered with the Unemployment Insurance Program. Companies are chosen to participate based on specifications from the U.S. Bureau of Labor Statistics. As a general rule, all large establishments are included in the survey as well as a sample of smaller employers. It should be noted, however, that this method of estimating employment may result in under counting jobs created by agricultural and private household employees, the self-employed and unpaid family workers who are not included in the sample. The survey only counts total business payroll employment in the economy.

In an effort to provide a broader employment picture, the following Table, based on residential employment, was developed. Total residential employment is estimated based on household surveys which include individuals excluded from establishment employment figures such as self employed and workers in the agricultural sector. By that measure, residential employment in fiscal 2007 increased by 30,200 jobs. Likewise, the level of establishment employment based on the survey response increased by 19,000 jobs in fiscal 2007.

The following Table provides a ten fiscal year historical profile of residential and establishment employment in Connecticut.

TABLE 16
CONNECTICUT SURVEY EMPLOYMENT COMPARISONS
(In Thousands)

Fiscal Year	Residential Employment	% Growth	Establishment Employment	% Growth
1997-98	1,680.3	0.80	1,625.3	1.75
1998-99	1,691.0	0.64	1,657.4	1.98
1999-00	1,697.4	0.38	1,682.1	1.49
2000-01	1,698.4	0.06	1,690.4	0.49
2001-02	1,700.5	0.12	1,675.1	(0.90)
2002-03	1,702.7	0.13	1,652.4	(1.36)
2003-04	1,708.6	0.34	1,643.7	(0.52)
2004-05	1,723.0	0.84	1,657.0	0.81
2005-06	1,749.2	1.52	1,670.1	0.79
2006-07	1,779.4	1.73	1,689.1	1.14

Source: U.S. Bureau of Labor Statistics, Connecticut State Labor Department

Nonagricultural Employment

Nonagricultural employment includes all persons employed except federal military personnel, the self-employed, proprietors, unpaid family workers, farm and household domestic workers. Nonagricultural employment is comprised of the broad manufacturing sector and the nonmanufacturing sector. These two components of nonagricultural employment are discussed in detail in the following sections.

The following Table shows a ten year historical profile of nonagricultural employment in the United States, the New England Region, and Connecticut.

TABLE 17
NONAGRICULTURAL EMPLOYMENT
(In Thousands)

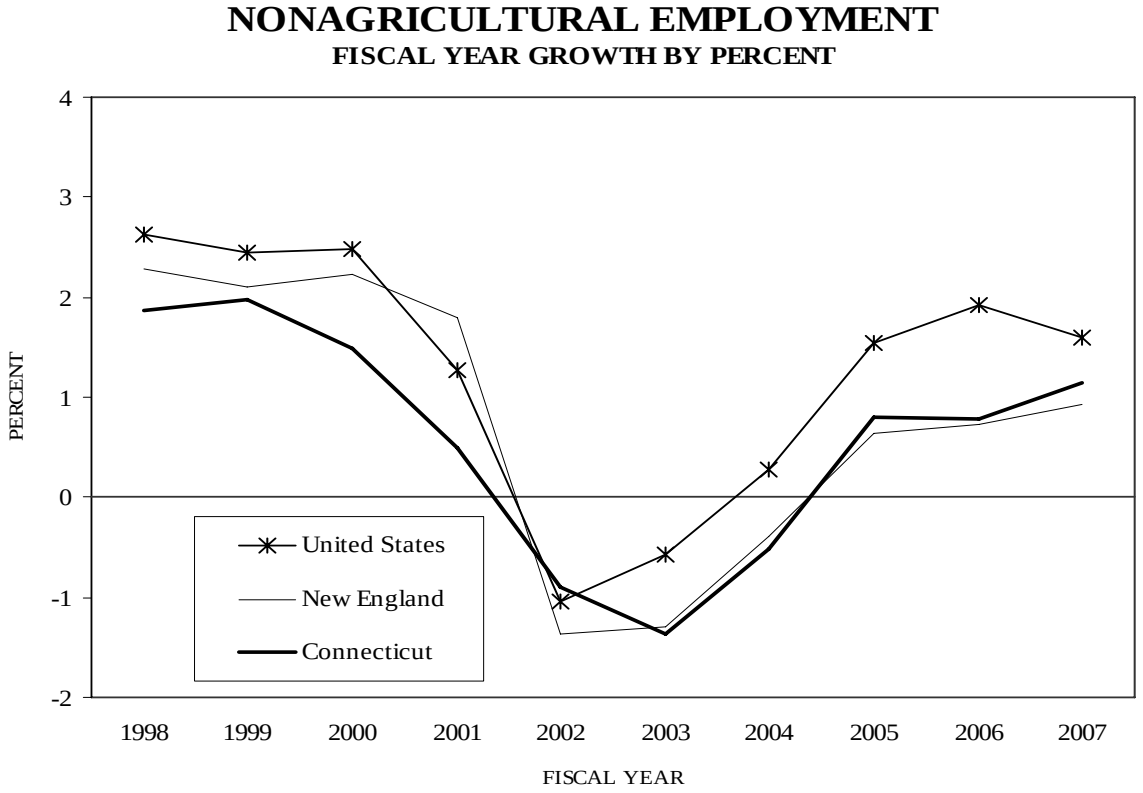
Fiscal	United States		New England		Connecticut	
Year	Number	% Growth	Number	% Growth	Number	% Growth
1997-98	124,380	2.62	6,653.2	2.29	1,625.3	1.86
1998-99	127,427	2.45	6,792.7	2.10	1,657.4	1.98
1999-00	130,598	2.49	6,943.3	2.22	1,682.0	1.49
2000-01	132,252	1.27	7,067.4	1.79	1,690.4	0.49
2001-02	130,880	(1.04)	6,971.4	(1.36)	1,675.1	(0.90)
2002-03	130,118	(0.58)	6,880.8	(1.30)	1,652.4	(1.36)
2003-04	130,465	0.27	6,853.5	(0.40)	1,643.7	(0.52)
2004-05	132,472	1.54	6,897.5	0.64	1,657.0	0.81
2005-06	135,016	1.92	6,948.1	0.73	1,670.1	0.79
2006-07	137,176	1.60	7,012.3	0.92	1,689.1	1.14

Source: U.S. Bureau of Labor Statistics, Connecticut State Labor Department

In Connecticut, approximately 56% of total personal income is derived from wages earned by workers classified in the nonagricultural employment sector. Thus, increases in employment in this sector lead to increases in personal income growth and consumer demand. In addition, nonagricultural employment can be used to compare similarities and differences between economies, whether state or regional, and to observe structural changes within. These factors make nonagricultural employment figures a valuable indicator of economic activity.

Throughout the 1990s Connecticut's employment figures slowly recovered from the job losses experienced during the late 1980s – early 1990s recession. Beginning in fiscal 1994 the state began adding jobs and employment levels steadily improved in each successive year through fiscal 2001, establishing a new high point for nonagricultural employment in Connecticut. Unfortunately, the economic expansion that officially earned the distinction as the longest in U.S. history came to an abrupt end. From 2001 to 2004, nonagricultural employment experienced negative growth rates. In fiscal 2005, Connecticut reversed the three year trend and experienced its largest growth in nonagricultural employment since fiscal 2000 with an increase of 13,300 jobs. The positive growth in nonagricultural employment continued through fiscal 2007 with an increase of 19,000 jobs. The following Chart provides a graphic presentation

of the growth rates in nonagricultural employment for the three entities for a ten fiscal year period.



Source: U.S. Bureau of Labor Statistics, Connecticut State Labor Department

TABLE 18
NONAGRICULTURAL EMPLOYMENT
LONG-TERM GROWTH RATES

	Growth Rates		Cumulative Growth Rates	
Fiscal Year	United States	Connecticut	United States	Connecticut
1950-1960	23.4%	24.6%	23.4%	24.6%
1960-1970	31.6%	31.9%	62.4%	64.4%
1970-1980	27.3%	17.8%	106.7%	93.6%
1980-1990	20.4%	16.3%	148.8%	125.0%
1990-2000	19.8%	2.1%	198.2%	129.7%
2000-2006	3.4%	(0.7%)	208.3%	128.0%

The previous Table shows employment growth rates for the United States and the State of Connecticut over five decades beginning in state fiscal year 1950. This table highlights the robust growth in nonagricultural employment for Connecticut prior to 1990 as emphasized by the modest 2.1% growth between 1990 and 2000. While the United States did not show the same decline in growth in that period, the U.S. growth did slow in the 2000-2006 period with only a 3.4% growth rate.

Throughout the last two decades, while manufacturing employment in Connecticut has been steadily declining, employment growth in nonmanufacturing industries has surged. Relatively rapid growth in the nonmanufacturing sector is a trend that is in evidence nationwide and reflects the increased importance of the service industry. This shift in employment provides for relatively more stable economic growth in the long run through the moderation of the peaks and troughs of economic cycles. In fiscal 2006, approximately 88% of the state's workforce was employed in nonmanufacturing jobs, up from roughly 50% in the early 1950s.

Despite the fact that manufacturing is an economic base industry in Connecticut, the state still possesses a diversified economy. It is one of the few states whose service sector exports a product-insurance. For example, total premium and annuity income from policyholders of all lines of insurance to Connecticut based companies was $133.7 billion in calendar 2006. Of the $133.7 billion, $16.4 billion or approximately 12.3% is derived from Connecticut residents. The other 87.7% is derived from sales outside of the state. This provides an additional source of incoming funds to bolster the economy of the state.

The following Table depicts the decrease in the ratio of manufacturing employment to total employment in Connecticut over the last five decades.

TABLE 19
CONNECTICUT RATIO OF MANUFACTURING EMPLOYMENT TO TOTAL EMPLOYMENT
(In Thousands)

Fiscal Year	Total Employment	Manufacturing Employment	NonMfg. Employment	Ratio of Mfg. Employment to Total Employment
1950	766.1	379.9	386.2	49.6
1955	874.7	423.2	451.6	48.4
1960	915.2	407.1	508.1	44.5
1965	1,033.0	436.2	596.8	42.2
1970	1,198.1	441.8	756.3	36.9
1975	1,224.6	389.8	834.8	31.8
1980	1,428.4	440.8	987.6	30.9
1985	1,558.2	408.0	1,150.2	26.2
1990	1,623.5	341.0	1,282.5	21.0
1995	1,561.6	248.5	1,313.1	15.9
2000	1,682.1	236.7	1,445.4	14.1
2006	1,670.1	194.0	1,476.1	11.6

Manufacturing Employment

Even with declines in overall manufacturing employment, the ratio of manufacturing employment to total employment still defines Connecticut as one of the major manufacturing and industrial states in the country. Based on the level of personal income derived from this sector, Connecticut ranks twentieth in the nation for its dependency on manufacturing. Within this broad definition, the manufacturing sector can be further broken down into the major components of the sector. One important component of this sector in Connecticut is defense-related business. The largest employer in this industry is United Technologies Corporation,

including its Pratt & Whitney Aircraft Division in East Hartford. Defense-related businesses like United Technologies fall under the transportation equipment classification.

In federal fiscal year 2006, Connecticut ranked tenth in total defense dollars awarded and third in per capita dollars awarded. The state is one of the leading producers of military and civilian helicopters. The industry is well diversified, with transportation equipment (primarily aircraft engines, helicopters and submarines) the dominant industry. The transportation equipment sector is followed, in order of the total number employed, by metals manufacturing, electronic & electrical manufacturing and chemicals, plastics & rubber manufacturing.

The following Table provides a ten year historical picture of the state's level of employment in these sectors.

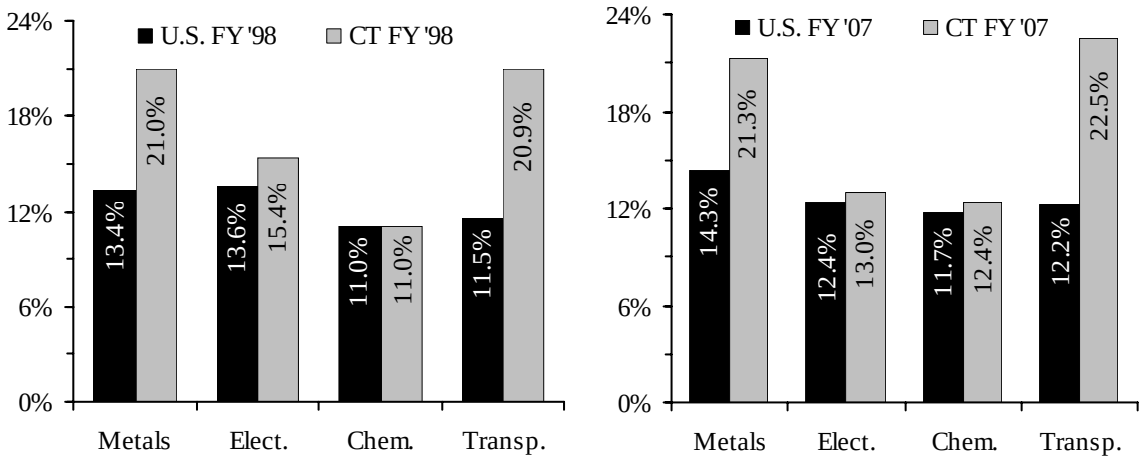
TABLE 20
CONNECTICUT MANUFACTURING EMPLOYMENT
(In Thousands)

Fiscal Year	Transportation Equipment	Metals Manufacturing	Electronic & Electrical Manufacturing	Chemical, Plastics & Rubber Mfg.
1997-98	51.7	51.8	38.0	27.3
1998-99	51.7	51.6	36.4	28.1
1999-00	47.9	50.0	35.1	28.7
2000-01	47.0	49.1	35.4	29.5
2001-02	46.3	44.8	31.3	28.0
2002-03	44.2	41.9	27.7	26.5
2003-04	43.1	40.7	26.0	25.5
2004-05	43.3	41.3	25.8	25.2
2005-06	43.6	41.0	25.1	24.6
2006-07	43.6	41.2	25.2	24.0

Source: U.S. Bureau of Labor Statistics, Connecticut State Labor Department

Over the last decade the state's distribution of manufacturing employment has remained relatively stable. Rising defense expenditures has stabilized the Transportation Equipment sector as evidenced by its level percentage of total state manufacturing employment at 20.9% in fiscal 1998 and 22.5% in fiscal 2007. Similarly, the Metals Manufacturing sector employment figures have remained approximately level at 21.0% of total state manufacturing employment in fiscal 1998 and fiscal 2007. The other major manufacturing sectors, Electronic and Electrical Manufacturing and Chemical, Plastics, and Rubber have only increased or decreased their percentage of total state manufacturing by less than two percentage points. The distribution of employment figures within the manufacturing sector highlights that Connecticut manufacturing is diversified, but has a greater reliance on the Metals and Transportation Equipment sectors.

COMPARISON OF MANUFACTURING EMPLOYMENT IN CERTAIN SECTORS
(As A Percentage Of Total Manufacturing Employment)



Source: U.S. Bureau of Labor Statistics, Connecticut State Labor Department

The following Table provides a ten year historical picture of manufacturing employment in the United States, the New England Region, and Connecticut.

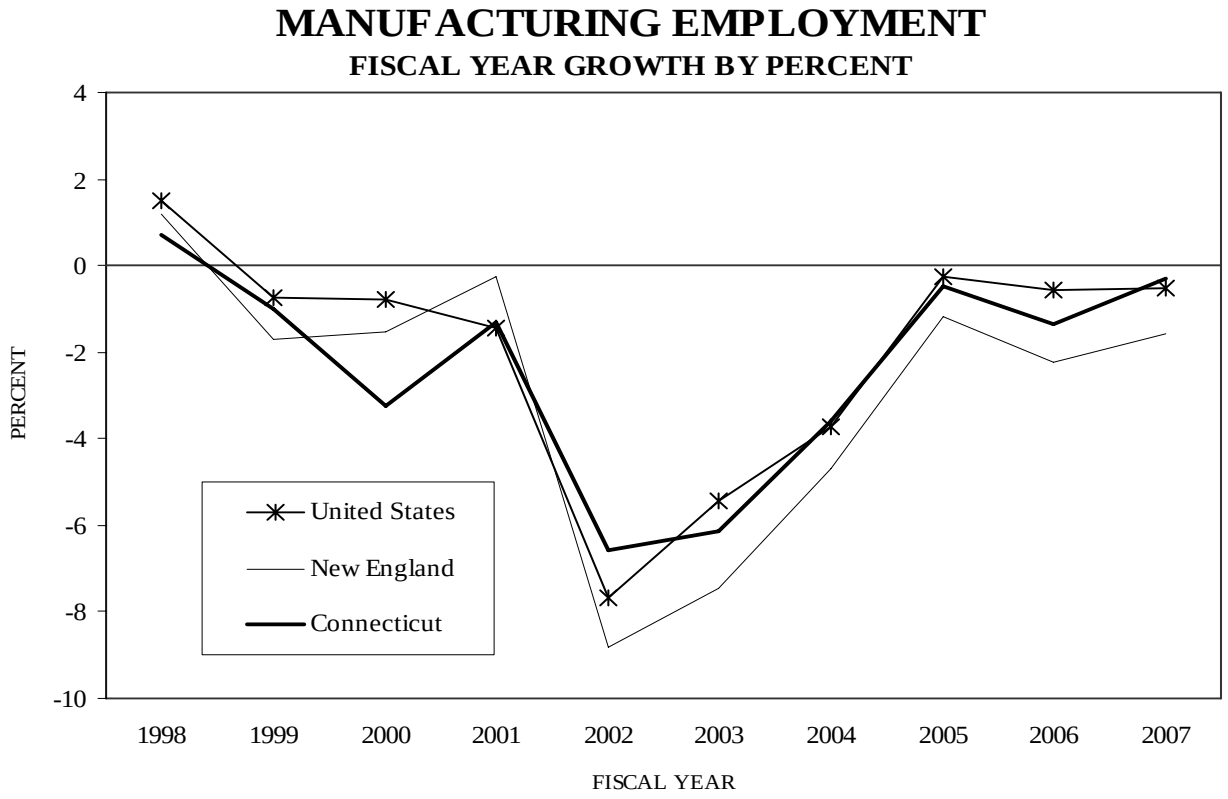
TABLE 21
MANUFACTURING EMPLOYMENT
(In Thousands)

Fiscal	United States		New England		Connecticut	
Year	Number	% Growth	Number	% Growth	Number	% Growth
1997-98	17,559	1.49	967.5	1.20	247.1	0.72
1998-99	17,427	(0.75)	956.1	(1.70)	244.7	(1.00)
1999-00	17,289	(0.79)	936.4	(1.55)	236.7	(3.24)
2000-01	17,041	(1.43)	933.9	(0.27)	233.6	(1.30)
2001-02	15,734	(7.67)	851.7	(8.80)	218.3	(6.56)
2002-03	14,879	(5.44)	788.3	(7.44)	205.0	(6.13)
2003-04	14,324	(3.73)	751.2	(4.71)	197.6	(3.59)
2004-05	14,290	(0.24)	742.4	(1.18)	196.7	(0.48)
2005-06	14,211	(0.55)	725.7	(2.25)	194.0	(1.34)
2006-07	14,135	(0.54)	714.1	(1.59)	193.4	(0.30)

Source: U.S. Bureau of Labor Statistics, Connecticut State Labor Department

Historically, manufacturing employment closely parallels the business cycle, typically expanding when the economy is healthy and contracting during recessionary periods, as it did during the early 1980s. However, this phenomenon diverged in the latter part of the 1980s, as contractions in manufacturing employment were not initially accompanied by a recession. Other factors, such as heightened foreign competition, smaller defense budgets, and improved productivity, played a significant role in affecting the overall level of manufacturing employment in Connecticut. Consequently, during the past decade, the state's manufacturing sector diminished considerably. The sector shed approximately 22% of its employment from

fiscal 1998 through fiscal 2007, a loss of approximately 53,700 jobs. The manufacturing sector has suffered in large part because of the ramp down in defense and aerospace spending over the last decade. Faced with leaner times, the state's manufacturers confronted the turbulent market conditions head-on and subsequently have restructured in response to global market forces: rapidly changing technologies, mounting competition from overseas markets, and shrinking defense spending. The following Chart provides growth rates in manufacturing employment in the United States, the New England Region and Connecticut over a ten year period.



Source: U.S. Bureau of Labor Statistics, Connecticut State Labor Department

Unfortunately, the sharp downturn in industrial activity that began at the end of fiscal 2001 and a subsequent economic recovery that failed to generate a substantial number of new jobs dimmed any prospect for employment stability in the manufacturing sector. Within Connecticut, the manufacturing sector declined slightly from fiscal year 2006 with a decline in the manufacturing workforce by 0.3% in fiscal year 2007. The reduction in manufacturing employment that Connecticut experienced in fiscal year 2007 was less compared to the New England area which realized a 1.6% reduction in manufacturing workforce.

The erosion of the state's manufacturing base reflects the national trend away from traditional industries, both durable and nondurable. More of U.S. demand is being satisfied by foreign producers who can manufacture goods more cheaply. The upward trend of higher productivity has enabled Connecticut manufacturers to make more with fewer workers. Even with the structural change, manufacturing employment in Connecticut still accounts for 11.5% of all

nonfarm payroll jobs, compared to 10.3% in the U.S. through fiscal 2007. The sector still matters. Manufacturing jobs remain one of the best-paid segments of payroll, contributing more to personal income than the same number of service jobs. The following Table provides a breakdown of the state's manufacturing employment by industry and indicates percentage changes for the year and over a ten year period for each of the manufacturing sectors.

TABLE 22
CONNECTICUT MANUFACTURING EMPLOYMENT BY INDUSTRY
(In Thousands)

				Percent Change	
Industry	F.Y. 1997-98	F.Y. 2005-06	F.Y. 2006-07	FY 2006 to FY 2007	FY 1998 to FY 2007
Transportation Equipment	51.65	43.60	43.61	0.0	(15.6)
Metal Manufacturing	51.84	41.02	41.21	0.5	(20.5)
Electronic & Electrical	37.96	25.06	25.21	0.6	(33.6)
Chemical, Plastics & Rubber	27.32	24.57	23.97	(2.4)	(12.3)
Printing, Publishing & Textile	26.89	17.60	17.21	(2.2)	(36.0)
Industrial Machinery	25.83	17.99	18.20	1.2	(29.5)
Food, Beverage & Tobacco	8.64	8.54	8.45	(1.1)	(2.2)
Miscellaneous	17.00	15.63	15.58	(0.3)	(8.3)
Total Mfg. Employment	247.12	194.01	193.42	(0.3)	(21.7)

Source: U.S. Bureau of Economic Analysis, Connecticut State Labor Department

In fiscal 2007, total manufacturing employment in Connecticut remained relatively level with fiscal 2006 with a small 0.3% reduction in the manufacturing workforce. The manufacturing sector that experienced the largest decline in the number employed in fiscal 2007 was the chemical, plastics and rubber sector with an overall reduction of 2.4% from the fiscal 2006 level. At 1.2% growth the industrial machinery sector experienced the largest growth between fiscal 2006 and 2007. The percent change from fiscal 1998 to 2007 demonstrates the overall decline in manufacturing employment over the last ten years.

The Table on the following page ranks the 50 states in terms of their relative dependence on manufacturing wages as a percentage of total personal income.

TABLE 23
MANUFACTURING WAGES AS A PERCENT OF PERSONAL INCOME BY STATE
Fiscal Year 2007
(In Millions of Dollars)

State	Personal Income	Mfg. Wages	%	Rank	State	Personal Income	Mfg. Wages	%	Rank
Indiana	$208,366	$28,545	13.70	1	California	$1,476,839	$96,197	6.51	26
Wisconsin	196,713	23,876	12.14	2	Georgia	309,312	20,010	6.47	27
Michigan	346,500	38,026	10.97	3	Texas	857,608	55,401	6.46	28
Ohio	390,556	40,622	10.40	4	Nebraska	62,695	3,967	6.33	29
Iowa	101,541	10,473	10.31	5	Maine	43,242	2,639	6.10	30
Kentucky	128,643	12,160	9.45	6	Louisiana	138,563	8,366	6.04	31
Kansas	99,467	9,204	9.25	7	South Dakota	26,222	1,531	5.84	32
Tennessee	199,992	18,027	9.01	8	Rhode Island	40,921	2,366	5.78	33
Alabama	146,015	13,024	8.92	9	Delaware	33,969	1,906	5.61	34
North Carolina	296,123	25,698	8.68	10	Arizona	203,817	10,961	5.38	35
Minnesota	206,005	17,854	8.67	11	Oklahoma	119,434	6,351	5.32	36
Arkansas	82,396	7,030	8.53	12	New Jersey	415,411	21,714	5.23	37
South Carolina	132,017	11,247	8.52	13	West Virginia	52,279	2,722	5.21	38
New Hampshire	53,546	4,512	8.43	14	North Dakota	21,726	1,022	4.70	39
Oregon	126,831	10,495	8.27	15	Colorado	193,724	8,369	4.32	40
Vermont	22,109	1,772	8.01	16	Virginia	310,336	13,398	4.32	41
Mississippi	80,404	6,399	7.96	17	New York	882,197	31,229	3.54	42
Illinois	505,848	37,083	7.33	18	Maryland	252,607	8,027	3.18	43
Missouri	196,694	14,138	7.19	19	New Mexico	60,003	1,712	2.85	44
Connecticut	183,967	13,171	7.16	20	Florida	683,000	18,733	2.74	45
Pennsylvania	469,384	33,408	7.12	21	Montana	30,186	805	2.67	46
Idaho	45,571	3,143	6.90	22	Nevada	100,745	2,389	2.37	47
Washington	251,855	17,357	6.89	23	Wyoming	21,906	455	2.08	48
Utah	79,507	5,439	6.84	24	Alaska	26,811	477	1.78	49
Massachusetts	306,978	20,235	6.59	25	Hawaii	48,885	573	1.17	50

Source: U.S. Department of Commerce, Bureau of Economic Analysis

Nonmanufacturing Employment

The nonmanufacturing sector is comprised of industries that provide a service. Services differ significantly from manufactured goods in that the output is generally intangible, it is produced and consumed concurrently, and it cannot be inventoried. Connecticut's nonmanufacturing sector consists of the industries listed in the following Table. Over the last three decades,

nonmanufacturing employment has risen in importance to the Connecticut economy, reflecting the overall national trend away from manufacturing.

The following Table provides a breakdown of Connecticut's nonmanufacturing employment by industry and indicates percentage changes for the year and over a ten year period for each of the sectors.

TABLE 24
CONNECTICUT NONMANUFACTURING EMPLOYMENT BY INDUSTRY
(In Thousands)

Industry	F.Y. 1997-98	F.Y. 2005-06	F.Y. 2006-07	Percent Change FY 2006 to FY 2007	Percent Change FY 1998 to FY 2007
Construction & Mining	57.92	67.08	68.51	2.12	18.29
Information	44.41	37.82	37.59	(0.59)	(15.35)
Transp., Trade & Utilities	306.30	310.77	311.36	0.19	1.65
Transp., & Warehousing	39.95	43.98	44.58	1.36	11.59
Utilities	9.72	8.31	8.00	(3.68)	(17.65)
Wholesale	65.47	67.20	68.17	1.44	4.12
Retail	191.17	191.27	190.61	(0.35)	(0.29)
Finance (FIRE)	133.03	143.33	144.91	1.10	8.93
Finance & Insurance	112.93	122.33	124.03	1.39	9.84
Real Estate	20.11	20.99	20.88	(0.56)	3.81
Services	610.58	672.22	687.35	2.25	12.57
Professional & Business	199.22	202.53	206.63	2.03	3.72
Education & Health	235.62	275.97	282.82	2.49	20.04
Leisure & Hospitality	115.37	130.73	133.98	2.48	16.13
All Other Services	60.38	62.99	63.92	1.47	5.85
Government	225.89	244.87	245.93	0.43	8.87
Federal	22.36	19.77	19.53	(1.22)	(12.64)
State	63.74	65.53	66.69	1.78	4.63
Local	139.79	159.57	159.71	0.08	14.25
Total Nonmanufacturing Employment	1,378.13	1,476.08	1,495.65	1.33	8.53

Note: Totals may not agree with detail due to rounding.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

Unlike manufacturing employment, nonmanufacturing employment grew in fiscal 2007. Overall, nonmanufacturing employment grew by 1.3% in fiscal 2007, as approximately 19,570 jobs were added through the end of the fiscal year. The education and health and leisure and hospitality sectors experienced the strongest growth from fiscal 2006 to 2007 with 2.5% growth over that period. The education and health sector experienced the largest growth from fiscal 1998 to 2007 with a 20.0% gain during that period. Construction and mining continued to

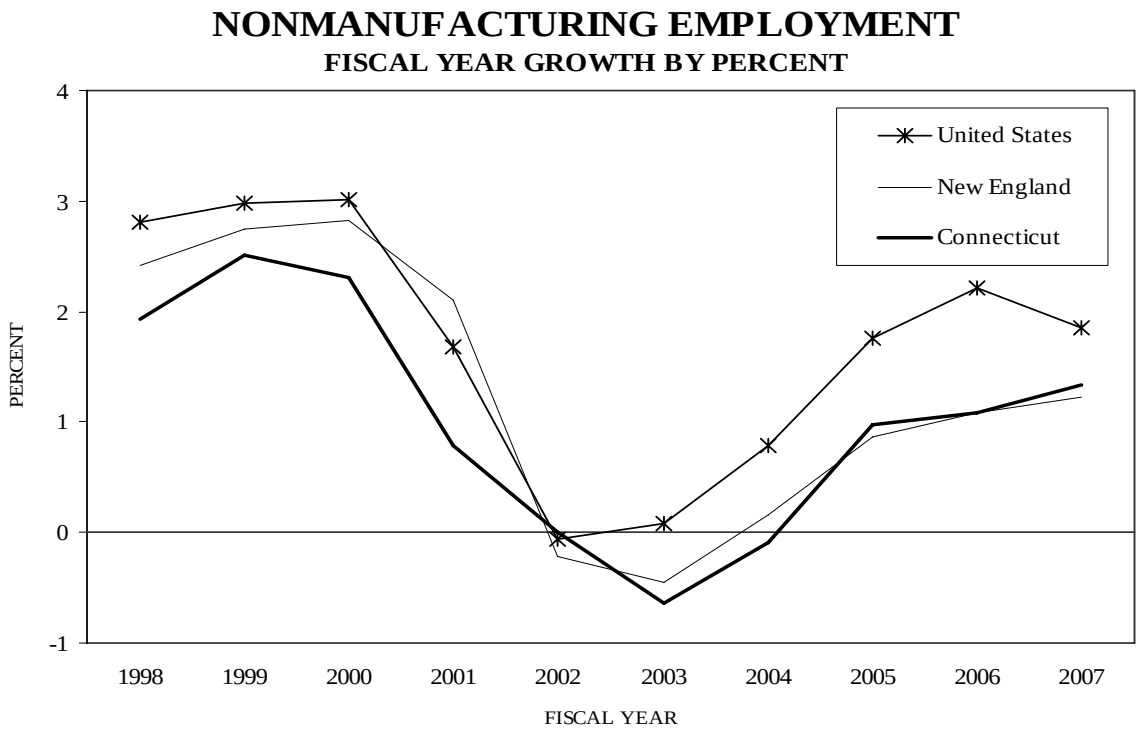
experience growth for a second year in a row with 2.1% growth from fiscal year 2006, adding an additional 1,430 jobs to this sector.

The following Table and Chart provide a ten year profile of nonmanufacturing employment in the United States, the New England Region, and Connecticut.

TABLE 25
NONMANUFACTURING EMPLOYMENT
(In Thousands)

Fiscal	United States		New England		Connecticut	
Year	Number	% Growth	Number	% Growth	Number	% Growth
1997-98	106,821	2.81	5,685.7	2.41	1,378.1	2.06
1998-99	109,999	2.98	5,841.6	2.74	1,412.7	2.51
1999-00	113,309	3.01	6,006.9	2.83	1,445.3	2.31
2000-01	115,211	1.68	6,133.5	2.11	1,456.7	0.79
2001-02	115,146	(0.06)	6,119.8	(0.22)	1,456.8	0.01
2002-03	115,240	0.08	6,092.5	(0.45)	1,447.4	(0.64)
2003-04	116,141	0.78	6,102.3	0.16	1,446.1	(0.09)
2004-05	118,181	1.76	6,155.1	0.87	1,460.3	0.98
2005-06	120,805	2.22	6,222.4	1.09	1,476.1	1.08
2006-07	123,041	1.85	6,298.2	1.22	1,495.7	1.33

Source: U.S. Bureau of Labor Statistics, Connecticut State Labor Department



Source: U.S. Bureau of Labor Statistics, Connecticut State Labor Department

Annual salaries for Connecticut's nonmanufacturing industries are listed on the following Table. The figures were derived by dividing total wage and salary disbursements by employment. Percent changes over the previous year and over the decade are also provided.

TABLE 26
CONNECTICUT NONMANUFACTURING ANNUAL SALARIES

				Percent Change	
Industry	F.Y. 1997-98	F.Y. 2005-06	F.Y. 2006-07	FY '06 to FY '07	FY '98 to FY '07
Construction	$41,951	$53,434	$55,972	4.7%	33.4%
Information	48,575	64,616	67,857	5.0%	39.7%
Transp., Trade & Utilities	31,553	42,804	44,959	5.0%	42.5%
Wholesale Trade	57,498	75,652	79,868	5.6%	38.9%
Retail Trade	19,802	29,997	31,166	3.9%	57.4%
Finance, Ins. & Real Estate	78,585	122,662	131,672	7.3%	67.6%
Professional & Business	47,698	66,843	71,921	7.6%	50.8%
Education & Health Services	34,226	43,336	45,425	4.8%	32.7%
Leisure & Hospitality Services	15,103	20,444	21,597	5.6%	43.0%
Government	39,310	50,637	52,689	4.1%	34.0%
Federal	57,741	84,411	87,826	4.0%	52.1%
State and Local	37,285	47,670	49,657	4.2%	33.2%

Source: U.S. Bureau of Economic Analysis

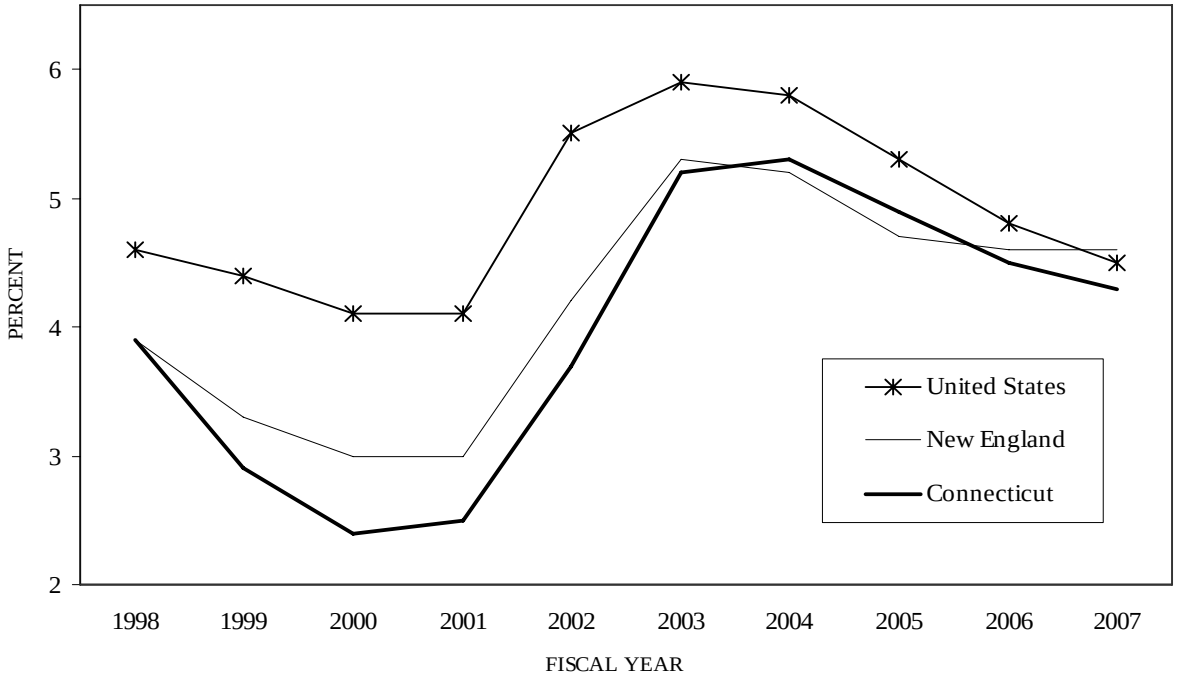
Unemployment Rate

The unemployment rate is the proportion of persons in the civilian labor force who do not have jobs but are actively looking for work. The rate is based upon a monthly survey in which household members are asked a series of questions, one of which determines if a jobless person has looked for work at some time during the preceding four weeks. Those looking for work are considered in the labor force but unemployed. The following Table and Chart shows the unemployment rate for the U.S., the New England Region, and Connecticut over a ten year period.

TABLE 27
UNEMPLOYMENT RATES

Fiscal Year	United States	New England	Connecticut
1997-98	4.6	3.9	3.9
1998-99	4.4	3.3	2.9
1999-00	4.1	3.0	2.4
2000-01	4.1	3.0	2.5
2001-02	5.5	4.2	3.7
2002-03	5.9	5.3	5.2
2003-04	5.8	5.2	5.3
2004-05	5.3	4.7	4.9
2005-06	4.8	4.6	4.5
2006-07	4.5	4.6	4.3

UNEMPLOYMENT RATES
BY FISCAL YEAR



Source: U.S. Bureau of Labor Statistics, Connecticut State Labor Department

SECTOR ANALYSIS

Energy

Over the past two hundred years, the history of energy supplies and the mode of energy use in the United States reflected the country's industrialization, economic development, and social transformation. As the U.S. becomes more dependent on imported energy, economic activity hinges more upon the availability and stability of its supply in the world market. In the past 35 years, all of the nation's five recessions were concurrent with the energy disruptions that occurred worldwide in 1991 (Iraq invaded Kuwait), in 1981 (Iran/Iraq war), in 1979 (Iranian Revolution), and in 1973 (Arab Oil Embargo). The most recent recession, which began in March 2001, also follows an energy supply disturbance that occurred in late 2000 when petroleum inventories remained relatively low and the price reached a then record high of $37.80 per barrel, the highest since the Gulf War of 1991. Oil prices climbed sharply to $70.85 per barrel in late August of 2005 in the aftermath of hurricane Katrina in the Gulf of Mexico. Oil prices reached a new intraday high of $99.29 per barrel on November 21, 2007, as crude inventory dropped to a 20-week low, 8.1% below the level a year earlier. Although higher energy prices are taking their toll on consumer and investment spending and have negatively affected economic growth, a poll of 50 business economists in November of 2007 indicates only a 33.6% chance of a recession over the next 12 months due to higher energy prices, according to *Blue Chip Economic Indicators*.

The United States, like the rest of the industrialized world, relies heavily on three fossil fuels: crude oil, coal, and natural gas. In 2006, they accounted for 86% of total energy consumption. The following three sections describe energy production and consumption for the world, the United States, and Connecticut.

Worldwide

In the world oil market, supply and demand among countries or regions is significantly imbalanced. The following Table illustrates the disparity between the world's suppliers of oil and its users. Members of the Organization of Petroleum Exporting Countries (OPEC), for example, supplied 33.86 million barrels per day (MBPD) in 2006 and consumed roughly 7.65 MBPD, leaving a 26.21 MBPD surplus. The Organization for Economic Cooperation and Development (OECD), on the contrary, consumed more than it supplied. In 2006, the OECD consumed 49.14 MBPD, while supplying only 21.59 MBPD, registering a 27.55 MBPD deficit.

The United States consumed 20.59 MBPD in 2006, representing almost a quarter of total world demand, compared to a production of 8.33 MBPD, or approximately 10% of world supply, reflecting a 60% dependency on foreign oil supplies. The deficit between supply and demand also exists in larger economies such as Japan, France, and Germany. Demand in China and India, Asia's two most populous and fastest economically growing countries, continues its upward trend, accounting for some 10% in 2006, up from 5.5% in 1991. China, which switched from a net exporter of oil in 1995, began running an increasing oil deficit as its economy continued to grow at a brisk pace. In 2006, China consumed 7.27 MBPD while supplying 3.86 MBPD, leaving a 3.41 MBPD deficit, up from a deficit of 3.14 MBPD in 2005, 2.89 MBPD in 2004, and 1.99 MBPD in 2003. This reflects China's 47% dependency on foreign oil supplies. Demand for petroleum in China makes it the world's second largest oil consumer. China's

demand for oil for transportation is the major factor as the highway network expands and personal wealth increases. Industrial demand is also increasing as the manufacturing sector prospers and the agricultural sector is subsidized. Non-economic growth factors also increased demand substantially. The coal-fired electricity generating plants have been switching to oil-burning ones for environmental reasons and the petroleum reserve has reached three-months of imports as recommended by the International Energy Agency (IEA). To secure sources of energy, China has been aggressively seeking contracts with energy abundant countries such as Saudi Arabia, Russia, Indonesia, and Iran.

TABLE 28
WORLD OIL SUPPLY AND DEMAND
Calendar 2006

	Supply			Demand	
	Millions of Barrels Per Day	% of Total		Millions of Barrels Per Day	% of Total
Total OECD (a)	21.59	25.5%	Total OECD	49.14	58.2%
United States	8.33	9.8	United States	20.59	24.4
Canada	3.29	3.9	Canada	2.24	2.7
Mexico	3.71	4.4	Mexico	2.00	2.4
North Sea (b)	4.77	5.6	Japan	5.16	6.1
Other OECD	1.49	1.8	Germany	2.66	3.1
			France	1.96	2.3
Total OPEC (c)	33.86	40.0	Italy	1.73	2.0
Saudi Arabia	9.15	10.8	United Kingdom	1.83	2.2
Iran	4.03	4.8	Other OECD	10.97	13.0
Iraq	2.00	2.4			
Other OPEC	18.68	22.1	Total Non-OECD	35.32	41.8
			Former USSR	4.28	5.1
Total Non-OECD	29.15	34.5	China	7.27	8.6
Former USSR	12.16	14.4	India (d)	2.44	2.9
China	3.86	4.6	OPEC (d)	7.65	9.1
Other	13.13	15.5	Other	13.68	16.2
Total Supply	84.60	100.0%	**Total Demand**	84.46	100.0%

Note:
(a) The OECD includes the United States, Western European countries, Australia, Canada, Japan, and New Zealand.
(b) North Sea includes the United Kingdom Offshore, Norway, Denmark, Netherlands Offshore, and Germany Offshore.
(c) The OPEC includes Algeria, Gabon, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates, and Venezuela.
(d) Demand in 2005 per *International Energy Annual 2005*

Source: U.S. Department of Energy, Energy Information Administration, *International Petroleum Monthly* and *International Energy Annual 2006*

Demand in India has soared, barely trailing Germany which was ranked the 5th largest oil consumer in the world. Economic reforms in India such as liberalizing trade and investment regulations, removing capacity restrictions, eliminating price controls, and lowering corporate tax rates have triggered rapid output growth and demand for oil. Faced with soaring demand and fierce competition for resources, China and India have teamed up to control oil and gas fields in Africa, Latin America, and elsewhere. More cooperation between China and India could happen in the future. The countries making up the former USSR supplied more oil than they required. In 2006, the former USSR consumed 4.28 MBPD while supplying 12.16 MBPD, registering a 7.88 MBPD surplus, up from surpluses of 7.52 MBPD in 2005.

World energy reserves also mirror the same pattern of disparity as the oil supply market. The following Table shows world oil and natural gas reserves by country. The share of world oil reserves held by all OPEC countries is 75%. Among the total, the Middle East controls approximately 65% of world oil reserves with Saudi Arabia alone controlling approximately one-quarter of the total, followed by Iran's 11.7% and Iraq's 10.3%. While the Middle East countries controlled 63.6% of crude oil reserves, they hold only 40.7% of natural gas reserves.

TABLE 29
WORLD OIL & NATURAL GAS RESERVES
January 1, 2006

	Oil		Gas	
	Billions of Barrels	% of Total	Trillions of Cubic Feet	% of Total
North America	**46.1**	**4.1%**	**278.0**	**4.5%**
United States	21.8	1.9	204.4	3.3
Mexico	12.4	1.1	20.0	0.3
Canada	12.0	1.1	53.7	0.9
Central & South America	**76.5**	**6.8**	**246.9**	**4.0**
Venezuela	52.7	4.7	150.9	2.4
Western Europe	**16.0**	**1.4**	**182.8**	**2.9**
E. Europe & Former USSR	**123.2**	**11.0**	**2,040.7**	**32.8**
Middle East	**711.6**	**63.6**	**2,531.6**	**40.7**
Saudi Arabia	262.2	23.4	243.5	3.9
Iraq	115.0	10.3	84.0	1.3
Iran	131.5	11.7	965.0	15.5
Kuwait	100.9	9.0	57.0	0.9
Other Mid. East	102.0	9.1	1,182.1	19.0
Africa	**109.8**	**9.8**	**490.9**	**7.9**
Far East & Others	**36.4**	**3.3**	**455.7**	**7.3**
Total	**1,119.6**	**100.0**	**6,226.6**	**100.0**

Note: Totals may not add due to rounding.

Source: U.S. Department of Energy, Energy Information Administration, *International Energy Annual*

As the economy grows, the United States continues to deplete its energy reserves. U.S. crude oil and natural gas reserves in 2006 were estimated at 21.8 billion barrels and 204.4 trillion cubic feet, or 1.9% and 3.3%, respectively, of the world's reserve. These were down about 30% and 20%, respectively, from 1977 levels, the year when the U.S. Department of Energy started assembling the reserve data. Oil or natural gas reserves are the estimated quantities that are recoverable in the future from known reservoirs under existing economic and operating conditions. Levels of reserve are affected by oil prices. Canada's tar sands, for example, are lower grade oil than conventional crude. However, as oil prices increase, exploration and production become attractive. Given certain market prices, oil and natural gas now can be produced more economically due to improved technology that helps identify potential reserve sites and assists in production from marginal fields. By employing advanced technologies, two big deep-sea oil fields were found recently. Jack Field, in the U.S. Gulf of Mexico, and Tupi field, off Brazil's coast, are estimated to hold as much oil reserves as 15 and 10 billion barrels, respectively, and both may potentially boost each nation's oil supplies by as much as 50%.

United States

The U.S. has the largest demand for world oil. While it counts for about 5% of world population and supplies 10% of world oil, it consumes 25% of world oil production and produces about 28% of the world's GDP. The nation has long been a net energy importer. According to the *Annual Energy Review*, the U.S. consumed 99.54 quadrillion British Thermal Units (QBTU's) of energy in 2006, 2.2 times the 1960 level. Whereas the U.S. produced only 71.03 QBTU's and exported 4.93 QBTU's in 2006, it required net imports of 34.49 QBTU's, which represented 29.6% of total national energy consumption, up from 16.6% in 1990 and 6.0% in 1960. Although U.S. energy production comes from many sources and aggressive development for renewable energy continues, fossil fuels that include coal, natural gas, crude oil, and natural gas plant liquids far exceed all other forms such as nuclear electric power, wood and waste, and hydroelectric power, etc. In 2006, fossil fuels accounted for about 80% of total energy production with coal accounting for 33.5%; natural gas, 26.8%; crude oil, 15.3%; and natural gas plant liquids, 3.3%.

National energy consumption has increased at an average annual rate of 1.2% over the past two decades. Growth in energy consumption has trended along with economic conditions, up during periods of healthy economic growth and down during periods of sluggish growth. Growth in energy consumption also reflects the movement of prices, higher during periods of relatively low or stable prices and down during periods of price increases. The following Table illustrates the breakdown of energy usage in the U.S. in 2006 by fuel type and by economic sector. As can be seen, petroleum products are the most important energy source for the U.S. economy. In 2006, the U.S. consumed 99.54 QBTU's of energy. The 40.25 quadrillion petroleum-generated BTU's accounted for 40.4% of U.S. fuel consumption, followed by coal at 22.52 QBTU's and natural gas at 22.42 QBTU's. These three fuel sources together accounted for approximately 86% of U.S. fuel consumption. Nuclear power and hydroelectric power were distant followers.

There are five energy-use sectors: residential, commercial, industrial, transportation, and electric power generation. The first four sectors are end-users while the last one is the intermediate-user that consists of all utility and non-utility facilities and equipment used in

the electricity industry. Of the four end-users, the industrial sector was the largest energy consumer, consuming 32.15 QBTU's in 2006, followed by transportation at 28.40 QBTU's, residential at 21.05 QBTU's, and commercial at 17.94 QBTU's. In contrast to the relatively smooth trends in the other sectors, industrial consumption, which used the biggest share of total energy, has showed the greatest fluctuation, dropping sharply in 1975 and 1980-83 in response to high oil prices. The electric power generation sector consumes and also produces energy. Energy losses occur throughout the entire electrical system beginning with utility generation in fossil-fired, nuclear or hydroelectric power plants all the way to the end-users. Energy losses are approximately two-thirds of total energy input during the conversion process of heat energy into mechanical energy for turning electric generators. Of the electricity generated, about 5% is lost in plant use and 9% is lost in transmission and distribution.

TABLE 30
U.S. ENERGY CONSUMPTION IN 2006
(Quadrillion BTU's)

Fuels	Residential	Commercial	Industrial	Trans-portation	Electric Generation	Total	% of Total
Natural Gas	4.47	2.94	7.99	0.62	6.40	22.42	22.5%
Petroleum	1.45	0.72	9.73	27.70	0.65	40.25	40.4%
Coal	0.01	0.08	1.95	0.00	20.48	22.52	22.6%
Nuclear	0.00	0.00	0.00	0.00	8.21	8.21	8.2%
Hydroelectric	0.00	0.00	0.03	0.00	2.86	2.89	2.9%
Other	0.47	0.12	1.61	0.00	1.00	3.20	3.2%
Electricity	4.62	4.44	3.42	0.02	0.06	12.56	12.6%
Electric Losses	10.03	9.64	7.42	0.06	(39.66)	(12.51)	(12.6)%
Total Demand	21.05	17.94	32.15	28.40	0.00	99.54	100.0%
% of Total	*21.1%*	*18.0%*	*32.3%*	*28.5%*	*0.0%*	*100.0%*	

Note: Totals may not add due to rounding.

Source: U.S. Department of Energy, Energy Information Administration, *Annual Energy Review 2006*

The increasing disparity between oil demand and supply along with the increasing dependency on imported oil creates the potential for instability in both petroleum's price and availability in the U.S.

Crude Oil Prices and Consumption

Oil is a global commodity. Crude oil prices in the U.S. depend not only upon domestic market conditions, but also upon worldwide supply and demand. While long-term upward trending oil prices are fundamentally caused by the world's tighter supply and increasing demand, short-term price fluctuations are basically caused by interruptions in supply due to geopolitical unrest, seasonal or unexpected damages to facilities in the Gulf of Mexico, or other events. Forecasts of future supply and inventory levels also affect oil prices. The "risk premium" reflects the possibility of supply shortage, creating the incentive to hold bigger inventories, which leads to higher prices. The recent increase in world energy consumption

perhaps has the greatest impact on current oil prices. Higher consumption has directly brought price increases as spare production capacity is more limited now than it has been over the past 20 years. This deficiency is partly due to inadequate investment in many countries and partly due to sustainable global growth in demand for oil as the world economy continues to expand.

Crude oil prices have a long history of large fluctuations that affect the world and U.S. economies as well as inflation levels. In 1973, the year of the Arab Oil Embargo, crude oil prices in the U.S. measured by the composite Refiners' Acquisition Cost averaged $4.15 per barrel. Oil prices reached their peak in 1981 at $35.28 per barrel after two consecutive supply disturbances brought on by the Iranian Revolution in 1979 and the Iran-Iraq war in 1980. Since then, long-term prices had trended down to a low of $12.52 per barrel in 1998 and then stayed in the mid-$20 range until mid-2003. Crude oil prices started to creep up above $30 per barrel in late 2003 and continued to soar to above $40 per barrel in late 2004 as world oil demand picked up, Iraqi oil flow bogged down, and crude stocks in the U.S. were below comfortable levels. The rising trend in prices was intensified in the summer of 2005 as the constrained global supply of energy could not catch up with the growing world demand. Oil prices crossed $50 a barrel in June, 2005, and in just 2 months, jumped to over $60 in August. Drastic increases in prices continued in 2007 as the world oil market became more vulnerable to losing its delicate balance and the U.S. dollar depreciated. Oil prices topped $70 a barrel in July, crossed $80 in September, and reached a daily high of $100 in early January 2008. With considerable uncertainty on the supply side, it only makes prices more volatile.

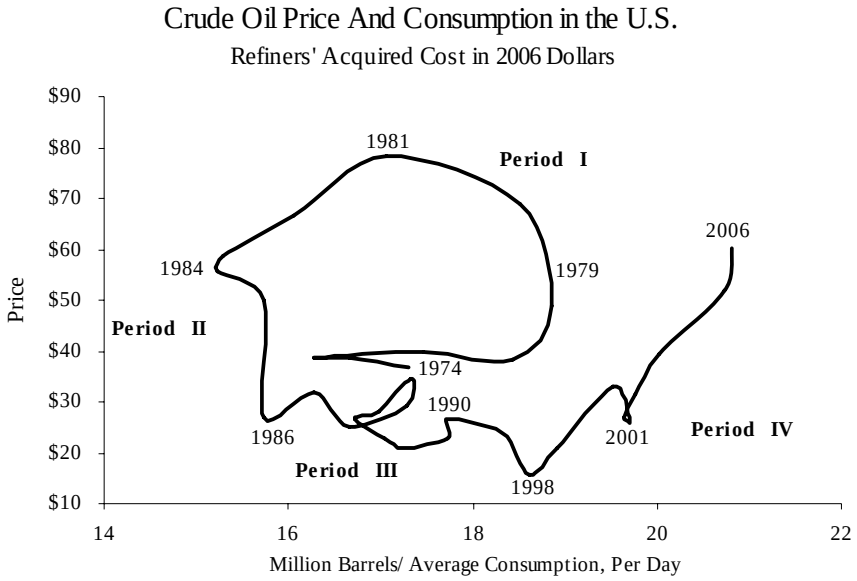
Using the inflation-adjusted price may help to analyze behavior changes in oil demand. Following a counterclockwise direction, the chart on the next page tracks the history of inflation adjusted crude oil prices and consumption in the U.S. starting in 1974 and ending in 2006. Crude oil prices are Refiners' Acquisition Cost as measured in 2006 dollars. As can be seen, although prices averaged $60.10 per barrel in 2006, an all-time high in nominal terms, this was still below the $78.21 per barrel in 1981, when its then $35.28 per barrel was converted to 2006 dollars. Petroleum consumption in the United States has steadily grown from a low of 15.23 MBPD in 1984 to 20.80 MBPD in 2006, after a decline from 18.85 MBPD in 1979. This chart breaks this history into 4 periods by the changes in crude oil prices:

1) Period I (from 1974 to 1981 when prices increased) caused by the initial 1973 Arab oil embargo, followed by the 1979 Iranian revolution and the 1980 outbreak of the Iran-Iraq war. After 1979, a severe supply shortage and big price increases stalled energy consumption.
2) Period II (from 1981 to 1986 when prices declined) reflected back-to-back recessions in the earlier 1980's and less energy was consumed. Demand shifted to smaller-sized cars and was accompanied by actual oil production often above the quotas of OPEC members. In 1986, Saudi Arabia boosted oil production, causing prices to briefly drop.
3) Period III (from 1986 to 1998 when demand for oil increased but prices remained stable) reflected a continued improvement in energy efficiency and stepped up efforts in conservation, which was offset by increasing demand for sport utility vehicles and large cars. Oil prices jumped in 1990 as Iraq invaded Kuwait, followed by a decline in oil demand due to a recession in the second half of 1990.
4) Phase IV (from1998 to present when both prices and demand trended upward) reflects a strong demand for energy as the economy in the U.S. and the rest of world continued to grow. In 1998, the faltering economies in Japan and the Pacific Basin area slowed

energy demand and price fell. The 9-11 attack in 2001 created concern over the economy and oil prices dropped. Demand for sport utility and big vehicles continued, reaching 55% of market share in 2004.

TABLE 31
CRUDE OIL PRICES AND U.S. CONSUMPTION

Year	Refiners' Crude Oil Acquisition Costs* ($/Barrel) Current $	($/Barrel) In 2006$**
1970	3.40	17.65
1975	10.37	38.84
1980	28.22	69.05
1985	26.75	50.11
1990	22.34	34.47
1995	17.23	22.79
2000	28.24	33.06
2001	22.95	26.13
2002	24.02	26.92
2003	28.60	31.34
2004	36.91	39.39
2005	50.32	51.95
2006	60.10	60.10



Note: * Refiner's crude oil composite acquisition costs peaked at $35.28 per barrel in 1981. Its inflation-adjusted cost of $78.21 (in 2006 dollars) per barrel was also a record high.
** Adjusted by 2006 CPI-U, where 1982-84=100.00 and 2006 = 201.58.

Source: U.S. Department of Energy, Energy Information Administration, *Annual Energy Review 2006*

Looking forward to the long-term, oil prices are expected to trend up as world demand grows faster than the rate of discovery of new supplies. The following factors are driving prices higher: new oil fields are harder to find, crude oil is more costly to extract, underinvestment has been occurring for years in this industry, and mounting demand for oil in Asia, the Middle East, some industrialized countries, and elsewhere. A worldwide recession may temporarily set back demand and therefore prices. It is estimated that 70% of the existing oil fields are more than 30 years old. Oil reserves in the Middle East and Persian Gulf region may be nearing maturity or depletion. However, the world is expected to rely more on OPEC's current 40% share as potential production from non-OPEC countries decline. As the world economy continues to grow, the increasing demand will more than offset any savings gained from efficiency and conservation. The world rate of replenishment of oil reserves relative to their rate of supply, the so-called Reserve Replenishment Ratio (RRR), has been declining and is expected to move below the healthy ratio of 100% for the next five years. Although the

discovery of Jack Field in the Gulf of Mexico may help increase the RRR ratio, actual meaningful production may not happen for years to come.

Crude Oil Consumption and Imports Share

As shown in Table 30 on U.S. Energy Consumption, in 2006 petroleum consumption accounted for approximately 40% of total U.S. energy, while the transportation sector alone used two-thirds of all petroleum. Despite the fact that oil efficiency continues to improve, an increase in both population and the number of cars per household along with a shift in driving tastes from traditional vehicles to light utility trucks, added to the demand for oil. Nonetheless, per capita oil consumption has remained relatively steady at 24.1 barrels in 2006; slightly up from 23.8 barrels in 1970.

The share of imported oil to total U.S. consumption declined to 34% in 1985 after reaching a high of 42.8% in 1980. High oil prices prompted consumers to conserve energy and to seek energy substitutes. However, the downward trend in the percentage of consumption met by imports reversed itself as oil prices dropped from $51.94 in real dollars per barrel in 1980 to $12.98 per barrel in 1998. The share of total U.S. consumption attributable to imported oil has consistently risen since then, reaching 68.9% in 2006 compared to approximately 50% a decade ago. Oil imports to the U.S. are mostly from Canada, Mexico, and Venezuela.

Efficiency

Increasing efficiency has spearheaded the nation's energy conservation policy. Energy regulatory agencies have been aggressively protecting the environment by promoting energy-efficient products over the past two decades. The National Appliance Energy Conservation Act of 1987 set minimum efficiency standards for 13 appliances and prohibited the sale if standards were not met. In 1992, the EPA embarked upon "*Energy Star*" as a voluntary labeling program to identify and promote energy-efficient products to reduce greenhouse gas emissions. The first labeled products were computers and monitors. The *Energy Star* label now covers more than 50 product categories from small battery chargers to central AC to big new homes. It includes appliances, electronics, heating and cooling equipment, office equipment, lighting, commercial food services, and new buildings with additional energy-saving features that are 20–30% more efficient than standard homes. In total, this includes thousands of models, saving $15 billion on U.S. residents' energy bills. The label is granted for qualified commercial products. Manufacturers having commercial products with scores higher than energy efficiency standards can apply and display this label on their product to convey excellent performance. These certified products carry out the same or better functions and use less energy as compared to older models. For example, a refrigerator labeled with an *Energy Star* can save 50% of the energy of a 10-year old model. Technologies and inventions that significantly improve efficiency continue to be adopted. To name a few, motion sensors that are used to turn off lights and copiers while rooms are empty save energy by 25%; nighttime water chillers reduce air-cooling system expenses by 30%; upgrading air-conditioning systems can cut annual costs by one dollar per square foot of space; and high-efficiency fluorescent fixtures trim lighting bills by 50%.

To promote energy efficient buildings in the U.S., the Leadership in Energy and Environmental Design (LEED), a non-profit organization under the U.S. Green Building Council (USGBC),

provides green building rating standards for environmentally sustainable construction and design. Like the *Energy Star* logo used by certified manufacturers, individual builders recognized by the LEED rating system are permitted to use the accredited LEED symbol for promoting their businesses.

Other than energy conservation, increases in productivity also play a vital role in efficiency. Productivity, a crucial ingredient in the economy's long-term vitality, is a measure of economic efficiency which shows how effectively economic inputs are converted into output. Productivity is measured by comparing the amount of goods and services produced with the inputs that are used in production. A measure of efficiency is the amount of energy used to produce a dollar of Gross Domestic Product (GDP). The Table below compares U.S. consumption of fuel sources and illustrates the nation's improvement in energy efficiency.

TABLE 32
U.S. PRIMARY ENERGY CONSUMPTION & ENERGY EFFICIENCY

	U.S. Energy Consumption		GDP	BTU	
Calendar Year	Total Quadrillion BTU's	Percent Change	Billion (In 2000$)	Per $1 GDP (In 2000$)	Percent Change
1975	72.00		4,311	16,700	
1980	78.12	8.5%	5,162	15,135	(9.4%)
1985	76.49	(2.1%)	6,054	12,635	(16.5%)
1990	84.65	10.7%	7,113	11,902	(5.8%)
1995	91.17	7.7%	8,032	11,352	(4.6%)
2000	98.98	2.2%	9,817	10,082	(11.2%)
2001	96.33	(2.7%)	9,891	9,756	(3.4%)
2002	97.86	1.6%	10,048	9,738	(0.0%)
2003	98.21	0.4%	10,301	9,534	(2.1%)
2004	100.35	2.2%	10,676	9,400	(1.4%)
2005	100.69	0.3%	11,003	9,151	(2.7%)
2006	99.87	(0.8%)	11,319	8,823	(3.6%)

Source: U.S. Department of Energy, Energy Information Administration, *Annual Energy Review 2006*

U.S. Department of Labor, Bureau of Labor Statistics

Energy consumption per dollar of GDP has trended down at an average annual rate of 1.5 percent during the past 3 decades. In 1975, it required 16,700 BTU's of energy to produce $1 of GDP measured in 2000 dollars; by 2006, it had fallen to 8,823 BTU's, a 48% reduction in three decades. The decline in energy consumption per dollar of GDP resulted from efficiency improvements and shifts of economic structure from energy intensive industries to those that consume less energy but create more valued added products such as finance, banking, and professional services. However, improvements in energy efficiency vary from period to period, depending upon the levels of energy prices, consumers' consumption habits, and technology improvements, etc. The number of BTU's used per constant dollar of GDP declined 19.4% between 1996 and 2005, compared to a 10.2% reduction between 1986 and 1995 and a 24.3% reduction between 1976 and 1985. The decline in energy consumption per dollar

of GDP slowed significantly during the 1986-95 period. This slowdown reflects the fact that improvements tend to stagnate when fuel prices decline. As oil prices fell, the incentive to conserve energy diminished. Real crude oil prices as adjusted by the CPI-U in 2006 dollars averaged $26.90 per barrel during the 1986-95 period, compared to $54.40 per barrel during the 1976-85 period and $29.60 per barrel during the 1996-2005 period. A continuing shift in car purchases from the smaller sized models to the less-efficient sport utility and larger models dramatically contributed to a slowdown of improvement in energy efficiency.

Oil Stability Program

To protect against supply disruptions, the United States began to create a Strategic Petroleum Reserve (SPR) under the Energy Policy and Conservation Act of 1975 (EPCA). The SPR program was established as a 750 million barrel capacity crude oil reserve with the objective of achieving a maximum draw-down rate within 15 days of the notice to proceed. To maximize long-term protection against oil supply disruptions, President George W. Bush in late 2001 directed the Secretary of Energy to fill the SPR up to its 700 million barrel capacity. As of the end of 2006, the reserve held 688.6 million barrels of crude oil, which was equal to 56 days of net U.S. imports.

In early 2000, a shortage of home heating oil sent prices to a high of $2.45 per gallon from $1.00 per gallon a year earlier. To reduce such risk in the future, the U.S. Department of Energy established the Northeast Heating Oil Reserve under the SPR program. The maximum inventory of heating oil in the reserve is 2 million barrels, which will provide relief for approximately 10 days. This reserve program was permanently established in March of 2001 as a part of America's energy readiness effort, separating it from the Strategic Petroleum Reserve. Heating oil is the dominant fuel used for home heating in Connecticut with 52% of all homes in Connecticut using heating oil as the primary heating fuel.

Connecticut

Connecticut is ranked as the most efficient state in the nation in energy usage. Connecticut consumed 5,506 BTU's per current dollar of Gross State Product in 2004, the latest available data, 42% less than the national average of 9,452 BTU's. When compared to the national per person consumption, Connecticut residents are moderate energy users. Connecticut consumed 264.4 million BTU's of energy per person in 2004, ranking it 43rd among the 50 states and 23% less than the national average of 341.5 million BTU's. These figures were far less than Alaska's consumption of 1,186.2 million BTU's, the largest consumer in the nation. Because the State lacks indigenous energy sources, it must import nearly all the energy that it consumes. This situation affects Connecticut consumers' energy choices and results in prices that are approximately 23% higher than the national average. Connecticut residents in 2004 spent $15.86 per million BTU, compared to $12.91 for the Nation.

The Table below shows a breakdown of the amount and percentage share of total energy consumed in Connecticut by fuel in 2004, the latest available data. When compared to the national average, petroleum has supplied more of Connecticut's energy needs relative to coal and natural gas. This is because petroleum is more easily transported than other types of fuel and fuel oil has been the major source to heat homes. According to the 2000 Census, 52% of

Connecticut households used fuel oil for home heating, followed by natural gas at 29%, electricity at 15%, and liquefied petroleum gases and others each at 2%. The State's petroleum products are received at the ports in New Haven, New London, and Bridgeport, and shipped by barge on the Connecticut River to central Connecticut.

TABLE 33
CONNECTICUT ENERGY CONSUMPTION IN 2004
(Trillion BTU's)

Fuels	Resi-dential	Com-mercial	In-dustrial	Trans-portation	Electric Generation	CT Total	% of CT Total	% of US Total
Natural Gas	44.0	35.4	20.4	3.6	59.7	163.1	17.7%	22.5%
Petroleum	107.4	26.5	40.0	279.7	17.2	470.8	51.0%	40.4%
Coal	0.0	0.1	0.0	0.0	43.9	44.0	4.8%	22.6%
Nuclear	0.0	0.0	0.0	0.0	172.5	172.5	18.7%	8.2%
Hydroelectric	0.0	0.0	0.0	0.0	4.6	4.6	0.5%	2.9%
Other	7.2	1.1	3.9	0.1	28.6	40.9	4.4%	3.2%
Deliv. Elec.	45.1	45.9	18.3	0.6	1.5	111.4	12.1%	12.6%
Deliv. Losses	100.3	102.2	40.7	1.4	(328.0)	(83.4)	(9.0)%	(12.6)%
Total Demand	304.0	211.2	123.3	285.4	0.0	923.9	100.0%	100.0%
% of Total-CT	34.2%	23.8%	13.9%	32.1%	0.0%	100.0%		
% of Total-US*	21.1%	18.0%	32.3%	28.5%	0.0%	100.0%		

Note: Totals may not add due to rounding.
* % of Total –US were 2006 data

Source: U.S. Department of Energy, Energy Information Administration, *State Data, 2004*

A comparison of the U.S. and Connecticut's electric generation sectors shows additional differences in energy mixes. The United States is much more dependent on coal and less reliant on nuclear energy than is Connecticut. There were originally four nuclear plants located in the state. In 1997, two plants were decommissioned. In 2005, the latest available data, the state generated 33,549.7 gigawatt hours of electricity mostly using gas, petroleum, and nuclear, and sold 33,095.0 gigawatt hours of electricity. This implies that, in 2005, the state was electricity self-sufficient. Unlike 2000, the state generated only 56.8% of its demand, relying heavily on imports from other states and Canada for the balance of its need.

The power grid that supplies electricity to the entire state is owned and operated by both private and municipal electric companies. Transmission lines connect Connecticut with New York, New England and Canada. These interconnections allow the companies serving Connecticut to meet large or unexpected electric load requirements from resources located outside of Connecticut's boundaries. All electric utilities in the State are members of the New England Power Pool and operate as part of the regional bulk power system. An independent system operator, ISO New England Inc., operates this regional system. In 2005, the latest available data, there were 1,585,408 electricity consumers in Connecticut, with residential units accounting for 90.2%; commercial units, 9.1%; industrial units, 0.4%; and others, 0.3%.

Approximately 94% of the electricity was sold by two investor-owned companies: Connecticut Light & Power Company and United Illuminating Company.

Not all energy prices in the state are higher than the national average. Some types of energy are high while others are lower. The following Table compares various prices to the national average for natural gas, motor gasoline, residential heating oil, residential electricity, and total average energy that included taxes paid by consumers.

TABLE 34
CONSUMER ENERGY PRICES IN THE UNITED STATES AND CONNECTICUT
Nominal Dollars Per Million BTU in 2004

	Natural Gas	Motor Gasoline	Residential Heating Fuel	All * Petroleum	Retail Electricity	Total Energy
Connecticut	$10.11	$15.09	$4.55	$13.02	$30.07	$15.86
United States	$7.95	$14.57	$4.92	$12.22	$22.44	$12.91
CT as a % of the U.S.	*127%*	*104%*	*92%*	*107%*	*147%*	*123%*

* includes motor gasoline, residential and distillate fuel oil, liquefied petroleum gases, and jet fuel, etc.

Source: U.S. Department of Energy, Energy Information Administration, *State Data*

As can be seen, the prices of retail electricity and natural gas in 2004 were 47% and 27%, respectively, higher than the national norm while the price of residential heating oil was 8% below the national average. Electricity prices in Connecticut are higher than in other states due to transmission constraints that limit the flow of cheaper supplies. Transmission constraints in the southwestern region are especially problematic because of the lack of high-voltage transmission lines. Southwestern Connecticut represents about 50% of total state demand with 70% of the generation capacity over 40 years old in the Norwalk-Stamford area. Overall energy prices in Connecticut as mentioned before, however, have been higher than the national average by 23%.

The high price of electricity in Connecticut is partially the result of a lack of low cost indigenous fuel sources. It also reflects higher overall costs of operating in the Northeast and the employment of less polluting electric generating processes. The aging nuclear generators and the distribution system in Connecticut are more than 30 years old, requiring higher maintenance and operating costs. Due to an inefficient transmission system and inadequate power supplies, southwest Connecticut is particularly vulnerable to supply deficiencies and voltage instability problems. Public Act 98-28 authorized the restructuring of the electric industry in Connecticut. The Act allows consumers to choose their electric suppliers from among suppliers licensed by the Department of Public Utility Control (DPUC), and requires electric utilities to separate their electric generation function from their transmission and distribution functions.

As electricity prices vary from state to state in the U.S., so do prices between districts within Connecticut, depending upon the rates charged by their electricity providers. The average retail price for residential electricity in 2005 in Connecticut supplied by the investor-owned companies, Connecticut Light & Power and United Illuminating, was 12.25 cents per kilowatt hour, compared to 9.37 cents in the State's seven municipally-owned utilities. During this period among the 50 states, Connecticut was 12.06 cents per kilowatt hour, the fifth highest state in the nation. This trailed Hawaii's 18.33 cents, New York's 17.5 cents, New Hampshire's 12.53 cents and Massachusetts' 12.18 cents. The national average was 8.14 cents.

Natural gas is delivered to Connecticut through pipelines that terminate in Boston and New York from Canada and the Gulf of Mexico area. Connecticut also receives liquefied natural gas (LNG) through a pipeline from a terminal located in Boston which is supplied by LNG tanker ships. Since 1996, the DPUC has allowed some competitive market forces to enter the natural gas industry in the state. Commercial and industrial gas consumers can choose non-regulated suppliers for their natural gas requirements. Natural gas is delivered to consumers using the local distribution company's mains and pipelines. Located at or near the end of pipelines, Connecticut's distribution companies have to pay higher transportation cost and outbid other buyers in order to gain access rights to the gas wellhead. Lack of energy resources and relatively higher prices have a negative impact on the State's economy. As energy prices increase, the use of energy declines and so does the state's output. The University of Connecticut estimates that a 10% increase in energy prices will cut real Gross State Product by 2.5%.

Gasoline Consumption and Automotive Fuel Economy

In the U.S., highway vehicles consume approximately 98% of all gasoline. Only about 2% is used for other purposes such as agriculture, aviation, industrial, commercial, construction and boating. During 2005, gasoline consumption in the U.S. totaled 140.3 billion gallons, the equivalent of 9.15 million barrels per day. In 2006, Connecticut had 1,475 gasoline stations, accounting for some 0.9% of the U.S. total. The Table on the following page shows gasoline consumption during the past ten years for the U.S. and Connecticut.

During 2005 in Connecticut, gasoline consumption totaled 1.61 billion gallons or 38.4 million barrels, accounting for 1.2% of the nation's consumption. This converts to consumption of 461 gallons per Connecticut resident versus 473 gallons for the nation. The lower per capita consumption may be attributable to several factors. As one of the smallest states in the nation, generally residents commute shorter distances to work and shop.

In addition, gasoline prices in Connecticut are relatively higher than the national average, which tends to encourage conservation by the state's residents. Connecticut's small size also increases the likelihood that gasoline may be purchased outside our borders, particularly if there is incentive to do so due to price differentials. There is no gasoline refinery located in Connecticut. Energy conservation programs such as car pooling and telecommuting may also contribute lower gasoline consumption. A survey conducted in 2006 found that more than 158,250 Connecticut workers, which accounted for 9% of the workforce, telecommuted at least one day a month, up 86% from a study five years ago. The average Connecticut worker lives 13 miles from work compared to an average of 18 miles for telecommuters. As

communication technology continues to advance and traffic congestion in the state gets worse, telecommuting is expected to gain in popularity.

TABLE 35
GASOLINE CONSUMPTION IN THE UNITED STATES & CONNECTICUT

Calendar Year	U.S. Consumption Gallons (000's)	Percent Change	Connecticut Gallons (000's)*	Percent Change
1995	120,875,789	5.1%	1,292,233	(2.7)%
1996	123,326,745	2.0%	1,390,385	7.6%
1997	125,399,139	1.7%	1,400,016	0.7%
1998	127,977,505	2.1%	1,425,178	1.8%
1999	132,260,590	3.3%	1,551,446	8.9%
2000	132,279,950	0.0%	1,476,340	(4.8%)
2001	134,110,264	1.4%	1,496,469	1.4%
2002	137,664,309	2.7%	1,589,580	6.2%
2003	139,065,057	1.0%	1,645,268	3.5%
2004	141,700,177	1.9%	1,860,908	13.1%
2005	140,338,710	(1.0%)	1,614,697	(13.2%)

* Given the unusually sharp rise in consumption in 2004, this federally reported data point is likely erroneous, making a subsequent sharp decline in 2005.

Source: U. S. Department of Transportation, Office of Highway Information Management, *Highway Statistics*

In 1975, the U.S. Congress authorized the Department of Transportation to set automobile efficiency standards, known as Corporate Average Fuel Economy (CAFE). These regulations mandate that automobile makers achieve a fleet wide minimum for fuel efficiency. After the enactment of the law, the average miles per gallon (MPG) for automobiles and light trucks increased from 20.1 MPG in model year (MY) 1979 to 26.4 MPG in MY 2007, a 31.3% improvement in CAFE. The increase in fuel efficiency varied over the past three decades, accelerating during the 1970s and 1980s, but having remained relatively constant since the mid 1990s. MY 2007 was a banner year that raised MPG to an historic high of 26.4 MPG. This reflects the change in driver's tastes and an increased awareness of energy conservation. During the 1970s and 1980s, more efficient engines and smaller cars were produced. During the 1990s and into the 2000s, light trucks gained market share while sales for high-powered, four-wheel drive cars, and larger, heavier, less fuel-efficient models increased, reducing the average MPG rating for new vehicles. The minivan emerged in the early 1980s and the SUVs popularity rose in the 1990s. In 1987, the total fleet fuel economy peaked at 26.2 MPG when light trucks made up 31.6% of the market. By 2007, light trucks made up 52.8% of market sales. Fuel economy in MY 2007 improved to 26.4 MPG for the auto-industry as high mileage hybrid-electric cars became sought-after and light truck sales declined from a high of 55.5% in market share registered in MY 2004. Domestic manufacturers joined foreign producers in introducing new technologies and more fuel-efficient models. CAFE for domestic cars in MY 2007 improved to 30.5 MPG versus 31.7 MPG for imported cars. The following Table details the CAFE standards along with fleet wide average miles per gallon by model year.

TABLE 36
AUTOMOTIVE FUEL ECONOMY
Domestic vs. Imported Passenger Cars & Trucks
(Model Year, Average Miles Per Gallon)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
CAFE Standards										
Passenger Cars	27.5	27.5	27.5	27.5	27.5	27.5	27.5	27.5	27.5	27.5
Light Trucks	20.7	20.7	20.7	20.7	20.7	20.7	20.7	21.0	21.6	22.2
Cars Produced	28.8	28.3	28.5	28.8	28.9	29.5	29.5	30.3	29.8	31.0
Domestic Cars	28.6	28.0	28.5	28.7	29.0	29.1	29.9	30.5	30.1	30.5
Import Cars	29.2	29.0	28.3	29.0	28.7	29.9	28.7	29.9	29.4	31.7
Light Truck (Up to 8,500 lbs.)	21.1	20.9	21.3	20.9	21.4	21.7	21.5	22.1	22.2	22.9
Total Fleet	24.7	24.5	24.8	24.5	24.7	25.0	24.6	25.4	25.4	26.4
Light Truck Share of Fleet *	47.6%	48.5%	49.0%	50.8%	51.8%	54.2%	55.5%	54.8%	52.9%	52.8%

* Light trucks weigh up to 10,000 pounds in gross vehicle weight and include pickups, vans, truck-based station wagons, and utility vehicles that are generally less efficient than cars.

Source: U.S. Dept. of Transportation, National Highway Traffic Safety Administration
U.S. Department of Commerce, BEA

The Table above also shows the fluctuation in the gap in average MPG between foreign imports and American cars. While the fuel economy performance of domestic passenger cars continued to improve at a slow, steady rate, imported cars oscillated. It declined to a recent low of 28.3 MPG in MY 2000 from 30.3 MPG in MY 1995 and then recovered to 29.9 MPG in MY 2003, but declined again to 28.7 MPG in MY 2004 before it bounced back to 31.7 MPG in MY 2007. Twenty years ago in MY 1988, imported cars registered a high of 31.5 MPG as small size cars prevailed. Recent foreign cars are mostly equipped with higher performance features that increased fuel economy brought about primarily by soaring gasoline prices and increased environmental awareness.

Fuel economy for passenger cars varies depending upon the car size, type of transmission, or variation in travel. For MY 2007, the four-seater Toyota Prius, for example, using a hybrid electric system with an automatic transmission gets 51 MPG on the highway and 60 MPG in the city with a combined fuel economy of 55 MPG, while the Honda Odyssey 2WD minivan using gasoline gets only 24 MPG on the highway and 17 MPG in the city. Not all hybrid cars have the same energy efficiency. While the Toyota Prius has a combined mileage of 55 MPG, the Honda Accord Hybrid gets only 31 MPG, and Chevy's Silverado hybrid truck, 16 MPG. Hybrid cars accounted for about 2% of annual light vehicles sales. CAFE standards in MY 2007 for passenger cars are 27.5 MPG, the same since 1990, and light trucks are 22.2 MPG. The federal law sets forth a civil penalty of $5.50 for each tenth of an MPG by which a manufacturer's CAFE level falls short of the standard, multiplied by the total number of passenger automobiles or light truck produced by the manufacturer in that model year.

To date, hybrid-electric vehicles, which combine the best features of internal combustion engines and electric motors, attain the highest fuel economy. Recently, fuel cell technology has been developing in the auto industry as an alternative energy source. A fuel cell is a device that directly and indirectly produces electricity from hydrogen or hydrocarbon fuel through a non-combustive electro-chemical process. To encourage the development of this new technology, the State provides for a sales tax exemption on materials, tools, fuel, machinery and equipment used in a fuel cell manufacturing facility in Connecticut. Passenger cars utilizing hybrid-technology that attain more than 40 miles per gallon are exempt from the sales tax. In 2007, PA 07-242 extended the sales tax exemption to any car that attains at least 40 miles per gallon to July 1, 2010.

The current system to measure fuel economy became effective in 1975 and then was revised in 1984 by the U.S. Environmental Protection Agency. A new test method that takes additional factors into account will be applied to MY 2008 cars and is supposed to be more reflective of the actual mileage. The new estimated MPG numbers will likely be 5% to 25% lower than current estimates. In addition, medium-sized vehicles including vans, pickup trucks, and sport utility cars weighing from 8,500 to 10,000 pounds that currently are exempt from being rated will be required to be tested starting in MY 2011. These vehicles that once were considered primarily for commercial purposes have gradually been used by families. In June of 2007, a proposed bill would require manufacturers to increase mileage ratings to 35 MPG by 2020 from the current level of 27.5 MPG. More sales of smaller, hybrid, or diesel-engine cars are expected. Diesel-engine cars are cleaner today and about 30% more efficient than their gasoline-powered counterparts.

Fluctuations in Gasoline Prices

The price of gasoline is one of the most closely watched items by consumers. The U.S. Bureau of Labor Statistics assigns a 3.934% relative weight to this single component to calculate the CPI-U index, the consumer price index for all urban consumers in 2006. Due to their more volatile price fluctuations, energy and food prices are excluded from the CPI-U index to measure the "core inflation" rate in order to understand underlying price changes.

Short-term gasoline prices have long been known for their drastic volatility, often rising and dropping markedly during short periods of time. The average retail gasoline price for all grades in the U.S. in October of 2007, for example, was $2.84 per gallon, compared to $2.32 a year earlier and down from its all time high of $3.18 in May of 2007. Monthly prices fluctuated 39% from $2.29 to $3.18 in 2007. Gasoline prices vary from region to region with the West Coast higher than the national average due to its higher taxes and refining costs that are associated with more stringent environmental requirements. Gasoline prices also vary from town to town in states due primarily to oil companies' zone pricing strategy and tax differentiation. Gasoline price fluctuations are determined basically by the cost of crude oil, the fundamental law of supply and demand of fuel, any disruption of refinery operations, inventory levels, seasonality and weather conditions, the regulation of environmental standards and geopolitical conditions, etc. The October 2007 retail price of branded gasoline of $3.06 per gallon, for example, can be broken down into four categories as follows: crude oil ($2.01, 65.5%), federal & state taxes ($0.60, 19.5%), refining costs & profits ($0.39, 12.8%), and distribution and marketing ($0.07, 2.2%) when crude oil averaged $84.25 per barrel. Since the taxes portion is relatively stable, the three other categories were the major driving forces in

gasoline prices. In October of 2006, of the retail price of $2.55 per gallon when crude oil averaged $54.85 per barrel, crude oil cost $1.31, or 51.3%; refining margin, $0.48, or 18.8%; and distribution and marketing, $0.20, or 7.7%. The refining margin in May of 2007 reached $0.74 per gallon when the refinery industry experienced outages.

The long run nominal price, however, shows a relatively stable upward trend except for a 3-year sharp uptick in the early 1980s. Gasoline prices averaged approximately 30 cents per gallon during the 1950s through the early 1970s. After the Arab oil embargo in 1973, gasoline prices gradually increased to $2.59 per gallon in 2006. To remove the effects of inflation, the use of inflation-adjusted prices for comparison can better reflect the real price changes. The Table below shows that the average real gasoline price for the past five decades was $1.48 per gallon, with the 1980s much higher and the 1990s lower than the norm. The average real price in 2006 reached a two-decade high at $2.23 per gallon; however, it was only 1 cent higher than the previous all-time high of $2.22 set in 1981.

TABLE 37
RETAIL MOTOR GASOLINE PRICES
(Dollars per Gallon, Regular Gasoline)

Calendar Year	Nominal Price	Real Price*	Average Real Price (for the Decade of)
1950	$0.27	$1.62	$1.54
1960	0.31	1.48	1.40
1970	0.36	1.30	1.40
1980	1.25	2.20	1.70
1990	1.16	1.43	1.27
1999	1.17	1.19	-
2000	1.51	1.51	-
2001	1.46	1.43	-
2002	1.36	1.31	-
2003	1.59	1.50	-
2004	1.88	1.72	-
2005	2.30	2.04	-
2006	2.59	2.23	-
Average			$1.48

Note: Prices for 1950 thru 1970 are leaded regular; 1980 and after are unleaded regular.
* Real prices are in chained 2000 dollars, calculated by using GDP implicit price deflators.

Source: U.S. Dept. of Energy, Energy Information Administration, *Annual Energy Review*

Gasoline Prices In Developed Countries

Gasoline prices in the U.S. may rank among the lowest in the world for oil-importing countries. Average gasoline prices in the European countries are approximately 2.5 times that of the U.S. The following Table shows the retail price of gasoline among selected countries in October of 2007.

TABLE 38
END-USER GASOLINE PRICES AMONG DEVELOPED COUNTRIES
Unleaded Premium Gasoline, October 2007

Country	Before Tax ($)	Tax *($)	End-User Price ($)	Tax As a % of Price	U.S. End-User Price as a % of Other Country
France	2.51	4.37	6.88	63.5%	44%
Germany	2.60	4.69	7.29	64.3%	42%
Italy	2.86	4.21	7.07	59.5%	43%
United Kingdom	2.51	5.01	7.52	66.6%	40%
Average of Above	**2.62**	**4.57**	**7.19**	**63.6%**	**42%**
USA	2.64	0.39	3.03	12.9%	

* excise tax only

Source: U.S. Department of Energy, Energy Information Administration, International Energy Agency

International gasoline prices are determined by global supply and demand, technological levels, differing consumer tastes, and non-economic factors such as heightened awareness of energy conservation and the environment. In Europe, these non-economic factors play the primary role in driving up gasoline prices. To conserve energy and prevent environmental damage, large gas taxes, in addition to steep taxes on car purchases and ownership, are levied to discourage car use and hence gasoline consumption. The tax portion of the price of gasoline in the U.S. accounted for only 12.9% of the retail price, compared to 66.6% in the U.K. and 64.3% in Germany.

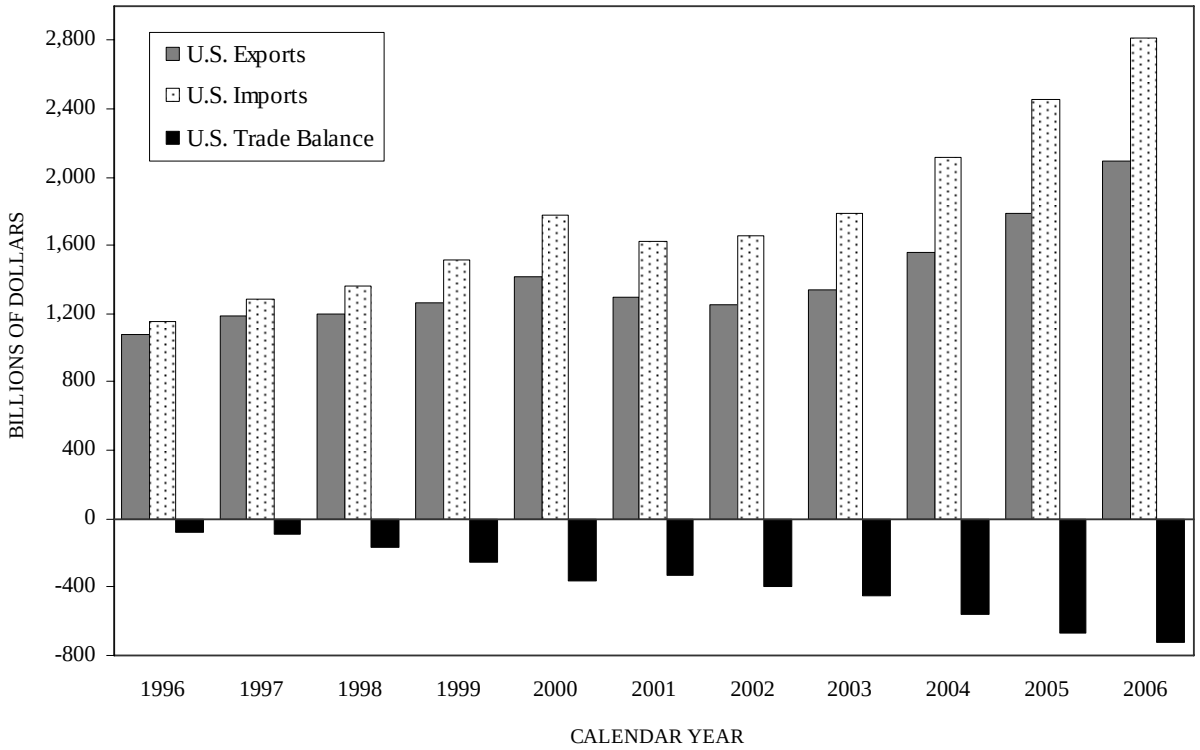
Of the 39-cent excise tax in the U.S., 18.4 cents per gallon was the federal fuel tax with the remainder attributable to state taxes. The Federal and most states' fuel taxes are levied on a volume basis, rather than a price basis. As gasoline prices increase, consumption fell and so did the taxes collected. Gasoline prices of all types averaged $2.68 in fiscal 2007, up from $2.60 per gallon in fiscal 2006 and $2.06 per gallon in FY 2005. Given the same tax rates, Connecticut received $393.1 million in general gasoline taxes in fiscal 2007, down from $395.5 million in fiscal 2006 and $401.1 million in fiscal 2005. The 18.4-cent per gallon federal fuel tax was last raised in 1993. Facing an increasing operating deficit in the Federal Highway Trust Fund and the need to encourage fuel efficiency, the federal gasoline tax is expected to increase in the next few years and some states may abandon their per-gallon levy system and base the tax on mileage traveled or institute other taxing measures.

Export Sector

The United States is increasingly becoming a world trade-oriented economy. U.S. real exports and imports accounted for 29.8% of Gross Domestic Product (GDP) in 2006, up from 26.2% in 2000, 16.3% in 1990, 12.3% in 1980, 9.9% in 1970, and 7.8% in 1960. The increase in 2006 is attributed to the growth in the U.S. and worldwide economies which accelerated export and import activities. Exports and a favorable balance of payments have traditionally been important to the growth of the U.S. affecting employment, production, and income. Real exports of goods and services have been significantly boosting economic growth over the past

decades. Real exports grew 10.9% in 2006 while real imports grew at 12.9%, thereby furthering the total trade deficit.

U.S. TRADE BALANCE
BY CALENDAR YEAR



The previous graph illustrates the United States' trade balance for the past ten years. The trade deficit, the difference between exports and imports, from merchandise, services and investment income reached its prior peak in 1987 at $137.4 billion caused primarily by the relatively high value of the dollar between 1983 and 1986. In 1990, the trade deficit fell to $52.3 billion and further dropped to $7.0 billion by 1991. However, it turned up and grew rapidly to a then record high of $357.8 billion by 2000 due to rapid growth in imports over exports. In 2006, the deficit grew further to $721.8 billion, brought about by an increase in the deficit on goods combined with a decline in the surplus in investment income. Despite the continued increase in the total trade deficit, trade in services improved in 2006.

The United States trade balances in the past decade generally improved during recession years and deteriorated during recovery and expansionary periods. Trade deficits narrowed in 1991 and 2001 when the U.S. experienced an economic slowdown, whereas deficits widened during the boom years that were experienced during most of the 1990s. The U.S. price elasticity of demand for foreign goods and services is greater than our major trade partners' elasticity of demand for U.S. goods and services resulting in unfavorable trade balances during U.S. economic recoveries.

According to the U.S. Department of Commerce, international trade is classified into three categories: merchandise trade, service transactions, and investment income. The decline in the international trade deficit in the late 1980s resulted from an improvement in merchandise trade,

enhanced balances in service transactions and a continued surplus in investment income. However, the favorable trade situation turned around in 1991 with widening deficits in merchandise and narrowing surpluses in services. The surplus in services improved in 2006 rising from $72.7 billion in 2005 to $79.8 billion in 2006. The surplus in investment income fell in 2006 to $36.7 billion from $48.1 billion in 2005. The deficit in merchandise expanded from $787.2 billion in 2005 to $838.3 billion in 2006 from a low of $76.9 billion in 1991. The total trade deficit registered $721.8 billion in 2006, up from $666.3 billion in 2005. A two-year detailed listing of these three categories is broken down in the following Table.

Merchandise Trade

There are six subcategories within merchandise trade including: foods and beverages; industrial supplies and materials; capital goods excluding autos; autos; consumer goods and others. The deficit in merchandise trade registered $838.3 billion in 2006, up from $787.2 billion in 2005 and much higher than the recent low of $76.9 billion in 1991. Before 1991, the merchandise trade deficit had declined as exports grew faster than imports. After 1991, however, the situation reversed itself, imports climbed faster than exports, resulting in a continued increase in the trade deficit. While the trade deficit continued to climb in 2006, the overall growth of the merchandise trade deficit in 2006 slowed to 6.5%, significantly lower than the 18.3% growth in 2005, the 21.6% growth in 2004 and the 40% growth in 1999.

United States merchandise imports have been concentrated among four categories: industrial supplies and materials, capital goods excluding autos, autos, and consumer goods. They accounted for more than 90% of total merchandise imports over the past decade. In contrast, U.S. exports have been concentrated in two categories: capital goods and industrial supplies and materials. These two categories accounted for approximately 67% of the country's merchandise exports in 2006. The broad penetration of foreign imports indicates the difficulty the U.S. would have in improving its trade position.

Of the total deficit of $721.8 billion, industrial supplies and materials and consumer goods accounted for the largest portions of the deficit, reaching $326.4 billion and $316.1 billion respectively in 2006. Industrial supplies and materials include energy products, iron and steel, metal products, lumber and paper and chemicals excluding medicinals. In 2006, the U.S. imported $602.5 billion worth of these goods compared to the $276.1 billion that the U.S. exported. The industrial supplies and materials trade deficit at $326.4 billion represents a 12.0% increase from 2005's deficit of $291.4 billion.

The second largest portion of the deficit occurred in consumer goods and consists of durables and nondurables. Durable goods include household and kitchen appliances such as radio and stereo equipment, televisions and video receivers, bicycles, watches, toys and sporting goods. Nondurables include footwear, apparel, medical, dental and pharmaceutical preparations. This category registered a 7.0% increase after growth of 9.4% in 2005 and 11.7% in 2004. Exports of nondurable goods increased as a result of a large increase in medical, dental, and pharmaceutical preparations, mainly to the European Union. Imports of these items from Ireland attributed to a large portion of the increase in nondurable good imports. Exports of durable goods also increased, mostly as a result of an increase in home entertainment equipment. Imports of durable goods slowed down largely due to a lessening demand for toys shooting, and sporting goods.

TABLE 39
U.S. TRADE DEFICIT BY CATEGORY
(In Billions of Dollars)

	2005			2006		
	Exports	Imports	Balance	Exports	Imports	Balance
Total Trade	**1,788.6**	**2,454.9**	**(666.3)**	**2,096.2**	**2,818.0**	**(721.8)**
Merchandise	**894.6**	**1,681.8**	**(787.2)**	**1,023.1**	**1,861.4**	**(838.3)**
Foods/Beverages	59.0	68.1	(9.1)	66.0	75.0	(9.0)
Industrial Supplies & Materials	233.1	524.5	(291.4)	276.1	602.5	(326.4)
Capital Goods, Excluding Autos	362.3	379.3	(17.0)	413.9	418.3	(4.4)
Autos	98.6	239.5	(140.9)	107.2	256.7	(149.5)
Consumer Goods	116.1	411.5	(295.4)	130.0	446.1	(316.1)
Others	25.5	58.9	(33.4)	30.0	62.8	(32.8)
Services	**388.4**	**315.7**	**72.7**	**422.6**	**342.8**	**79.8**
Travel & Transportation	143.9	157.1	(13.2)	154.2	164.8	(10.6)
Royalties, License fees, etc.	223.7	124.5	99.2	250.2	142.9	107.3
Other Services	20.8	34.1	(13.3)	18.2	35.1	(16.9)
Investment Income	**505.5**	**457.4**	**48.1**	**650.5**	**613.8**	**36.7**
Direct Investment	269.3	116.8	152.5	310.2	136.0	174.2
Other Private Investment	230.5	227.4	3.1	335.0	334.6	0.4
U.S. Gov't Receipts/Payments	2.7	103.9	(101.2)	2.4	133.8	(131.4)
Compensation of Employees	3.0	9.3	(6.3)	2.9	9.4	(6.5)
	Percent Change From Previous Year					
Total Trade	**17.1**	**16.3**	**14.2**	**17.2**	**14.8**	**8.3**
Merchandise	**10.8**	**14.2**	**18.3**	**14.4**	**10.7**	**6.5**
Foods/Beverages	4.3	9.7	64.3	11.9	10.1	(1.1)
Industrial Supplies & Materials	14.3	27.0	39.4	18.4	14.9	12.0
Capital Goods, Excluding Autos	9.3	10.4	42.9	14.2	10.3	(74.1)
Autos	10.5	5.0	1.4	8.7	7.2	6.1
Consumer Goods	12.6	10.3	9.4	12.0	8.4	7.0
Others	10.5	11.1	11.6	17.6	6.6	(1.8)
Services	**12.8**	**8.7**	**34.4**	**8.8**	**8.6**	**9.8**
Travel & Transportation	10.0	9.3	2.3	7.2	4.9	(19.7)
Royalties, License fees, etc.	13.4	11.6	15.9	11.8	14.8	8.2
Other Services	26.8	(2.6)	(28.5)	(12.5)	2.9	27.1
Investment Income	**34.8**	**31.7**	**74.3**	**28.7**	**34.2**	**(23.7)**
Direct Investment	19.1	14.1	23.2	15.2	16.4	14.2
Other Private Investment	61.4	54.1	(164.6)	45.3	47.1	(87.1)
U.S. Gov't Receipts/Payments	(10.0)	17.5	18.5	(11.1)	28.8	29.8
Compensation of Employees	3.4	4.5	5.0	(3.3)	1.1	3.2

Note: Percent changes were derived before rounding to billions.
Source: U.S. Department of Commerce, "*Survey of Current Business*", July 2007

The third largest portion of the merchandise trade deficit occurred in the auto category at $149.5 billion, a 6.1% increase from 2005's deficit of $140.9 billion. Exports increased 8.7% while imports increased 7.2%. This growth is extremely modest compared to the 9.1% increase from 2001. The growth in exports of automotive vehicles, parts, and engines was attributed to increases in passenger cars, mostly to Germany, and in other vehicles, mainly to Mexico and Russia. While automotive exports to Germany and Mexico increased in 2006, imports of passenger cars from those countries experienced a decrease. Imports of other vehicles, mostly from Mexico and Canada, also decreased.

For the fourth year, capital goods posted a trade deficit. In 2006, this deficit decreased to $4.4 billion compared to a deficit of $17.0 billion in 2005, and $11.9 billion in 2004. The first deficit for this category occurred in 2003 at $2.2 billion. For comparative purposes, this category posted a surplus of $7.2 billion in 2002. This sector, which excludes autos, includes machine tools, telecommunications equipment, hospital and scientific instruments, industrial engines, and oil drilling and mining equipment. Exports increased 14.2% to $413.9 billion in 2006, compared to a 10.3% increase in imports to $418.3 billion. Imports from China of computers, peripherals, and parts as well as civilian aircraft, engines, and parts, mainly from Canada and France contributed to the trade deficit in this category.

Service Transactions

The United States is highly competitive in the delivery of services. It is estimated that the U.S. is 20% more productive than our major foreign competitors in this area. The surplus has been generated from royalties and license fees. The surplus in service transactions increased to $79.8 billion in 2006, up from a surplus of $72.7 billion in 2005. This category has witnessed a gradual decline in surpluses from a peak of $90.4 billion in 1997. Imports increased 8.6% to $342.8 billion while exports of services increased 8.8% to $422.6 billion. Of the $79.8 billion total surplus in 2006, $107.3 billion was attributable to royalty and license fees, which more than offset the deficits in travel and other services.

Investment Income

The balance in investment income registered a surplus of $36.7 billion, a 23.7% decrease from 2005. Investment income contains two components: 1) receipts generated from U.S.-owned assets abroad including direct investments, other private securities such as the U.S. government-owned securities as well as corporate bonds and stocks, and 2) compensation receipts of workers employed abroad in international organizations and foreign embassies stationed in the U.S., including wages, salaries, and benefits. Payments are the counterpart of U.S. receipts; they are in contrast paid on foreign-owned assets invested in the U.S.

In July 2007, the Bureau of Economic Analysis (BEA) released new and comprehensive data for derivatives positions at year end 2005 and 2006. The BEA defines financial derivatives as financial instruments whose value is derived from the value of underlying variables, such as interest rates, exchange rates, stock prices, commodity prices, credit quality, other financial derivatives, and many other variables. Changes in the value of financial derivatives are determined by changes in the value of their underlying variables.

Derivatives positions with a positive "fair value" to U.S. residents are recorded a part of U.S.-owned assets abroad while derivatives positions with a negative "fair value" to U.S. residents are recorded as part of foreign-owned assets in the U.S. Derivatives transactions are reported on a net basis and cannot be separated into transactions for positions with positive fair value and positions with negative fair value. The fair value of a derivatives contract is the amount for which the contract could be exchanged between willing parties. A derivatives contract between a U.S. and foreign resident with a positive fair value represents the amount that the foreign resident would have to pay the U.S. resident if the contract was terminated. A contract with a negative fair value represents the amount that the U.S. resident would have to pay the foreign resident if the contract was terminated.

As described above and listed in table on the following page, there are six major types of foreign assets in the United States including: U.S. government securities held by foreign governments and the private sector, direct investments, and liabilities captured by private bonds, corporate stocks and U.S. banks

According to the U.S. Department of Commerce, in calendar 2006 foreign assets in the U.S., measured at current cost increased by $2,479.9 billion, or 18.0%, to $16,294.6 billion, compared to an increase of $2,178.7 billion, or 18.8%, to $13,755.0 billion for U.S. assets abroad. This placed U.S. international investment at a net negative of $2,539.6 billion. U.S. direct investment in assets abroad continues to exceed foreign direct investment in the U.S. In 2006, the U.S.'s direct investment abroad was $2,855.6 billion and foreign direct investment in the U.S. was $2,099.4 billion, registering $756.2 billion in net investment, up from $660.9 billion in 2005. Foreign assets in the United States are mostly in securities such as bonds and stocks issued by the U.S. Treasury and corporations. Net foreign purchases of U.S. securities in 2006 posted a 40.0% decrease to $390.5 billion down from $650.9 billion in 2005 as U.S. owned foreign securities abroad increased by 25.0% while foreign owned securities in the U.S. only increased by 16.5%.

TABLE 40
INTERNATIONAL INVESTMENT
(Millions of Dollars At Current Cost)

A. U.S.-Owned Assets Abroad				Percent
1. Governmental Assets	2005	2006	Change	Change
U.S. Official Reserve Assets	$188,043	$219,853	$31,810	16.9%
U.S. Governmental Assets	77,523	72,189	(5,334)	(6.9%)
Total U.S. Governmental Assets	265,566	292,042	26,476	10.0%
2. U.S. Private Assets				
Foreign Securities				
Bonds	1,028,179	1,180,758	152,579	14.8%
Stocks	3,317,705	4,251,506	933,801	28.1%
Total Foreign Securities	4,345,884	5,432,264	1,086,380	25.0%
Financial Instruments	3,239,669	3,937,501	697,832	21.5%
Direct Investment	2,535,188	2,855,619	320,431	12.6%
Total U.S. Private Assets	10,120,741	12,225,384	2,104,643	20.8%
3. Financial Derivatives	1,190,029	1,237,564	47,535	4.0%
Total U.S.-Owned Assets Abroad	**$11,576,336**	**$13,754,990**	**$2,178,654**	**18.8%**
B. Foreign-Owned Assets in the U.S.				
1. Foreign Official Assets				
U.S. Treasury Securities	$1,340,598	$1,520,768	$180,170	13.4%
Others	965,694	1,249,397	283,703	29.4%
Total Foreign Official Assets in the U.S.	2,306,292	2,770,165	4463,873	20.1%
2. Foreign Private Assets				
Foreign Securities				
Treasury Securities & Currency	643,793	594,243	(49,550)	(7.7%)
Corporate & Municipal Bonds	2,243,135	2,689,816	446,681	19.9%
Stocks	2,109,863	2,538,720	428,857	20.3%
Total Foreign Securities	4,996,791	5,822,779	825,988	16.5%
Financial Instruments	3,505,235	4,423,620	918,385	26.2%
Direct Investment	1,874,263	2,099,426	225,163	12.0%
Total Foreign Private Assets	10,376,289	12,345,825	1,969,536	19.0%
3. Financial Derivatives	1,132,114	1,178,629	46,515	4.1%
Total Foreign-Owned Assets	**$13,814,695**	**$16,294,619**	**$2,479,924**	**18.0%**
C. Net U.S. Position (A-B)				
Net Governmental Liabilities	$(2,040,726)	$(2,478,123)	$(437,397)	21.4%
Net Foreign Securities	(650,907)	(390,515)	260,392	(40.0%)
Net Financial Instruments	(265,566)	(486,119)	(220,553)	83.1%
Net Direct Investment	660,925	756,193	95,268	14.4%
Net Financial Derivatives	57,915	58,935	1,020	1.8%
Net U.S. Total Investment Position	**$(2,238,359)**	**$(2,539,629)**	**$(301,270)**	**13.5%**

Source: U.S. Department of Commerce, "*Survey of Current Business*", July 2007

The following table shows U.S. trade transactions by area for 2006. The deficit on goods and services in 2006 was $721.8 billion, an increase of $55.5 billion. The United States continues to import more from Europe, Canada, Japan, Latin America, Asia and Pacific, Africa, and the Middle East than it exports to those countries. The 2006 exports and imports to and from the European Union, Canada, and Mexico were record levels. In addition, the 2006 trade deficit with China and Japan were records.

TABLE 41
U.S. INTERNATIONAL TRANSACTIONS
(By Area, In Billions of Dollars)

	2005			2006		
	Exports	Import	Bal.	Exports	Import	Bal.
Total Trade	**1,788.6**	**2,454.9**	**(666.3)**	**2,096.2**	**2,818.0**	**(721.8)**
Western Europe	568.7	718.9	(150.2)	718.9	837.4	(118.5)
Canada	280.8	332.4	(51.6)	314.0	355.1	(41.1)
Latin America (1)	353.3	431.6	(78.3)	436.4	517.9	(81.5)
Asia & Pacific (2)	417.1	792.6	(375.5)	484.7	901.3	(416.6)
Africa	30.5	70.8	(40.3)	34.9	87.2	(52.3)
Middle East	55.3	87.6	(32.3)	63.0	101.8	(38.8)
Others (3)	82.9	21.0	61.9	44.3	17.3	27.0
European Union (4)	495.7	633.4	(137.7)	626.2	730.5	(104.3)
Australia	32.6	18.8	13.8	40.0	30.0	10.0
Japan	118.7	218.1	(99.4)	128.4	238.5	(110.1)
China	55.1	273.3	(218.2)	72.1	328.2	(256.1)

(1) Includes Argentina, Brazil, Mexico, Venezuela, and other Western Hemisphere countries
(2) Includes Australia, China, Hong Kong, India, Japan, Republic of Korea, Singapore, Taiwan, and other Asia and Pacific countries
(3) Includes figures for International Organizations and unallocated areas
(4) Includes 27 member states: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, The Netherlands, & United Kingdom

Source: U.S. Department of Commerce, "*Survey of Current Business*", July 2007

In 2006, the United States imported $328.2 billion worth of goods and services from China while exporting only $72.1 billion to that country. The resulting trade deficit with China was $256.1 billion in 2006, 17.0% higher than the 2005 deficit of $218.2 billion. The 2006 negative trade balance of $256.1 billion was a record and the imbalance continues to grow at alarming rates. The top five U.S. imports from China in 2006 are electrical machinery and equipment at $64.9 billion, power generation equipment at $62.3 billion, toys and games at $20.9 billion, apparel at $19.9 billion, and furniture at $19.4 billion. To further illustrate the disparity in trade between the two countries; while the amount of electrical machinery and equipment imported into the U.S. from China is $64.9 billion in 2006, that same commodity was number one on the top U.S. exports to China at only $10.2 billion.

Connecticut Exports

In Connecticut, the export sector has assumed an important role in overall economic growth. State exports of goods abroad for the past five years averaged 5.04% of the Gross State Product (GSP).

According to figures published by the United States Department of Commerce, which were adjusted and enhanced by the University of Massachusetts (MISER) to capture a greater percent of indirect exports, Connecticut exports of commodities totaled $12,238.3 million in 2006. The State's economy benefits from goods produced not only for direct shipment abroad but also from those that are ultimately exported from other states. These indirect exports are important in industries whose products require further processing such as primary metals, fabricated metal products and chemicals. In addition, indirect exports are important in industries whose products constitute components and parts for assembly into machinery, electrical equipment and transportation equipment.

Exports of services of approximately $5.1 billion and income receipts of approximately $7.8 billion on Connecticut direct investment abroad also play a vital role in Connecticut. These bring Connecticut's total export related receipts to approximately $25.1 billion, or approximately 12.3% of the State's GSP. Exports of services include foreign transactions generated from travel, royalties and license fees, as well as private services including education and business services. Income receipts on Connecticut investment abroad include profits, interest, dividends and capital gains generated from direct investment and securities owned by the state's citizens or companies. As a high-tech state with excellent institutes of higher education and growing entertainment attractions, along with superior expertise in finance and insurance, Connecticut's service exports and investment income are estimated to be higher than the national average.

Exports of educational services also play an important role in the state's economy. There were 7,403 foreign students attending Connecticut colleges in the 2006-07 school year, accounting for 1.3% of the national total, the same percentage as the 2005-06 school year and compared to the national increase of 3.2%, according to the *Institute of International Education*. It is estimated that foreign students and their dependents spend $217.6 million on tuition, room and board and the other incidentals of everyday life. According to the Connecticut Center for Economic Analysis, travelers to the State of Connecticut pump more than $9 billion into the economy each year. Spending includes lodging, recreation, meals, shopping, fuel, transportation, marina sales, and gaming. The gaming revenue generated by the two Connecticut casinos has also grown steadily, and it is anticipated that with the planned expansions at both casinos that there will be a significant expansion of the tourism industry, leading to increased jobs, visitors, collateral spending and payments to the state.

Connecticut industries that rely most heavily on exports are Transportation Equipment (NAICS 336), Chemicals (NAICS 325), Fabricated Metal (NAICS 332), Nonelectrical Machinery (NAICS 333), Computer & Electronic Equipment (NAICS 334), Electrical Equipment (NAICS 335), and Miscellaneous Manufacturing (NAICS 339). NAICS refers to the North American Industry Classification System, which replaced the Standard Industrial Classification (SIC) system and was implemented in 1997. The top seven industries account for 89.8% of Connecticut's foreign sales. The following table shows the breakdown of major products by NAICS code for the past

five years. In 2006, transportation equipment, which includes aircraft engines and spare parts, gas turbines, and helicopters, spacecraft, etc. accounted for 43.6% of total exports up from 40.6% of exports in 2005. Transportation equipment is followed by nonelectrical machinery at 11.3%, computer & electronic at 8.8%, chemicals at 6.1%, primary metal at 5.2%, electrical equipment and appliances at 4.5%, and fabricated metal at 4.4%. The industrial machinery and equipment related sector, which includes NAICS 332, 333, 334 and 335, accounts for 29.0% of total. In terms of average annual growth from 2002 to 2006, primary metal manufacturing posted the strongest growth at 42.9%, followed by nonelectrical machinery at 20.8% and electrical equipment and appliances at 16.4 %.

TABLE 42
COMMODITY EXPORTS ORIGINATING IN CONNECTICUT BY PRODUCT
(In Millions of Dollars)

NAICS	Industry	2002	2003	2004	2005	2006	% of 2006 Total	Average Growth 02-06
322	Paper	174.9	188.6	165.8	219.8	230.3	1.9%	8.3%
325	Chemicals	499.9	749.0	608.2	590.4	749.0	6.1%	13.8%
326	Plastics & Rubber	141.2	137.6	179.6	178.4	203.1	1.7%	10.3%
331	Primary Metal	167.6	203.1	275.7	325.9	639.7	5.2%	42.9%
332	Fabricated Metal	427.4	440.5	406.5	408.2	540.1	4.4%	7.0%
333	Machinery, exc. Elec.	669.8	784.4	1,106.8	1,129.2	1,387.4	11.3%	20.8%
334	Computer & Electronic	760.0	789.5	803.6	885.4	1,077.0	8.8%	9.4%
335	Electrical Equipment	316.3	336.1	469.7	433.0	551.3	4.5%	16.4%
336	Transportation Equip.	4,098.7	3,298.1	3,177.8	3,936.7	5,339.1	43.6%	9.1%
339	Miscellaneous MFG	393.6	486.4	606.2	562.1	285.8	2.3%	(2.1%)
	Others	664.0	723.0	759.3	1,018.2	1,235.5	10.2%	17.3%
Total Commodity Exports		8,313.4	8,136.4	8,559.2	9,687.3	12,238.3	100%	10.6%
	% Growth	(3.4%)	(2.1%)	5.2%	13.2%	26.3%		
Gross State Product ($M)		166,073	169,885	183,873	193,496	204,134		5.3%
	% Growth	0.63%	2.30%	8.23%	5.23%	5.50%		
Exports as a % of GSP		5.01%	4.79%	4.65%	5.01%	6.00%		

Source: U.S. Department of Commerce, & University of Massachusetts (MISER)

Overall growth in exports of commodities for the past five years averaged 10.6%. Exports of $12.2 billion is estimated to account for 6.0% of Connecticut Gross State Product (GSP), which is significantly higher than recently seen percentages between 4.7% and 5.2% for the past five years and is slightly higher than 5.9% which was realized in 1993. Commodities or goods, exports which include products in the manufacturing, agricultural, and mining industries in Connecticut have improved since the late 1980s. However, exports of commodities grew more or less proportionately with overall goods production as measured by the GSP, resulting in a fairly stable percentage of exported goods relative to GSP.

The bulk of Connecticut's exports are shipped by air from Bradley International Airport and by sea from the port of New Haven. In 2006, exports originating from Connecticut totaled $12.2 billion, with 63.0% of the total being shipped by air, 15.7% being delivered by sea, and the remaining 21.3% being transported inland by railroad or truck to Canada, Mexico or other states for further shipment to other countries. This compares with 55.4% by air, 17.6% by sea, and 27.5% by land for exports totaling $4.5 billion in 1990. This reflects the demand for meeting just-in-time inventory requirements, as the majority of goods produced are transported by air as it provides more frequent departures and faster transit times.

The following table shows the ten major foreign countries to which state firms export their products. In 2006 Canada remained the largest destination country at 15.8%, followed by France, Germany, the United Kingdom, and Singapore. These five countries accounted for 49.5% of total state exports in 2006. Exports to Canada increased 15.0% to $1.93 billion in 2006. Exports to Canada benefited from proximity and the similar cultural backgrounds of consumers, but seemingly not from the North American Free Trade Agreement (NAFTA). Exports to Canada accounted for 17.9% of Connecticut's total exports in 1988, the year before NAFTA. The extension of NAFTA to include Mexico in 1994 also seems not to have yielded a noticeable benefit to the state due in part to the geographical distance. Another major partner, Singapore, experienced an astonishing 240.1% growth from 2005 purchasing $839.7 million of the state's exports up from $246.6 million worth of goods in 2005. Switzerland continues to be a major partner with Connecticut, showing 42.3% growth from 2002-2006 and increasing their 2005 level of $160.7 million by 160.1% to $419.0 million in 2006. In addition, exports to the Republic of Korea increased 122.0% from the 2005 level of $170.9 million to enter the top ten destinations by purchasing $379.5 million of the state's exports in 2006.

TABLE 43
COMMODITY EXPORTS ORIGINATING IN CONNECTICUT BY COUNTRY
(In Millions of Dollars)

Destination	2006 Rank	2002	2003	2004	2005	2006	Percent of 2006 Total	2002-06 Average Growth Rate
Canada	1	1,492.4	1,352.3	1,472.5	1,681.0	1,931.6	15.8%	7.1%
France	2	1,178.4	1,095.7	1,181.7	1,602.0	1,216.6	9.9%	3.1%
Germany	3	654.1	760.1	762.2	832.2	1,212.3	9.9%	17.8%
United Kingdom	4	499.9	512.8	547.8	697.0	857.0	7.0%	14.9%
Singapore	5	407.3	436.9	340.9	246.6	839.7	6.9%	49.6%
Mexico	6	402.0	478.0	586.3	559.8	707.0	5.8%	15.8%
Japan	7	606.5	639.0	501.5	436.8	702.8	5.7%	8.0%
Switzerland	8	175.1	149.2	227.3	160.7	419.0	3.4%	42.3%
Netherlands	9	229.8	198.6	270.1	364.5	412.1	3.4%	26.4%
Korea, Republic of	10	300.3	282.9	195.7	170.9	379.5	3.1%	18.2%
Other Areas		2,367.6	2,230.9	2,473.2	2,935.8	3,560.7	29.1%	10.6%
TOTAL		8,313.4	8,136.4	8,559.2	9,687.3	12,238.3	100.0%	3.2%

Source: Connecticut Department of Economic and Community Development

In an effort to create jobs and investment, the Department of Economic and Community Development has been working with a number of foreign companies to establish branches in Connecticut. As a result of this work, foreign countries continually invest and own firms in Connecticut. This foreign investment is an important stimulant for Connecticut's economic growth and future productivity. In 2005, 100,900 Connecticut workers were employed by foreign-controlled companies. Major sources of foreign investment in Connecticut in 2005 included the Netherlands, the United Kingdom, Germany, France, and Switzerland.

The International Division of the Department of Economic and Community Development continues to promote international trade to increase Connecticut's global competitiveness. The methods employed to promote international trade includes providing export assistance to Connecticut companies as well as providing assistance to foreign companies interested in expanding or relocating in Connecticut. For further information regarding any assistance, services, or publications, please contact the following:

State of Connecticut
Department of Economic and Community Development
505 Hudson Street
Hartford, Connecticut 06106
(860) 270-8166, 270-8067, or 270-8068

Or visit their website, http://www.state.ct.us/ecd/ for more details.

Connecticut's Defense Industry

The defense industry is an integral part of Connecticut's manufacturing sector, and has been since the inception of the United States as a nation. The state's economy is still affected by the volume of defense contracts awarded or subcontracted to Connecticut firms. The state almost experienced a major economic blow, however, as the New London Submarine Base in Groton was put on the Base Realignment and Closure (BRAC) base closure list by the U.S. Department of Defense in May of 2005. Throughout the summer, a coalition of local leaders and businesses, state agencies and officials, and the state's congressional delegation, led by Governor Rell, worked to save the base and was successful in getting the base removed from the closure list. The next step is to prepare the base for the challenges that it will face in the future.

In FFY 2006, contractors in the state were awarded $7.78 billion worth of defense-related prime contracts, with the heaviest concentration in the state's transportation equipment sector. This was down 11.1% from the $8.75 billion received in awards in FFY 2005. Of the total awarded, $6.6 billion, or 85.4%, went to the following five Connecticut companies listed below primarily for the described areas of work:

1.	United Technologies Corp.	$4,110,126,000	Aircraft Rotary Wing
2.	General Dynamics Corp.	$2,291,237,000	Submarines
3.	Colt Defense LLC	$95,825,000	Military Arms
4.	Engineered Electric Company	$74,170,000	Power Generation and Distribution Equipment
5.	Eurpac Service, Inc.	$72,503,000	Logistics and Supplies

The following Table shows the distribution of prime defense contracts in the state by program or type of work, with a heavy reliance on aircraft components and ships, to be different from the national distribution of all contracts awarded. It is this concentration which plays a role in the volatility of state awards.

TABLE 44
VALUE OF PRIME CONTRACT AWARDS BY PROGRAM IN FFY 2006
(In Thousands of Dollars)

	United States		Connecticut	
Program	Value	Percent	Value	Percent
Aircraft Engines, Airframes, and Other Aircraft Equipment	$47,435,383	18.4%	$4,254,226	54.7%
Ships	14,378,513	5.6%	2,244,198	28.8%
Services	73,935,451	28.7%	391,518	5.0%
Electronics and Communication Equipment	27,773,455	10.8%	143,829	1.8%
Construction, Construction Equipment and Building Supplies	17,405,829	6.8%	63,514	0.8%
Missile and Space Systems	17,682,102	6.9%	10,488	0.1%
All Other	58,845,160	22.8%	673,020	8.8%
Total	$257,455,893	100.0%	$7,780,793	100.0%

Source: U.S. Department of Defense

The following Table displays the geographic distribution of prime defense contracts within the state, with the majority of the work in Fairfield, New London and Hartford Counties.

TABLE 45
GEOGRAPHIC DISTRIBUTION OF CONNECTICUT PRIME CONTRACT AWARDS

	Value of Defense Contracts (In Thousands of Dollars)				
County of Contractor	FFY 2002	FFY 2003	FFY 2004	FFY 2005	FFY 2006
Fairfield	1,117,511	1,576,426	2,379,342	2,269,412	2,547,100
Hartford	2,309,360	3,124,295	3,000,410	2,604,761	1,714,685
Litchfield	25,579	36,374	33,407	43,463	29,052
Middlesex	24,453	353,036	52,631	1,070,150	886,896
New Haven	111,434	114,653	100,322	131,515	138,998
New London	2,028,163	2,838,701	3,376,736	2,572,537	2,434,275
Tolland	12,878	6,794	5,894	52,776	19,992
Windham	9,205	14,515	10,675	8,450	9,795
State Total	5,638,582	8,064,794	8,959,416	8,753,063	7,780,793

Percentage Distribution of Value of Defense Contracts

County of Contractor	FFY 2002	FFY 2003	FFY 2004	FFY 2005	FFY 2006
Fairfield	19.8%	19.5%	26.6%	25.9%	32.7%
Hartford	41.0%	38.7%	33.5%	29.8%	22.0%
Litchfield	0.5%	0.5%	0.4%	0.5%	0.4%
Middlesex	0.4%	4.4%	0.6%	12.2%	11.4%
New Haven	2.0%	1.4%	1.1%	1.5%	1.8%
New London	36.0%	35.2%	37.7%	29.4%	31.3%
Tolland	0.2%	0.1%	0.1%	0.6%	0.3%
Windham	0.2%	0.2%	0.1%	0.1%	0.1%
State Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: U.S. Department of Defense

Prime defense contracts have tended to be "leading" indicators of the state's economic activity. This means that changes in defense contract awards precede changes in employment. However, new defense contract awards cannot be directly converted into anticipated employment gains or losses because: a) contracts have different terms and different completion dates; b) subcontracting on prime awards may be done by firms in different states; c) research and development contracts are usually capital intensive rather than labor intensive; and d) there often exists a time lag between awarding the contract and having the necessary funding become available. Although employment is affected by the defense budget, the state's economic activity is not immediately impacted by fluctuations in defense contracts. The following Table compares defense contract awards with employment in Connecticut's transportation equipment sector.

To compare the relative volatility of contract awards with employment, the coefficient of variation is used: the larger the number, the greater the volatility. It is derived by dividing the standard deviation of a variable by its mean. The Table also shows that the coefficient of variation for the state's real defense contract awards, over the past decade, was 0.493 compared with 0.078 for transportation equipment employment. This implies that, in general, the fluctuations in employment are milder than the fluctuations in defense contract awards. Because most defense contract awards are long-term projects, there is usually a backlog of unfinished orders in the pipeline, allowing continued employment even if new contracts are not received.

The table on the following page also shows real contract awards for the past decade by taking into account the erosion of the dollar by adjusting contracts for inflation. From $2.7 billion in FFY 1997, real defense contract awards increased to $6.6 billion in FFY 2006. This represents an average growth of 10.4% per year from FFY 1997 to FFY 2006, with virtually all of the growth occurring between 2000 and 2004, most likely spurred by the war on terrorism.

TABLE 46
CONNECTICUT DEFENSE CONTRACT AWARDS AND RELATED EMPLOYMENT

Federal Fiscal Year	Defense Contract Awards (000's)	% Growth	Connecticut Transportation Equipment Employment (000's)	% Growth	Defense Contract Awards in 2000 Dollars (000's)	% Growth
1996-97	2,535,981	(3.9)	52.37	(3.6)	2,709,990	(6.4)
1997-98	3,408,719	34.4	51.64	(1.4)	3,584,525	32.3
1998-99	3,169,394	(7.0)	51.73	0.2	3,270,093	(8.8)
1999-00	2,177,465	(31.3)	47.94	(7.3)	2,177,465	(33.4)
2000-01	4,269,544	96.1	46.96	(2.0)	4,136,316	90.0
2001-02	5,638,585	32.1	46.35	(1.3)	5,381,975	30.1
2002-03	8,064,809	43.0	44.19	(4.7)	7,521,209	39.7
2003-04	8,959,424	11.1	43.07	(2.5)	8,165,980	8.6
2004-05	8,753,063	(2.3)	43.31	0.6	7,724,000	(5.4)
2005-06	7,780,793	(11.1)	43.60	0.7	6,622,206	(14.3)
Coefficient of Variation	0.493		0.078		0.438	

Sources: U.S. Department of Defense, Bureau of Labor Statistics, & Department of Labor

TABLE 47
COMPARISON OF U.S. AND CONNECTICUT DEFENSE CONTRACT AWARDS

Federal Fiscal Year	Connecticut Defense Contract Awards (Millions $)	% Growth	3-year Moving Average (Millions $)	% Growth	U.S. Defense Contract Awards (Millions $)	% Growth	3-year Moving Average (Millions $)	% Growth
1996-97	2,536	(3.9)	2,631	1.1	106,561	(2.6)	108,325	(1.1)
1997-98	3,409	34.4	2,861	8.8	109,386	2.7	108,452	0.1
1998-99	3,169	(7.0)	3,038	6.2	114,875	5.0	110,274	1.7
1999-00	2,177	(31.3)	2,918	(3.9)	123,295	7.3	115,852	5.1
2000-01	4,270	96.1	3,205	9.8	135,225	9.7	124,465	7.4
2001-02	5,639	32.1	4,029	25.7	158,737	17.4	139,086	11.7
2002-03	8,065	43.0	5,991	48.7	191,221	20.5	161,728	16.3
2003-04	8,959	11.1	7,554	26.1	203,389	6.4	184,449	14.0
2004-05	8,753	(2.3)	8,592	13.7	236,986	16.5	210,532	14.1
2005-06	7,781	(11.1)	8,498	(1.1)	257,456	8.6	232,610	10.5
Coefficient of Variation	0.493				0.338			

Source: United States Department of Defense

Connecticut's defense contract awards have become extremely volatile since the late 1980s and are much less stable when compared with other states or the nation as a whole. The previous Table shows the coefficient of variation for Connecticut, over the past decade, was 0.493, compared to 0.338 for the U.S., reflecting the fluctuations in the state's annual levels of defense contract awards.

As defense contract awards normally take several years to complete, one can use the 3-year moving average method to better reflect actual production activities. The prior Table shows that overall defense changes in Connecticut have been more severe and more volatile than the national average. Both of these factors had negative implications for the state's economy. Volatility imposes difficulties for the industry in terms of long term planning, making future capital investment less likely and decreasing the dollars devoted to Research and Development. In addition, a severe loss in market share could result in the deterioration of the fundamental industrial base and erosion of the competitive edge established in the past. The loss of defense jobs also has a profound implication on both the state's income and employment mix. Based on a three-year moving average, awards generally have been increasing for several years, peaking in 2005, with a slight decrease in 2006.

Connecticut's total defense awards, based on a three year moving average, have increased at an average annual rate of 13.9% during this time, compared to an average growth of 8.9% for the nation. Most of this growth has come between 2000 and 2005 because Connecticut has been much more dependent on contracts which include procurement of aircraft, ships, weapons, and equipment, etc., than is the nation as a whole, and they declined through most of the 1990s, and are only recently rebounding. During the 1990s, defense policy strategies shifted from a focus on the threat of global conflict to regional contingencies. Procurement practices had shifted from an emphasis on full production of new systems to the development of prototypes; therefore, defense procurement had been falling at a faster rate than overall defense spending, although the war on terrorism has begun another shift in procurement strategy.

The analysis of contract awards shows that, through 2000, Connecticut's defense industry had been especially vulnerable to contractions in defense spending. Defense contracts under the Bush Administration, however, have reversed this trend, given the level of awards for the last few years.

During the 1990s, defense contract projects had become fewer in number, larger in size and the market became much more competitive than it had been historically. The lack of continuity in full funding for new submarine awards, coupled with prior year defense reductions, dramatically increased the volatility of Connecticut's awards during this period.

Over the last ten years, the relative share of defense related production activities, measured by the size of the moving average of defense contract awards compared to Gross State Product (GSP), hovered around 2.0% and below in the late 1990s, and came back up to 4.4% in FFY 2005 and 4.2% in FFY 2006. (This was 9.8% in 1982.) The following Table provides a ten year history of U.S. and Connecticut defense awards and the proportion of state GSP such awards represent.

TABLE 48
CONNECTICUT DEFENSE CONTRACT AWARDS AND GSP

Federal Fiscal Year	Connecticut Defense Contract Awards (Millions)	U.S. Defense Contract Awards (Millions)	CT as % of U.S.	Cal. Year CT GSP Current Dollars (Millions)	3-year Average CT Awards (Millions)	CT Awards as % of CT GSP
1996-97	2,536	106,561	2.4	137,698	2,631	1.9
1997-98	3,409	109,386	3.1	145,373	2,861	2.0
1998-99	3,169	114,875	2.8	150,303	3,038	2.0
1999-00	2,177	123,295	1.8	160,436	2,918	1.8
2000-01	4,270	135,225	3.2	165,025	3,205	1.9
2001-02	5,639	158,737	3.6	166,073	4,029	2.4
2002-03	8,065	191,222	4.2	169,885	5,991	3.5
2003-04	8,959	203,389	4.4	183,873	7,554	4.1
2004-05	8,753	236,986	3.7	193,496	8,592	4.4
2005-06	7,781	257,456	3.0	204,134	8,498	4.2
Coefficient of Variation	0.493	0.338				

Note: GSP beginning in 1997 is updated based on the North American Industry Classification System (NAICS).

Source: United States Department of Defense and Department of Commerce

In federal fiscal 2006, while Connecticut ranked tenth in total defense contracts awarded, it ranked third in per capita defense dollars awarded with a figure of $2,220. This figure was almost 2.6 times the national average of $860. In 2005, Connecticut ranked seventh in total defense contracts awarded and third in per capita defense dollars awarded with a figure of $2,494. This was more than three times the national average of $800 for that year.

The following Table shows, by state, federal fiscal year 2006 total awards, per capita awards and their corresponding rank.

TABLE 49
COMPARISON OF STATE PRIME CONTRACT AWARDS
Federal Fiscal Year 2006

State	Prime Contract Awards $ (000)	Rank	$ Per Capita Prime Contract Awards	Rank	State	Prime Contract Awards $ (000)	Rank	$ Per Capita Prime Contract Awards	Rank
Virginia	29,245,947	2	$3,827	1	Georgia	5,515,059	15	$589	26
Alaska	1,655,618	33	$2,471	2	Oklahoma	2,069,813	30	$578	27
Connecticut	7,780,793	10	$2,220	3	New Mexico	1,074,571	36	$550	28
Mississippi	5,477,261	16	$1,882	4	Ohio	5,980,178	14	$521	29
Maryland	10,244,092	5	$1,824	5	South Carolina	2,197,010	28	$508	30
Missouri	9,392,835	7	$1,608	6	South Dakota	371,737	46	$475	31
Arizona	9,695,941	6	$1,572	7	Tennessee	2,865,746	25	$475	32
Hawaii	1,963,465	31	$1,527	8	New York	8,020,473	9	$415	33
Alabama	6,953,755	12	$1,512	9	Nebraska	718,279	42	$406	34
Massachusetts	9,077,341	8	$1,410	10	Rhode Island	430,741	44	$403	35
Vermont	829,021	40	$1,329	11	Wisconsin	2,165,244	29	$390	36
Kentucky	5,394,695	17	$1,283	12	Michigan	3,897,611	23	$386	37
Louisiana	5,154,122	18	$1,202	13	North Dakota	240,488	48	$378	38
Texas	27,101,914	3	$1,153	14	Iowa	944,470	38	$317	39
Utah	2,303,673	27	$903	15	Arkansas	881,330	39	$314	40
California	32,126,033	1	$881	16	Wyoming	161,160	50	$313	41
Colorado	4,127,129	21	$868	17	North Carolina	2,690,094	26	$304	42
New Hampsh.	1,105,515	35	$841	18	Nevada	750,421	41	$301	43
Maine	1,019,800	37	$772	19	Minnesota	1,525,717	34	$295	44
Washington	4,765,744	19	$745	20	Montana	247,138	47	$262	45
Indiana	4,627,344	20	$733	21	Illinois	3,273,852	24	$255	46
New Jersey	6,151,102	13	$705	22	West Virginia	392,261	45	$216	47
Kansas	1,705,683	32	$617	23	Oregon	562,472	43	$152	48
Pennsylvania	7,514,717	11	$604	24	Delaware	124,776	51	$146	49
Florida	10,706,620	4	$592	25	Idaho	168,312	49	$115	50
U.S. Total	257,455,893		$860						

Source: U.S. Department of Defense, U.S. Department of Commerce, Bureau of the Census

The following Table summarizes some programs of particular interest to the State of Connecticut contained in the Department of Defense requested Budget for 2008.

TABLE 50
EXAMPLES OF MAJOR U.S. DEFENSE PROGRAMS OF INTEREST TO CONNECTICUT

Item	Contractor	Component	Budget FFY 2007 ($M)	Proposed 2008 by DoD ($M)	Quantity	
UH-60 Blackhawk Helicopter	Sikorsky Aircraft	Prime Contractor for production	$1,206.3	$793.3	59 in 2007 & 42 in 2008	(a)
MH-60R Helicopter	Sikorsky Aircraft	Prime Contractor for airframe dev. and production	$932.5	$1,075.7	25 in 2007 & 27 in 2008	(a)
MH-60S- Helicopter	Sikorsky Aircraft	Prime Contractor for production	$629.7	$547.5	18 in 2007 & 18 in 2008	(a)
C-17 Globemaster Airlift Aircraft	Pratt & Whitney	Engine production	$4,770.8	$653.5	22 in 2007	(a) (b)
F-15E Eagle Fighter	Pratt & Whitney	Prime Contractor for engine	$301.8	$120.5	N/A	(a)
F-16 Falcon Fighter	Pratt & Whitney	Prime Contractor for engine (R&D)	$518.3	$420.0	N/A	(c)
F-22A Raptor Fighter	Pratt & Whitney	Engine Dev & production	$4,003.5	$4,604.9	20 in 2007 & 20 in 2008	(d)
Virginia Class Submarine	Electric Boat Div. of General Dynamics	Prime Contractor, design, joint production	$2,754.1	$2,722.9	1 in 2007 & 1 in 2008	(a) (e)

(a) Includes research, development, testing and evaluation.
(b) Replacement for C-141. FY2007 is last year planned for C-17 production. Joint venture with Boeing.
(c) Joint venture with General Electric.
(d) To replace F-15 aircraft.
(e) Will replace retiring submarines. At this time, five are planned between 2004 and 2008.

Source: U.S. Department of Defense

Moreover, the following Table displays a number of fairly recent contract awards made to state firms by the Department of Defense in areas other than transportation manufacturing.

TABLE 51
SAMPLES OF RECENT DEFENSE CONTRACTS AWARDED TO STATE FIRMS NOT RELATED TO TRANSPORTATION EQUIPMENT MANUFACTURING

Contractor	Work Location	Date of Award	Amount ($Mill.)	Type of Work	Completion
Colt Defense, LLC, Hartford	Hartford, CT	4/07	$50.8	Supply M4 and M4A1 carbines	7/2008
O&G/DTC Engineers and Constructors (Joint venture), North Haven	New Windsor, NY	8/07	$20.1	Design & construction of armed forces reserve center	1/2009
World Fuel Services America, Greenwich	Various	5/07	$15.8	Supply marine gas oil and fuel oil	10/2011
Shock Tube Systems, Inc., Moosup	Sterling, CT	1/07	$15.1	Supply non-electric delay detonators	1/2012
Barrels, Boxes and More, Inc., Bolton	Bolton, CT	7/07	$5.6	Supply shipping and storage drums	6/2009

Source: U.S. Department of Defense

While defense budgets for the foreseeable future had been expected to be leaner than ten years ago, the Bush Administration has reversed the declining trend seen over most of the 1990s, especially given the wars in Afghanistan and Iraq and the war on terrorism. These conflicts can be expected to create a need for replacements for lost equipment and systems, spare parts, and new features on existing systems as new needs are identified in the ever-changing environment. Additionally, with previously awarded contracts and ongoing construction contracts for aircraft engines, helicopters and submarines, production activity in Connecticut will extend into the future.

During the 1990s, the defense industry reacted to defense cutbacks in various ways. With fewer contracts to compete for, companies consolidated, leaving fewer companies to compete for the shrinking pie. As the federal budget experienced slower growth and the defense industry consolidated through mergers, acquisitions and joint ventures, Connecticut continued to experience additional job losses, similar to other states in the northeast region. However, the pace of job reductions has slowed down as the largest defense cuts are in the past and the industry diversified into commercial markets. Former prime contractors have now become

subcontractors. Companies also engaged in aggressive cost cutting measures. These moves led to severe downward pressure on employment in these industries.

The Table on the prior page demonstrates that there is defense-related activity occurring in the state outside of the transportation equipment manufacturing industry. Larger firms, as well as a number of smaller firms, are finding different ways to do business with the government. This non-weapons-systems approach could play an important and vital role in the future of the state's economy.

Retail Trade in Connecticut

Consumer spending on goods and services, ranging from pencils to refrigerators to haircuts to electricity, accounted for seventy percent of the gross domestic product (GDP) in 2007. During the last decade, variations in retail trade closely matched variations in GSP growth, making retail trade an important barometer of economic health.

The North American Industry Classification, 1997 includes establishments that engage in selling merchandise for personal or household consumption and rendering services incidental to the sale of the goods in the retail trade industry. The North American Industry Classification System (NAICS) codes for retail trade are from NAICS 44 to NAICS 45. In general, retail establishments are classified in these codes according to the principal lines of commodities sold (apparel, groceries, etc.) or the usual trade designation (liquor store, drug store, etc.).

The Table on the following page shows the major group in each NAICS code as well as the state's retail trade history for the past two fiscal years.

Retail sales reflect the pulse of economic conditions: they perform strongly as the economy expands whereas they perform poorly during a recession. Connecticut retail trade in fiscal 2007 totaled $46.4 billion, a 4.3% increase over fiscal year 2006.

Retail trade can be broken down into two major categories, durable and nondurable goods. Durable goods are items that presumably last three years or more and include such items as automobiles, furniture, and appliances. Nondurable goods have a shorter life span and include such items as food, gas, apparel, and other miscellaneous products. Durable goods are normally big-ticket items that are sensitive to interest rates and the overall economic climate. Purchases of durable goods drop off when interest rates increase or individuals encounter a slowdown in income growth or become concerned about future employment and income stream prospects.

Sales of durable goods experience greater fluctuations during changing economic conditions. Growth in sales at retail stores that concentrate on durable goods tends to increase faster than the growth in gross state product during expansionary years and experience greater declines during recessionary years. Sales of nondurable goods are typically less volatile as most items are deemed "necessities" and relatively inelastic regardless of price variations. Necessities include such items as food, footwear, clothing, gasoline, as well as drugs. The following Table shows that Connecticut sales of nondurable goods had a significant increase of 6.5% in fiscal 2007.

TABLE 52
RETAIL TRADE IN CONNECTICUT
(In Millions of Dollars)

NAICS	Industry	FY 2006	% of Total	FY 2007	% of Total	% Change
441	Motor Vehicle and Parts Dealers	8,421	18.9%	8,602	18.5%	2.2%
442	Furniture and Home Furnishings Stores	2,784	6.3%	2,635	5.7%	(5.4)%
443	Electronics and Appliance Stores	1,646	3.7%	1,627	3.5%	(1.1)%
444	Building Material and Garden Supply Stores	3,532	7.9%	3,465	7.5%	(1.9)%
445	Food and Beverage Stores	5,945	13.4%	6,472	13.9%	8.9%
446	Health and Personal Care Stores	3,555	8.0%	4,219	9.1%	18.7%
447	Gasoline Stations	3,050	6.9%	3,073	6.6%	0.7%
448	Clothing and Clothing Accessories Stores	2,712	6.1%	2,838	6.1%	4.7%
451	Sporting Goods, Hobby, Book and Music Stores	1,091	2.5%	1,155	2.5%	5.9%
452	General Merchandise Stores	5,059	11.4%	5,135	11.1%	1.5%
453	Miscellaneous Store Retailers	3,792	8.5%	3,998	8.6%	5.4%
454	Nonstore Retailers	2,933	6.6%	3,209	6.9%	9.4%
	Total	44,521	100.0%	46,428	100.0%	4.3%
Durables (NAICS 441,442, 443, 444)		14,737	33.1%	14,702	31.7%	(0.2)%
Nondurables (All Other NAICS)		29,784	66.9%	31,726	68.3%	6.5%

Source: Connecticut Department of Revenue Services

Sales of automotive products (NAICS 441) were $8.6 billion, an increase of 2.2% increase from the $8.4 billion in fiscal 2006. Automotive product stores play an important role in the retail industry, generating approximately 18% of total retail trade.

Motor Vehicle and Parts Dealers	Retail Sales	% Growth over FY 06
New Car Dealers	$6,510,938,949	0.9%
Used Car Dealers	549,757,603	17.9%
Recreational Vehicle Dealers	70,769,073	(11.2)%
Motorcycle Dealers	175,344,187	(0.7)%
Boat Dealers	189,400,170	1.3%
All Other Motor Vehicle Dealers	601,870,090	3.6%
Automotive Parts, Accessories, and Tire Stores	504,300,116	6.0%
Total	$8,602,380,188	2.2%

Sales by furniture and home furnishings stores (NAICS 442) registered $2.6 billion in fiscal 2007, down 5.4% from $2.8 billion in fiscal 2006. This category showed the greatest decline in sales from fiscal 2006 to fiscal 2007, a possible result of the weakening housing market.

Furniture and Home Furnishings Stores	Retail Sales	% Growth over FY 06
Furniture Stores	$1,404,841,060	(10.5)%
Floor Covering Stores	589,121,883	5.8%
Window Treatment Stores	43,154,726	13.1%
All Other Home Furnishings Stores	597,773,011	(3.6)%
Total	$2,634,890,680	(5.4)%

Sales in electronics and appliance stores (NAICS 443) fell 1.1% to $1.63 billion in fiscal 2007.

Electronics and Appliance Stores	Retail Sales	% Growth over FY 06
Household Appliance Stores	$279,266,206	0.6%
Radio, Television, & Other Electronics Stores	825,473,289	(1.5)%
Computer and Software Stores	484,051,026	(1.2)%
Camera and Photographic Supplies Stores	38,658,420	(4.0)%
Total	$1,627,448,941	(1.1)%

Sales by building material and garden equipment stores (NAICS 444) registered $3.46 billion in fiscal 2007, a 1.9% decrease from fiscal 2006.

Building Material & Garden Supply Stores	Retail Sales	% Growth over FY 06
Building Material and Supplies Dealers	$ 69,934,637	34.3%
Home Centers	1,568,935,105	(1.6)%
Paint and Wallpaper Stores	68,876,870	1.9%
Hardware Stores	320,130,250	(5.5)%
Other Building Material Dealers	1,134,091,906	(8.0)%
Lawn and Garden Equipment & Supplies	302,720,260	22.2%
Total	$3,464,689,028	(1.9)%

After motor vehicle and parts dealers, food and beverage stores generate the second highest number of retail sales in the state or 13.6% of total retail trade. Sales made by food and beverage stores (NAICS 445), registered $6.5 billion in fiscal 2007, up 8.9% from $5.9 billion in fiscal 2006. Food products are necessary goods; therefore, consumption is less affected by economic conditions.

Food and Beverage Stores	Retail Sales	% Growth over FY 06
Supermarkets and Other Grocery Stores	$3,813,076,708	3.0%
Convenience Stores	679,666,365	11.4%
Meat Markets	34,069,380	(0.3)%
Fish and Seafood Markets	38,256,698	(14.4)%
Fruit and Vegetable Markets	105,283,640	58.9%
Baked Goods Stores	144,389,721	0.9%
Confectionery and Nut Stores	27,274,203	(4.6)%
All Other Specialty Food Stores	690,438,615	61.5%
Beer, Wine, and Liquor Stores	939,108,274	5.6%
Total	$6,471,563,604	8.9%

Traditional and chain drug stores (NAICS 446) have been working to diversify their product lines to compete with supermarkets and discount stores and as a result, sales by pharmacies and drug stores reflect this trend, growing by 18.7% in fiscal 2007.

Health and Personal Care Stores	Retail Sales	% Growth over FY 06
Pharmacies and Drug Stores	$3,933,026,451	19.4%
Cosmetics, Beauty Supplies, & Perfume Stores	82,760,450	(14.3)%
Optical Goods Stores	79,716,552	14.6%
Other Health and Personal Care Stores	123,689,751	30.3%
Total	$4,219,193,204	18.7%

Sales by gasoline stations (NAICS 447) were up only 0.7% as consumption has fallen with the higher fuel prices and higher efficiency vehicles.

Gasoline Stations	Retail Sales	% Growth over FY 06
Gasoline Stations	$3,072,674,006	0.7%

Sales by clothing and clothing accessories stores (NAICS 448) were $2.8 billion in fiscal 2007, up 4.7% from fiscal 2006.

Clothing and Clothing Accessories Stores	Retail Sales	% Growth over FY 06
Men's Clothing Stores	$ 80,547,246	6.7%
Women's Clothing Stores	461,557,302	3.2%
Children's and Infants Clothing Stores	58,534,898	8.7%
Family Clothing Stores	754,252,496	(2.0)%
Clothing Accessories Stores	237,010,871	46.8%
Other Clothing Stores	525,558,344	3.3%
Shoe Stores	217,698,070	4.3%
Jewelry Stores	491,970,052	3.6%
Luggage and Leather Goods Stores	11,305,926	(4.9)%
Total	$2,838,435,205	4.7%

Sales in specialty stores (NAICS 451) were up 5.9% compared to fiscal 2006.

Sporting Goods, Hobby, Book and Music Stores	Retail Sales	% Growth over FY 06
Sporting Goods Stores	$ 383,961,060	5.3%
Hobby, Toy, and Game Stores	222,517,179	10.7%
Sewing, Needlework, and Piece Goods Stores	35,729,306	1.6%
Musical Instrument and Supplies Stores	139,565,516	47.5%
Book Stores	292,613,669	2.4%
News Dealers and Newsstands	5,539,599	6.5%
Tape, Compact Disc, & Record Stores	75,412,990	(28.1)%
Total	$1,155,339,319	5.9%

Sales in the general merchandise category (NAICS 452) were $5.13 billion, an increase of 1.5% from $5.06 billion in fiscal 2006. General merchandise includes three general types of stores. These are national department stores such as Sears, value merchandise stores such as Target,

and warehouse club stores such as Costco. An increase in sales at general merchandise stores reflects the ferocious competition in pricing and the continued evolution of product sources in this industry. While consumers have become more value-conscious, the industry has strived to restructure itself by establishing more attractive discount stores and "super stores" with products that are mainly produced in countries with lower labor costs.

General Merchandise Stores	Retail Sales	% Growth over FY 06
Department Stores	$2,028,771,548	(0.5)%
Other General Merchandise Stores	3,106,289,004	2.8%
Total	$5,135,060,552	1.5%

Sales by miscellaneous shopping stores (NAICS 453) increased 5.4% over fiscal 2007.

Miscellaneous Store Retailers	Retail Sales	% Growth over FY 06
Florists	$ 87,763,697	(0.5)%
Office Supplies and Stationery Stores	483,411,271	(3.2)%
Gift, Novelty, and Souvenir Stores	174,874,225	6.5%
Used Merchandise Stores	107,410,376	1.9%
Pet and Pet Supplies Stores	150,972,485	8.7%
Art Dealers	58,998,520	2.8%
Manufactured (Mobile) Home Dealers	6,573,387	16.8%
All Other Miscellaneous Store Retailers (including Tobacco, Candle & Trophy Shops)	2,927,686,645	7.1%
Total	$3,997,690,606	5.4%

Nonstore retailers' (NAICS 454) sales were very strong, up 9.4% over fiscal 2006, largely the result of the surge in energy prices that occurred.

Nonstore Retailers	Retail Sales	% Growth over FY 06
Nonstore Retailers	$ 66,225,140	17.9%
Electronic Shopping and Mail-Order Houses	632,007,156	(10.3)%
Vending Machine Operators	67,721,838	(7.3)%
Fuel Dealers	524,200,342	45.3%
Heating Oil Dealers	215,119,441	7.8%
Liquefied Petroleum Gas Dealers	110,826,557	42.8%
Other Fuel Dealers	183,784,976	43.8%
Other Direct Selling Establishments	1,408,668,446	5.6%
Total	$3,208,553,896	9.4%

In addition to the traditional transactions occurring in Connecticut based "bricks and mortar" establishments, a significant amount of retail activity is also taking place within and beyond the state's borders through mail and on-line order sales. As computer technology advances rapidly, so do on-line sales through the Internet. The revolutionary on-line transactions provide sufficient product information and often offer favorable discounts. In addition, they are convenient to access, virtually open around the clock and involve no travel. As more merchants find that opening a store on the Internet is more cost effective or more attractive than opening a store in a mall, transactions through the Internet are expected to increase rapidly. These direct

purchases primarily include personal computers, electronic gadgets, furniture, sporting goods, books, music, apparel, flowers & cards, and toys.

U.S. Supreme Court rulings forbid states from forcing retailers to collect sales tax unless the seller has a physical presence in the state where the purchase is made (nexus). As retail sales via the Internet grew rapidly, the U.S. Department of Commerce started estimating e-commerce quarterly transactions in late 1999. In fiscal 2007 national retail e-commerce sales are estimated at $124.8 billion, accounting for 3.1% of total retail sales of $3,977.7 billion. Retail transactions through the Internet have increased much faster than traditional brick and mortar sales. E-commerce retail sales rose 20.8% in fiscal 2007 compared to a 4.2% increase for traditional retail sales. The estimate of e-commerce sales does not include travel agencies, financial services, manufacturers, and wholesalers.

Sales via the Internet continue to grow at a brisk pace. According to the Bureau of Census, national e-commerce retail sales in the third quarter of 2007 were up 19.3% from the same period a year ago. Connecticut has seen erosion of its tax base due to the Internet sales trend. In a study conducted by the University of Tennessee's Center for Business and Economic Research, it was estimated that by 2008, Connecticut would lose between $320.5 and $501.2 million in state revenue due to e-commerce. Although the Office of Policy and Management believes that the revenue loss is significant, the exact amount is difficult to determine as more traditional "bricks and mortar" retailers with nexus in Connecticut establish internet sales channels and collect the state sales tax. The issue is compounded by the fact that in those instances where an internet retailer does not collect the tax, voluntary compliance by most residents to pay the use tax on such transactions has been low.

Currently, state and local governments as well as the private sector have undertaken a joint effort referred to as the Streamlined Sales Tax Project (SSTP). The project's aim is to fundamentally restructure the national sales tax system by creating a uniform taxable base, thereby simplifying tax administration among the states. The Streamlined Sales and Use Tax Agreement went into effect in October of 2005. As of July 2007, 15 of the 44 states who have authorized the participation in SSTP have enacted legislation to fully comply with the Agreement to become full-member states. Momentum for the project is likely to grow as many states confront the erosion in their sales tax base over the next several years. The likelihood of Congressional action on the issue also increases as more states adopt the streamlined approach. Connecticut is currently one of the 44 states referred to as a participant state, as it has not enacted legislation to modify its sales tax. Public Act 07-4 of the June Special Legislative Session, established a Streamlined Sales Tax Commission which was charged with evaluating: (1) the changes necessary in the state sales tax in order for Connecticut to become a full member of the Streamlined Sales Tax Governing Board, and (2) the benefits to the state and to retailers if the state were to become a full member.

Retail trade as a percentage of disposable income in Connecticut decreased to 30.9% in fiscal 2007, from 31.5% in fiscal 2006. The decrease reflects a slower growth in the demand for goods, and to a lesser extent for services than disposable income. The state's per capita disposable income of $42,922 in fiscal 2007 was 30.5% above the national average of $32,892. In 2007, Connecticut per capita retail trade was estimated at $13,245. With the highest per capita disposable income in the nation, continued overall growth in retail sales is expected. In general, wealthier people tend to purchase more expensive cars and replace them more frequently. The

same may be applicable for other durable goods such as computer equipment, appliances and furniture. Additional factors, which affect the level of expenditures, can include tax burden, consumer confidence, economic climate as well as the condition of a household's balance sheet.

According to the 2002 economic census on retail sales, a survey that is done once every 5 years by the U.S. Department of Commerce, Connecticut had $42.0 billion of retail sales, up from $34.9 billion in 1997. Retail sales varied among the state's eight counties with most sales concentrated in Fairfield, Hartford, and New Haven. These three counties accounted for 79.7% of total sales, with the remaining 20.3% spread among the other five counties. Tables 53 and 54 provide detail on retail sales activity by county. Growth in sales also varied among counties. Between 1997 and 2002, Windham increased the fastest at 33.4%, followed by Litchfield at 29.8%, compared to a less than 20% growth for Hartford, Middlesex, and Tolland.

Although the retail trade sector is one of the major sources of jobs in the Connecticut economy, the number of establishments has declined. In 2002, the sector had 13,861 establishments down from 14,574 in 1997 and 21,012 in 1992. As mega-sized discount and chain stores continued to grow and on-line order accessibility increased, markets became more competitive, forcing average sized retailers out of business. Aside from the expansion of catalog marketing, electronic retailing has exploded, shifting sales away from in-state retailers and putting smaller family-run operations out of business. The greater availability of electronic devices that provide more efficient market information and offer convenient shopping alternatives only exerts mounting pressure on the local "main street" businesses.

This sector is expected to undergo continual evolution and encounter profound competition in the future. As the economy becomes more global, competition will continue to heighten and require revisions in strategies to prevent declining market shares and falling profit margins. As transformations in demographics occur, such as more young adults living alone and persons per household declining, domestic retailers shall have to reassess and adjust their traditional selling strategies to fit these new consumption patterns.

TABLE 53
RETAIL SALES, INCOME AND POPULATION BY COUNTY

	Retail Sales	Personal Income ($B)			Population (000's)		
	% Change			% Change			% Change
	'97 to '02	1997	2002	'97 to '02	1997	2002	'97 to '02
Fairfield	20.5%	40.62	53.78	32.4%	861.0	894.8	3.9%
Hartford	15.8%	26.58	33.29	25.2%	846.0	867.1	2.5%
Litchfield	29.8%	5.69	7.04	23.7%	179.8	186.4	3.7%
Middlesex	19.5%	4.76	6.11	28.4%	150.4	159.6	6.1%
New Haven	20.0%	23.90	29.76	24.5%	813.5	834.9	2.6%
New London	25.2%	7.29	9.16	25.7%	258.7	262.7	1.5%
Tolland	17.1%	3.70	4.76	28.6%	132.6	142.4	7.4%
Windham	33.4%	2.58	3.18	23.3%	107.4	111.2	3.5%
Connecticut	20.1%	115.13	147.08	27.8%	3,349.3	3,459.1	3.3%

Source: U.S. Department of Commerce, Bureau of Economic Analysis

The previous table compares retail sales with personal income growth and changes in population. Slower sales growth in Hartford reflected below average growth in income and population while the healthy sales growth in Windham reflected the 1.8% increase in the number of establishments rather than a marked increase in personal income or population.

TABLE 54
RETAIL SALES IN CONNECTICUT BY COUNTY

	Sales ($M)	% of Total	Number of Employees	Per Employee Sales ($ 000's)	Employees Per Establish.	Number of Establish.	Annual Payroll ($M)	% of Total
A. 1997 Economic Census								
Fairfield	11,563.9	33.1%	54,012	214.1	13.5	4,008	1,218.0	33.5%
Hartford	8,829.0	25.3%	51,121	172.7	13.9	3,683	943.6	26.0%
Litchfield	1,611.0	4.6%	8,193	196.6	10.0	816	158.0	4.3%
Middlesex	1,345.0	3.8%	8,050	167.1	10.8	742	143.1	3.9%
New Haven	7,725.2	22.1%	41,942	184.2	12.6	3,335	775.9	21.3%
New London	2,405.0	6.9%	13,923	172.7	11.8	1,182	240.3	6.6%
Tolland	763.9	2.2%	5,028	151.9	11.7	428	81.8	2.3%
Windham	695.8	2.0%	4,666	149.1	12.3	380	73.6	2.0%
Total	34,938.8	100.0%	186,935	186.9	12.8	14,574	3,634.3	100.0%
B. 2002 Economic Census								
Fairfield	13,931.1	33.2%	54,834	254.1	14.1	3,876	1,524.3	33.6%
Hartford	10,220.4	24.4%	50,872	200.9	15.2	3,347	1,101.7	24.3%
Litchfield	2,090.3	5.0%	8,830	236.7	11.3	784	212.8	4.7%
Middlesex	1,607.9	3.8%	8,346	192.7	11.2	743	187.2	4.1%
New Haven	9,268.4	22.1%	44,627	207.7	13.9	3,218	985.8	21.8%
New London	3,011.9	7.2%	14,752	204.2	13.2	1,119	319.4	7.0%
Tolland	894.3	2.1%	4,522	197.8	11.7	387	98.1	2.2%
Windham	928.4	2.2%	5,024	184.8	13.0	387	101.8	2.2%
Total	41,952.7	100.0%	191,807	218.7	13.8	13,861	4,531.1	100.0%
C. Growth (%) from 1997 to 2002								
Fairfield	20.5		1.5	18.7	5.0	(3.3)	25.1	
Hartford	15.8		(0.5)	16.3	9.5	(9.1)	16.8	
Litchfield	29.8		7.8	20.4	12.2	(3.9)	34.7	
Middlesex	19.5		3.7	15.3	3.5	0.1	30.8	
New Haven	20.0		6.4	12.8	10.3	(3.5)	27.1	
New London	25.2		6.0	18.2	11.9	(5.3)	32.9	
Tolland	17.1		(10.1)	30.2	(0.5)	(9.6)	19.9	
Windham	33.4		7.7	23.9	5.7	1.8	38.3	
Total	20.1		22.5	17.0	7.9	(4.9)	24.7	

Source: U.S. Department of Commerce, "Census of Retail Trade, Connecticut"

Small Business in Connecticut

Small businesses in the nation, as well as in Connecticut, have been playing an increasingly important role in overall economic activity. Small businesses are often cited as the major labor generators, the important job providers, and the primary technological innovators. Studies have shown that small businesses contributed the majority of the scientific and technological advances and developments in the twentieth century. They tend to be externally efficient which leads to the creation of new products, new jobs, and new processes. On the other hand, large business firms tend to be internally efficient, which leads to substituting capital for labor and focusing on cutting operational costs. In addition, small businesses help develop the free enterprise system, deterring monopoly formation by providing competition. With greater innovation and product differentiation occurring within small businesses, large firms are forced to improve productivity in order to respond to marketplace competition, thereby increasing society's social well-being and standard of living.

Structurally, small business tends mostly to be sole proprietorships and partnerships, and, to a lesser extent, corporations. These organizations range from "mom & pop" stores to high-tech instrument laboratories. The definition of a small business, however, varies, and may even change over time.

Theoretically, a small business firm is one that does not benefit from an economy of scale available to large firms. The U.S. Small Business Administration (SBA), in determining eligibility for loans and assistance, takes into account whether the entity concerned is dominant in its market. Other criteria include amount of annual receipts and number of employees, which may even vary by industry. The definition of small business varies from state to state based on comparative size in the regional economy, industrial structure, and policy emphasis.

According to Connecticut General Statutes, Chapter 588r, a small business is a firm with an employee size of 500 or less. It includes employees in any subsidiary or affiliate of a corporation, partnership, or sole proprietorship, operating for profit. For entities focused on special innovative research programs, the size of a small business is based upon federal guidelines.

According to the classification of the U.S. Department of Commerce, businesses can be broken down into several groups by employment size. Since the definition for small business is not generally agreed upon, the Department of Commerce, rather than identifying them by specific size, simply lists all employment classes for comparison.

In 2005, the latest year for which complete, consistent and comparable data is available, among the total 93,561 establishments employing 1,662,000 persons in Connecticut, small businesses with fewer than 100 employees accounted for 97.5% of total establishments and 52.7% of the total labor force.

The Table on the following page shows the breakdown of employment for manufacturing and non-manufacturing sectors and the distribution statistics for establishments and employment by business size in Connecticut. This Table demonstrates that small businesses constitute a major part of the state's employment and have contributed to job growth during this period,

especially between 2000 and 2005, when larger firms were experiencing a period of reductions in employment.

TABLE 55
SMALL BUSINESS EMPLOYMENT IN CONNECTICUT
(Size of Employment in Thousands)

Calendar Year	1-4	5-9	10-19	20-99	100-499	500&up	Total
A. Employment			Manufacturing Employment				
1995	4.6	8.7	16.9	43.4	49.5	125.3	248.5
2000	3.5	6.2	12.2	44.8	41.3	127.4	235.6
2005	3.7	6.7	12.7	57.5	63.2	57.4	201.3
(# Change, 95-05)	(0.9)	(2.0)	(4.2)	14.1	13.7	(67.9)	(47.2)
(% Growth, 95-05)	(19.4%)	(23.1%)	(24.6%)	32.6%	27.6%	(54.2%)	(19.0%)
(% Growth, 95-00)	(23.9%)	(28.7%)	(27.8%)	3.2%	(16.6%)	1.7%	(5.2%)
(% Growth, 00-05)	6.0%	7.9%	4.5%	28.4%	52.9%	(54.9%)	(14.6%)
			Nonmanufacturing Employment				
1995	143.1	189.3	230.3	230.1	156.8	363.2	1,313.0
2000	80.9	94.9	113.1	252.1	201.1	715.5	1,457.5
2005	91.1	112.9	163.4	418.9	362.9	301.9	1,460.7
(# Change, 95-05)	(52.0)	(66.7)	(66.9)	188.8	206.1	(61.3)	147.7
(% Growth, 95-05)	(36.3%)	(35.2%)	(29.1%)	82.0%	131.4%	(16.9%)	11.3%
(% Growth, 95-00)	(43.5%)	(49.9%)	(50.9%)	9.6%	28.3%	97.0%	11.0%
(% Growth, 00-05)	12.6%	29.2%	44.5%	66.2%	80.5%	(57.8%)	0.2%
			Total Employment				
1995	147.7	198.0	247.2	273.6	206.3	488.5	1,561.5
2000	84.4	101.0	125.3	296.9	242.4	842.9	1,693.1
2005	94.8	129.3	176.1	476.4	426.0	359.3	1,662.0
(# Change, 95-05)	(52.9)	(68.7)	(71.1)	202.8	219.7	(129.2)	100.5
(% Growth, 95-05)	(35.8%)	(34.7%)	(28.8%)	74.1%	106.5%	(26.4%)	6.4%
(% Growth, 95-00)	(42.9%)	(49.0%)	(49.3%)	8.5%	17.5%	72.5%	8.4%
(% Growth, 00-05)	12.3%	28.0%	40.6%	60.5%	75.8%	(57.4%)	(1.8%)
B. Total Establishments							
2005	50.4	17.9	12.1	10.8	2.1	0.2	93.6
C. Distribution of Establishments & Employment, 2005							
Establishments	53.9%	19.2%	12.9%	11.6%	2.2%	0.2%	100.0%
Cumulative	53.9%	73.1%	86.0%	97.5%	99.8%	100.0%	
Total Employment	5.7%	7.8%	10.6%	28.7%	25.6%	21.6%	100.0%
Cumulative	5.7%	13.5%	24.1%	52.7%	78.4%	100.0%	
Nonmfg Employ.	6.2%	8.4%	11.2%	28.7%	24.8%	20.7%	100.0%
Cumulative	6.2%	14.6%	25.8%	54.5%	79.3%	100.0%	

Note: Totals may not add due to rounding.

Source: U.S. Department of Commerce, Bureau of the Census

The Table also shows that, in 2005, small business firms played an equally important role in the nonmanufacturing sector as in manufacturing. Businesses with more than 500 employees accounted for 20.7% of total employment in nonmanufacturing, compared to 28.5% in manufacturing. This lower percentage is indicative of the concentration of small business in service activities where substitutions are uncommon and services are inherently specialized while goods production occurs in larger firms with economies of scale in both labor and capital. This certainly fits the traditional economic production model.

A breakdown of total employment into manufacturing and nonmanufacturing sectors reflects different growth patterns for various firm sizes. Between 1995 and 2005, the employment increase was solely in the nonmanufacturing sector which continually absorbed the outflow from the manufacturing sector, further shifting the economic activity of the state toward services. During this time, the percentage of manufacturing employment in manufacturing firms which had 500 or more employees fell from 50.4% in 1995 to 28.5% in 2005 (a fall of 43.5%), while the percentage of nonmanufacturing employment in nonmanufacturing firms which had 500 or more employees fell from 27.7% in 1995 to 20.7% in 2005 (a drop of only 25.3%). This more pronounced decrease in the employment in larger manufacturing firms could be explained by a move to permanent downsizing and outsourcing, thus becoming more productive. It is cheaper for larger firms to outsource more work to smaller firms and reduce their costs of sudden and drastic changes in labor requirements. The relatively larger increases in employment seen in the larger nonmanufacturing firms between 1995 and 2000, especially, could be the result of a maturing of the service industries and the resulting consolidation of some services into larger firms, while growth in the smaller nonmanufacturing firms was significantly greater from 2000 to 2005.

Manufacturing employment in Connecticut has continued on a downward trend since its peak in 1984. The loss of manufacturing employment occurred, in total, from 1995 to 2005, with an actual increase between 2000 and 2005 in smaller firms which are not as susceptible to the vagaries of the economy. They are generally less capitalized and managed by family owners or by a joint venture operated by closely related members. These businesses are more self-sustaining and are willing to bear greater cost pressures, making them relatively recession proof and less mobile geographically. Large manufacturing businesses have been more responsive to economic conditions by adjusting their workforce size or moving. The downward trend is a common phenomenon for states in the Northeast because of unique regional economic factors. The decline has been more rapid, spurred by globalization, deregulation, technology improvements, and budget cuts. These factors create more competition in the already fiercely competitive marketplace, resulting in lower employment in the manufacturing sector.

Negative factors affecting small businesses include higher operating costs, tighter credit availability, and less price flexibility. Material purchases and transaction costs for small business firms are normally not large enough to take advantage of volume discounts, creating a cost disadvantage. Small business firms may lack financial strength or enough assets to be used as collateral for financing purposes. Without name recognition and a long track record, obtaining credit can be constrained, thereby limiting a firm's growth potential. Major corporate loans are normally negotiated at the prime rate while small sized businesses are charged additional points above prime. When costs increase, small business firms may not be able to adjust prices to fully recover their costs from customers, thereby reducing profit

margins. Larger firms generally can exert control over costs and prices as well as increase their economic power by expanding market share.

Small businesses are constantly facing operational difficulties and at the same time confronting competition from larger firms. To ensure constant growth for the economy, it is imperative that policy makers pay special attention to small businesses. Recognizing that small business is an important engine of economic growth, the State has aggressively created and provided a wide range of programs and services aimed to help expand or set-up new businesses. The Connecticut Department of Economic and Community Development (DECD) has partnered with the Connecticut Economic Resource Center, Inc. to provide programs such as counseling, training, financing, technical assistance, and trade information to assist this important sector.

For more information, please write or contact the following:

Connecticut Economic Resource Center, Inc.
805 Brook Street
Rocky Hill, CT 06067
1-(860)-571-7136
1-(800)-392-2122

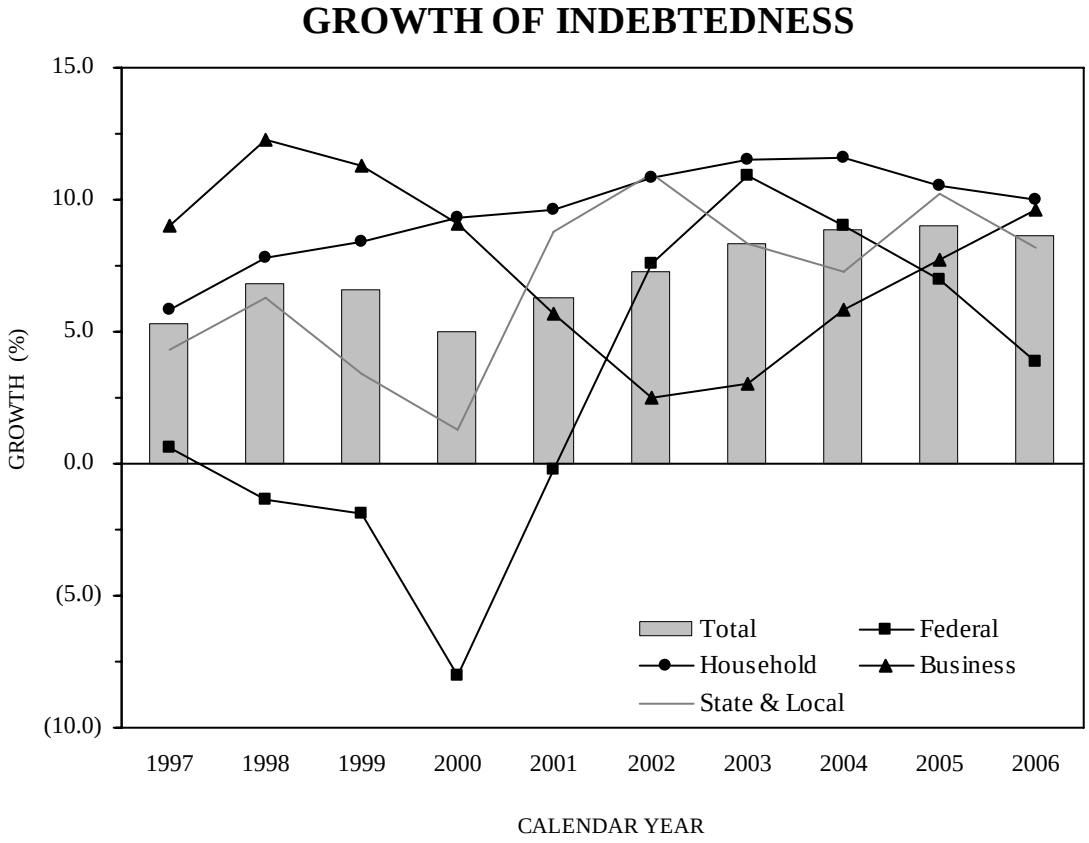
Connecticut Department of Economic & Community Development
Research Division
505 Hudson Street
Hartford, CT 06106
1-(860)-270-8165
1-(860)-270-8000

Nonfinancial Debt

For many years, national attention has been centering on the issue of the federal budget and trade deficits, as well as the level of indebtedness of domestic nonfinancial entities. Domestic Nonfinancial Debt (DNFD) is the aggregate net indebtedness of all nonfinancial borrowers in the United States. It includes the borrowings of all levels of government, business and households. It excludes the debt of foreigners and the liabilities of financial intermediaries such as commercial banks, thrift institutions and finance companies. As required by the Full Employment and Balanced Growth Act of 1978, Domestic Nonfinancial Debt is compiled quarterly by the Federal Reserve System.

The following Chart depicts the 10-year growth history for total DNFD and each of its components. Growth in total DNFD, which registered double-digit growth rates in the mid 1980s, slowed to an average of 7.2% in the past 10 years. It grew 8.6% in 2006, compared to 9.0% in 2005. Among the four components, debt growth in the public sector including the federal government as well as state and local government slowed, while the private sector remained active. Growth in household debt continued at a brisk pace, up 10.0%. This followed doubt digit growth over the past four years as households continued to take on mortgages even though interest rates became less favorable, continuing the strong demand for housing and home related furniture, albeit at a slower pace. Growth in the business sector continued at a faster pace since the end of the recession in 2002, reflecting a sharp increase in commercial mortgages and bank loans. The slower growth of debt outstanding at the federal

level as well as state and local government debt was due to an improvement in financial conditions. Details for each sector are described below.



Source: Board of Governors of the Federal Reserve System & U.S. Department of Commerce

In 2006, according to the Federal Reserve System, the seasonally adjusted year-end total domestic nonfinancial debt outstanding was $28,795.7 billion, with households accounting for 44.7% of the total, nonfinancial businesses at 31.4%, the federal government at 17.0%, and state and local governments at 7.0%. Prior to 1990, household borrowings trailed those of businesses; however, faster growth since 1991 in home mortgages and consumer credit coupled with a steady increase in income helped catapult household borrowings to the top. Over the past decade, the private sector has increasingly played a more important role in the debt market. Debt outstanding in the household and nonfinancial business sectors accounted for 76.1% of the total in 2006, up from 67.7% for 1997. Among the four categories, the household sector grew by 134.4% in the past decade, followed by nonfinancial business at 90.0%; state and local governments at 86.5%; and the federal government at 28.4%. For total debt balances, it increased by 90.4% in the past decade.

The DNFD-to-GDP ratio stood at 215.0% in 2006, up from 140.9% in 1980, implying a faster growth in nonfinancial debt than GDP in the past 25 years. The DNFD-to-GDP ratio gained speed in the late 1980s as a result of a combination of nearly double-digit increases in federal borrowings and the deregulation of the financial markets. During the 1980s, non-bank financial institutions funneled funds more freely between the suppliers of capital and its consumers, creating a more competitive and efficient market. The ratio declined in the 1990s

as federal debt fell and the growth in borrowings by state and local governments slowed, which was also accompanied by more robust GDP growth. However, more recently the ratio rebounded rapidly, resulting from an accommodative monetary policy, less stringent financing standards on mortgages, and an economic recovery that stimulated borrowing and higher spending levels in both the household and business sectors.

Household Borrowing

Household borrowings, which accounted for 44.7% of total non-financial debt, include home mortgages, consumer credit, and other miscellaneous items. Growth in household borrowings has been accelerating after reaching a recent low of 5.8% in 1997, climbing since 2002 for five consecutive years with 10.0% in 2006 and 10.5% in 2005.

Growth in household borrowings is closely related to economic and household wealth conditions. When income and wealth expand, it nurtures confidence and consumer spending, and then sustains consumer spending and borrowings. In addition, the low, and at times negative, personal saving rate leaves borrowing as the only available avenue for households. In the first half of the 1990s, growth in household borrowings averaged only 6.3% as sluggish income growth, the depressed value of real estate, and increased health insurance and educational costs made consumers more cautious. In the second half of the 1990s, household borrowings climbed to 7.5% on average as a result of the continued strong economy, a healthy growth in income from wages, capital gains, and an appreciation in home values. During the first half of the 2000s, growth in borrowings averaged 10.8% as a buildup of wealth, generated by increases in income and an appreciation in real estate, favorable low interest rates, and loosened credit standards that created a borrowing and spending binge. U.S. saving rates, defined as personal saving as a percentage of disposable income, averaged 1.6% for the past 6 years, dropping from an average of 5.2% in the 1990s and 9.0% in the 1980s, and deteriorated to between a negative 0.5% and a positive 1.0% for the past eight quarters ending with the fourth quarter of 2006.

Household borrowings expanded at a 9.0% rate in the beginning of the 2000s and picked up speed well into 2003 through 2006 with a double-digit growth as personal income continued its healthy climb and the wealth effect, this time due to real estate, resumed. The economy was performing at a rate tighter than full employment. The unemployment rate in fiscal years 2006 and 2007 averaged 4.8% and 4.5%, respectively, which, being less than 5%, is considered the full employment level. The value of stocks increased 10.2% by the end of 2006 to $10.9 trillion from a year ago and up 58.8% from the recent low registered in 2002. The value of homes rose by 6.6% in 2006 to $20.6 trillion after a period of marked home appreciation that had grown at a double-digit rate annually in the previous four years. Although the housing market started to show signs of slowing, there was no clear sign of a correction in 2006. As wealth continued to rise and interest rates moved lower by the year end of 2006, equity withdrawal continued and families used home equity to finance personal spending or invest in new construction. Compared to a 5.7% growth in 2006 for overall retail sales, sales by home furnishing stores grew 10.0%; appliance and TV stores by 8.3%, and building material stores by 8.5%.

Net home equity (value of homes less mortgage liabilities) has been growing important to the economy. The net value of home equity grew 51.3% from 2001 to 2006 and surpassed the

value of stocks, reaching $10.8 trillion versus $10.4 trillion for the value of stocks in the 3rd quarter of 2006. The share of net home equity of total family net assets has also become more important. The net home equity of $10.8 trillion in late 2006 accounted for 49.9% of households' total net assets of $21.7 trillion, up from 43.9% in late 2001. The ratio of net home equity to disposable personal income, one of the measures of the wealth effect, continued to improve to 1.10 at the end of 2006, up from 0.95 in 2001. Research findings show that rising home prices have a bigger influence on credit creation and spending than that of rising equity prices. Home value appreciation is perceived more permanent and consistent with a higher propensity to consume by the public relative to gains in the stock market that are volatile and ephemeral in nature. Unlike capital gains on stocks, benefits realized through mortgage refinancing due to the appreciation of homes or lower mortgage rates can be cashed out without tax liability. Refinancing frees up more money for spending, paying off old debts or investments in a second home. The Tax Payer Relief Act of 1997 also allows a tax exemption of up to $500,000 of gain for joint filers or $250,000 for single filers. In addition, as the equity markets improved from their late 2002 lows, so did household balance sheets, greatly supporting consumer spending. However, continued aggressive borrowing along with the weakening housing market is now having a detrimental impact on the overall economy.

Among total household borrowings of $12.87 trillion in 2006, home mortgage loans accounted for $9.77 trillion, or 75.9%, followed by consumer credit at $2.42 trillion, or 18.8%, with the remainder in other miscellaneous items. Total outstanding home mortgages in late 2006 were up 10.9% from a year ago, following five consecutive years of double digit growth that started in 2001. After years of rapid expansion, the mortgage market was due for a correction as risky financial vehicles such as sub-prime and Alt-A mortgages expanded. Delinquency rates started to edge up in early 2006, mostly in the adjustable rate loans and sub-prime fixed rate loans, and reached a peak in late 2006. Delinquency rates on residential real estate loans increased to 1.73% in late 2006, up from a low of 1.29% in late 2004. As the appreciation in housing prices slowed and the availability of untapped equity waned, refinancing activities slowed in 2005 and 2006. Of the total mortgages originated in 2006, refinancings accounted for 43% of total originations, compared to a peak of 62% in 2003. Refinancing activities slowed in 2007 and is expected to extend further into 2008. Withdrawals of home equity for financing personal consumption have been a major factor contributing to recent economic growth. The volume of resets of exotic mortgages to much higher rates of interest is expected to peak in mid 2007 through mid 2008. Responding to rising foreclosure rates, lenders began tightening their lending policies, further limiting credit availability on the already retrenched financial market. While the economy is bearing the brunt of a severe oil price hike that surges close to $100 a barrel, a prolonged and deeper recession in the housing sector will weigh on consumer spending and business investment, and threaten the overall economy. It is estimated that 50% of mortgage equity withdrawal (MEW) is used for personal consumption purposes. Research indicates that a $1 decline in home prices will reduce spending by 9 cents. In mid 2007, there was $21 trillion in U.S. home values. A 5% of depreciation would cut spending by approximately $100 billion and, other thing being equal, an equal amount of GDP. Consumer spending accounts for about two-thirds of overall economic activity in the U.S. As the economy moves close to a recession, a long and deeper setback in the housing market could eventually sink economic growth.

Consumer credit not secured by real estate is comprised of non-revolving credit (such as automobile and personal loans) and revolving credit (which includes credit card debt and

store charges). It registered $2,419.2 billion in late 2006, with non-revolving credit accounting for approximately 65% of the total consumer credit. Consumer credit helped finance a large expansion in spending for consumer non-durables. Credit card debt continues to increase at a rapid pace as convenience and security continue to improve, and more consumers rely on credit cards for making purchases online or by telephone despite higher interest rate charges. Interest rates for credit card plans averaged 13.31% in late 2006, compared to 7.92% for 48-month new car loans and 12.49% for personal loans, up from 12.71%, 6.60%, and 11.89%, respectively, in late 2005. Credit cards have been making inroads rapidly since the inception of internet transactions in the purchases of goods and services. Use of credit cards also has been broadly expanding for college expenses, medical and dental expenses, and government taxes and fees. The frequent flyer mileage and hotel discount programs, free car and travel insurance, as well as credits or reimbursements toward the purchase of commodities, also contributed to the rise in credit card debt. Business use of credit cards has also increased rapidly. Due to simplicity, speed and the convenience of credit cards, more small businesses use them as one of the ways to finance their operations, including leasing of items such as vehicles and computer equipment. Small-business suppliers, wholesalers, and distributors are also increasingly accepting credit cards. It is estimated that half of all small businesses used credit cards as a financing source. Credit card usage has even gained widespread penetration at the college level. A 2005 report showed that 76% of college students have an average of four credit cards with a balance outstanding of $2,169 while 25% of students owed $3,000 or more. Credit card usage among teenagers has tripled since 2001.

Business Borrowing

Business borrowings include debts owed by corporations, nonfarm corporations and farms. Total borrowings grew by 9.2% to $9.03 trillion at the end of 2006. The bulk of the debts are owed by corporations that account for approximately 65% of the total. Corporate borrowings grew by 8.2% to $5.72 trillion at the end of 2006. Borrowing instruments include corporate bonds, commercial paper, municipal securities, bank loans, mortgages, and others. Mortgages comprised the major portion of the total, accounting for 36.1%, followed by corporate bonds at 35.7% and bank loans at 14.5%. Corporate bonds grew 7.3% to $3.2 trillion at the end of 2006. Bank loans outstanding expanded 10.4% to $1.31 trillion. Businesses had benefited from a more accommodative lending environment as banks had eased both standards and terms on commercial and industrial loans. Mortgages grew 13.1% to $3.26 trillion as interest rates remained favorably low.

With strong revenue growth and the rally in equity markets, corporate balance sheets have improved. Accompanied with favorable interest rates in the past few years, corporations have replaced high cost long-term debt with shorter-maturity debt. Healthy financial conditions along with elevated profit margins, continued investment in new technologies, equipment, and structures continue to sustain economic growth. However, troubles in the housing market coupled with a tightening in credit standards is expected to slow down business investment in equipment and software as well as construction, exerting pressure on profitability and interrupt the improvement in corporate balance sheets.

Government Borrowing

In the 1970s, the federal deficit surged. To mitigate the recessions experienced in the early 1980s, the federal administration applied an expansionary fiscal policy to stimulate aggregate demand. At the same time, a tax cut was implemented in an attempt to sacrifice a short-term loss in revenue for a long-term gain by reducing spending and increasing revenues through more rapid economic growth. This expectation, however, was not realized and deficits persisted during the mid 1980s when the economy was booming.

After being saddled with deficits in most of the 1990s, the federal budget, based on a unified budget that includes Social Security and Medicare, turned to surplus in 1998 and reached a high of $236.5 billion in fiscal 2000. Federal operations, however, turned red in fiscal 2002, registering a $157.8 billion deficit due to a recession that occurred in March 2001. It continued to deteriorate to a high of $412.8 billion in fiscal 2004. The situation improved thereafter, narrowing to $318.3 billion in fiscal 2005, $248.2 billion in fiscal 2006, and $162.8 billion in fiscal 2007, the smallest deficit since fiscal 2002. The improvement in fiscal 2007 operating results was due to a faster percentage increase in revenue than that in outlays. Receipts increased by 6.7% primarily from personal and corporate taxes versus a 2.9% increase in outlays, which was just slightly higher than the 2.6% CPI-U inflation rate and below the 5.1% nominal GDP growth rate. The federal deficit for FY 2008 is expected to widen as the growth in revenues slows while spending accelerates due primarily to a slowdown in economy. Deficits over the past five years between fiscal 2002 and fiscal 2007 have totaled $1.7 trillion. As the federal operating budget continued to post a deficit, the national debt also increased. By the end of federal fiscal year 2007, gross debt outstanding registered $9,007.7 billion, up 5.9% from fiscal 2006, but slowing from 7.2% in fiscal 2006. The statutory debt ceiling, which includes debt the federal government owes to the Social Security Fund, is $9,815 billion as of November 2007. In fiscal 2007, the federal interest payments were $430.0 billion, which accounted for 15.7% of total federal outlays. The federal budget deficit in the U.S. in 2007 equates to -1.2% of its GDP, compared to -3.0% in Great Britain, -2.6% in Japan, -2.4% in France, and -0.4% in Germany.

Of the 2007 total federal gross debt of $9,007.7 billion, $5,049.3 billion, or 56%, was held by the public and $3,958.3 billion, or 44%, by intra-governmental agencies. Public holders include individuals, corporations, state or local governments, foreign governments, and other entities outside of the United States while intra-governmental agencies hold federal securities in trust funds, revolving funds, and other special funds. The federal statutes authorize federal agencies such as the Federal Reserve Bank and various trust funds to invest in U.S. Treasury securities. Total federal gross debt of $9,007.7 billion equates to approximately $29,700 for each U.S. citizen.

Total state and local government's debt outstanding increased at lower rate in 2006 as short term borrowings were reduced, primarily due to a faster increase in receipts than expenditures. It totaled $2.00 trillion at the end of 2006, an 8.2% growth after increasing 10.2% in 2005. Current receipts in 2006 were up 5.3% from 2005 to $1,797.7 billion versus an increase of 4.8% to $1,773.0 billion for current expenditures, yielding an operating surplus of $24.7 billion, up from a surplus of $15.2 billion in 2005. State and local government receipts continued to increase, with taxes from corporate income growing by 10.1%; personal income, 8.9%; property, 6.2%; and sales, 5.1%. Consumption expenditures climbed by 6.6% in 2006,

offset by a decline of 0.7% for social benefit payments. Interest payments grew by 5.5% in 2006 to $95.4 billion, accounting for 5.4% of total current expenditures. State and local government includes states, counties, municipalities and other local entities. The most recent recession, which occurred in the early 2000s, caused state coffers to shrink as the increase in current expenditures exceeded the increase in current receipts. The outlook for future operations is not as bright due to anticipated weaker revenue growth given slower economic growth as well as continued expenditure pressures in education, health care, corrections, and employee pension systems, as well as higher energy costs and inflation.

According to the U.S. Department of Commerce's "State Government Finances," state government debt outstanding in Connecticut, from all obligations at the end of fiscal 2005, the latest available year, was $23.05 billion, up from $22.57 billion in 2004. Connecticut per capita state government debt was $6,584 in fiscal 2005, up from $6,452 in 2004 and compared with $2,693 for the nation, which was up from $2,560 in 2004.

Connecticut's overall credit rating is determined by three major investment houses: Moody's Investors Service, Standard & Poor's Corporation, and Fitch Investors Service, Inc. As of the end of 2007, Connecticut's General Obligation bonds are rated Aa3 by Moody's and AA by Standard & Poor's Corporation and Fitch Investors Service, Inc. The rating process provides information for investors about risk. Low ratings will generally result in higher borrowing costs. Among the 39 states that issue General Obligation bonds in U.S., according to Moody's rating system, 26 states are rated better than Connecticut, including our neighboring states Vermont (Aaa), Massachusetts (Aa2) and New Hampshire (Aa2), ten states are rated the same as Connecticut and two states are rated below Connecticut.

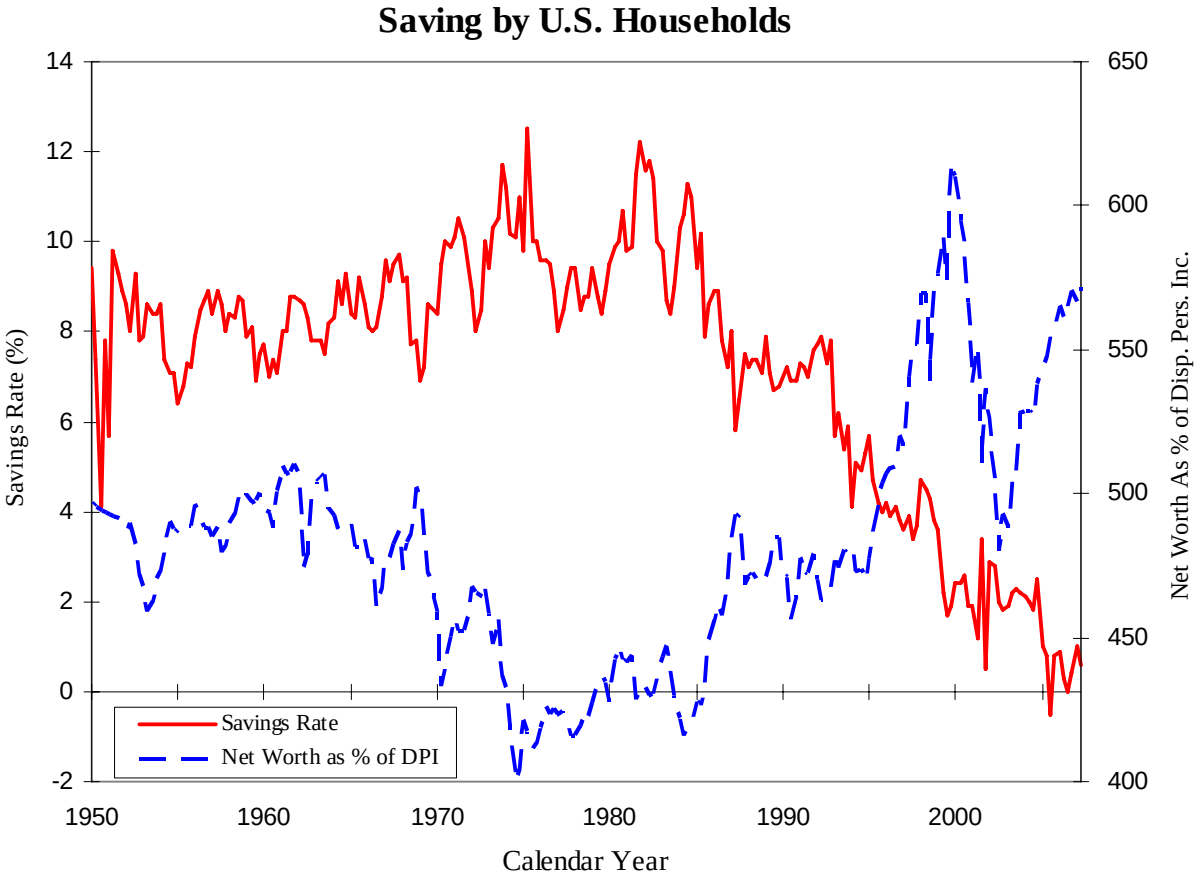
Savings by U.S. Households

A low personal savings rate has been a concern in this country as it could negatively impact on our economy and our society. Consumers' imprudent financing of consumption could create an unsustainable level of consumer debt, creating social problems, increasing interest rates, and slowing potential economic growth. Further, an unexpected reversal of consumer-financing behavior could cause a sudden drop in consumption and cause economic instability. A long-term lower national savings rate would not generate sufficient funds to support the investment necessary to sustain long-run economic growth. This creates a situation requiring excessive reliance on foreign capital and an unfavorable current account balance.

The solid line on the following chart shows the national savings rate for U.S. consumers from 1950 through the second quarter of 2007. After staying at an average of 8.7% between 1950 and 1980, U.S. saving rates have been trending down from a high of 12.2% in late 1981 to a low of negative 0.5% in late 2005 and an average of 0.4% in 2006. The savings rate is defined as personal savings divided by disposable personal income expressed as a percentage. Disposable personal income is defined as total personal income less personal tax and nontax payments to governments. Personal savings is defined as disposable personal income less personal consumption expenditures (including consumer durables), personal interest payments, and net personal transfer payments to the rest of the world.

The savings rate, however, may not portray an accurate picture of what is really going on with savings in this nation today. By definition, personal incomes do not include the sales of or

change in the market value of existing assets. Realization of capital gains or losses from appreciation/depreciation of assets such as stocks, bonds and antique collections, etc. are therefore excluded in the personal income, leading to under-/overvaluation of the income level. Also, the definition of personal consumption outlay includes expenditures that might arguably be considered investments. For example, the purchase of a computer, a consumer durable, for education or training is treated as consumption. Mortgage payments, no small amount, also could arguably be considered part of an investment. Interest payments for investments in stock, for example, are also treated as spending instead of investment. These investment expenditures are essentially "hidden savings". In today's economy, education and training, rather than physical capital, are the major inputs for economic growth. Education expenditures at all levels in the U.S. in 2001 accounted for approximately 7.5% of GDP, the highest among major industrialized nations, compared to 4.6% in Japan. Therefore, our lower national savings rate may be due to an understated personal income with overstated consumption.



Source: Federal Reserve System, Washington, DC

The chart also shows how the savings rate is affected by economic conditions, although a change seems to have begun to take place after the 1970s: the "wealth effect" took hold as people began to spend more because they had more assets of greater value to leverage and finance their consumption. The dashed line on the chart depicts the net worth of consumers as a percentage of disposable personal income. This relative net worth has generally moved inversely with the savings rate. Before 1980, the savings rate was trending upward, with the

relative net worth generally decreasing. During this period, before various innovative and creative financing mechanisms were available to the middle class, people generally lived on cash. During hard times, they may have saved less, left existing savings untouched to grow as long as possible, and eventually lived on what they had saved. After the 1970s, the savings rate has trended downward, with the relative net worth again generally moving in the opposite direction, the one significant exception being the stock market run-up in the late 1990s and the subsequent sudden drop in the market. After the 1970s, when credit cards, home equity loans and 401(k) savings plans became available to more households, savings rates decreased but net worth as a percentage of disposable personal income generally increased due to the recent acceleration in capital gains. Now, during generally good economic times, people believe they are wealthier and spend more, driving the savings rate down. People are spending more because they have greater assets and the ability to obtain financing secured by these assets.

The low level of saving by consumers is a concern because it increases risks to economic stability and economic growth. It is not known if recent trends can continue indefinitely and, if not, what the limit is. If creditors reach some level of discomfort with the situation, they could cut off access to credit or raise interest rates and make debt too expensive for consumers to bear. In this case, consumption could suddenly and drastically drop, curtailing or even reversing growth.

PERFORMANCE INDICATORS

This section is devoted to performance trends of various economic indicators for three entities; the United States, the New England Region and Connecticut. These statistics will indicate the relative economic performance of these entities showing both their strong and weak points.

Gross Product

Gross National Product (GNP) is defined as the aggregate current market value of final goods and services produced by a nation's citizens and capital, regardless of location, in a given period of time. GNP was generally used as a measure of a nation's economic performance to track the cyclical ups and downs of the economy, but GNP reflects more than domestic activity; products produced by citizens outside territorial borders are included, while products produced by foreign workers and capital located in the nation are excluded. As a result, Gross Domestic Product (GDP) which measures all economic activity within a territory, and is consistent with other economic indicators such as employment and shipments of manufactured goods, has been adopted as a better measure of economic activity within a territory.

Because prices of goods and services change over time, both GNP and GDP may also change, even if there has been no change in physical output. Therefore, to measure changes in real output, they are adjusted by an index of the general price level and expressed in constant dollars. Other things being equal, when real gross product rises, the economy is experiencing an expansion; when real gross product falls the economy is experiencing a decline. In the past, a fixed-weighted inflation index, the GDP deflator, had been used to measure real output, but with the rapid change in technology, price movements for certain commodities actually grew less than the price for all goods on average. As such, the traditional measurement of real product had misstated the growth in output as it moved away from the base year, creating what is known as substitution bias. To correct for this bias, the U.S. Department of Commerce, Bureau of Economic Analysis, uses a chained-type inflation index based on calendar year 2000.

One measure of a state's economic performance is Gross State Product (GSP). Like GDP, GSP is the current market value of all final goods and services produced by labor and property located in a state. In 2006, the State of Connecticut produced $204.1 billion worth of goods and services and $176.4 billion worth of goods and services in 2000 chained type dollars. The Table on the following page provides a five-year comparison of nominal and real gross products for Connecticut, the New England Region and the Nation as a whole.

The output contribution of manufacturing, however, has been declining over time as the contributions of health care and education, the FIRE category, which includes Finance, Insurance and Real Estate, most other services, and wholesale trade have been increasing. The share of production from the manufacturing sector decreased, caused by increased competition with foreign countries and other states as well as generally declining and only recently rising defense expenditures during this period. The broadly defined services in the private sector, which includes industries in information, professional and technical services, health care and education, FIRE and other services have increased to 61.4% of total GSP in 2006 from 59.8% in 2001, with health care and education increasing from 8.4% in 2001 to 9.0% in 2006, or 7.1%. FIRE has increased from 29.2% to 30.4%, or 4.1%. During this period, the shift toward services in Connecticut has been occurring at a faster rate than the rate for the nation as a whole. The

share of service production increased 1.6 percentage points (2.7%) in Connecticut versus increasing 0.8 percentage points (1.6%) for the nation. An increasing share of service production could help smooth the business cycle, reducing the span and depth of recessions and prolonging the length of expansions. Normally, activities in service sectors relative to manufacturing are less susceptible to pent-up demand, less subject to inventory-induced swings, less intensive in capital requirements, and somewhat less vulnerable to foreign competition. Connecticut began moving toward services sooner than the nation as a whole, and continues to lead in that direction.

TABLE 56
GROSS PRODUCT

Calendar	United States *		New England *		Connecticut	
Year	Dollars	% Growth	Dollars	% Growth	Dollars	% Growth
A. Millions of Current Dollars						
2001	10,058,168	3.2	580,920	2.7	165,025	2.9
2002	10,398,402	3.4	591,733	1.9	166,073	0.6
2003	10,886,172	4.7	612,006	3.4	169,885	2.3
2004	11,633,572	6.9	652,357	6.6	183,873	8.2
2005	12,372,850	6.4	679,249	4.1	193,496	5.2
2006	13,149,033	6.3	714,826	5.2	204,134	5.5
% Increase ('01 to '06)		30.7		23.1		23.7
B. Constant Dollars**						
2001	9,836,576	0.9	570,313	0.8	161,197	0.5
2002	9,981,850	1.5	568,750	(0.3)	158,628	(1.6)
2003	10,225,679	2.4	579,651	1.9	159,456	0.5
2004	10,608,934	3.7	602,292	3.9	167,771	5.2
2005	10,923,951	3.0	611,440	1.5	171,934	2.5
2006	11,291,375	3.3	627,027	2.5	176,406	2.6
% Increase ('01 to '06)		14.8		9.9		9.4

* Sum of State's Gross State Products.

** 2000 chained dollar series are calculated as the product of the chain-type quantity index and the 2000 current-dollar value of the corresponding series, divided by 100. The system for these calculations was converted from SIC Codes to the NAICS system starting in 1998.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

The following Table, which displays gross state product by source in 2006, shows Connecticut's production concentrated in two areas: finance, insurance and real estate (FIRE) and manufacturing (ignoring the broad category of services). Production in these two industries accounted for 41.9% of total production in Connecticut compared to 33.2% for the nation but was a decrease from 42.2% in 2001. This demonstrates that Connecticut's economy is more heavily concentrated in a few industries than the nation as a whole and this concentration has

changed little in recent years. Additionally, Connecticut's portion of U.S. total GSP has declined from 1.64% to 1.55%, a drop of 0.09 percentage points, or 5.5%.

TABLE 57
GROSS PRODUCT BY SOURCE
(In Billions of Current Dollars)

	------ Calendar 2001 ------				------- Calendar 2006 -------			
Industry	U.S.	%	CT	%	U.S.	%	CT	%
Agriculture, Forest & Fisheries	97.9	1.0	0.327	0.2	122.4	0.9	0.353	0.2
Construction & Mining	588.3	5.8	5.484	3.3	903.9	6.9	6.822	3.3
Manufacturing	1,341.3	13.3	21.405	13.0	1,601.2	12.2	23.547	11.5
Wholesale Trade	607.1	6.0	9.062	5.5	788.7	6.0	11.363	5.6
Retail Trade	691.6	6.9	10.152	6.2	863.2	6.6	11.725	5.7
Transportation & Utilities	499.2	5.0	5.385	3.3	626.3	4.8	6.585	3.2
Information	476.9	4.7	6.551	4.0	579.2	4.4	7.747	3.8
Finance, Insurance, Real Estate	2,059.2	20.5	48.123	29.2	2,758.6	21.0	62.142	30.4
Professional, Technical Services	698.8	6.9	13.091	7.9	929.6	7.1	15.369	7.5
Health Care & Education	739.3	7.4	13.904	8.4	1,035.0	7.9	18.397	9.0
Other Services	1,070.0	10.6	17.013	10.3	1,402.4	10.7	21.737	10.6
Government	1,188.6	11.8	14.528	8.8	1,538.6	11.7	18.347	9.0
Total	10,058.2	100.0	165.025	100.0	13,149.0	100.0	204.134	100.0
Broadly Defined Services		50.2		59.8		51.0		61.4
CT as a % of U.S. Total GSP			1.64				1.55	

Source: U.S. Department of Commerce, Bureau of Economic Analysis

Per Capita Gross Product

Growth in gross product may not sufficiently reflect the overall improvement in the well being of an economy. Gross product may rise significantly, but population may increase even more rapidly, signifying no real improvement in the well being of the economy. Therefore, real per capita gross product, which takes into account increases in population and inflation provides a better measure of the standard of living among differing economies. The Table on the following page provides a comparison of annual nominal per capita and annual real per capita output for the United States, the New England Region and Connecticut.

Growth in Connecticut slowed during and following the recession of 2001, reflecting a struggle to recover from a deeper recession compared with the impact on the United States. The ratio of Connecticut's real per capita output relative to the United States was unsteady between 2002 and 2004, suggesting that the recession in Connecticut was deeper than most of the rest of the nation. The latest data shows that, between 2001 and 2006, Connecticut's real per capita output increased 7.2% compared to 9.4% nationally for the same period, but has remained approximately one third higher than that of the nation.

TABLE 58
PER CAPITA GROSS PRODUCT

A. In Current Dollars

Calendar	United States		New England		Connecticut		
Year	Dollars	% Growth	Dollars	% Growth	Dollars	% Growth	% of U.S.
2001	35,264	2.1	41,329	1.9	48,067	2.2	136
2002	36,090	2.3	41,834	1.2	48,027	(0.1)	133
2003	37,436	3.7	43,074	3.0	48,785	1.6	130
2004	39,619	5.8	45,807	6.3	52,627	7.9	133
2005	41,729	5.3	47,650	4.0	55,274	5.0	132
2006	43,918	5.2	50,093	5.1	58,244	5.4	133
% Increase	('01 to '06)	24.5		20.2		21.2	

B. In 2000 Chained Dollars

Calendar	United States		New England		Connecticut		
Year	Dollars	% Growth	Dollars	% Growth	Dollars	% Growth	% of U.S.
2001	34,487	(0.2)	40,574	0.1	46,952	(0.1)	136
2002	34,644	0.5	40,209	(0.9)	45,874	(2.3)	132
2003	35,164	1.5	40,796	1.5	45,790	(0.2)	130
2004	36,129	2.7	42,291	3.7	48,018	4.9	133
2005	36,842	2.0	42,893	1.4	49,114	2.3	133
2006	37,714	2.4	43,940	2.4	50,333	2.5	133
% Increase	('01 to '06)	9.4		8.3		7.2	

Source: U.S. Department of Commerce, Bureau of Economic Analysis & Bureau of the Census

Productivity and Unit Labor Cost

Gross State Product provides the information to gauge Connecticut's efficiency in the use of labor, i.e., labor productivity. Rising productivity leads to an improved standard of living and curbs inflationary pressures. In the Table on the following page, the column entitled Hourly Production shows labor productivity as the ratio of total output to total workhours in Connecticut's manufacturing sector. On an hourly basis, nominal output in the manufacturing sector increased from $63.6 in 1997 to $105.0 in 2006, a 65.1% increase in output per hour over the period compared to only a 25.6% increase in the Consumer Price Index over the same period.

Another approach allows for the assessment of the labor cost for each $1 of product produced - the unit labor cost. Labor cost is one of the major input costs and is often cited as a critical indicator of competitiveness. The column entitled Unit Labor Cost shows the monetary cost which is equal to the average hourly wages of each worker divided by productivity. Connecticut continues to enjoy a downward trend in labor costs when the productivity factor is included. Per $1 of output costs, the unit labor cost has declined from 24.3 cents in 1997 to 19.1 cents in 2006, a 21.4% reduction over the period, even while production workers have enjoyed a 29.7% increase in average hourly wages.

Overall, productivity depends upon a broad range of factors. Other than wages, the quality of management as well as the size of and quantity of capital stock invested in the form of plant,

machinery and equipment, and the employment of new technologies impact productivity. Any increase in labor productivity is the combined result of all these factors.

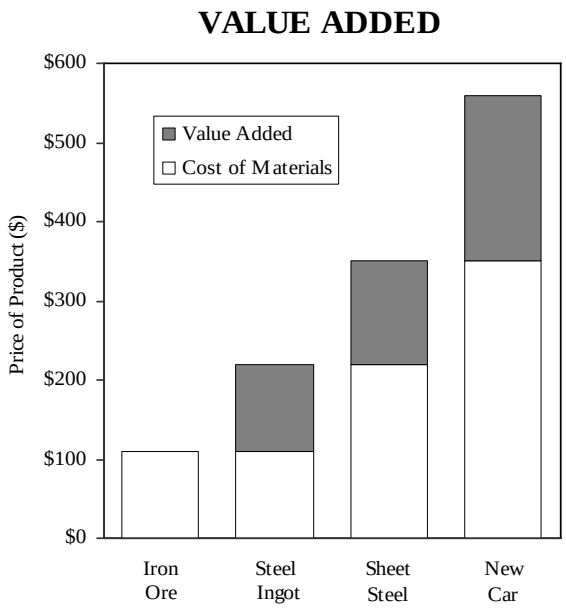
TABLE 59
CONNECTICUT'S MANUFACTURING LABOR PRODUCTIVITY

Cal. Year	GSP (Million)	Production Workhours (Million)	Hourly Production (Output Per Hour)	Total Wages (Million)	Average Hourly Wages	Unit Labor Cost (¢ Per $1 Output)
1997	$20,042	315.1	$63.6	$4,878.0	$15.5	24.3¢
1998	$21,457	320.0	$67.1	$5,064.6	$15.8	23.6¢
1999	$20,525	298.2	$68.8	$4,946.5	$16.6	24.1¢
2000	$20,963	295.1	$71.0	$5,093.9	$17.3	24.3¢
2001	$21,405	271.3	$78.9	$4,807.1	$17.7	22.5¢
2002	$20,870	251.2	$83.1	$4,529.6	$18.0	21.7¢
2003	$19,109	243.7	$78.4	$4,478.2	$18.4	23.4¢
2004	$21,325	232.8	$91.6	$4,534.7	$19.5	21.3¢
2005	$22,320	231.2	$96.6	$4,506.9	$19.5	20.2¢
2006	$23,547	224.3	$105.0	$4,502.3	$20.1	19.1¢
% Increase ('97-'06)			65.1		29.7	(21.4)

Source: U.S. Department of Commerce, Bureau of Economic Analysis
U.S. Department of Commerce, Bureau of the Census, "Annual Survey of Manufactures"

Value Added

In order to more accurately assess the performance of the manufacturing sector, one must look beyond employment figures. Employment figures provide only a one dimensional view of what is actually occurring in the manufacturing sector of the Connecticut economy. Although Connecticut has lost 176,000 manufacturing jobs (47.6%) between calendar year 1977 and 2006, this is being partially mitigated by a long-term increase in productivity per worker.



Value added is the market value of a firm's output less the value of inputs which it purchased from other firms. Changes in productivity over time can be measured by dividing the value that is added to a product by the total number of production workers involved in producing that good.

The Chart illustrates the value added concept as raw materials are transformed into a new automobile.

The following Table lists value added per production worker for Connecticut and the U.S. Connecticut's value added per production worker has steadily increased over every period

covered in the table. Moreover, by 2006, Connecticut's value added per production worker was 120% of the national average, up from 100% in 1977.

TABLE 60
VALUE ADDED PER PRODUCTION WORKER
(In Current Dollars)

Cal. Year	Conn.	United States	% Change From Prior Period Conn.	% Change From Prior Period U.S.	Cumulative % Change From 2002 Conn.	Cumulative % Change From 2002 U.S.	Ratio of CT Value Added to U.S.
1977	42,828	42,741	61.9	63.3			1.002
1982	66,830	66,458	56.0	55.5			1.006
1987	103,228	94,927	54.5	42.8			1.087
1992	143,074	122,387	38.6	28.9			1.169
1997	179,595	151,317	25.5	23.6			1.187
2002	219,805	182,512	22.4	20.6			1.204
2003	220,268	194,966	0.2	6.8	0.2	6.8	1.130
2004	251,111	217,983	14.0	11.8	14.2	19.4	1.152
2005	267,644	239,329	6.6	9.8	21.8	31.1	1.118
2006	301,115	251,178	12.5	5.0	37.0	37.6	1.199

Note: Value Added Per Production Worker = Total Value Added by Manufacture / Number of Production Workers

Source: U.S. Department of Commerce, "Annual Survey of Manufactures"

TABLE 61
VALUE ADDED PER PRODUCTION WORKER
(In Constant Dollars, 2000 = 100)

Cal. Year	Conn.	United States	% Change From Prior Period Conn.	% Change From Prior Period U.S.	Cumulative % Change From 2002 Conn.	Cumulative % Change From 2002 U.S.	Ratio of CT Value Added to U.S.
1977	100,205	100,002					1.002
1982	106,536	105,943	6.3	5.6			1.006
1987	141,041	129,699	32.4	22.0			1.087
1992	165,634	141,685	17.4	8.9			1.169
1997	188,235	158,597	13.6	11.4			1.187
2002	210,966	175,172	12.1	10.5			1.204
2003	207,019	183,239	(1.9)	4.6	(1.9)	4.6	1.130
2004	229,430	199,162	10.8	8.7	8.8	13.7	1.152
2005	236,874	211,815	3.2	6.4	12.3	20.9	1.118
2006	258,335	215,493	9.1	1.7	22.5	23.0	1.199

Note: Value Added Per Production Worker = Total Value Added by Manufacture / GDP Deflator X Production Workers

Source: U.S. Department of Commerce, "Annual Survey of Manufactures"

The previous Table lists value added after removing the effects of inflation for both the United States and Connecticut. For the past three calendar years Connecticut's value added per

production worker has more than exceeded the rate of growth in inflation as measured by the GDP deflator.

Value added per production worker can vary greatly among manufacturing sectors. Factors which may contribute to this variance include the mix between labor and capital, the overall cost structure for an industry, the volume of production, and the prevailing markup or profit on a product. The following Table segments value added per production worker by industry in Connecticut for calendar year 2005 and 2006.

TABLE 62
VALUE ADDED PER PRODUCTION WORKER IN CONNECTICUT BY INDUSTRY
(In Current Dollars)

Industry	2005	2006	% Change
Manufacturing	267,644	301,115	12.5
Food	406,478	410,804	1.1
Printing	137,317	142,283	3.6
Paper	255,824	257,636	0.7
Chemical	1,334,698	1,752,000	31.3
Plastics & Rubber	146,830	159,538	8.7
Primary Metals	160,667	216,360	34.7
Fabricated Metals	160,035	162,086	1.3
Machinery	229,717	249,050	8.4
Computer & Electronic	262,850	336,243	27.9
Electrical Equipment	205,483	210,983	2.7
Transportation Equipment	321,103	391,397	21.9

Note: Value Added Per Production Worker = $\frac{\text{Total Value Added by Manufacture}}{\text{Number of Production Workers}}$

Source: U.S. Department of Commerce, "Annual Survey of Manufactures"

Capital Expenditures

Connecticut's manufacturers have also been making substantial investments in capital equipment. Total capital expenditures are defined as outlays for permanent additions and major alterations to manufacturing establishments and investments in new machinery and equipment used for replacement and additions to plant capacity. Organizations undertake capital projects for various reasons including to reduce costs, improve efficiencies, upgrade product quality, develop new products and to implement environmental and safety technology. According to the Annual Survey of Manufactures, for the past 10 years, the level of capital expenditures within Connecticut has remained well above the one billion dollar figure. The following Table details capital expenditures in Connecticut.

To further promote the expansion of manufacturing firms in Connecticut, the Legislature passed and the Governor signed into law, the Manufacturing Assistance Act of 1990 and the Manufacturing Recovery Act of 1992. These laws provide substantial incentives for manufacturers to make capital expenditures within Connecticut. The main tenet of the acts is a five year alleviation of local property taxes on all new or newly acquired machinery used in the

production process. The machinery must be of the type classified by the Internal Revenue Service as five or seven year property. Beginning in fiscal 2002, towns are eligible to receive 80% reimbursement from the state for the property taxes foregone on such machinery. Municipalities must then abate the remaining 20% of property taxes on such machinery. Public Act 06-83 significantly enhanced this program by extending property tax relief beyond the initial five year exemption period by phasing out such taxation over a five fiscal year period. By assessment years commencing on and after October 1, 2011, all such equipment will be exempt from property taxation.

TABLE 63
TOTAL CAPITAL EXPENDITURES IN CONNECTICUT
(In Millions of Dollars)

Calendar Year	Connecticut Capital Expenditures	Percent Change
1997	1,867.8	5.6
1998	1,900.9	1.8
1999	1,715.9	(9.7)
2000	1,861.6	8.5
2001	1,783.2	(4.2)
2002	1,448.5	(18.8)
2003	1,242.7	(14.2)
2004	1,236.2	(0.5)
2005	1,201.6	(2.8)
2006	1,260.5	4.9

Source: U.S. Department of Commerce, "Annual Survey of Manufactures"

Total Personal Income

Total personal income, defined as current income received by persons from all sources including public and private transfer payments but excluding transfers among persons, is a good reliable measure of economic performance. Total personal income captures the manufacturing sector through manufacturing wages; the nonmanufacturing sector through wages in government, wholesale/retail trade, utilities, transportation, mining, personal services, etc.; the private sector through proprietor's income, etc.; and a part of agricultural activity via farm properties' income. Personal income is approximately 84% of Gross Domestic Product; hence, the two are well correlated.

The U.S. Department of Commerce defines the various sources of personal income as the following:

Wages and Salaries - the monetary remuneration of employees, including the compensation of corporate officers; commissions, tips and bonuses; and receipts in kind that represent income to the recipient. Wages and salaries are measured before deductions such as social security contributions and union dues.

Other Labor Income - consists primarily of employer contributions for employee pension and insurance funds and employer contributions for government social insurance.

Property Income - income from Dividends, Interest and Rents.

Dividends are payments in cash or other assets, excluding stock, by corporations organized for profit to non-corporate stockholders who are U.S. residents.

Interest is the monetary and imputed interest income of persons from all sources. Imputed interest represents the excess of income received by financial intermediaries from funds entrusted to them by persons, over income disbursed by these intermediaries to persons. Part of imputed interest reflects the value of financial services rendered without charge to persons by depository institutions. The remainder is property income held by life insurance companies and private non-insured pension funds on behalf of persons; one example is the additions to policyholder reserves held by life insurance companies.

Rental income is the monetary income of persons (except those primarily engaged in the real estate business) from the rental of real property (including mobile homes); the imputed net rental income of owner-occupants of nonfarm dwellings; and the royalties received by persons from patents, copyrights, and rights to natural resources.

Proprietors' Income - the income, including income-in-kind, of sole proprietorships and partnerships and of tax-exempt cooperatives. The imputed net rental income of owner occupants of farm dwellings with certain adjustments is included.

Transfer Payments - income payments to persons, generally in monetary form, for which they do not render current services. These include payments by the government and business to individuals and nonprofit institutions.

Personal Contributions to Social Insurance - contributions made by individuals under the various social insurance programs. Payments by employees and the self-employed (farm and nonfarm) are included as well as contributions that are sometimes made by employers on behalf of their employees (i.e., those customarily paid by the employee but, under special arrangement, paid by the employer).

The correlation between Gross Domestic Product and personal income provides another basis of comparison among individual states. A comparison of growth rates in personal income is a good indicator of a state's present and future performance.

According to figures provided by the U.S. Bureau of Economic Analysis, personal income to Connecticut residents during fiscal year 2007 was $183.96 billion, a 6.3% increase over fiscal 2006. Total personal income in Connecticut increased 54.0% from fiscal 1998 to 2007. For the United States, total personal income increased 57.9%, and in the New England Region, the increase for the identical period was 55.2 %.

The following Table shows personal income for the United States, the New England Region, and Connecticut.

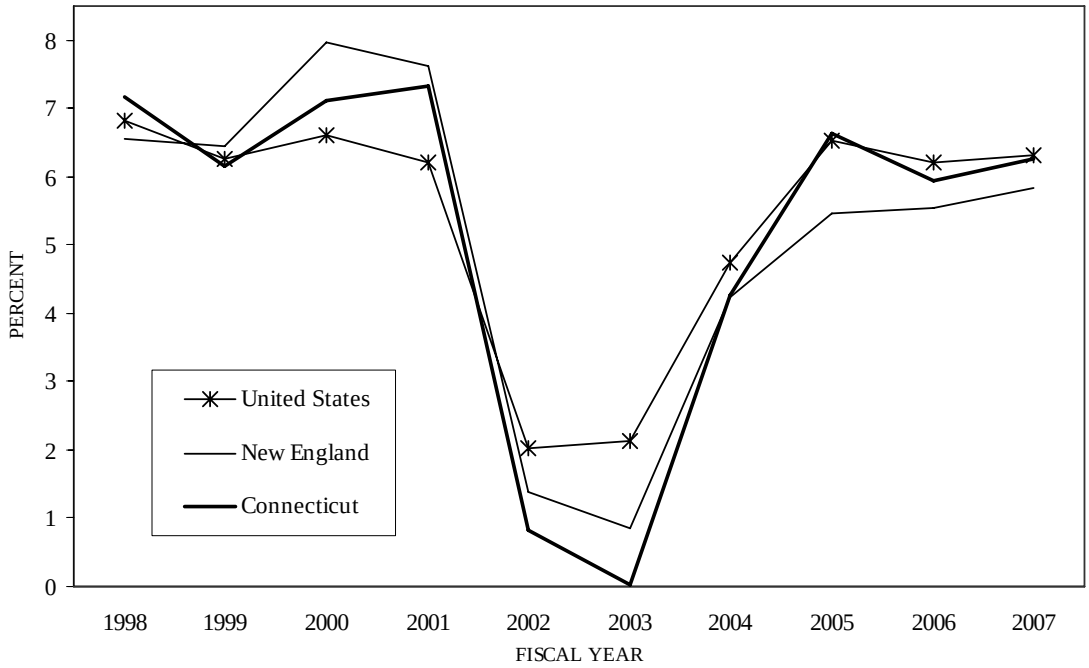
TABLE 64
PERSONAL INCOME
(In Millions)

Fiscal	United States		New England		Connecticut	
Year	Dollars	% Growth	Dollars	% Growth	Dollars	% Growth
1997-98	7,158,319	6.81	419,179	6.55	119,426	7.16
1998-99	7,607,013	6.27	446,176	6.44	126,769	6.15
1999-00	8,109,583	6.61	481,751	7.97	135,783	7.11
2000-01	8,613,913	6.22	518,388	7.61	145,744	7.34
2001-02	8,788,092	2.02	525,601	1.39	146,946	0.83
2002-03	8,974,062	2.12	530,090	0.85	146,983	0.03
2003-04	9,398,202	4.73	552,516	4.23	153,244	4.26
2004-05	10,011,633	6.53	582,678	5.46	163,415	6.64
2005-06	10,632,700	6.20	614,913	5.53	173,106	5.96
2006-07	11,303,835	6.31	650,762	5.83	183,967	6.27

Source: U.S. Department of Commerce, Bureau of Economic Analysis

The following Chart provides a graphic presentation of the growth rates in personal income for the three entities over a ten year fiscal period.

PERSONAL INCOME GROWTH
FISCAL YEAR GROWTH BY PERCENT



Source: U.S. Department of Commerce, Bureau of Economic Analysis

The State of Connecticut's sources of personal income vary slightly from those of the United States, with wages and employee salaries accounting for approximately 56.4% of total personal income compared to 54.8% for the nation. The following Table shows a comparative study of the sources of personal income for the United States and Connecticut for a two fiscal year period.

TABLE 65
SOURCES OF PERSONAL INCOME
(In Billions of Dollars)

	FISCAL YEAR 2005-06				FISCAL YEAR 2006-07			
	U.S.	%	CT	%	U.S.	%	CT	%
Manufacturing Salaries & Wages	718.5	6.8	13.2	7.6	744.4	6.6	13.9	7.5
Nonmanufacturing Salaries & Wages	5,126.4	48.2	84.5	48.8	5,448.0	48.2	89.9	48.9
Proprietors Income	993.3	9.3	17.9	10.3	1,019.8	9.0	18.1	9.9
Property Income	1,749.7	16.5	29.8	17.2	1,924.2	17.0	32.7	17.7
Other Labor Income	1,382.8	13.0	21.8	12.6	1,447.9	12.8	22.7	12.4
Transfer Payments Less Payments to Social Insurance	662.0	6.2	6.0	3.5	719.5	6.4	6.7	3.6
Total	10,632.7	100.0	173.1	100.0	11,303.8	100.0	184.0	100.0

Note: Totals may not agree with detail due to rounding.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

Per Capita Personal Income

One of the more important single indicators of a state's performance is the growth in per capita personal income. This is total personal income divided by the population. On a per capita basis, personal income growth in Connecticut increased 47.6% from fiscal 1998 to 2007, compared to a national increase of 44.1% and a New England Region increase of 48.8%.

Per capita personal income in Connecticut, for the most recent fiscal year, was 15.2% higher than for the New England Region and 39.7% higher than for the United States. Connecticut's per capita personal income continues to be at a higher level than that of the nation and New England due to the concentration of manufacturing in relatively high paying manufacturing industries and major corporate headquarters within the state.

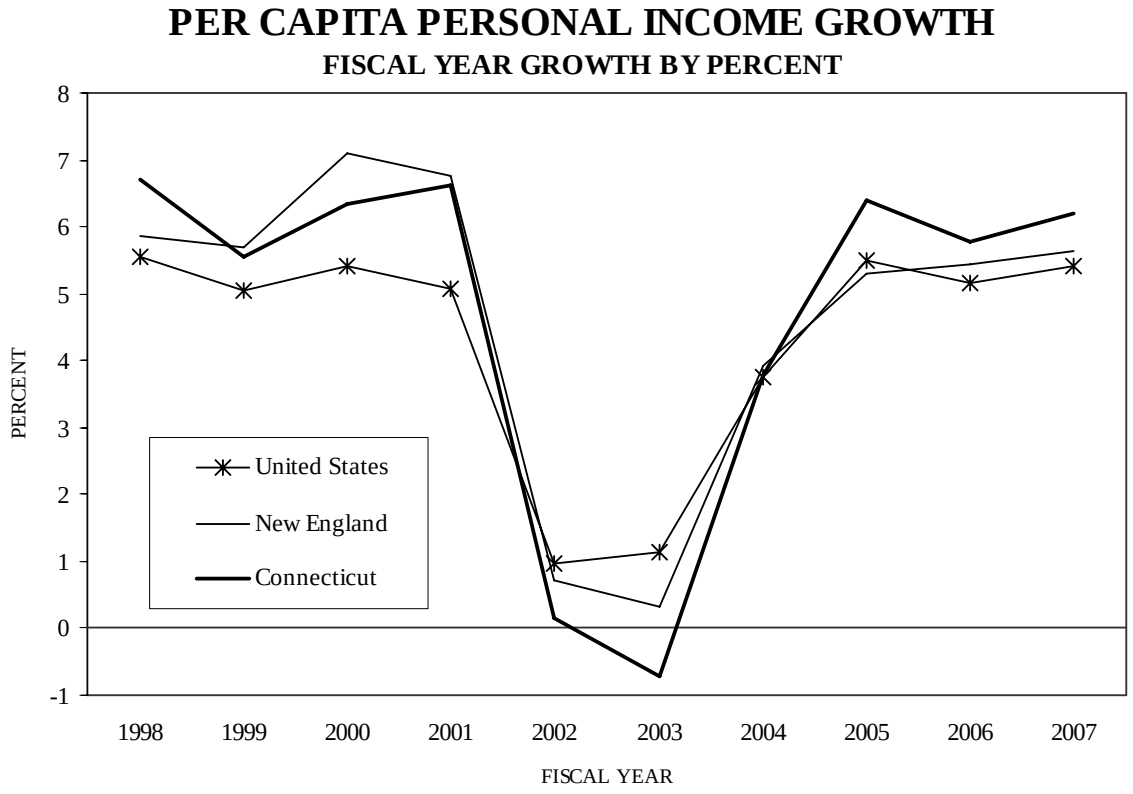
The Table below shows the growth in per capita personal income for ten fiscal years for the United States, the New England Region and Connecticut. The Chart provides a graphic representation of the growth rates in per capita personal income for the three entities over a ten year fiscal period.

TABLE 66
PER CAPITA PERSONAL INCOME

Fiscal	United States		New England		Connecticut	
Year	Dollars	% Growth	Dollars	% Growth	Dollars	% Growth
1997-98	26,063	5.55	30,599	5.85	35,554	6.70
1998-99	27,379	5.05	32,338	5.68	37,528	5.55
1999-00	28,857	5.40	34,631	7.09	39,903	6.33
2000-01	30,319	5.07	36,977	6.77	42,545	6.62
2001-02	30,615	0.97	37,243	0.72	42,615	0.16
2002-03	30,967	1.15	37,365	0.33	42,311	(0.71)
2003-04	32,124	3.74	38,824	3.91	43,905	3.77
2004-05	33,889	5.50	40,887	5.31	46,711	6.39
2005-06	35,639	5.17	43,110	5.44	49,407	5.77
2006-07	37,566	5.41	45,544	5.65	52,477	6.21

Source: U.S. Department of Commerce, Bureau of Economic Analysis

All figures derived by: $\frac{\text{Total Personal Income}}{\text{Population}}$



Source: U.S. Department of Commerce, Bureau of Economic Analysis

The following Table shows per capita income for each of the fifty states with their corresponding ranking for fiscal year 2007. In 2007, the $52,477 figure for Connecticut per capita personal income remained approximately 39.7% higher than the national average.

TABLE 67
PER CAPITA PERSONAL INCOME BY STATE
(Fiscal 2007)

State	Per Capita Income	Rank	State	Per Capita Income	Rank
Connecticut	$52,477	1	Michigan	$34,351	26
Massachusetts	47,617	2	North Dakota	34,101	27
New Jersey	47,538	3	Ohio	34,004	28
New York	45,683	4	Oregon	33,940	29
Maryland	44,862	5	Iowa	33,916	30
Wyoming	42,205	6	Missouri	33,554	31
New Hampshire	40,532	7	South Dakota	33,416	32
Virginia	40,383	8	Oklahoma	33,228	33
California	40,285	9	North Carolina	32,951	34
Colorado	40,265	10	Tennessee	32,919	35
Alaska	39,753	11	Indiana	32,865	36
Minnesota	39,661	12	Maine	32,687	37
Delaware	39,507	13	Georgia	32,507	38
Nevada	39,473	14	Arizona	32,448	39
Illinois	39,257	15	Louisiana	32,093	40
Washington	38,942	16	Montana	31,729	41
Rhode Island	38,349	17	Alabama	31,574	42
Hawaii	37,850	18	Utah	30,852	43
Pennsylvania	37,664	19	Idaho	30,724	44
Florida	37,391	20	Kentucky	30,436	45
Texas	36,178	21	New Mexico	30,403	46
Kansas	35,803	22	South Carolina	30,228	47
Vermont	35,364	23	Arkansas	29,175	48
Nebraska	35,352	24	West Virginia	28,722	49
Wisconsin	35,289	25	Mississippi	27,579	50
U.S. Average	$37,566				

Source: U.S. Department of Commerce, Bureau of Economic Analysis

All figures derived by: $\frac{\text{Personal Income}}{\text{Population}}$

Per Capita Disposable Personal Income

The following Table shows per capita disposable income for each of the fifty states with their corresponding ranking for fiscal year 2007. Per capita disposable income is defined as the income available to an individual for spending or saving. It is per capita personal income less personal tax and nontax payments. Personal taxes are composed of federal, state and local income taxes, as well as, personal property taxes and estate and gift taxes. Nontax payments are made up of fines and fees.

TABLE 68
PER CAPITA DISPOSABLE PERSONAL INCOME BY STATE
(Fiscal 2007)

State	Per Capita Disposable Income	Rank	State	Per Capita Disposable Income	Rank
Connecticut	$42,922	1	Vermont	$30,917	26
New Jersey	40,865	2	Michigan	30,567	27
Massachusetts	39,758	3	Iowa	30,432	28
Maryland	38,481	4	North Dakota	30,248	29
Wyoming	37,282	5	Ohio	29,992	30
New York	36,950	6	Oregon	29,792	31
New Hampshire	35,135	7	Tennessee	29,720	32
Delaware	34,788	8	Missouri	29,545	33
Colorado	34,750	9	Maine	29,475	34
Virginia	34,535	10	Indiana	29,451	35
California	34,361	11	Oklahoma	29,428	36
Minnesota	34,280	12	Alabama	28,766	37
Illinois	34,058	13	Louisiana	28,753	38
Washington	33,897	14	North Carolina	28,737	39
Alaska	33,838	15	Georgia	28,454	40
Rhode Island	33,657	16	Arizona	28,224	41
Pennsylvania	32,950	17	Montana	28,210	42
Nevada	32,794	18	New Mexico	27,442	43
Hawaii	32,794	19	Idaho	27,260	44
Florida	32,420	20	South Carolina	26,697	45
South Dakota	32,255	21	Utah	26,547	46
Texas	31,532	22	Kentucky	26,529	47
Kansas	31,382	23	Arkansas	25,727	48
Nebraska	31,317	24	West Virginia	25,684	49
Wisconsin	31,006	25	Mississippi	24,796	50

U.S. Average $32,892

Source: U.S. Department of Commerce, Bureau of Economic Analysis

All figures derived by: $\frac{\text{Disposable Personal Income}}{\text{Population}}$

Inflation and Its Effect On Personal Income

Inflation is defined as a rise in the general price level (or average level of prices) of all goods and services, or equivalently a decline in the purchasing power of a unit of money. The general price level varies inversely with the purchasing power of a unit of money. Hence, when prices increase purchasing power declines.

To take into account the erosion of income due to increasing prices, income is deflated by a consumer price index. The Consumer Price Index (CPI) is a measure of the average change in prices over time for a fixed market basket of goods and services. The Bureau of Labor Statistics publishes CPI's for two population groups: a CPI for All Urban Consumers (CPI-U) which covers approximately 80 percent of the total population; and a CPI for Urban Wage Earners and Clerical Workers (CPI-W) which covers 32 percent of the total population. The CPI-U includes, in addition to wage earners and clerical workers, groups such as professional, managerial and technical workers, the self employed, short-term workers, the unemployed, retirees and others not in the labor force.

The following Table shows the Consumer Price Index for All Urban Consumers and its growth over a ten fiscal year period.

TABLE 69
THE U.S. CONSUMER PRICE INDEX
(1982-84=100)

Fiscal Year	C.P.I.	% Growth
1997-98	161.8	1.79
1998-99	164.5	1.73
1999-00	169.3	2.88
2000-01	175.1	3.41
2001-02	178.2	1.77
2002-03	182.1	2.21
2003-04	186.1	2.19
2004-05	191.7	3.00
2005-06	199.0	3.80
2006-07	204.1	2.60

Source: U.S. Bureau of Labor Statistics

The CPI is based on prices of food, clothing, shelter, fuels, transportation fares, and charges for doctors' and dentists' services, drugs, and the other goods that people buy for day-to-day living. In addition, all taxes directly associated with the purchase and use of items and services are included in the index. In calculating the index, price changes for the various items in 85 urban areas across the country are averaged together with weights which represent their importance in the spending of the appropriate population group. Local data is then combined to obtain a U.S. city average. Movements of the indexes from one month to another are usually expressed as percentage changes rather than changes in index points, because index point changes are effected by the level of the index in relation to its base period while percent changes are not.

Real Personal Income

Real personal income is total personal income deflated by the Consumer Price Index, a measure of personal income that usually includes adjustments for changes in prices since the base period of 1982-84. The following Table shows real personal income growth for the United States, the New England Region and Connecticut. These figures, because they take into account the effects of inflation, provide a better perspective of overall gains in personal income.

TABLE 70
REAL PERSONAL INCOME
(In Millions)

Fiscal	United States		New England		Connecticut	
Year	Dollars	% Growth	Dollars	% Growth	Dollars	% Growth
1997-98	4,425,545	4.92	259,153	4.67	73,834	5.27
1998-99	4,622,919	4.46	271,149	4.63	77,040	4.34
1999-00	4,790,303	3.62	284,568	4.95	80,206	4.11
2000-01	4,920,361	2.72	296,109	4.06	83,250	3.80
2001-02	4,932,511	0.25	295,005	(0.37)	82,477	(0.93)
2002-03	4,927,870	(0.09)	291,085	(1.33)	80,712	(2.14)
2003-04	5,050,308	2.48	296,905	2.00	82,349	2.03
2004-05	5,223,232	3.42	303,992	2.39	85,256	3.53
2005-06	5,343,960	2.31	309,053	1.66	87,002	2.05
2006-07	5,537,533	3.62	318,796	3.15	90,122	3.59

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

All figures derived by: $\frac{\text{Total Personal Income}}{\text{CPI}}$

It is necessary to point out that there exist regional differences in prices. Local area CPI indexes are by-products of the national CPI program. Because each local index is a small subset of the national index, it has a smaller sample size and is therefore subject to substantially more sampling and other measurement error than the national index. Therefore, local area indexes show greater volatility than the national index in the short run, although their long-term trends are quite similar. Therefore, the National Consumer Price Index was utilized in the Table above to provide the comparison among the United States, the New England Region and Connecticut.

The Chart on the following page provides a graphic presentation of the growth in real personal income for the three entities over a ten fiscal year period.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

Real Per Capita Personal Income

Real per capita personal income is per capita personal income deflated by the Consumer Price Index and shows how individuals comprising a geographical entity have fared after adjusting for the effects of inflation. A comparison of the growth rates measures the relative economic performance of each entity as it adjusts personal income growth by population changes.

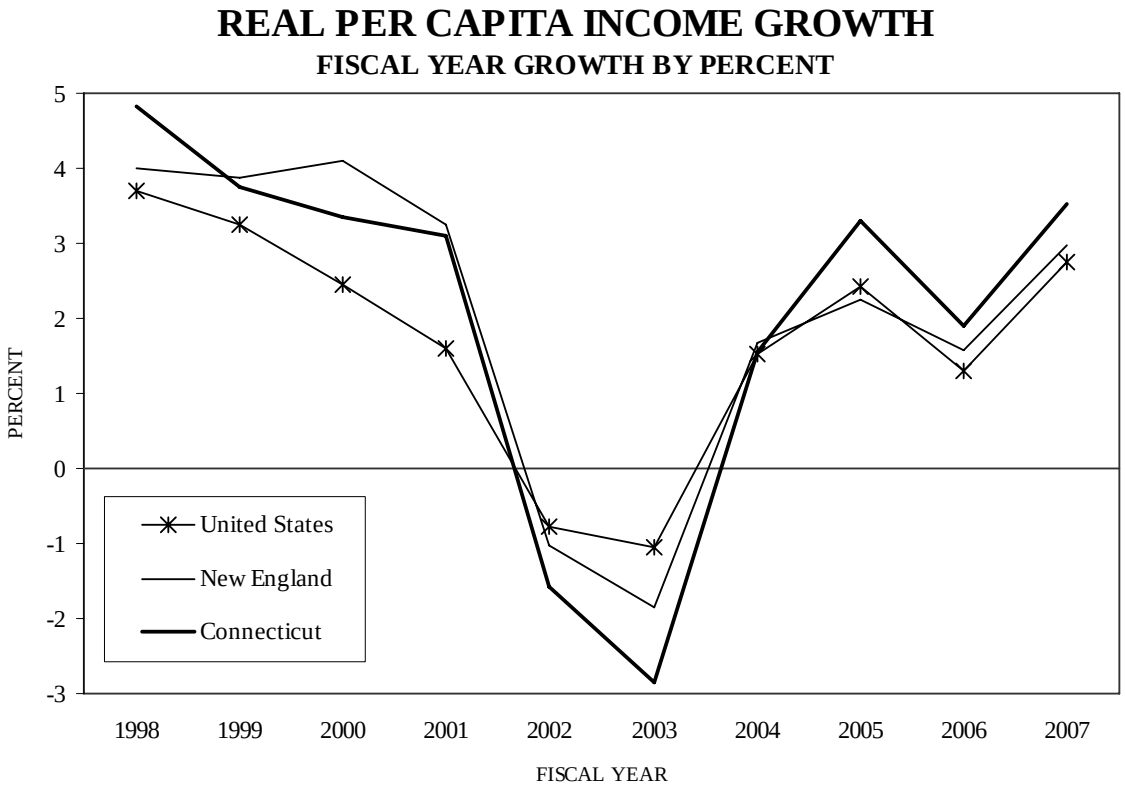
TABLE 71
REAL PER CAPITA PERSONAL INCOME

Fiscal	United States		New England		Connecticut	
Year	Dollars	% Growth	Dollars	% Growth	Dollars	% Growth
1997-98	16,113	3.69	18,918	3.99	21,981	4.82
1998-99	16,639	3.26	19,652	3.88	22,807	3.76
1999-00	17,046	2.45	20,457	4.09	23,571	3.35
2000-01	17,319	1.60	21,122	3.25	24,302	3.10
2001-02	17,183	(0.78)	20,903	(1.03)	23,919	(1.58)
2002-03	17,004	(1.04)	20,517	(1.84)	23,234	(2.86)
2003-04	17,262	1.52	20,863	1.68	23,593	1.54
2004-05	17,680	2.42	21,331	2.24	24,371	3.29
2005-06	17,912	1.31	21,666	1.57	24,832	1.90
2006-07	18,403	2.74	22,311	2.97	25,707	3.53

Source: U.S. Department of Commerce, Bureau of Economic Analysis

All figures derived by: $\frac{\text{Total Personal Income}}{\text{CPI X Population}}$

The previous Table shows the growth in real per capita personal income for the United States, the New England Region, and Connecticut. The Chart below provides a graphic presentation of the growth in real per capita personal income for the three entities over a ten fiscal year period.



Source: U.S. Department of Commerce, Bureau of Economic Analysis

TABLE 72
GROWTH IN REAL PER CAPITA PERSONAL INCOME
(Base Year: 2006)

Fiscal	% Growth		% Cumulative Growth	
Year	United States	Connecticut	United States	Connecticut
1950-1960	27.7%	28.5%	27.7%	28.5%
1960-1970	37.2%	40.6%	75.2%	80.7%
1970-1980	17.9%	12.8%	106.5%	103.7%
1980-1990	21.6%	38.9%	151.0%	182.9%
1990-2000	13.5%	13.5%	184.9%	221.1%
2000-2007	4.7%	4.4%	198.4%	235.1%

Source: Moody's Economy.com

The above Table highlights the cumulative growth in real per capita personal income over the past fifty-seven years. Despite the fact that growth in Connecticut real personal income has remained equal to the United States over the past fifteen years, overall Connecticut has enjoyed higher cumulative growth in real per capita personal income, exceeding the United States by 36.7 percentage points. In one decade alone, 1980 to 1990, Connecticut's growth in real personal

income was 17.3 percentage points higher than the United States' growth. Even though job growth in the state has lagged that of the nation, Connecticut residents' income growth has out-performed that of the nation's over the long-term.

Cost of Living Index

Statistics regarding inflation and the cost of living for Connecticut are frequently requested by the public. The two indicators are not the same. The inflation index such as the CPI-U is used to measure purchasing power relative to its historical performance, while the cost of living index is used to measure purchasing power relative to one's geographical peers. In other words, the cost of living index is produced to measure the relative price level of consumer goods and services for a specific area relative to other jurisdictions at a given time.

A widely used index to measure cost of living differences among urban areas is *ACCRA Cost of Living Index,* which is produced by The Council for Community and Economic Research (C2ER). This report includes indices for approximately 290 Metropolitan Statistical Areas (MTAs), Metropolitan Statistical Divisions (MTDs), and Micropolitan Statistical Areas (MCAs) as defined by the U.S. Office of Management and Budget (OMB). In Connecticut, the C2ER survey includes the four urban areas from the following MTAs: Stamford in the Bridgeport-Stamford-Norwalk MTA, Hartford in the Hartford-West Hartford-East Hartford MTA, New Haven in the New Haven-Milford MTA, and New London in the Norwich-New London MTA.

The following Table shows the cost of living comparison for three neighboring cities: Boston in the Boston-Quincy MTD, Hartford in the Hartford-West Hartford-East Hartford MTA, and New York (Manhattan) in the New York-White Plains-Wayne NY-NJ MTD in the second quarter of 2007.

TABLE 73
COMPARISON OF COST OF LIVING

2nd Quarter 2007 MTA/MTD	Composite Index	Grocery Items	Housing	Utilities	Trans-portation	Health Care	Misc.*
Hartford, CT	119.0	115.0	134.7	137.7	113.1	109.7	107.2
Boston, MA	135.9	120.7	159.7	135.4	106.8	115.0	115.0
New York, NY	214.7	164.5	403.3	151.9	122.8	129.1	136.6
Index Weights	100%	13%	28%	10%	10%	4%	35%

* denotes miscellaneous goods and services

Source: The Council for Community and Economic Research (C2ER), "*ACCRA Cost of Living Index*", Second Quarter 2007

The Cost of Living Composite Index is weighed by a "market basket" of approximately 60 goods and services for the typical professional and executive household. It is further broken down into six categories including grocery items, housing, utilities, transportation, health care, and miscellaneous goods and services to reflect the different categories of consumer expenditures. The index for the Hartford area, for example, for the second quarter of 2007 was

119.0 compared to the national average of 100. This index demonstrates that the overall living cost in the Hartford area was higher than the national average by 19.0%. Among the six categories, the cost of utilities in the Hartford area was the most expensive item, a full 37.7% higher than the national average, followed by housing at 34.7%, grocery items at 15.0%, transportation at 13.1%, health care at 9.7%, and miscellaneous goods and services at 7.2% higher than the national average. The index, updated quarterly, does not measure tax differentials.

In the second quarter of 2007, numerous cities had a relatively higher cost of living than the Hartford area. These include, for example, New York City (Manhattan) at 214.7; San Francisco, California at 169.2; and Honolulu, Hawaii at 161.8. Living costs in most southern states' cities are relatively low; for example, Lancaster, South Carolina at 81.9; Houston, Texas at 87.7; and Baton Rouge, Louisiana at 91.3. The cost of living in the Hartford area was collectively on par with Portland, Oregon; Providence, Rhode Island; and Fort Lauderdale, Florida, which registered at 120.3, 120.6, and 122.3, respectively. The cost of living index can provide useful information for relocation decisions. If someone is contemplating a job offer in a certain area, he or she may use this index as a guide to evaluate the financial merits of the move. For example, if a Hartford resident is considering a move to New York City (Manhattan) and wants to maintain his or her current lifestyle, other things being equal, his or her after-tax income level has to increase by 79.4%, (214.7-119.7)/119.7, in order to compensate for the higher cost of living. On the contrary, if a New York City resident is contemplating a move to Hartford, his or her after-tax income level can be reduced by 44.2%, (119.7-214.7)/214.7, in order to sustain the same current life style.

The cost of living for metropolitan statistical areas within Connecticut also varies. For the second quarter of 2007, the ACCRA cost of living Index for the Stamford area was at 149.2, New Haven at 121.1, and New London at 114.6, compared to 119.7 for Hartford. These four statistical areas accounted for 70% of the state's total population. The following Table demonstrates the relative index of the components for these four Connecticut regions.

TABLE 74
COMPARISON OF COST OF LIVING IN CONNECTICUT
Hartford, New Haven, New London, and Stamford MTAs

2nd Quarter 2007 MTA	Composite Index	Grocery Items	Housing	Utilities	Trans-portation	Health Care	Misc.
Hartford	119.7	115.0	134.7	137.7	113.1	109.7	107.2
New Haven	121.1	122.7	138.3	130.2	102.4	114.2	110.3
New London	114.6	125.5	118.0	129.0	100.8	113.2	107.7
Stamford	149.2	116.1	229.4	128.3	121.6	115.1	115.2

Source: The Council for Community and Economic Research (C2ER), "*ACCRA Cost of Living Index*", Second Quarter 2007

THE MAJOR REVENUE RAISING TAXES IN THE STATE OF CONNECTICUT

In fiscal 2007, Connecticut's General Fund derived 75 percent of its revenue from the collection of taxes. To provide an analysis of the overall tax burden on the individuals of each state, the following Table was prepared for fiscal 2006. The Table shows overall state tax collections as a percentage of personal income. In the Table, note that Connecticut ranks 24th, signifying that in 23 other states a greater percentage of an individual's income is going for state taxes than in Connecticut.

TABLE 75
STATE TAX COLLECTIONS AS A PERCENTAGE OF PERSONAL INCOME
Fiscal 2006

State	Percentage	Rank	State	Percentage	Rank
Vermont	11.46%	1	New York	6.97%	26
Hawaii	10.74%	2	Indiana	6.86%	27
Wyoming	10.70%	3	Kansas	6.76%	28
Alaska	9.89%	4	New Jersey	6.71%	29
West Virginia	9.21%	5	Massachusetts	6.69%	30
New Mexico	9.11%	6	Nebraska	6.67%	31
Arkansas	8.99%	7	Ohio	6.60%	32
Minnesota	8.86%	8	Nevada	6.55%	33
Delaware	8.81%	9	Pennsylvania	6.54%	34
Maine	8.67%	10	Oregon	6.39%	35
Louisiana	8.45%	11	Iowa	6.37%	36
Kentucky	8.18%	12	South Carolina	6.23%	37
California	7.98%	13	Alabama	6.21%	38
Mississippi	7.88%	14	Arizona	6.18%	39
North Dakota	7.84%	15	Maryland	6.11%	40
Montana	7.53%	16	Illinois	5.89%	41
Utah	7.47%	17	Georgia	5.82%	42
North Carolina	7.45%	18	Virginia	5.82%	43
Idaho	7.45%	19	Florida	5.80%	44
Wisconsin	7.39%	20	Tennessee	5.60%	45
Michigan	7.06%	21	Missouri	5.44%	46
Rhode Island	7.02%	22	South Dakota	4.73%	47
Washington	7.01%	23	Colorado	4.68%	48
Connecticut	7.01%	24	Texas	4.61%	49
Oklahoma	6.99%	25	New Hampshire	4.12%	50
U.S. Average	6.68%				

Source: U.S. Department of Commerce, "State Government Finances, 2006"

Following is a discussion of the major revenue raising taxes in the State of Connecticut.

Personal Income Tax

For income years commencing on or after January 1, 1991, a personal income tax was imposed upon income of residents of the State (including resident trusts and estates), part-year residents and certain non-residents who have taxable income derived from or connected with sources within Connecticut. For tax years commencing on or after January 1, 1991, and prior to January 1, 1992, the tax was imposed at the rate of 1.5% on Connecticut taxable income. For tax years commencing on or after January 1, 1992, the separate tax on capital gains, dividends and interest was repealed, and the tax was imposed at the rate of 4.5% of Connecticut taxable income. Beginning with tax years commencing on or after January 1, 1996, a second, lower tax rate of 3% was introduced for a certain portion of taxable income. Beginning with tax years commencing January 1, 2003 the 4.5% rate was increased to 5.0%. The amount of taxable income subject to the lower tax rate has been expanded as set forth in the Table below. Depending on federal income tax filing status and Connecticut adjusted gross income, personal exemptions ranging from $13,000 to $24,000 are available to taxpayers, with such exemptions phased out at certain higher income levels. Legislation enacted in 1999 increases the exemption amount for single filers over a certain number of years from $12,000 to $15,000. In addition, tax credits ranging from 75% to 1% of a taxpayer's Connecticut tax liability are also available, again dependent upon federal income tax filing status and Connecticut adjusted gross income (See Table 78 for more details). Neither the personal exemption nor the tax credit is available to a trust or an estate. Also commencing in income year 1996, personal income taxpayers were eligible for up to a $100 credit for property taxes paid on their primary residence or on their motor vehicle. This credit increased to $215 for income year 1997, $350 for income year 1998, $425 for income year 1999, and to $500 for income years 2000 through 2002, with amounts above the initial $100 phased-out at higher income levels. Beginning with income year 2003, the credit was reduced to $350, but rose to $500 in income year 2006.

The Personal Income Tax generated $6,749.5 million in fiscal year 2006-07, $6,156.4 million in fiscal year 2005-06, and $5,570.7 million in fiscal year 2004-05. In fiscal year 2006-07, this tax accounted for 42.8% of total revenue and 53.3% of total tax collections, while in fiscal year 2005-06 it accounted for 41.1% of total revenue and 51.5% of total tax collections.

TABLE 76
TAXABLE INCOME AMOUNTS SUBJECT TO THE LOWER RATE
WITH THE REMAINDER SUBJECT TO THE HIGHER RATE

			Amount At Low Rate By Filing Status		
Income Year	Low Rate	High Rate	Single	Joint	Head of Household
1996	3.0%	4.5%	$ 2,250	$ 4,500	$ 3,500
1997	3.0%	4.5%	$ 6,250	$12,500	$10,000
1998	3.0%	4.5%	$ 7,500	$15,000	$12,000
1999 - 2002	3.0%	4.5%	$10,000	$20,000	$16,000
2003 & After	3.0%	5.0%	$10,000	$20,000	$16,000

The following Table compares the personal income tax collections as a percentage of personal income for the fifty states for fiscal 2006.

TABLE 77
STATE INCOME TAX COLLECTIONS AS A PERCENTAGE OF PERSONAL INCOME
Fiscal 2006

State	Percentage	Rank	State	Percentage	Rank
Oregon	4.56%	1	Kansas	2.59%	23
New York	3.74%	2	Vermont	2.58%	24
California	3.67%	3	Maryland	2.57%	25
Massachusetts	3.62%	4	Iowa	2.51%	26
Minnesota	3.51%	5	Missouri	2.40%	27
North Carolina	3.42%	6	Kentucky	2.40%	28
Hawaii	3.39%	7	Oklahoma	2.39%	29
Connecticut	3.34%	8	Colorado	2.34%	30
Maine	3.31%	9	Indiana	2.21%	31
Wisconsin	3.16%	10	Louisiana	2.19%	32
Delaware	3.14%	11	South Carolina	2.19%	33
Utah	3.12%	12	Pennsylvania	2.03%	34
Virginia	3.07%	13	Alabama	2.01%	35
Idaho	2.90%	14	New Mexico	2.00%	36
Georgia	2.75%	15	Michigan	1.85%	37
Montana	2.72%	16	Illinois	1.81%	38
New Jersey	2.68%	17	Arizona	1.72%	39
Ohio	2.64%	18	Mississippi	1.65%	40
West Virginia	2.62%	19	North Dakota	1.33%	41
Rhode Island	2.61%	20	New Hampshire	0.16%	42
Nebraska	2.60%	21	Tennessee	0.10%	43
Arkansas	2.60%	22			
U.S. Average	2.31%				

Note: The following states do not levy an income tax: Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming.

Source: U.S. Department of Commerce, "State Government Finances, 2006"

The following Table shows Connecticut personal income tax exemptions ranging from $13,000 to $24,000 including the phase out as income levels rise depending on adjusted gross income for each income tax filing status.

TABLE 78
CONNECTICUT PERSONAL INCOME TAX CREDITS & EXEMPTIONS
Income Year 2008

Single			Married Filing Jointly			Head of Household		
Exemption: $13,000			Exemption: $24,000			Exemption: $19,000		
Phase Out: $1K of exemption for each $1K from $26.0K to $38.0K			Phase Out: $1K of exemption for each $1K from $48K to $72K			Phase Out: $1K of exemption for each $1K from $38K to $57K		
AGI From	AGI To	% of Tax	AGI From	AGI To	% of Tax	AGI From	AGI To	% of Tax
$13,000	$16,300	75%	$24,000	$30,000	75%	$19,000	$24,000	75%
$16,300	$16,800	70%	$30,000	$30,500	70%	$24,000	$24,500	70%
$16,800	$17,300	65%	$30,500	$31,000	65%	$24,500	$25,000	65%
$17,300	$17,800	60%	$31,000	$31,500	60%	$25,000	$25,500	60%
$17,800	$18,300	55%	$31,500	$32,000	55%	$25,500	$26,000	55%
$18,300	$18,800	50%	$32,000	$32,500	50%	$26,000	$26,500	50%
$18,800	$19,300	45%	$32,500	$33,000	45%	$26,500	$27,000	45%
$19,300	$19,800	40%	$33,000	$33,500	40%	$27,000	$27,500	40%
$19,800	$21,700	35%	$33,500	$40,000	35%	$27,500	$34,000	35%
$21,700	$22,200	30%	$40,000	$40,500	30%	$34,000	$34,500	30%
$22,200	$22,700	25%	$40,500	$41,000	25%	$34,500	$35,000	25%
$22,700	$23,200	20%	$41,000	$41,500	20%	$35,000	$35,500	20%
$23,200	$27,100	15%	$41,500	$50,000	15%	$35,500	$44,000	15%
$27,100	$27,600	14%	$50,000	$50,500	14%	$44,000	$44,500	14%
$27,600	$28,100	13%	$50,500	$51,000	13%	$44,500	$45,000	13%
$28,100	$28,600	12%	$51,000	$51,500	12%	$45,000	$45,500	12%
$28,600	$29,100	11%	$51,500	$52,000	11%	$45,500	$46,000	11%
$29,100	$52,000	10%	$52,000	$96,000	10%	$46,000	$74,000	10%
$52,000	$52,500	9%	$96,000	$96,500	9%	$74,000	$74,500	9%
$52,500	$53,000	8%	$96,500	$97,000	8%	$74,500	$75,000	8%
$53,000	$53,500	7%	$97,000	$97,500	7%	$75,000	$75,500	7%
$53,500	$54,000	6%	$97,500	$98,000	6%	$75,500	$76,000	6%
$54,000	$54,500	5%	$98,000	$98,500	5%	$76,000	$76,500	5%
$54,500	$55,000	4%	$98,500	$99,000	4%	$76,500	$77,000	4%
$55,000	$55,500	3%	$99,000	$99,500	3%	$77,000	$77,500	3%
$55,500	$56,000	2%	$99,500	$100,000	2%	$77,500	$78,000	2%
$56,000	$56,500	1%	$100,000	$100,500	1%	$78,000	$78,500	1%

Source: General Statutes of the State of Connecticut

The following Table shows whether state and local governmental obligations are included in the definition of state income for tax purposes.

TABLE 79
STATE AND LOCAL GOVERNMENT OBLIGATIONS EXEMPTIONS FOR DETERMINING INDIVIDUAL'S STATE INCOME

State	Own Securities	Other State's Securities	State	Own Securities	Other State's Securities
Alabama	E	T	Montana	E	T
Alaska (no tax)			Nebraska	E	T
Arizona	E	T	Nevada (no tax)		
Arkansas	E	T	New Hampshire	E	T
California	E	T	New Jersey	E	T
Colorado	E	T	New Mexico	E	T
Connecticut	E	T	New York	E	T
Delaware	E	T	North Carolina	E	T
Florida (no tax)			North Dakota	E	T
Georgia	E	T	Ohio	E	T
Hawaii	E	T	Oklahoma	T (1)	T
Idaho	E	T	Oregon	E	T
Illinois	T (1)	T	Pennsylvania	E	T
Indiana	E	E	Rhode Island	E	T
Iowa	T (1)	T	South Carolina	E	T
Kansas	E	T	South Dakota (no tax)		
Kentucky	E	T	Tennessee	E	T
Louisiana	E	T	Texas (no tax)		
Maine	E	T	Utah	E	E (2)
Maryland	E	T	Vermont	E	T
Massachusetts	E	T	Virginia	E	T
Michigan	E	T	Washington (no tax)		
Minnesota	E	T	West Virginia	E	T
Mississippi	E	T	Wisconsin	T (1)	T
Missouri	E	T	Wyoming (no tax)		

T = Taxable / E = Exempt

(1) Interest earned from some qualified obligations is exempt from the tax.
(2) Taxable for bonds acquired after 2002 if the other state or locality imposes an income-based tax on Utah bonds.

Source: Commerce Clearing House, Inc.

The following Table compares the personal income tax rates and bases for the fifty states and the District of Columbia.

TABLE 80
PERSONAL INCOME TAX BY STATE*

State	Low Bracket Rate	Low Bracket To Net Income	High Bracket Rate	High Bracket From Net Income	State	Low Bracket Rate	Low Bracket To Net Income	High Bracket Rate	High Bracket From Net
Alabama (2)	2.0	1,000	5.0	6,001	Missouri (1)	1.5	1,000	6.0	9,000
Arizona (1)	2.59	20,000	4.54	300,001	Montana (1)	1.0	2,499	6.9	14,900
Arkansas (4)	1.0	3,600	7.0	30,100	Nebraska (1)	2.56	4,800	6.84	54,000
California (1)	1.0	13,654	9.3	89,629	New Hampshire	(b)			
Colorado (2)	4.63	All			New Jersey (4)	1.4	20,000	8.97	500,000
Connecticut (1)	3.0	20,000	5.0	20,000	New Mexico (1)	1.7	8,000	5.3	24,000
Delaware (1)	2.2	5,000	5.95	60,000	New York (1)	4.0	16,000	6.85	40,000
Georgia (1)	1.0	1,000	6.0	10,000	N. Carolina (2)	6.0	21,250	8.0	200,000
Hawaii (2)	1.4	4,800	8.25	96,000	N. Dakota (2)	2.1	53,200	5.54	349,700
Idaho (2)	1.6	2,396	7.8	47,927	Ohio (1)	0.65	5,000	6.03	200,000
Illinois (1)	3.0	All			Oklahoma (1)	0.5	2,000	5.65	15,000
Indiana (1)	3.4	All			Oregon (2)	5.0	5,700	9.0	14,300
Iowa (1)	0.36	1,343	8.98	60,436	Pennsylvania (4)	3.07	All		
Kansas (1)	3.5	30,000	6.45	60,000	Rhode Island (1,c)	3.75	53,150	9.9	349,700
Kentucky (1)	2.0	3,000	6.0	75,000	S. Carolina (2)	3.0	5,260	7.0	13,150
Louisiana (1)	2.0	25,000	6.0	50,000	Tennessee	(b)			
Maine (1)	2.0	9,499	8.5	37,950	Utah (2,c)	2.3	2,000	6.98	11,000
Maryland (1)	2.0	1,000	4.75	3,000	Vermont (3)	3.6	53,150	9.5	349,700
Massachusetts (1)	5.3	All	(a)		Virginia (1)	2.0	3,000	5.75	17,000
Michigan (1)	4.35	All			W. Virginia (1)	3.0	10,000	6.5	60,000
Minnesota (2)	5.35	31,150	7.85	123,751	Wisconsin (1)	4.6	12,680	6.75	190,210
Mississippi (4)	3.0	5,000	5.0	10,000	Dist. of Col. (1)	4.0	10,000	8.5	40,000

* The following states do not levy an income tax: Alaska, Florida, Nevada, South Dakota, Texas, Washington & Wyoming.

Note: Tax rates are for married filers filing joint returns and do not include income taxes levied at the local level.

Base: (1) – Modified Federal Adjusted Gross Income
(2) – Modified Federal Taxable Income
(3) – Federal Tax Liability
(4) – State's Individual Definition of Taxable Income

(a) The rate is 12% for short-term capital gains and 5.3% for interests and dividends.
(b) Income taxes are limited to interest and dividends: 5.0% in New Hampshire and 6.0% in Tennessee.
(c) Rhode Island taxpayers may elect to pay a flat rate of 7.5% and in Utah of 5.35%.

Source: Commerce Clearing House, Inc.

Sales and Use Tax

The sales tax is imposed, subject to certain limitations, on the gross receipts from certain transactions within the State of persons engaged in business in the state including: 1) retail sales of tangible personal property; 2) the sale of certain services; 3) the leasing or rental of tangible personal property; 4) the producing, fabricating, processing, printing, or imprinting of tangible personal property to special order or with material furnished by the consumer; 5) the furnishing, preparing or serving of food, meals or drinks; and 6) the occupancy of hotels or lodging house rooms for a period not exceeding thirty consecutive calendar days.

The use tax is imposed on the consideration paid for certain services or purchases or rentals of tangible personal property used within the state and not subject to the sales tax.

Both the sales and use taxes are levied at a rate of six percent. Various exemptions from the tax are provided, based on the nature, use, or price of the property or services involved or the identity of the purchaser. Hotel rooms are taxed at 12%.

The sales and use tax is an important source of revenue for the State of Connecticut. In fiscal 2006-07, sales and use taxes accounted for 22.2% of total revenue and 29.4% of total tax collections, compared to 22.7% and 30.3%, respectively, in fiscal 2005-06.

When analyzing sales taxes, a simple comparison of rates is not an effective way to measure the tax burden imposed. An analysis of the tax base must be included to provide a more meaningful comparison.

In an attempt to provide a more relevant comparison of the sales tax burden, two studies are presented. The first study shows sales tax collections as a percentage of personal income. The larger the percentage of personal income going to sales tax collections, the heavier the burden of that tax. The Table on the following page shows sales tax collections as a percentage of personal income and the corresponding ranking of the states. Note that Connecticut's tax burden is less than 33 other states. The comparison is based on fiscal year 2006 data. From fiscal 1991 to fiscal 2006, Connecticut's sales tax collections as a percentage of personal income dropped from 3.15% with a rank of ninth to 1.76% with a rank of 34th, and compared to the national average of 2.13%. This change was primarily due to the reduction in Connecticut's sales tax rate from 8% to 6% and an expansion of the exemptions on certain services and goods.

The second study provides an analysis of major sales tax exemptions by state. Connecticut excludes from its sales tax such major items as food products for human consumption, drugs and medicines used by humans, clothing and footwear up to $50, machinery, professional services, residential utilities and motor fuels. Table Number 81 shows the comparison for major sales tax exemptions.

TABLE 81
SALES TAX COLLECTIONS AS A PERCENTAGE OF PERSONAL INCOME
Fiscal 2006

State	Sales Tax Rate	%	Rank	State	Sales Tax Rate	%	Rank
Hawaii	4.0*	5.14	1	Minnesota	6.5*	2.27	24
Washington	6.5*	4.29	2	Kentucky	6.0	2.26	25
Mississippi	7.0	4.01	3	Wisconsin	5.0	2.21	26
Arkansas	6.0*	3.58	4	Rhode Island	7.0	2.19	27
Tennessee	7.0*	3.40	5	Ohio	5.5*	2.07	28
Nevada	6.5*	3.37	6	North Dakota	5.0*	2.07	29
Florida	6.0*	3.24	7	Georgia	4.0*	1.98	30
Wyoming	4.0*	3.15	8	Pennsylvania	6.0*	1.89	31
New Mexico	5.0	3.11	9	Iowa	5.0*	1.88	32
Louisiana	4.0	3.00	10	North Carolina	4.0*	1.82	33
Arizona	5.6*	2.74	11	Connecticut	6.0	1.76	34
South Dakota	4.0*	2.72	12	New Jersey	7.0	1.75	35
Indiana	6.0	2.69	13	Missouri	4.225*	1.66	36
Utah	4.75*	2.59	14	Illinois	6.25*	1.62	37
Idaho	6.0	2.56	15	Alabama	4.0*	1.62	38
South Carolina	6.0*	2.56	16	Oklahoma	4.5*	1.62	39
Maine	5.0	2.51	17	Vermont	6.0	1.55	40
Michigan	6.0	2.40	18	Maryland	5.0	1.41	41
Nebraska	5.5*	2.37	19	Massachusetts	5.0	1.38	42
California	6.25*	2.31	20	New York	4.0*	1.37	43
Texas	6.25*	2.30	21	Colorado	2.9*	1.16	44
Kansas	5.3*	2.29	22	Virginia	4.0*	1.10	45
West Virginia	6.0	2.27	23				
U.S. Average		2.13					

* Local tax rates are additional.

Note: Alaska, Delaware, Montana, New Hampshire, and Oregon do not levy a sales tax. The state of Delaware imposes a merchants' and manufacturers' license tax and a use tax on leases.

Source: Commerce Clearing House, Inc.;
U.S. Department of Commerce, "State Government Finances", 2006;
U.S. Department of Commerce, Bureau of Economic Analysis

TABLE 82
MAJOR SALES TAX EXEMPTIONS BY STATE

State	Food	Prescription Drugs	Motor Fuels	Services	Clothes	Cig's	Computer Software (Canned)	Computer Software (Custom)
Alabama	T	E	E	E	T	T	E	E
Arizona	E	E	E	T	T	T	E	E
Arkansas	T	E	E	T	T	T	T	T
California	E	E	T	E	T	T	E	E
Colorado	E	E	E	E	T	T	E	E
Connecticut	E	E	E	T	E (2)	T	T	T
Florida	E	E	T	T	T	T	E	E
Georgia	E	E	T (1)	E	T	T	T	E
Hawaii	T	E	T	T	T	T	T	T
Idaho	T	E	E	E	T	T	E	E
Illinois	T (1)	T (1)	T	E	T	T	E	E
Indiana	E	E	T	E	T	T	T	E
Iowa	E	E	E	T	T	T	E	E
Kansas	T (7)	E	E	T	T	T	T	E
Kentucky	E	E	E	E	T	T	E	E
Louisiana	E	E	E	E	T	T	T	E
Maine	E	E	E	E	T	T	E	E
Maryland	E	E	E	E	T	T	E	E
Massachusetts	E	E	T	E	E (3)	T	E	E
Michigan	E	E	T	E	T	T	E	E
Minnesota	E	E	T	T	E	T	E	E
Mississippi	T	E	E	T	T	T	T	T
Missouri	T (1)	E	E	E	T	T	T	E
Nebraska	E	E	E	E	T	T	T	T
Nevada	E	E	E	E	T	T	E	E
New Jersey	E	E	T	E	E	T	E	E
New Mexico	E	E	E	T	T	T	T	T
New York	E	E	T	T	T	T	E	E
North Carolina	E	E	E	E	T	T	E	E
North Dakota	E	E	E	E	T	T	E	E
Ohio	E	E	E	T	T	T	T (5)	T (5)
Oklahoma	T	E	E	T	T	T	T	E
Pennsylvania	E	E	E	T	E	T	T	E
Rhode Island	E	E	E	E	E	T	T	E
South Carolina	T	E	E	E	T	T	T	T
South Dakota	T	E	E	T	T	T	T	T
Tennessee	T (1)	E	E	E	T	T	T	T
Texas	E	E	E	T	T	T	T	T
Utah	T	E	E	T	T	T	E	E
Vermont	E	E	E	E	E (4)	T	E	E
Virginia	T (1)	E	E	E	T	T	T	E
Washington	E	E	T	T	T	T	E	E
West Virginia	T (1)	E	T	T	T	T	T (6)	T
Wisconsin	E	E	E	T	T	T	E	E
Wyoming	T	E	E	E	T	T	T	E
Total Taxable	16	1	13	20	38	45	22	12

Note: These states do not levy a sales tax: Alaska, Delaware, Montana, New Hampshire & Oregon.

T = Taxable under the sales tax, E = Exempt from the sales tax

(1) Taxed at a reduced rate. (2) Up to a sales price of $50 per item. (3) Up to a sales price of $175 per item. (4) Up to a sales price of $110 per item. (5) Downloaded "prewritten" computer software taxable. (6) Sales of software used to provide data processing services for others are exempt. (7) Refund available for disabled, elderly and low-income households.
Source: Commerce Clearing House, Inc.

Corporation Business Tax

The Corporation Business Tax is imposed on any corporation, joint stock company or association or fiduciary of any of the foregoing which carries on or has the right to carry on business within the state or owns or leases property or maintains an office within the state. The Corporation Business Tax consists of three components. The taxpayer's liability is the greatest amount computed under any of the three components. The first is a tax measured by the net income of a taxpayer (the "Income-Base Tax"). Net income means federal gross income (with limited variations) less certain deductions, most of which correspond to the deductions allowed under the Internal Revenue Code of 1986, as amended from time to time. In fiscal 2006-07, the Corporation Business Tax accounted for 5.7% of total revenue and 7.0% of total tax collections, while in fiscal 2005-06 they were 5.3% and 6.6%, respectively.

If a taxpayer is taxable solely within the state, the Income-Base Tax is measured by, and based upon, its entire net income. If a taxpayer is taxable in another state in which it conducts business, the base against which the Income-Base Tax is measured is the portion of the taxpayer's entire net income assigned to the state, pursuant to a statutory formula designed to identify the proportion of the taxpayer's trade or business conducted within the state. Currently, the Income-Base Tax is levied at the rate of seven and one half percent.

The second part of the Corporation Business Tax is an additional tax on capital (the "Additional Tax"). The additional tax base is determined either as a specific maximum dollar amount or at a flat rate on a defined base, usually related in whole or part to its capital stock and balance sheet surplus, profit and deficit. If a taxpayer is also taxable in another state in which it conducts business, the defined base is apportioned most often to the value of certain assets having tax situs within the state. The third component of the Corporation Business Tax is the Minimum Tax, which is $250. Corporations must compute their tax under all three bases and then pay the tax under the highest computation.

Numerous tax credits are also available to corporations including, but not limited to, research and development credits of 1% to 6%, credits for property taxes paid on electronic and data processing equipment, and a 5% credit for investments in fixed and human capital.

The Table on the following page provides a comparison of the assessed rates for the corporation business tax for the fifty states and the District of Columbia.

TABLE 83
CORPORATION TAX BY STATE

State	Low Bracket % Rate	Low Bracket To Net Income	High Bracket % Rate	High Bracket From Net Income
Alabama	6.5	All		
Alaska	1.0	10,000	9.4	90,000
Arizona	6.97	All		
Arkansas	1.0	3,000	6.5	100,000
California (1)	8.84	All		
Colorado	4.63	All		
Connecticut	7.5	All		
Delaware	8.7	All		
Florida (2)	5.5	All		
Georgia	6.0	All		
Hawaii	4.4	25,000	6.4	100,000
Idaho	7.6	All		
Illinois (3)	4.8	All		
Indiana	8.5	All		
Iowa	6.0	25,000	12.0	250,000
Kansas (4)	4.0	All		
Kentucky	4.0	50,000	6.0	100,000
Louisiana	4.0	25,000	8.0	200,000
Maine	3.5	25,000	8.93	250,000
Maryland	7.0	All		
Massachusetts	9.5	All		
Michigan (5)	1.9	All		
Minnesota (6)	9.8	All		
Mississippi	3.0	5,000	5.0	10,000
Missouri	6.25	All		
Montana	6.75	All		
Nebraska	5.58	50,000	7.81	50,000
New Hampshire	8.5	All		
New Jersey (7)	6.5	50,000	9.0	100,000
New Mexico	4.8	500,000	7.6	1.0M
New York	7.1	All		
N. Carolina	6.9	All		
N. Dakota	2.6	3,000	6.5	30,000
Ohio	5.1	50,000	8.5	50,000
Oklahoma	6.0	All		
Oregon	6.6	All		
Pennsylvania	9.99	All		
Rhode Island	9.0	All		
S. Carolina	5.0	All		
Tennessee	6.5	All		
Texas	4.5	All		
Utah	5.0	All		
Vermont	6.0	10,000	8.75	250,000
Virginia	6.0	All		
West Virginia	8.75	All		
Wisconsin	7.9	All		
District of Col.	9.98	All		

Note: The table does not include corporate income taxes levied at the local level. These states do not levy a corporate income tax: Nevada, South Dakota, Washington & Wyoming. The following states require a minimum tax: Arizona $50; California $800; Connecticut $250; Idaho $20; Kentucky $175; Massachusetts $456; Montana $50; New Jersey $500; Oregon $10; Rhode Island $500; Utah $100; Vermont $250; District of Columbia $100

(1) Tax rate on financial S-corporations is 3.5%, and the tax rate all other S-corporations is 1.5%. Banks and financial corporations (except financial S-corporations) are subject to 10.84% An alternative minimum tax imposed is 6.65%.
(2) An alternative minimum tax imposed 3.3%.
(3) Additional personal property replacement tax is imposed at the rate of 2.5% of net income for corporations other than S-corporations. 1.5% for S corporations.
(4) A surtax of 3.35% on taxable incomes in excess of $50,000 is imposed.
(5) Insurance companies pay a surcharge that is 1.26 times the tax liability
(6) A 5.8% tax is imposed on any alternative minimum taxable income over the base tax
(7) A 4.0% surtax is imposed on the liability remaining after any credits allowed. A minimum tax is imposed ranging from $500-$2,000 based on New Jersey gross receipts.

Source: Federation of Tax Administrators, www.taxadmin.org. Rates Effective for IY 2007

Motor Fuels Tax

The state imposes a tax, subject to certain limitations, (1) on gasoline and certain other liquids which are prepared, advertised, offered for sale, sold for use as, or commonly and commercially used as, a fuel in internal combustion engines ("gasoline" or "gasohol") and (2) on all combustible gases and liquids which are suitable and used for generation of power to propel motor vehicles ("special fuels"). The distributors liable for these taxes are those entities which distribute fuel within the state, import fuel into the State for distribution within the State, or produce or refine fuels within the State.

The Gasoline Tax is imposed on each gallon of gasoline or gasohol sold (other than to another distributor) or used within the state by a distributor. The tax on special fuels (the "Special Fuel Tax") is assessed on each gallon of special fuels used within the State in a motor vehicle licensed, or required to be licensed, to operate upon the public highways of the state.

The Special Fuels Tax is paid by vehicle users, and is generally collected by retail dealers of special fuels (primarily diesel fuel). Various exemptions from both taxes are provided, among which are sales to, or use by the United States, the state or its municipalities.

The Motor Carrier Road Tax is imposed upon gallons of fuel (again, primarily diesel fuel) used by business entities ("motor carriers") which operate any of the following vehicles in the State: (i) passenger vehicles seating more than nine persons; (ii) road tractors or tractor trucks; or (iii) trucks having a registered gross weight in excess of eighteen thousand pounds. Such motor carriers pay the tax on the gallons of fuel which they use while operating such vehicles in the state. The number of gallons subject to the tax is determined by multiplying the total number of gallons of fuel used by the motor carrier during each year by a fraction, the numerator of which is the total number of miles traveled by the motor carrier's vehicles within the state during the year, and the denominator of which is the total number of miles traveled by the motor carrier's vehicles both within and outside the state during the year.

The Gasoline Tax is twenty-five cents per gallon. Effective July 1, 2007, the Special Fuels and Motor Carrier Taxes were raised from twenty-six cents per gallon to thirty-seven cents per gallon. The 1983 session of the General Assembly enacted a Special Transportation Fund for highway construction and maintenance and 1¢ per gallon of the motor fuels tax, or a total of $14.2 million, was dedicated to this fund. Beginning July 1, 1984, the Special Transportation Fund was expanded to include all collections from the motor fuels tax.

In future years, consumption of motor fuels will continue to be affected by the Conservation Act of 1975 (see section on "Automotive Fuel Economy") which required motor companies to drastically increase the miles per gallon that each motor vehicle attains and by the Clean Air Act of 1990 which requires metropolitan areas to significantly reduce noxious emissions from automobiles.

The Table on the following page shows the comparative rates for Motor Fuel Taxes for the 50 states.

TABLE 84
MOTOR FUEL TAXES BY STATE

State	Excise Tax	Sales Tax Rate	Total Tax*	State	Excise Tax	Sales Tax Rate	Total Tax*
Alabama	16.0¢	-	16.0¢	Montana	27.0¢	-	27.0¢
Alaska	8.0	-	8.0	Nebraska (e)	27.0	-	27.0
Arizona	18.0	-	18.0	Nevada	24.0	-	24.0
Arkansas	21.5	-	21.5	New Hampshire	18.0	-	18.0
California	18.0	6.25	36.8	New Jersey	10.5	6.00	28.5
Colorado	22.0	-	22.0	New Mexico	17.0	-	17.0
Connecticut (a)	25.0	-	25.0	New York	8.0	4.25	20.8
Delaware	23.0	-	23.0	North Carolina (f)	29.9	-	29.9
Florida	15.3	6.00	33.3	North Dakota	23.0	-	23.0
Georgia (b)	7.5	1.00	10.5	Ohio	28.0	-	28.0
Hawaii (c)	30.6	-	30.6	Oklahoma	16.0	-	16.0
Idaho	25.0	-	25.0	Oregon	24.0	-	24.0
Illinois	19.0	6.25	37.8	Pennsylvania	31.2	-	31.2
Indiana	18.0	6.00	36.0	Rhode Island	30.0	-	30.0
Iowa	20.0	-	20.0	South Carolina	16.0	-	16.0
Kansas	24.0	-	24.0	South Dakota	22.0	-	22.0
Kentucky (d)	21.0	-	21.0	Tennessee (g)	20.0	-	20.0
Louisiana	20.0	-	20.0	Texas	20.0	-	20.0
Maine	27.6	-	27.6	Utah	24.5	-	24.5
Maryland	23.5	-	23.5	Vermont	19.0	-	19.0
Massachusetts	21.0	5.00	21.0	Virginia	17.5	-	17.5
Michigan	19.0	6.00	37.0	Washington	36.0	6.50	55.5
Minnesota	20.0	6.50	39.5	West Virginia (h)	31.5	-	31.5
Mississippi	18.0	-	18.0	Wisconsin	30.9	-	30.9
Missouri	17.0	-	17.0	Wyoming	13.0	-	13.0

* The total column in the above table is the sum of the per gallon state tax and sales taxes or additional taxes where applicable. The price used to estimate the effect of the sales tax, which excludes state taxes, was $3.00 per gallon.

(a) Plus a petroleum gross receipts tax of 7.0% effective 7/1/07, which equates to approximately 14¢ per gallon assuming an average wholesale price of $2.00 per gallon.
(b) Motor fuel is exempt from 3%, but subject to the remaining 1% of the tax.
(c) County taxes between 9.8¢ and 17.5¢ per gallon are levied in addition to the state tax of 16¢ per gallon. An average of 14.6¢ was used in calculating the excise tax.
(d) Tax is 9% of the average wholesale price plus a highway user tax.
(e) Includes additional tax based on statewide average cost of fuel
(f) Includes an additional tax based on the average wholesale price of motor fuel.
(g) Plus an optional one-cent-per-gallon special tax imposed by certain counties on petroleum products and an environmental assurance fee at the rate of 0.4¢ per gallon.
(h) Includes sales tax of 11.0¢ per gallon

Source: Commerce Clearing House, Inc.

Other Sources

The following Tables show the most recent comparative rates or exemptions for some of the other taxes and fees collected by the states.

TABLE 85
CIGARETTE TAXES BY STATE

State	Rate	State	Rate
Alabama	42.5 ¢	Montana	$1.70
Alaska	$2.00	Nebraska	64.0 ¢
Arizona	$2.00	Nevada	80.0 ¢
Arkansas (1)	59.0 ¢	New Hampshire	80.0 ¢
California	87.0 ¢	New Jersey	$2.575
Colorado	84.0 ¢	New Mexico	91.0 ¢
Connecticut	$2.00	New York	$1.50
Delaware	$1.15	North Carolina	35.0 ¢
Florida	33.9 ¢	North Dakota	44.0 ¢
Georgia	37.0 ¢	Ohio	$1.25
Hawaii	$1.80	Oklahoma	$1.03
Idaho	57.0 ¢	Oregon	$1.18
Illinois	98.0 ¢	Pennsylvania	$1.35
Indiana	99.5 ¢	Rhode Island	$2.46
Iowa	$1.36	South Carolina	7.0 ¢
Kansas	79.0 ¢	South Dakota	53.0 ¢
Kentucky (2)	30.0 ¢	Tennessee	62.0 ¢
Louisiana	36.0 ¢	Texas	$1.41
Maine	$2.00	Utah (3)	69.5 ¢
Maryland	$1.00	Vermont	$1.79
Massachusetts	$1.51	Virginia	30.0 ¢
Michigan	$2.00	Washington	$2.025
Minnesota	48.0 ¢	West Virginia	55.0 ¢
Mississippi (3)	18.0 ¢	Wisconsin	$1.77
Missouri	17.0 ¢	Wyoming	60.0 ¢

Note: The tax is based on a pack of 20 cigarettes.

(1) An additional $13.75 per 1,000 cigarettes is imposed.
(2) Plus a 0.001¢ enforcement tax on each package of cigarettes.
(3) The tax rate is increased by the same amount of any reduction in the federal excise tax.

Source: Commerce Clearing House, Inc.

TABLE 86
INSURANCE COMPANIES TAX BY STATE

State	Domestic Tax Rate %	Foreign Tax Rate %	State	Domestic Tax Rate %	Foreign Tax Rate %
Alabama (1)	0.50-3.60	0.50-3.60	Montana (1)	0.75-4.25	0.75-4.25
Alaska (1)	0.75-6.00	0.75-6.00	Nebraska (1,4)	1.00-1.375	1.00-1.375
Arizona (1,3)	0.66-3.00	0.66-3.00	Nevada	3.50	3.50
Arkansas (1)	2.00-3.00	2.00-3.00	New Hampshire (8)	1.75-5.00	1.75-5.00
California (1)	0.50-5.00	0.50-5.00	New Jersey (1)	1.05-5.25	1.05-5.25
Colorado (2)	1.00	2.00	New Mexico	3.003-4.003	3.003-4.003
Connecticut	1.75	1.75	New York (1)	0.80-2.00	0.80-2.00
Delaware (1,3)	1.75-5.00	1.75-5.00	North Carolina (1)	0.74-1.90	0.74-1.90
Florida (1,4)	0.75-1.75	0.75-1.75	North Dakota (1,8)	1.75-2.00	1.75-2.00
Georgia (1,2,4)	2.25	2.25	Ohio (1,4,8)	1.00-1.40	1.00-1.40
Hawaii (1)	0.88-4.27	0.88-4.27	Oklahoma (4)	2.25	2.25
Idaho (1,2)	1.90	1.90	Oregon	(9)	(9)
Illinois (1,4)	4.00-5.00	4.00-5.00	Pennsylvania (1)	2.00-5.00	2.00-5.00
Indiana (1)	1.30-1.80	1.30-1.80	Rhode Island	2.00	2.00
Iowa	1.00	1.00	South Carolina (1)	0.75-1.35	0.75-1.35
Kansas (1,4)	2.00	2.00	South Dakota (1)	1.25-2.50	1.25-2.50
Kentucky (1,4,5)	2.00-2.75	2.00-2.75	Tennessee (1,2,8)	1.75-3.25	1.75-3.25
Louisiana (4)	(6)	(6)	Texas (1)	1.37-2.75	1.37-2.75
Maine (1)	1.00-2.55	1.00-2.55	Utah	2.26	2.26
Maryland	2.00	2.00	Vermont	2.00	2.00
Massachusetts (1,3)	1.00-5.00	1.00-5.00	Virginia (1)	0.75-2.25	0.75-2.25
Michigan	(7)	(7)	Washington (1)	0.95-2.00	0.95-2.00
Minnesota (1,4)	0.50-2.00	0.50-2.00	W. Virginia (1,4,8)	3.00-5.00	3.00-5.00
Mississippi (1)	1.00-3.00	1.00-3.00	Wisconsin (1)	0.50-3.50	0.50-3.50
Missouri (1)	1.00-2.00	1.00-2.00	Wyoming (1)	0.75-1.00	0.75-1.00

Note: The tax is based on the net premiums of authorized insurers, excludes surplus line rates.

(1) Depending upon the type of insurance issued or the type of organization formed.
(2) Rate is reduced depending upon the percentage of premiums or assets invested in the State or the State's securities.
(3) Plus a surtax of 0.4312% on vehicles in Arizona, 0.25% in Delaware, and 14% of the tax imposed in Massachusetts.
(4) Plus a fire marshal's tax not to exceed 1%, 1.25% in Louisiana.
(5) Plus a surcharge or $1.50 per $100 of premiums on Kentucky risks other than health & life.
(6) Life and health related premiums of $7,000 or less, $140; over $7,000, $140 plus $225 per $10,000; other premiums of $6,000 or less, $180; over $6,000, $180 plus $300 per $10,000.
(7) An annual valuation fee is charged equal to one cent per $1,000 insured on the value of reserve liabilities for life insurance policies and endowment contracts.
(8) With minimum tax of $200 in New Hampshire, North Dakota, & West Virginia, $150 in Tennessee and $250 in Ohio.
(9) After 2001, foreign and alien insurers are no longer subject to gross premium tax, but are subject to the corporate excise tax.

Source: Commerce Clearing House, Inc., State Tax Guide

TABLE 87
ALCOHOLIC BEVERAGE TAXES BY STATE
(Dollars Per Gallon)

State	Distilled Spirits	Wines 14% or Less	Wines 14% to 21%	Beer	State	Distilled Spirits	Wines 14% or Less	Wines 14% to 21%	Beer
Alabama (1,2)	58%	1.70	58%	.53	Montana (1,2)	16%	1.06	1.06	.14
Alaska	12.80	2.50	2.50	1.07	Nebraska	3.75	.95	.95	.31
Arizona	3.00	.84	.84	.16	Nevada	3.60	.70	1.30	.16
Arkansas	2.50	.75	.75	.23	New Hampshire (1)	.30	.30	.30	.30
California	3.30	.20	.20	.20	New Jersey	4.40	.70	.70	.12
Colorado	2.28	.32	.32	.08	New Mexico	6.06	1.70	5.68	.41
Connecticut	4.50	.60	.60	.20	New York	6.44	.19	.19	.11
Delaware	5.46	.97	.97	.16	N. Carolina (1,2)	25%	.79	.91	.53
Florida	9.53	2.25	3.00	.48	N. Dakota	2.50	.50	.60	.16
Georgia	4.54	1.51	2.54	.48	Ohio (1)	1.20	.30	.98	.18
Hawaii	5.98	1.38	1.38	.93	Oklahoma	5.56	.72	1.40	.40
Idaho (1,2)	2%	.45	.45	.15	Oregon (1)		.67	.77	.08
Illinois	4.50	.73	.73	.19	Pennsylvania (1,2)	1.00	.07	.11	.08
Indiana	2.68	.47	.47	.12	Rhode Island	3.75	.60	.75	.10
Iowa (1)	1.75	1.75	1.75	.19	S. Carolina (3)	2.72	.90	.90	.77
Kansas	2.50	.30	.75	.18	S. Dakota	3.93	.93	1.45	.28
Kentucky	1.92	.50	.50	.08	Tennessee (4)	4.40	1.21	1.21	.14
Louisiana	2.50	.11	.23	.32	Texas	2.40	.20	.41	.19
Maine (1)	1.25	.60	.60	.35	Utah (1,2)	.41	13%	13%	.41
Maryland	1.50	.40	.40	.09	Vermont (1,2)	25%	.55	25%	.27
Massachusetts	4.05	.55	.55	.11	Virginia (1,2,5)	20%	1.51	1.51	.26
Michigan (1,2)	9.9%	.51	.76	.20	Washington (1)	8.08	.87	1.72	.26
Minnesota	5.03	.30	.95	.15	W. Virginia (2,6)	5%	1.00	1.00	.18
Mississippi (1)	2.50	.35	.35	.43	Wisconsin (7)	3.25	.25	.45	.06
Missouri	2.00	.30	.30	.06	Wyoming (1)	1.14	.95	.95	.02

(1) Monopoly state, receives most or all of revenue through markup. Tax rates shown are in addition to any price markup.
(2) Of the retail price.
(3) Additional surtaxes of 5% on alcoholic beverages and 18¢ for wine are applied.
(4) Tennessee levies a 17% surcharge on the wholesale price of malt beverages.
(5) Additional tax of 4% of retail imposed on all wine.
(6) A 5% tax is imposed on sales of liquor outside municipalities.
(7) An administration fee of 3¢ per gallon is imposed on intoxicating liquors.

Source: Commerce Clearing House, Inc., State Tax Guide

The Tables on the next two pages list individual General Fund Revenue sources and Special Transportation Fund sources as a percentage of total collections for a five fiscal year period.

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TABLE 88
GENERAL FUND REVENUES

TAXES ($K)	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007*
Personal Income	$4,263,070	$4,943,430	$5,570,724	$6,156,373	$6,749,462
Sales and Use	3,025,743	3,133,888	3,290,366	3,401,966	3,496,110
Corporation	507,975	518,009	678,969	787,702	890,730
Public Service Corporation	197,959	193,643	196,819	225,263	235,502
Insurance Companies	239,358	233,412	257,152	269,902	253,016
Inheritance & Estate	184,321	147,614	253,907	196,258	179,922
Cigarettes	256,052	279,572	273,979	272,230	269,525
Oil Companies	117,451	106,894	143,548	212,091	144,404
Real Estate Conveyance	149,317	176,743	207,631	207,458	211,222
Alcoholic Beverages	42,490	44,044	44,236	45,998	46,006
Admissions, Dues, Cabaret	31,696	31,662	31,699	35,367	33,439
Miscellaneous	33,731	34,822	39,028	142,180	144,517
Total - Taxes	9,049,163	9,843,733	10,988,058	11,952,788	12,653,855
Less Refunds of Taxes	(808,209)	(650,800)	(681,279)	(730,850)	(746,539)
Less Refunds of R&D Credit	(11,148)	(10,378)	(8,850)	(6,694)	(5,982)
Total - Taxes Less Refunds	8,229,806	9,182,555	10,297,929	11,215,244	11,901,334
OTHER REVENUE					
Transfer-Special Revenue	262,776	286,699	273,894	289,946	283,808
Indian Gaming Payments	387,255	402,733	417,838	427,527	430,476
Licenses, Permits & Fees	125,179	154,585	143,250	157,400	151,738
Sales of Commodities & Services	32,869	40,991	35,148	34,612	35,528
Investment Income	7,083	1,779	15,293	53,702	83,610
Rents, Fines & Escheats	81,490	117,719	170,732	91,456	51,782
Miscellaneous	182,364	111,149	153,982	176,596	188,324
Less Refunds of Payments	(396)	(574)	(374)	(438)	(513)
Total - Other Revenue	1,078,621	1,115,081	1,209,764	1,230,801	1,224,753
OTHER SOURCES					
Federal Grants	2,318,421	2,564,256	2,497,670	2,549,577	2,602,774
Transfer from Special Funds	489,486	346,883	142,500	89,400	100,000
Transfer to Other Funds	(93,009)	(85,000)	(85,000)	(86,300)	(45,300)
Total - Other Sources	2,714,898	2,826,139	2,555,170	2,552,677	2,657,474
GRAND TOTAL	$12,023,325	$13,123,775	$14,062,863	$14,998,721	$15,783,561
TAXES	% of Total	% of Total	% of Total	% of Total	% of Total
Personal Income	35.46%	37.67%	39.61%	41.05%	42.76%
Sales and Use	25.17	23.88	23.40	22.68	22.15
Corporation	4.22	3.95	4.83	5.25	5.64
Public Service Corporation	1.65	1.48	1.40	1.50	1.49
Insurance Companies	1.99	1.78	1.83	1.80	1.60
Inheritance & Estate	1.53	1.12	1.81	1.31	1.14
Cigarettes	2.13	2.13	1.95	1.82	1.71
Oil Companies	0.98	0.81	1.02	1.41	0.91
Real Estate Conveyance	1.24	1.35	1.48	1.38	1.34
Alcoholic Beverages	0.35	0.34	0.31	0.31	0.29
Admissions, Dues, Cabaret	0.26	0.24	0.23	0.24	0.21
Miscellaneous	0.28	0.27	0.28	0.95	0.92
Total - Taxes	75.26	75.01	78.14	79.69	80.17
Less Refunds of Taxes	(6.72)	(4.96)	(4.84)	(4.87)	(4.73)
Less Refunds of R&D Credit	(0.09)	(0.08)	(0.06)	(0.04)	(0.04)
Total – Taxes Less Refunds	68.44	69.97	73.23	74.78	75.40
OTHER REVENUE					
Transfer-Special Revenue	2.19	2.18	1.95	1.93	1.80
Indian Gaming Payments	3.22	3.07	2.97	2.85	2.73
Licenses, Permits & Fees	1.04	1.18	1.02	1.05	0.96
Sales of Commodities & Services	0.27	0.31	0.25	0.23	0.23
Investment Income	0.06	0.01	0.11	0.36	0.53
Rents, Fines & Escheats	0.68	0.90	1.21	0.61	0.33
Miscellaneous	1.52	0.85	1.09	1.18	1.19
Less Refunds of Payments	-	-	-	-	-
Total - Other Revenue	8.97	8.50	8.60	8.20	7.76
OTHER SOURCES					
Federal Grants	19.28	19.50	17.76	17.00	16.49
Transfer from Special Funds	4.07	2.60	1.01	0.60	0.63
Transfer to Other Funds	(0.77)	(0.60)	(0.60)	(0.58)	(0.29)
Total - Other Sources	22.58	21.50	18.17	17.02	16.84
GRAND TOTAL	100.00%	100.00%	100.00%	100.00%	100.00%

TABLE 89
SPECIAL TRANSPORTATION FUND REVENUES

	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007*
TAXES ($K)					
Motor Fuels	$457,991	$464,472	$483,797	$480,868	$478,250
Oil Companies	-	10,500	13,000	43,500	141,000
DMV Sales	65,523	70,412	69,720	68,419	67,889
Less Refunds of Taxes	(8,518)	(10,096)	(8,329)	(8,853)	(7,916)
Total - Taxes Less Refunds	514,996	535,288	558,188	583,934	679,223
OTHER REVENUE					
Motor Vehicle Receipts	204,824	219,159	233,852	227,261	224,678
Licenses, Permits & Fees	136,597	155,074	155,083	160,442	170,460
Interest Income	27,399	24,524	32,681	40,125	45,999
Federal Transit Administration	3,305	-	-	-	-
Transfer from Other Funds	2,634	3,730	-	-	8,000
Transfer to Other Funds	(60,500)	(8,500)	(8,500)	(4,600)	(7,000)
Transfer to TSB	-	(22,850)	(28,727)	(25,300)	(20,300)
Less Refunds of Payments	(2,150)	(2,507)	(2,779)	(2,666)	(2,716)
Total – Other Revenue	312,109	368,630	381,610	395,262	411,121
GRAND TOTAL	$827,105	$903,918	$939,798	$979,196	$1,098,344
	% of Total	**% of Total**	**% of Total**	**% of Total**	**% of Total**
TAXES					
Motor Fuels	55.37%	51.38%	51.48%	49.11%	43.86%
Oil Companies	-	1.16	1.38	4.44	12.93
DMV Sales	7.92	7.79	7.42	6.99	6.23
Less Refunds of Taxes	(1.03)	(1.12)	(0.89)	(0.90)	(0.73)
Total – Taxes Less Refunds	62.26	59.22	59.39	59.63	62.29
OTHER REVENUE					
Motor Vehicle Receipts	24.76	24.25	24.88	23.21	20.61
Licenses, Permits & Fees	16.52	17.16	16.50	16.39	15.63
Interest Income	3.31	2.71	3.48	4.10	4.22
Federal Transit Administration	0.40	-	-	-	-
Transfer from Other Funds	0.32	0.41	-	-	-
Transfer to Other Funds	(7.31)	(0.94)	(0.90)	(0.47)	(0.64)
Transfer to TSB	-	(2.53)	(3.06)	(2.58)	(1.86)
Less Refunds of Payments	(0.26)	(0.28)	(0.30)	(0.27)	(0.25)
Total - Other Revenue	37.74	40.78	40.61	40.37	37.71
GRAND TOTAL	100.00%	100.00%	100.00%	100.00%	100.00%

* Per the Comptroller's report dated September 4, 2007.

ECONOMIC ASSUMPTIONS OF THE GOVERNOR'S BUDGET

The Foreign Sector

As the world's economy continues to become more globalized, the U.S. economy is impacted by the rest of the world through increasingly integrated flows of trade, finance, technology diffusion, information networking, and cross-cultural exchanges. During the past three decades, total U.S. imports and exports in both goods and services, as measured in 2000 dollars, have increased from $634.4 billion in 1980 to $3,232.7 billion in 2006, an increase of 410% versus only a 119% increase for real Gross Domestic Product (GDP). This shows that the growing interaction between the U.S. economy and the world economic system has been more than two times as fast as the growth in domestic economic activity. When forecasting the U.S. and Connecticut economies, the interaction with international economic policies, monetary and fiscal policies, financial markets, and currency movements must be taken into consideration.

U.S. exports hinge closely on world economic conditions. The U.S. economy ended its tenth-year of expansion in early 2001. That recession spread into other countries, affecting the overall world economy and, in turn, the U.S.'s own exports. Real world GDP grew 1.4% in 2001 and 1.7% in 2002, down from 4.1% in 2000. U.S. real exports declined by 2.7% in 2001, down from growth of 13.1% and 11.5%, respectively, in 2000 and 1999. During the recovery period from 2003 to 2007, real world GDP grew by an average of 3.3%, while U.S. real exports increased by an average of 5.5%.

As globalization continues to proceed rapidly, it helps increase GDP growth and promote stability, and has served to reduce volatility in inflation in both the U.S. and other industrialized countries over the last two decades. The expansion of major multilateral trade systems provides for a much freer flow of resources, stimulating economic activity and facilitating trade growth. This favorable development will create a more open, efficient, and uniform market, adding opportunities for U.S. trade. The World Trade Organization (WTO) has nearly 150 member countries that account for over 97% of total world trade. Obligated to the WTO, member countries have revised laws and regulations to bring more transparency to their policy making and lifted restrictions on import items. The North American Free Trade Agreement (NAFTA), which began in January 1, 1994, has contributed significant growth for the U.S. in trade and capital flows with Canada and Mexico. A plan proposed in 2006 to construct a NAFTA Super Highway should further ease the flow of goods and foster a more competitive business platform. When designated, this highway will transport freight from Asia more freely from Mexican ports through the U.S. heartland to Canada, creating a more seamless North American trade area. Beyond NAFTA, the U.S. intends to extend free trade to five Central American countries through the Central American Free Trade Agreement (CAFTA) with an ultimate goal expanding to 31 countries in Central and South America to achieve the proposed Free Trade Area of the Americas (FTAA). In Asia, an economically vibrant area, a pan-regional free trade agreement (FTA) has been effective and some 60 local FTAs are in place with another hundred under negotiation. The Association of South East Asian Nations (ASEAN), formed in 1967, includes 10 countries such as Singapore, Indonesia, and Thailand that has a combined population of about 500 million with a combined GDP of $700 billion and a total trade of $850 billion. During the past decade, countries in Eastern Asia such as Japan, China, and South Korea are aggressively engaged in trade negotiations with the ASEAN. To promote greater economic efficiency and competitiveness in Asia, the U.S. in 2007 initiated a broad trade plan by launching a Free Trade Area of the Asia-

Pacific (FTAAP) that includes countries in the 21-member Asia Pacific Economic Cooperation (APEC). The APEC combines nearly 3 billion consumers with 50% of the world GDP. Reaching the FTAAP agreement will further motivate more non-APEC economies in the EU, India, Brazil, and others, to lift trade barriers and create a more liberalized trade environment for the U.S. In Europe, the 27-member European Union (EU27), a political and economic bloc that allows free movement of people, goods, services and capital, has a population of 500 million versus 300 million in the U.S. and produces roughly 120% of the U.S.'s GDP. The EU27 and the U.S. have the biggest bilateral trading and investment relationship in the world, accounting for about half the world's economy. By working together, the U.S. and the EU can promote their common goals and interests in the world much more effectively. Elsewhere, continuing trade liberalization during a period of steady growth in Eastern Europe will augment trade in the world economy.

Integration between the U.S. and the world economy has been facilitated by the U.S.'s increased participation in the global capital market. Bilateral increases of both direct and indirect investments have become vital for U.S. and world economic expansion. A coordinated fiscal and monetary policy between the U.S. and other countries has been undertaken in an effort to sustain economic growth for the world economy as a whole. The coalition has attempted to realign exchange rates and strengthen fiscal conditions, stabilize the international monetary system, and facilitate the expansion and balanced growth of international trade. The coalition also promotes international economic growth through world organizations such as the International Monetary Fund (IMF), the World Bank, the Organization for Economic Cooperation and Development (OECD), and the organization for Asia Pacific Economic Cooperation (APEC). These organizations have increasingly helped member countries in strengthening their financial foothold and enhancing economic growth, thereby further facilitating U.S. foreign trade. Our country's continued commitment to a cooperative and coordinated international effort should contribute to a favorable world economic climate.

As trade competition has intensified worldwide, the U.S. industrial sector has been affected as many industries lost shares of domestic and global markets. U.S. firms that were accustomed to controlling the domestic market for basic manufactured goods were not competitive enough to repel the aggressive foreign firms determined to claim a share of the U.S. market. Over the past two decades, however, U.S. exports have gradually improved with the dedication of firms to quality improvement, a better control over costs, higher productivity through greater efficiencies and incorporation of advanced technologies, as well as concerted efforts to expand international markets. In spite of the vigorous promotional efforts and aggressive pricing strategies employed by our competitors, the nation's exports continue to expand while employment in the manufacturing sector has only been moderately impacted. Nonetheless, U.S. exports will confront more challenges in the future as new technology continues to improve while the global market becomes more open and the worldwide standard of living continues to increase. As communication technology advances, digital data can move more freely and effectively beyond national borders, increasing the pressure on the traditionally job-secure service sector. While relocating the production of manufactured products off-shore continues, outsourcing of administrative, financial and accounting, and other back-office services is becoming more common. Following China and India, countries in Southeast Asia and Eastern Europe as well as Russia will become big players in this area. Continuing improvement in communication technology will also provide a more transparent and efficient market, creating a more competitive environment.

As stated in Section 3, the Sector Analysis, the U.S. balance of trade is significantly affected by the world economy, improving during recessionary years when exports grew faster than imports and deteriorating during recovery and expansionary periods when exports fell behind the growth in imports. The following Table lists actual real growth in GDP/GNP for the past decade, as well as the estimated and projected growths for the G-7 countries (United States, Canada, the European Big Four, and Japan), Mexico, the Pacific Basin, and the overall world economy. World GDP grew 3.9% in 2007 and is anticipated to slow slightly to 3.6% in 2008 and 3.3% in 2009.

Export momentum has carried into 2007 and is expected to extend through 2009, the forecast period, enhanced by the continued depreciation of the dollar despite the fact that the world economy is expect to slow. The "major currencies index" compiled by the Federal Reserve Bank remains at a favorable level. This index, which tracks the value of the dollar relative to its major trading partners, has depreciated 35% from the 2002 high and should move lower as the Federal Reserve continues to cut the federal funds rate in 2008. Economic growth in the EU15, which includes 15 countries in the Euro zone using the Euro currency, €, and accounting for 70% of EU27 GDP, is expected to improve to 2.4% in 2009 from 1.9% in 2008. This EU15 area is expected to be relatively resilient as there are no serious issues like slumping housing, sub-prime loans, and a credit crunch that beleaguer the U.S. economy. The U.S.'s trade balance with the EU has deteriorated. The trade deficit with the EU27 increased from €31.9 billion in 2000 to €91.2 billion in 2006 as growth in U.S. imports increased while exports declined. Trade conditions with this bloc should improve as the Euro appreciates handsomely. The Asian economy should grow faster than other areas, led by a strong average growth of 6.7% in the Pacific Basin area in 2008 and 2009. China's increasingly flexible currency policy should continue to correct its undervalued currency and add to the improvement in U.S. exports. In addition, healthy domestic demand there in consumption, investment, and infrastructure should strengthen its need for U.S. products and services. China's GDP, which stood as the second-largest economy in the world in 2007 after the U.S. when measured on a purchasing power parity (PPP) basis that takes into account the relative cost of living and the inflation rate of the various countries, will continue to expand rapidly. India, the other economic power not included in the Pacific Basin area and was ranked the world's third largest on the PPP basis by the International Monetary Fund, also will grow fast. Although China and India are still low in output on per capita terms, their aggregate consumption is expected to shift from basic necessity spending to discretionary spending. Mexico, which exports 80% of its products to the U.S., continues to charge ahead economically. After decades of restructuring, Mexico can better weather a deceleration in the U.S. economy.

Like the Nation, Connecticut's exports also hinge upon our trade partners' economic conditions. The weighted export growth can be used as a reference to measure worldwide economic conditions and to predict Connecticut's export potential.

TABLE 90
ECONOMIC GROWTH OF MAJOR TRADING PARTNERS
(GNP/GDP % Growth)

Calendar Year	U.S.	Canada	Japan	Germany (a)	U.K.	France	Italy	Mexico	Pacific Basin(b)	World (c)	CT Export Weighted Growth(d)
1998	4.2	4.1	(2.1)	1.8	3.4	3.6	1.3	4.9	(1.2)	1.9	2.1
1999	4.5	5.5	(0.0)	1.9	3.0	3.2	1.9	3.9	6.6	3.0	3.8
2000	3.7	5.2	2.8	3.5	3.8	4.0	3.8	6.6	7.6	4.1	4.8
2001	0.8	1.8	0.2	1.4	2.4	1.8	1.7	(0.2)	3.6	1.4	1.7
2002	1.6	2.9	0.3	0.0	2.1	1.1	0.3	0.8	6.1	1.7	2.3
2003	2.5	1.9	1.5	(0.2)	2.8	1.1	0.1	1.4	5.9	2.3	2.3
2004	3.6	3.1	2.7	0.6	3.3	2.3	1.0	4.2	7.3	3.6	3.5
2005	3.0	3.1	1.9	1.0	1.8	1.7	0.2	2.8	6.8	3.1	3.0
2006	2.9	2.8	2.2	3.1	2.8	2.2	1.9	4.8	7.5	3.6	3.8
2007 (E)	2.2	2.8	2.1	1.8	2.6	2.1	1.9	2.7	7.9	3.9	3.7
2008 (P)	2.2	2.7	1.7	1.7	2.4	2.4	1.5	4.0	7.1	3.6	3.5
2009 (P)	3.4	3.0	1.7	2.4	2.7	2.1	1.7	4.7	6.3	3.3	3.5
% of CT's Exports *											
2001		20.1	7.2	7.8	5.4	16.4	1.9	3.8	13.7		
2002		18.0	7.3	7.9	6.0	14.2	1.8	4.8	17.0		
2003		16.6	7.9	9.3	6.3	13.5	1.8	5.9	15.9		
2004		17.2	5.9	8.9	6.4	13.8	1.4	6.4	14.2		
2005		17.3	4.5	8.6	7.2	16.5	1.5	5.8	14.2		
2006		15.8	5.7	9.9	7.0	9.9	1.3	5.8	17.9		

* For 2007 to 2009, assumes the same percentage as in 2006.

(a) The data reflects a united Germany.
(b) Includes China, Hong Kong, Indonesia, Malaysia, Philippines, Singapore, South Korea, Thailand, Taiwan and Vietnam.
(c) World growth rate weighted by the size of economies and measured in Purchasing Power Parity terms.
(d) Economic growth rate weighted by Connecticut's share of exports to trade partners.
(E) Estimated
(P) Projected

Source: Moody's Economy.com & U.S. Department of Commerce
University of Massachusetts (MISER)

Connecticut's export weighted growth rates as shown on the above table are constructed by weighing Connecticut's share of exports to our trade partner countries. Weak economic growth in our major trade partner countries forced the weighted growth rate down to 1.7% in 2001, the lowest year in the past decade. As the worldwide economy improved, CT export weighted growth increased by 3.8% in 2006 and 3.7% in 2007. The outlook for Connecticut's export growth

slows to 3.5% in both 2008 and 2009 as the world economy slows to 3.6% in 2008 and 3.3% in 2009 even though the U.S. dollar exchange rates are anticipated to remain favorable. Collectively, the Big 7 nations, Mexico and the countries in the Pacific Basin area account for 79.3% of Connecticut's total exports in 2007, up from 72.4% in 1997.

Despite a continued growth outlook for trade in 2008 and 2009, actual economic growth and trade performance rely more upon smooth and orderly market conditions. As concerns over the potential for a recession in the U.S. and the spreading impact of the financial crisis to the rest of the world increase, the overseas financial market may over-react and result in a tumultuous impact on the world economy. Any unexpected geopolitical or natural disturbances, either domestically or elsewhere, have the potential not only to interrupt an individual country's own economic stability but also disturb the international economic landscape, sending the world economy into a tailspin. Regional tensions in the Middle East and North Korea, instability in Iraq, and terrorist attacks anywhere in the world have the potential not only to interrupt an individual country's own economic stability but also negatively create a chain reaction on the international economic landscape. These risk factors may profoundly affect the world economy in a disorderly way and detrimentally hamper Connecticut exports.

On the economic and financial front, in response to the precipitous fall in global financial markets, the Federal Reserve cut the federal funds rate by 1.25% to 3.0% in January 2008. This sharp cut, the biggest in 20 years, may thwart a deep fear of recession, which would damage the world's already feeble consumer and business confidence and create global downward cycle. The EU's economy is fundamentally sound; however, uncertainty about economic growth remains high. The EU is saddled with dual conundrums: All countries experiencing relatively high rate of inflation with uneven economic growth among member states. While the inflation rate stayed above 3% in late 2007 with an upward risk potential, faster economic growth in the southern portion of this bloc may prevent interest rate cuts if growth slows elsewhere. Uncertainty regarding a surge in inflation is high, caused by price upticks in energy and food. Widening interest rate gaps and continuing appreciation of the Euro bode ill for EU exports and economic growth. The U.K., which is encountering to a lesser extent the same problems that the U.S. has in the housing and financial markets, is starting to feel a contraction in consumer spending and rising unemployment. Inflation is expected to rise beyond the Bank of England's 2% comfort zone. Germany, the biggest economy and the major growth contributor in the EU, has prudent debt management by private industry and workers prone to settle for modest pay increases. Its high value-added products shall continue to be exported to prosperous countries such as China and India. However, the strong Euro shall take its toll and slow its growth to 1.9% in 2008 and 2.1% in 2009, down from 2.8% in 2007. The expected growth rate for the Euro zone projected by the "*Blue Chip Economic Indicators*" will slow from 2007's 2.8% to 1.8% in 2008 and 2.0% in 2009. The economy in Japan, the world's second largest economy as measured by real GDP, will continue to expand although at a slower rate. This slowdown is due to a drop in housing investment and weaker exports to the U.S., Japan's biggest market. A continued decline in the dollar may reduce its exports to the U.S., roughly by 10%. China, ranked as the world's most dynamic economy, has served as a locomotive in the Asia Pacific region. It is expected to grow at close to a double-digit rate albeit at a slower pace in the next several years. Spending on infrastructure and construction for the 2008 Olympics will sustain domestic demand despite the fact that the government has increased interest rates since mid 2006 and intends to maintain a stringent monetary policy in an attempt to stave off an over-heated economy. Inflation rose 4.4% in 2007 and is expected to increase at the same rate in 2008. A potential sharp slowdown in the

U.S. housing market may soften domestic consumer spending and the importation of goods from China. The adopted flexible currency policy may also crimp China's export-led economy, creating profound consequences for the world economy. To ensure a stable economic growth, a delicate and balanced coordination between monetary and fiscal policies must be maintained.

Unstable energy prices are also a damaging factor for its profound impact. Oil is the largest internationally traded commodity. The world crude oil market will continue to influence the U.S. economy, despite the fact that oil plays a less significant role in the economy than it did decades ago. The increasing use of substitutes and alternatives, as well as the improvement in efficiency, has reduced its importance in the economy. However, with U.S. domestic production less than 50% of total demand and the expansion of just-in-time inventory strategies, the stability of world oil prices will remain vital to the U.S. economy. Significant and abrupt increases in oil prices can create inflationary pressure and erode consumers' purchasing power, thereby contributing to a possible setback in the economy. In the long run, oil prices are expected to trend up as world growth in demand continues to outpace that of production, limited by slow improvements in efficiency technology, less frequent discoveries of new fields, and increasing concerns for greenhouse gas emissions. In the short run, a host of factors could move oil prices in an unfavorable direction. These factors include changes in the production capacity and policies of OPEC, the status of non-OPEC output, political and economic uncertainties in specific geographic regions of the world particularly the nuclear ambitions of Iran, violence, and severe weather.

The U.S. Economy (History)

The Table on the following page compares the original forecast figures to actual for fiscal years 1998-99 to 2006-07 and the current estimates for fiscal years 2007-08 and 2008-09.

The December 2005 forecast for fiscal 2007 anticipated a 3.7% growth rate in real GDP, a rate well above the long- term potential economic growth rate estimated between 2.5% and 3%, with slightly faster economic activity than the previous year's level when the economy was performing at full throttle. Compared with the actual results in fiscal 2006, housing starts and new car sales were expected to decline only slightly to 2.03 million units and 16.60 million units, respectively, and the unemployment rate, rise to 5.0%. The inflation rate was anticipated to ease to 3.6%. However, the economy actually performed much slower than expected with real GDP growing only by 2.1% and housing starts plummeting 24% to 1.55 million units in fiscal 2007 from a high of 2.04 million units a year ago. The actual inflation rate rose by 2.6% due to an easing of wage pressures, despite the fact that the labor market was operating at a full employment level, with an unemployment rate at 4.5%.

TABLE 91
HISTORICAL COMPARISON OF U.S. ECONOMIC INDICATORS

Fiscal		GDP	Real GDP	GDP Deflator	Housing Starts	Unempl. Rate	New Car Sales*	CPI
1998-99	12/97 Forecast	4.6%	2.1%	2.4%	1.42M	4.7%	14.3M	2.6%
	Actual	5.5%	4.2%	1.3%	1.66M	4.4%	16.1M	1.7%
	Difference	0.9%	2.1%	(1.1%)	0.24M	(0.3%)	1.8M	(0.9%)
1999-00	12/98 Forecast	3.9%	2.0%	1.9%	1.44M	4.6%	14.9M	2.0%
	Actual	6.4%	4.5%	1.8%	1.64M	4.1%	17.5M	2.9%
	Difference	2.5%	2.5%	(0.1%)	0.20M	(0.5%)	2.6M	0.9%
2000-01	12/99 Forecast	4.2%	2.5%	1.7%	1.41M	4.5%	15.3M	2.5%
	Actual	4.4%	2.0%	2.3%	1.57M	4.1%	16.9M	3.4%
	Difference	0.2%	(0.5%)	0.6%	0.16M	(0.4%)	1.6M	0.9%
2001-02	12/00 Forecast	5.0%	3.2%	1.7%	1.44M	4.6%	16.0M	2.4%
	Actual	2.9%	0.7%	2.2%	1.65M	5.5%	17.0M	1.8%
	Difference	(2.1%)	(2.5%)	0.5%	0.21M	0.9%	1.0M	(0.6%)
2002-03	12/01 Forecast	4.1%	2.5%	1.5%	1.54M	6.2%	16.1M	2.4%
	Actual	3.7%	1.8%	1.9%	1.73M	5.9%	16.6M	2.2%
	Difference	(0.4%)	(0.7%)	0.4%	0.19M	(0.3%)	0.5M	(0.2%)
2003-04	12/02 Forecast	6.3%	3.9%	2.2%	1.62M	5.6%	17.4M	2.4%
	Actual	6.4%	3.9%	2.4%	1.95M	5.8%	16.8M	2.2%
	Difference	0.1%	0.0%	0.2%	0.33M	0.2%	(0.6M)	(0.2%)
2004-05	12/03 Forecast	5.9%	3.0%	2.8%	1.48M	6.3%	17.4M	2.8%
	Actual	6.4%	3.3%	3.0%	2.02M	5.3%	17.0M	3.0%
	Difference	0.5%	0.3%	0.2%	0.54M	(1.0%)	(0.4M)	0.2%
2005-06	12/04 Forecast	5.4%	3.1%	2.2%	1.60M	5.4%	15.7M	2.0%
	Actual	6.7%	3.4%	3.1%	2.04M	4.8%	16.8M	3.8%
	Difference	1.1%	0.3%	0.9%	0.44M	(0.6%)	1.1M	1.8%
2006-07	12/05 Forecast	7.0%	3.7%	3.2%	2.03M	5.0%	16.60M	3.6%
	Actual	5.1%	2.1%	2.9%	1.55M	4.5%	16.32M	2.6%
	Difference	(1.8%)	(1.6%)	(0.3%)	(0.48M)	(0.5%)	(0.28M)	(1.0%)
2007-08	12/06 Forecast	5.6%	3.0%	2.5%	1.64M	4.9%	15.97M	2.2%
	12/07 Estimate	4.7%	2.7%	2.0%	1.14M	4.9%	15.95M	3.0%
	Difference	(0.9%)	(0.3%)	(0.5%)	(0.50M)	0.0%	(0.02M)	0.8%
2008-09	12/06 Forecast	5.4%	3.1%	2.2%	1.65M	4.8%	15.94M	2.1%
	12/07 Forecast	4.6%	2.5%	2.1%	1.10M	5.2%	15.83M	2.1%
	Difference	(0.8%)	(0.6%)	(0.1%)	(0.55M)	0.4%	(0.11M)	(0.0%)

* New Car Sales represent U.S. vehicle sales for automobiles and light vehicles (trucks).

M denotes Millions of Units.

The slowdown in the housing market not only contained inflation in the housing related components that affected inflation but also damped overall consumer confidence. The federal funds rate was raised from a 46-year low of 1.00% in June 2004 to 5.25% by June 2007. Nonetheless, mortgage rates remained at a favorable level. Conventional mortgage rates on 30-year instruments averaged 6.31% in fiscal 2007, up slightly from 6.25% in fiscal 2006. However, after years of faster appreciation in home prices than that of personal income, consumers' housing affordability declined. Meanwhile, the availability of untapped equity waned, refinancing activities slowed, and debt burden increased. As repayments for loans, especially for non–conventional mortgages such as sub-primes and Alt-As, started showing troubling signs, financial institutions started to raise credit standards and tighten lending policy. Aggravated by the spike in energy and food prices, consumer and business confidence faltered, driving down the tendency to consume and invest. Consumer spending, which accounts for two thirds of GDP, remained the supporting pillar of the economy, but growth lowed to 5.5% in fiscal 2007, after increasing 6.4% in fiscal 2006. Business equipment and software investment, which had been a driver for the current economic recovery, rose only 2.3% after growing 8.1% in fiscal 2006. Residential investment declined 11.7%, reversing a healthy growth of 10.5% in fiscal 2006 and 15.3% in fiscal 2005.

As productivity rose, businesses produced more products without proportionately adding workers. Productivity increased by 3.1% in 2007, up from an average of 2.6% during this recovery and 2.2% in the 1990s. Productivity is expected to grow at a long-term rate of 2.5%. Increasing competition in the domestic and global markets and outsourcing offshore added pressure on the job market. Total non-farm employment edged up to 137.18 million jobs in fiscal 2007, up 1.60%, compared with 1.92% in fiscal 2006. The hiring in manufacturing and those jobs related to housing activities fell. The drop in the unemployment rate to 4.5% reflects a decline in the labor participating rate, mainly in the 16 to 24 age cohort. Historically, this young age group has had the highest unemployment rate among all cohorts. This group's population has fallen the most since 2000 in percentage terms. In addition, beginning in the late 1970s, more college-age individuals left the labor market for a college education, driving down the labor participation rate, which also helps lower the overall unemployment rate.

The U.S. Economy (Forecast)

The updated forecast for the general economy in fiscal years 2008 and 2009 is slower than previously anticipated. The updated estimate for fiscal 2008 and 2009 has a slower economic growth with a higher unemployment rate and a decelerated inflation rate. Real GDP growth will be slower, at 2.7% in fiscal 2008 and 2.5% in fiscal 2009, the low end of the long-run potential growth rate estimated between 2.5% and 3%. No recession is anticipated. Non-agricultural employment should continue to grow moderately as new hiring resumes, with the unemployment rate rising to 4.9% in fiscal 2008 and 5.2% in fiscal 2009 as growth in net hiring trails that of the labor force. However, jobs in the housing-related and auto industries are expected to decline. Downshifting in manufacturing employment is expected to continue despite the dollar exchange rate remaining favorable against major currencies. After many years' of fast growth in the housing market, existing home sales have started to decline along with an increase in foreclosures while the inventory of unsold homes has built up beyond a comfortable level. With financiers tightening their lending standards, housing starts are expected to decline to 1.10 million units by fiscal 2009, down about 50% from the recent high of 2.04 million units registered in fiscal 2006. New car sales for fiscal 2009 are also revised downward by 0.11 million units due

to high oil prices and fierce competition. Businesses will continue to execute their expansion plans, although the investment decision will become more prudent as the economy slows. Devaluation of the dollar and continued economic growth abroad should continue to help U.S. exports.

The inflation rate is anticipated to ease somewhat to a more comfortable level at 2.1%. The slowdown in the U.S. economy, accompanied by only a moderate increase in energy prices and weaker labor market conditions, should contain inflation. Increases in crude oil prices should slow after reaching a record high at $100 per barrel in early January of 2008. Worldwide demand for oil should slow when the global economy softens. The aftermath of the crisis in the housing market should continue to suppress consumer consumption; but, a continued growth in productivity would also help keep price pressures in check.

The forecast for the most widely used economic indicators for the U.S. economy in fiscal 2009 is shown below. Growth in real GDP is based on 2000 chained dollars to measure real output growth. The Consumer Price Index (CPI) is also based on a traditional fixed weight method with 1982-84 =100. New vehicle sales include traditional passenger cars as well as minivans and light trucks.

12/07 Forecast	**Fiscal Year 2008-09**
Gross Domestic Product	4.6%
Real Gross Domestic	2.5%
G.D.P. Deflator	2.1%
Consumer Price Index	2.1%
Unemployment Rate	5.2%
Housing Starts	1.10 Million
New Vehicle Sales	15.83 Million

The impact of the sub-prime loan crisis on the nation's economy has been drastically affecting consumer activities. Foreclosures rose in 2006 as two-year mortgages originated in 2004 were due to reset to new higher rates. The number of mortgages resetting peaked in 2007 and 2008, moderating significantly starting in early 2009. By that time, when the erosion of household wealth is fully felt, it could reduce household assets by approximately $5 trillion, a 25% drop from total home values of $21 trillion. Limited employment growth shall put pressure on consumer confidence. Employment in home-related and certain manufacturing industries such as automobiles shall continue to confront downward pressures, while export-oriented industries resume their expansion. Burdens in debt, energy costs, and health care, etc. will likely further weigh on spending. Households will continue to allocate more of their income to pay down the debt that they had incurred after aggressive spending over the past several years. Consumer spending should continue to increase modestly during the forecasted period, with spending growth primarily benefiting the service sector. Sales of new vehicles are expected to cool, falling below 16.0 million units in fiscal 2008 and fiscal 2009 from a recent peak of 17.0 million units in fiscal 2005. The restructuring and downsizing of capacity by the domestic big three automakers will continue as competition from foreign cars accelerates. The existing foreign auto makers will continue to step up their marketing with probable new foreign entrants joining the already crowded market. With continued modest economic growth, the devaluation of the dollar and the

need for more productive capacity, businesses should continue to increase investment, but at a moderate pace.

To help keep the economy growing, in early 2008 the federal government has proposed a $150 billion economic stimulus package. This spending program, which is equivalent to about 1% of the GDP, will earmark $100 billion for 117 million families and $50 billion for business, as well as an increase in the limit for loans to be considered jumbo mortgages. Rebates of up to $600 for individuals and $1,200 for couples beginning in May 2008 should inspire consumers spending and a 50% immediate write-off on new equipment should encourage business expansion. In addition, this stimulus plan should also provide a positive psychological impact on investors and markets.

Forecast Caveats

The projection of real output growth at 2.7% in fiscal 2008 and 2.5% in fiscal 2009 with an inflation rate of 2.1% in fiscal 2009 is cautiously optimistic. This projection assumes that the economy is fundamentally sound and employment will continue to increase at a moderate rate in 2008 and 2009, with unemployment inching up to the neighborhood of 5%. There is no recession expected during the projection period. However, some economists argue that the U.S. economy has already entered, or is on the verge of entering, into a recession. Among others, the 13.2% increase in number of unemployed in December 2007 from the same month a year ago may suggest that the U.S. has already entered into a recession. Historically, an increase of 13% in unemployment has traditionally reflected the existence of an economic slowdown. Of all nine recessions in this country since 1950, each, save one, had already begun by the time that unemployment had grown to 13%. In the one instance, the recession began three months after falling by this critical level. A poll of 50 business economists held in late December 2007 indicates that there is a 38.1% probability of a recession over the next 12 months, up from 25.4% in a December 2006 survey, according to *Blue Chip Economic Indicators*.

The measure to pump the equivalent of 1% of GDP into the economy may not result in as much of an effect on the economy as expected. Rebates to low- and middle-income households are designed to create a greater positive impact on the slowing economy by spurring consumer spending. However, when households are already loaded with a heavy debt burden and facing possible further uncertainty in income stream, rebates are likely to be used to pay down debt or put into savings for future needs, lessening the expected impact. The deep cut of the Federal Funds rate in January 2008 is intended to shore up the troubled housing market and boost business and investor confidence. However, this rate cut may be partially offset by some side effects. Fearful of the dollar's decline in value due to the rate cut, overseas investors may stop or even withdraw capital and financial investment in the U.S. The hefty losses by financial institutions have depleted their required reserves. Their funds available for making loans may be limited if there is no large infusion of fresh funds. To protect liquidity and strengthen balance sheets, the banking system has become less willing to provide funding for the market, creating a credit crunch which restrains consumer and business spending. The $150 billion stimulus plan is estimated to add $219 billion to the 2008 budget deficit. Over the years, the U.S. has been encountering daunting budget deficits and mounting national debt. Increasing this budget deficit and, therefore, indebtedness places an upward pressure on interest rates. In addition, if the $50 billion bonus depreciation provision is enacted, many states will stand to lose billions of dollars in corporation tax revenue. These revenue losses could be counter-productive to the

stimulus plan. As most states are subject to a balanced budget mandate, they will have to cut programs or raise taxes to make up the gap.

An unexpected deeper slowdown in consumer spending would exacerbate the already weaker economy. The activities in the housing market account for approximately 5% of GDP; however, its huge wealth effect can affect consumer behavior that impacts two-thirds of national economy. The slumping housing market has brought a 10% loss, or a $2.2 trillion loss, in home values since its peak. During the same time, $1.7 trillion in U.S. equity value has been wiped out from the October 2007 high to the late January 2008, as the S&P 500 index dropped 15%. Another 15% loss in home value is anticipated when it is fully felt, resulting in a total erosion in household assets by a total of $7 to $8 trillion, an amount that equates to half of GDP, if the stock market stays at late January 2008 levels. Growth in consumption could be further curbed as consumers become more conscientious about their inadequate level of savings. Growth in personal consumption spending has been outpacing the growth in personal income over the past two decades. On the other hand, high increases in the cost of health care, educational and energy expenses may further hold down saving and spending. This could lead to a greater weakness in manufacturing and a spill-over to the rest of the economy.

As a wildcard, the energy factor will continue to play a vital role in the economy. With world spare capacity for oil drilling remaining thin and global demand for energy continuing to climb upward, any geopolitical tension, speculative disorder, or other unexpected elements could drive the price to a new high, sending the economy into a tailspin. As the dollar continues to devalue, a shift of the payment base for oil transactions from the dollar to the Euro has been proposed by export countries. If adopted, it could send the worldwide financial market into turmoil as an adjustment to non-traditional payment mechanisms would disturb financial markets. To prevent further decline in the dollar's value, the Federal Reserve may be forced to raise interest rates in order to prevent its further devaluation, sending the economy into a worse situation. Those countries with sizable assets in dollars will feel poorer and shift export efforts to the EU market, reducing exports to the U.S. On the other hand, rising demand for the Euro will boost the Euros' exchange rate and lead to fewer exports and more imports by the EU. For a bloc that relies more on exports than the U.S., this is a serious risk. If panic develops, dollars may be dumped, creating more instability in the world financial landscape. The assumption of a weaker U.S. dollar along with advantageous domestic and global financial conditions may not be realistic if the world economy slows unexpectedly. There are a myriad of uncertainties that may destructively affect growth and inflation projections, including unexpected economic or financial turmoil in a major country, the unfavorable outcome of any regional conflict, unstable foreign geopolitical conditions, and even an unexpected natural disaster. Any major disturbance could steer the forecast in either direction.

The Connecticut Economy (History)

A comparison of the original forecasts for Connecticut's personal income, nonagricultural employment and unemployment rates with actual figures for fiscal 1998-99 through 2006-07 and the current forecast for fiscal 2007-08 are presented in the Table on the following page.

TABLE 92
HISTORICAL COMPARISON OF CONNECTICUT ECONOMIC INDICATORS

Fiscal Year		Personal Income	Nonagricultural Employment	Unemployment Rate
1998-99	12/97 Forecast	$127.0 Billion	1,652.4 Thousand	4.5%
	Actual	$126.8 Billion	1,657.4 Thousand	2.9%
	Difference	($0.2) Billion	5.0 Thousand	(1.6%)
1999-00	12/98 Forecast	$130.1 Billion	1,664.5 Thousand	4.1%
	Actual	$135.8 Billion	1,682.1 Thousand	2.4%
	Difference	$5.7 Billion	17.6 Thousand	(1.7%)
2000-01	12/99 Forecast	$140.0 Billion	1,695.0 Thousand	3.3%
	Actual	$145.7 Billion	1,690.0 Thousand	2.5%
	Difference	$5.7 Billion	(5.0) Thousand	(0.8%)
2001-02	12/00 Forecast	$146.9 Billion	1,722.3 Thousand	3.3%
	Actual	$146.9 Billion	1,675.1 Thousand	3.7%
	Difference	$0.0 Billion	(47.2) Thousand	0.4%
2002-03	12/01 Forecast	$155.5 Billion	1,686.5 Thousand	4.4%
	Actual	$147.0 Billion	1,652.4 Thousand	5.2%
	Difference	($8.5) Billion	(34.1) Thousand	0.8%
2003-04	12/02 Forecast	$157.1 Billion	1,669.7 Thousand	4.4%
	Actual	$153.2 Billion	1,643.7 Thousand	5.3%
	Difference	($3.9) Billion	(26.0) Thousand	0.9%
2004-05	12/03 Forecast	$162.9 Billion	1,662.5 Thousand	5.0%
	Actual	$163.4 Billion	1,657.0 Thousand	4.9%
	Difference	$0.5 Billion	(5.5) Thousand	(0.1%)
2005-06	12/04 Forecast	$168.7 Billion	1,665.6 Thousand	4.5%
	Actual	$173.1 Billion	1,670.1 Thousand	4.5%
	Difference	$4.4 Billion	4.5 Thousand	0.0%
2006-07	12/05 Forecast	$184.5 Billion	1,691.5 Thousand	5.2%
	Actual	$184.0 Billion	1,689.1 Thousand	4.3%
	Difference	($0.5) Billion	(2.4) Thousand	(0.9%)
2007-08	12/06 Forecast	$191.2 Billion	1,692.1 Thousand	4.4%
	Latest Forecast	$192.2 Billion	1,703.4 Thousand	4.9%
	Difference	$1.0 Billion	11.3 Thousand	0.5%

For the last four years, the nation's financial engine continued its positive growth, and Connecticut's progress towards economic growth also continued. Employment, per-capita gross state product and personal income, and labor productivity all saw healthy growth, and the unemployment rate remained below the national rate. Most recently, however, there are beginning to be signs of softness, probably linked to national issues of subprime loans and credit tightening. The unemployment rate has been creeping up and matched the national rate at 5.0%

in December of 2007. The number employed finally reached the last pre-recession peak of July, 2000, this past summer, but also shows signs of decelerating growth, although gross state product, personal income and productivity appear to be strong so far.

While there have been positives in the labor market over the last few years, there are, however, now a few areas of concern. Providing some evidence of progress is the fact that job growth has been positive in 18 of the last 24 months. The state has worked its way back to positive year-over-year employment growth for the third year in a row. Traditionally, the state tends to lead the nation going into recession and lags behind the subsequent economic rebound. This business cycle has been no different. Nonagricultural employment in the state started to decline nearly three quarters before the start of the national recession in March 2001. Consequently, over the span of 36 months, nonagricultural employment declined 3.5%, ebbing to its lowest level in July of 2003. Since then, the state's economy has added jobs, registering increases of 13,300 jobs in fiscal 2005, 13,100 in fiscal 2006, and 19,000 in fiscal 2007. More recently, however, job growth has been anemic, adding only 2,600 additional jobs between the end of fiscal year 2007 and December of 2007. It is not known yet if this is an aberration or the beginning of a new downturn. Further, since the onset of the last economic slowdown, manufacturing employment in Connecticut has contracted at a rate (19.6%) faster than but comparable to the corresponding losses nationwide (18.3%). In addition, the nation's nonmanufacturing sector, compared to the state's, has weathered the economy better than Connecticut's. Nationwide nonmanufacturing employment levels increased 7.8% since the start of the economic slowdown, whereas Connecticut increased only 3.3%. The nation's total employment level surpassed the 132,551,000 point of February of 2001 and achieved full job recovery in February of 2005 with 132,693,000 jobs.

The following Table compares nonagricultural employment and its two major components for the U.S. and Connecticut since each entered the last recession through the most current data available.

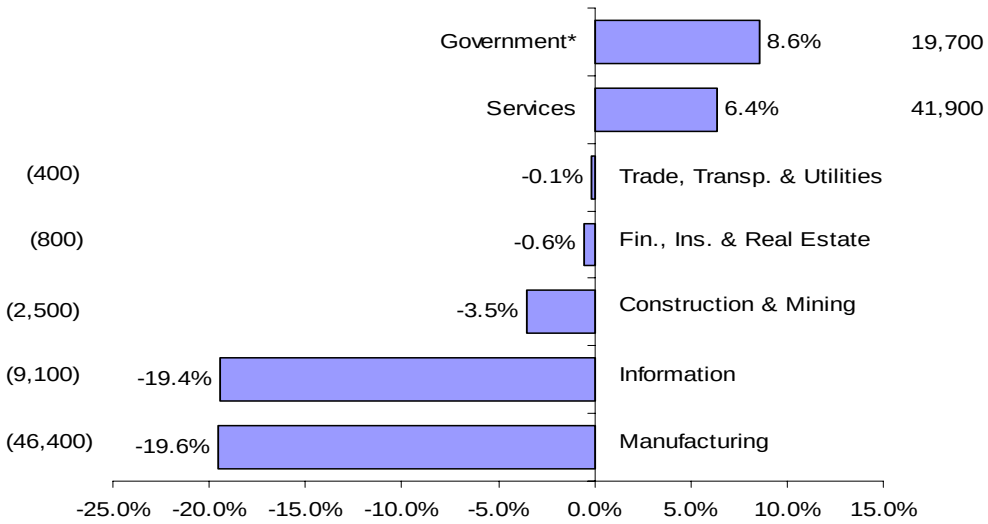
United States & Connecticut Change in Employment
(In Thousands, Seasonally Adjusted)

	United States				Connecticut			
	2/01	12/07	Change	% Chg.	7/00	12/07	Change	% Chg.
Mfg. Empl.	17,029	13,919	(3,110)	(18.3%)	237	191	(46)	(19.6%)
NonMfg. Empl.	115,522	124,576	9,054	7.8%	1,463	1,512	49	3.3%
NonAgr. Empl.	132,551	138,495	5,944	4.5%	1,700	1,703	3	0.0%

Specifically, Connecticut's manufacturing sector continued to fare among the worst of the state's industries along with information services. Manufacturers were not contributors to job growth during the economic boom of the late 1990s, and since its abrupt end, factory employment has fallen by 6,000 jobs annually, on average from fiscal 1998, the last year with positive growth, to fiscal 2007. This is an average annual loss of 2.2%. Thus, with the loss of only 700 jobs, or 0.4%, in manufacturing over the past fiscal year, it comes as a pleasant surprise that more jobs were not shifted to other states, overseas, or lost due to greater efficiencies. Since the onset of the last recession, manufacturing employment in the state has declined by 46,400 workers. The majority

of the job cuts occurred in durable goods industries, primarily in computer and electronic products, industrial machinery and fabricated metal products. The nonmanufacturing sector, after posting positive growth for ten of the last thirteen years, has expanded by 3.3% since July of 2000. The information sector, comprising establishments engaged in telecommunications, broadcasting and data processing, however, has experienced the second greatest employment decline, along with manufacturing and construction. The state's economy would have performed much worse but for the growth in the education and health service sectors, professional and business services, and leisure and hospitality which helped the overall service sector post a respectable gain. The following Chart covering the period from July 2000 through December of 2007 shows how the various state sectors have fared since the start of the last recession.

CONNECTICUT EMPLOYMENT
Percent Change In Employment By Sector And Jobs Gained/(Lost)
(From July 2000 to December 2007)



***** Government includes employees of Sovereign Tribal Nations in casinos and federal, state and local governments.

A significant increase in employment in the service industry has taken place, especially in health care and education. Unfortunately, a number of state companies have announced layoffs or closed up business altogether. For example, Clairol will be closing its hair products operations in Stamford in 2010 with about 235 jobs being shifted to Mexico, and the Federal Reserve Bank is moving its check cashing operations from Windsor Locks to Philadelphia, resulting in the loss of 146 jobs in March of 2009. Bayer will also be eliminating 1,000 jobs by closing down its pharmaceutical research operations in West Haven in the spring of 2008. On the other hand, not all of the announcements were so pessimistic. The MannKind Corporation will be expanding operations in pharmaceuticals in Danbury in 2009 with 400 new jobs, and Yale-New Haven Hospital is building a new cancer center in 2008 in New Haven, creating 400 jobs. NuPower is building a new wood-burning energy facility in Plainfield in 2008 with 275 new jobs, and Nufern will be expanding operations in optical fibers and fiber lasers, creating 180 jobs in East Granby in 2009. Also, Foxwoods will be expanding and adding 3,000 jobs in Ledyard in 2008. The Tables below provide a breakdown of the employment totals and changes, in thousands of jobs, for each

sector and the corresponding impact on the unemployment rate in state labor market areas (LMA).

Connecticut Employment
(Seasonally Adjusted)

Sectors	Jul. '00	Dec. '07	Chg.
Manufacturing	237.0	190.6	(46.4)
Information	46.9	37.8	(9.1)
Construction & Mining	70.6	68.1	(2.5)
Trade, Transp. & Utilities	313.1	312.7	(0.4)
Fin., Ins. & Real Estate	145.1	144.3	(0.8)
Government *	229.1	248.8	19.7
Services	658.4	700.3	41.9
Total	1,700.2	1,702.6	2.4

Selected LMA Unemployment Rates
(Not Seasonally Adjusted)

LMA	Jul. '00	Dec. '07	Chg.
Waterbury	3.0%	6.1%	3.1%
Brdgprt/Stmfrd	2.2%	4.0%	1.8%
Hartford	2.4%	4.7%	2.3%
Danielson	3.0%	5.6%	2.6%
Torrington	1.9%	4.1%	2.2%
New London	2.2%	4.3%	2.1%
New Haven	2.5%	4.7%	2.2%
Danbury	1.7%	3.4%	1.7%
Enfield	2.8%	4.8%	2.0%

* Includes Native American tribal government employment, including casino employment.

Compared to last December, the unemployment rate has increased and is the same as the national rate. This is a concern because the state's unemployment rate has been lower than the national rate for 122 of the last 132 months. The state rate increased from 4.1% to 5.0%, and the number of unemployed increased by 24.2%. On average, there were more than 84,500 individuals out of work in calendar 2007, an increase of nearly 5,400 compared to 2006. On a year-over-year basis, however, the state added 16,600 jobs through December of 2007 since December of 2006. An encouraging signal for the state's economy was the 6.5% drop in initial (first-time) claims for unemployment insurance in the state over last year. Further, the average time unemployed remained unchanged at 16.9 weeks from 2006 to 2007 for the nation. A caution, however, may be lurking in a comparison of the last quarter for each year. When comparing the last quarter of 2007 to the last quarter of 2006, initial unemployment claims in the state were down 25.7%, although the number of weeks unemployed is up 4.3%, from 16.2 to 16.9 weeks for the nation, which could provide some insight into what the state might expect.

One of the signs that the state's economy has improved is the gradual but continual growth in total personal income. Personal income in Connecticut grew by 6.3% in fiscal 2007, the fastest pace of any other year except 2005 since fiscal 2001, and quite comparable to the rate for the nation, but below the New England rate. Examining its components, proprietors' income and other labor income had growth rates, respectively, of only 1.1% and 4.1% during the year, with growth of 6.2% for wages and salaries. Particularly notable, manufacturing wage growth remained positive for the fourth year in a row at 5.3%, after declining for two consecutive years, confirming that employment growth, which eventually shows up in rising wage and salary payments, was actually occurring. Also, nonmanufacturing wages and salaries increased 6.4%. As proof of the upside in personal income gains, after adjusting for the effects of inflation, Connecticut's real per capita personal income increased by 3.5%. This means state residents saw their incomes rise faster than inflation for the third consecutive year, and furthermore, Connecticut per capita personal income still remains well above the U.S. average by 39.7%.

Mortgage rates rose very slightly in fiscal year 2007, but remained relatively low from an historical perspective. In January of 2008, the Federal Reserve unexpectedly reduced rates by 75 basis points, and then another fifty basis points at its next scheduled meeting a week later, given what is perceived as a weak economy, which should help move rates lower. The number of housing permits in calendar year 2006 was down 22.3% compared to the year before, with uneven changes geographically. Even in Fairfield County, usually a strong performer in housing, saw a 37.8% decrease. The number of housing starts in fiscal year 2007 was down 25.1% over fiscal 2006, the greatest drop and at a level not seen in more than ten years. The 2007 level is down 15.8% from the previous nine-year average level. The median price of homes in the state increased 2.9% in calendar year 2006, making homes less affordable for many residents. In fact, homes have become less affordable in this state each year since 2001, even more so than the rest of the nation. Although there has not really been a bursting of the housing bubble in Connecticut, primarily because housing construction and prices did not reach quite the frenzied levels of other parts of the country over the last few years, housing is beginning to show signs of softness. The impact of the subprime mortgage issue may just be starting to be seen in the data, but is not yet known. There will, however, almost certainly be a negative impact. Interestingly, there has actually been a slight increase in construction employment from fiscal year 2006 to fiscal year 2007, probably due to expansions at the state's two Indian casinos.

Finally, Connecticut's personal income tax revenues, after growing 10.5% the previous year, grew 9.6% in fiscal 2007, as estimated and final payments, which include capital gains, rose 12.7% compared to last year. When combined with an increase of 13.6% in the corporation tax and 10.8% in the petroleum companies gross receipts tax, total tax receipts grew year-over year by 5.0%. This, coupled with overall expenditure restraints, and the economy's resiliency, were the key reasons the state ended with a budget surplus of $1.07 billion.

The Connecticut Economy (Forecast)

The past fiscal year has been generally good for the state's economy. Moving forward, the state is expected to see the expansion continue at a slower pace as economists are guardedly positive in their assessments of the economy's prospects. Risks still exist, however, and this risk will be tempered as Connecticut's economy is diversified more than in the past and housing prices in the state have remained more stable than many other parts of the country. As fiscal 2008 progresses, the state's economy is expected to show signs of continued but slower progress, although caution may be in the wind as the biennium unfolds.

The state's economy is expected to lose momentum later this year. Total nonagricultural employment is projected to grow 0.8% and 0.3%, respectively, during fiscal years 2008 and 2009. The state's nonmanufacturing sector is expected to post a strong increase of 1.1% in fiscal 2008, but a weaker growth of 0.4% in fiscal 2009, as job creation among many of the major industry groups declines. Not surprisingly, manufacturing employment, where the vast majority of job losses were concentrated during the last recession and subsequent weak recovery, is expected to continue its drag on employment growth that has prevailed since 1998. When the last recession had run its course, total nonagricultural employment had declined by roughly 60,300 jobs, or 3.5%, relative to its peak. It took until August of 2007 to fully recover these jobs. Recent state labor employment reports indicate that the job market's ascent continues, ever since July of 2003 when the trough was reached with regard to employment losses.

Employment levels in Connecticut are expected to rise over the coming quarters, although at rates much lower than in the recent past. However, this modest growth will not be consistent across all sectors. Manufacturing is projected to continue the negative and weak employment levels of the recent past. Forecasts of productivity gains and corporate earnings are not optimistic, and reductions in housing values, resulting in reduced household net worth, do not paint a picture of robust economic growth. While federal taxes have remained lower since being cut in 2001, the recipe of stagnant disposable income growth, and less competitive exchange rates are some of the factors that will likely prevent consumers from continuing their recent spending pace into next year. Therefore, for the duration of fiscal 2008 and into fiscal 2009, expect the pace of economic activity in Connecticut to remain positive but at a greatly reduced rate of growth, as the outlook sees a risk of weaker consumer spending, weaker business investment and, in particular, weaker job creation. In fiscal 2007, jobs grew by 19,000, or 1.1%. In fiscal 2008, the tempo of employment growth is forecasted to be weaker with nonagricultural employment expanding by 0.8%, resulting in 14,300 new jobs, and jobs increasing by only 0.3%, or 5,100 jobs in fiscal 2009. The state will add these new jobs in high skill, high-income fields such as education and health services, along with lower paying jobs in leisure and hospitality. With the state's economy showing signs of expanding at a slower rate, the unemployment rate in Connecticut will be elevated through the remainder of fiscal 2008. This will persist in fiscal 2009, with a slight improvement over 2008, and still remaining below the national rate.

Connecticut's population growth during the forecast period is estimated to be moderate, and still below the national growth rate, based upon the trend of the last several years. Demand for skilled workers will have to be met by a rise in the state's labor force. The lack of skilled workers represents one of the biggest challenges the state faces during the next several years because many lack the skills to take the jobs that are or will be available. If the situation persists, this could impact economic growth in the long term. However, nonmanufacturing employment, which grew by 19,600 jobs, or 1.3%, in FY 2007, is expected to grow by 16,300 jobs, or 1.1%, in FY 2008 and only 6,800 jobs, or 0.4%, in FY 2009. Ongoing demand for health care and social services will underpin growth in the sector. As the state's population ages, healthcare employment will rise. Furthermore, gains in corporate after-tax profits were up a healthy 8.7% nationally in FY 2007, but are expected to show negative growth in 2008 and 2009. Businesses, under these circumstances, are not expected to dramatically increase hiring any time. One important sign that the economy will not be as robust as hoped, is that, after a decrease of 0.3% in 2007, manufacturing employment levels are forecasted to decline 1.0% in fiscal 2008 and 0.9% in fiscal 2009. The construction trades, after a period of impressive growth, will experience losses as major construction programs and housing construction in the state wind down. Finally, information services are expected to see continued declines in employment. The forecast for the most widely used economic indicators for the Connecticut's economy is shown below.

12/07 Forecast	Fiscal Year 2007-08	Fiscal Year 2008-09
Personal Income	$192.2 Billion	$199.2 Billion
Nonagricultural Employment	1,703.4 Thousand	1,708.5 Thousand
Unemployment Rate	4.9%	4.8%

Finally, the state's highly skilled but aging workforce, presence of high-tech industries, and high per capita income provide an economic footing which is solid. These fundamental drivers may, in the short-term, help buffer the state in these current times of economic uncertainty, but may

become somewhat less secure in the long term, due to a future workforce which may be ill-prepared with regard to the skills needed in a technology-driven and knowledge-driven workplace and, in addition, income growth which is not keeping up with the rest of the nation. Therefore, it is projected that income growth will accompany the expected rise in employment, but at a decreasing rate. Personal income for Connecticut residents is estimated to increase 4.5% this fiscal year, followed by 3.6% growth in fiscal 2009. This is in contrast to 6.6%, 5.9% and 6.3% growth, respectively, in fiscal 2005, 2006 and 2007. This slower growth in personal income will probably not allow households to maintain their vigorous spending patterns of the last several years. Mix in a threat of higher inflation and you have the recipe for weakened economic activity. Furthermore, the housing market, another prop for consumer spending, shows weakness but no sure sign of a dramatic unraveling in the state as mortgage rates remain low on an historical basis. Year-ending data, however, suggest that the housing market may be experiencing the kind of softness not seen for 25 years in this country. Sales are down and unsold inventories are up nationally and in the state. Median prices are down nationally and steady to barely rising in the state, although prices have been buoyed primarily by the sales of higher-end homes, while sales of more moderately priced homes are stagnant. Further, real estate experts claim that reported selling prices do not reflect various incentives such as seller-paid closing costs, in effect inflating the reported selling prices relative to actual prices. Also, the impact of subprime mortgages which are resetting will probably be felt for some time, both in the housing market and, secondarily, in the general economy.

The biggest risks that may impede the state's economic expansion are: (1) Debt-ridden consumers, a depressed housing market, rising inflation, and higher energy costs, which all show signs of appearing in the most current data available. Should consumer confidence continue to erode and the pace of consumer spending continue to deteriorate, the probability of a new recession starting, already discussed by many economists as being at fifty percent, will become a certainty . (2) The prospect of another terrorist attack against the United States. An act of aggression aimed at the U.S. directly will have a significant impact on oil prices, the stock market and the economy. It could severely limit the extent of economic progress. (3) A weaker stock market. The risk of this scenario to the state is twofold. First is equity ownership by Connecticut residents, who by nature of their very wealth have a greater proportion of their asset's allocated to stocks. Second, Connecticut has a higher proportion of workers employed in the financial services industry which, combined with our geographical proximity to the world's financial capital, exposes our employment mix to the vagaries of the markets centered on Wall Street. This also appears to be happening. On January 22, 2008, the S&P 500 index closed down 10.8% calendar-year-to-date, and down 16.3% from its all-time peak closing on October 9, 2007, little more than just three months earlier. The only questions are, "How much lower could the market go?" and, "For how long?" It is possible that the dramatic interest rate cuts by the Federal Reserve may help soften this blow. (4) Finally, slower job growth, or even a decline in jobs. By the time each of the last five recessions had run its course, the number of Connecticut jobs fell from 1.4% to as much as 9.4%, relative to its peak. The data indicates that the bottom of the most recent downturn in employment was reached in July of 2003, claiming 3.5% of the state's workforce. In retrospect, it took the state's labor market 36 months to reach bottom. The average recession racked up job losses of 4.1% for 19 months; recovering these losses took another 46 months. The following Table shows how the last downturn compares to prior recessionary periods in state history. This shows that the most recent recovery took about as long as might be expected.

Based on all the cited risks, there are now reasons to be concerned about the continued progress in employment. There is a risk that we may be at or near a new peak. All things considered, the status of the employment situation in Connecticut at this time could best be described as uncertain.

RECESSIONS IMPACT ON CONNECTICUT'S LABOR MARKET

Employment Peak To Trough	Jobs Lost As A Percent Of Total Jobs	Months From Peak To Trough	Months From Peak To Regaining Peak
Feb. '70 - Jun. '71	4.0%	16	34
Aug. '74 - Sept. '75	4.4%	13	32
Mar. '80- Aug. '80	1.4%	5	11
Oct. '81 - Feb. '83	1.5%	16	21
Feb. '89 - Dec. '92	9.4%	46	131
Average	**4.1%**	**19**	**46**
Jul. '00 - Jul. '03	3.5%	36*	49*

* Assumes that the trough of the labor market was reached in July of 2003, and the previous peak attained in July of 2000 was reached again in August of 2007.

The following tables provide historical and forecasted values for the major economic variables used in revenue forecasting for the United States and Connecticut.

TABLE 93
UNEMPLOYMENT RATES
Seasonally Adjusted

Fiscal Year	Quarters	United States	Connecticut	
2005-06	1	5.0%	4.9%	
	2	5.0%	4.6%	
	3	4.7%	4.4%	
	4	4.6%	4.1%	
2006-07	1	4.7%	4.4%	
	2	4.5%	4.2%	
	3	4.5%	4.2%	
	4	4.5%	4.3%	
2007-08	1	4.6%	4.5%	
	2	4.8%	4.9%	
	3	5.0%	5.1%	Start of Forecast
	4	5.1%	4.9%	
2008-09	1	5.3%	4.8%	
	2	5.2%	4.8%	
	3	5.2%	4.8%	
	4	5.1%	4.8%	

Source of Historical Data: U.S. Bureau of Labor Statistics, Connecticut State Labor Department

TABLE 94
Comparison of Connecticut's Personal Income Versus U.S. GDP and Personal Income
(Seasonally Adjusted in Billions of Dollars)

	Connecticut		United States		United States	
	Personal	% Change	Personal	% Change		% Change
Fiscal Year	Income	Year Ago	Income	Year Ago	GDP	Year Ago
1998-99	126.769	6.1	7,614.0	6.3	8,996.0	5.5
1999-00	135.783	7.1	8,115.3	6.6	9,571.3	6.4
2000-01	145.744	7.3	8,622.2	6.2	9,991.5	4.4
2001-02	146.946	0.8	8,798.7	2.1	10,280.3	2.9
2002-03	146.983	0.0	8,982.6	2.1	10,664.0	3.7
2003-04	153.244	4.3	9,414.3	4.8	11,330.4	6.3
2004-05	163.415	6.6	10,026.2	6.5	12,049.8	6.4
2005-06	173.106	5.9	10,649.7	6.2	12,846.0	6.6
2006-07	183.967	6.3	11,319.4	6.3	13,495.0	5.1
2007-08 (E)	192.246	4.5	11,901.6	5.1	14,133.0	4.7
2008-09 (P)	199.159	3.6	12,428.8	4.4	14,778.4	4.6

(E) = Estimated / (P) = Projected

Source of Historical Data: U.S. Bureau of Economic Analysis

TABLE 95
STATE OF CONNECTICUT
Annualized Personal Income & Nonagricultural Employment
(In Millions)

Fiscal Year		Personal Income	% Change Year Ago	Nonagricultural Employment	% Change Year Ago	
2005-06	1	168,362	4.8	1,663.3	0.6	
	2	170,946	4.0	1,665.7	0.6	
	3	176,270	8.1	1,673.5	1.0	
	4	176,845	6.8	1,677.8	0.9	
	Average	**173,106**	**5.9**	**1,670.1**	**0.8**	
2006-07	1	177,893	5.7	1,683.3	1.2	
	2	180,981	5.9	1,683.9	1.1	
	3	188,113	6.7	1,691.6	1.1	
	4	188,881	6.8	1,697.7	1.2	
	Average	**183,967**	**6.3**	**1,689.1**	**1.1**	
2007-08	1	190,935	7.3	1,701.8	1.1	
	2	191,230	5.7	1,703.3	1.1	Start of Forecast
	3	192,682	2.4	1,704.1	0.7	
	4	194,136	2.8	1,704.5	0.4	
	Average	**192,246**	**4.5**	**1,703.4**	**0.8**	
2008-09	1	195,952	2.6	1,705.7	0.2	
	2	197,978	3.5	1,707.7	0.3	
	3	200,168	3.9	1,708.9	0.3	
	4	202,536	4.3	1,712.0	0.4	
	Average	**199,159**	**3.6**	**1,708.5**	**0.3**	

TABLE 96
U.S. CONSUMER PRICE INDEX, SEASONALLY ADJUSTED
(1982-84 = 100)

Fiscal Year		Consumer Price Index	% Change Year Ago	
2005-06	1	196.6	3.8	
	2	198.3	3.7	
	3	199.2	3.7	
	4	201.7	4.0	
	Average	**199.0**	**3.8**	
2006-07	1	203.2	3.4	
	2	202.2	1.9	
	3	204.1	2.4	
	4	207.1	2.7	
	Average	**204.1**	**2.6**	
2007-08	1	208.0	2.4	
	2	210.2	4.0	
	3	211.4	3.6	**Start of Forecast**
	4	212.5	2.6	
	Average	**210.6**	**3.2**	
2008-09	1	213.4	2.6	
	2	214.6	2.1	
	3	215.7	2.0	
	4	216.7	2.0	
	Average	**215.1**	**2.1**	

Source of Historical Data: U.S. Bureau of Labor Statistics

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REVENUE FORECAST

The following Table shows the actual General Fund Revenue collections for fiscal 2006-07, and estimated revenue collections for fiscal 2007-08 and projected revenue collections for fiscal 2008-09 by major sources.

TABLE 97
STATE OF CONNECTICUT - GENERAL FUND REVENUES
(In Millions of Dollars)

	Actual Revenue	Projected Revenue At Current Rates	Proposed Revenue Changes	Net Projected Revenue
Taxes	2006-07	2007-08	2007-08	2007-08
Personal Income Tax	$ 6,749.5	$ 7,570.0	$ -	$ 7,570.0
Sales & Use Tax	3,496.1	3,598.9	-	3,598.9
Corporation Tax	890.7	727.0	(8.0)	719.0
Public Service Tax	235.5	247.6	-	247.6
Inheritance & Estate Tax	179.9	165.5	-	165.5
Insurance Companies Tax	253.0	253.1	-	253.1
Cigarette Tax	269.5	351.5	-	351.5
Real Estate Conveyance Tax	211.2	200.0	-	200.0
Oil Companies Tax	144.4	158.4	-	158.4
Alcoholic Beverages	46.0	47.0	-	47.0
Admissions and Dues	33.4	33.6	-	33.6
Miscellaneous	144.5	147.6	-	147.6
Total Taxes	$ 12,653.9	$ 13,500.2	$ (8.0)	$ 13,492.2
Less Refunds of Taxes	(746.5)	(797.8)	-	(797.8)
Less R&D Credit Exchange	(6.0)	(10.0)	-	(10.0)
TOTAL - Taxes Less Refunds	$ 11,901.3	$ 12,692.4	$ -	$ 12,684.4
Other Revenues				
Transfers Special Revenue	$ 283.8	$ 286.6	$ -	$ 286.6
Indian Gaming Payments	430.5	417.6	-	417.6
License, Permits, Fees	151.7	162.5	-	162.5
Sales of Commodities & Services	35.5	32.0	-	32.0
Rents, Fines & Escheats	51.8	55.1	-	55.1
Investment Income	83.6	89.0	-	89.0
Miscellaneous	188.3	147.8	-	147.8
Less Refunds of Payments	(0.5)	(0.6)	-	(0.6)
TOTAL - Other Revenues	$ 1,224.8	$ 1,190.0	$ -	$ 1,190.0
Other Sources				
Federal Grants	$ 2,602.8	2,725.1	$ -	$ 2,725.1
Transfer From Tobacco	100.0	115.3	-	115.3
Transfers From/(To) Other	(45.3)	(102.3)	-	(102.3)
TOTAL - Other Sources	$ 2,657.5	$ 2,738.1	$ -	$ 2,738.1
TOTAL - General Fund	$ 15,783.6	$ 16,620.5	$ (8.0)	$ 16,612.5

	Projected Revenue At Current Rates 2008-09	Proposed Revenue Changes 2008-09	Net Projected Revenue 2008-09
$	7,930.0	$ -	$ 7,930.0
	3,700.8	(23.0)	3,677.8
	722.0	(35.0)	687.0
	256.9	-	256.9
	165.5	(0.3)	165.2
	253.1	-	253.1
	348.0	-	348.0
	204.0	-	204.0
	167.9	(20.0)	147.9
	47.5	-	47.5
	34.0	-	34.0
	152.2	-	152.2
$	13,981.9	$ (78.3)	$ 13,903.6
	(836.8)	-	(836.8)
	(10.5)	-	(10.5)
$	13,134.6	$ (78.3)	$ 13,056.3
$	288.0	$ -	$ 288.0
	423.8	-	423.8
	156.7	(0.4)	156.3
	32.8	-	32.8
	55.5	-	55.5
	90.0	-	90.0
	147.5	4.9	152.4
	(0.6)	-	(0.6)
$	1,193.7	$ 4.5	$ 1,198.2
$	2,800.1	$ (4.8)	$ 2,795.3
	115.8	-	115.8
	9.7	-	9.7
$	2,925.6	$ (4.8)	$ 2,920.8
$	17,253.9	$ (78.6)	$ 17,175.3

Explanation of Changes

Sales and Use Tax
Exempt Energy Star appliances from the sales tax, effective 7/1/08-6/30/09.

Corporation Tax
Shorten the accrual period from August 15th to July 31st, effective upon passage.
Eliminate the Business Entity Tax, effective 1/1/08.
Establish a Green Building tax credit, effective 1/1/09.

Inheritance & Estate Tax
Exempt working farmland from the estate tax, effective 7/1/08.

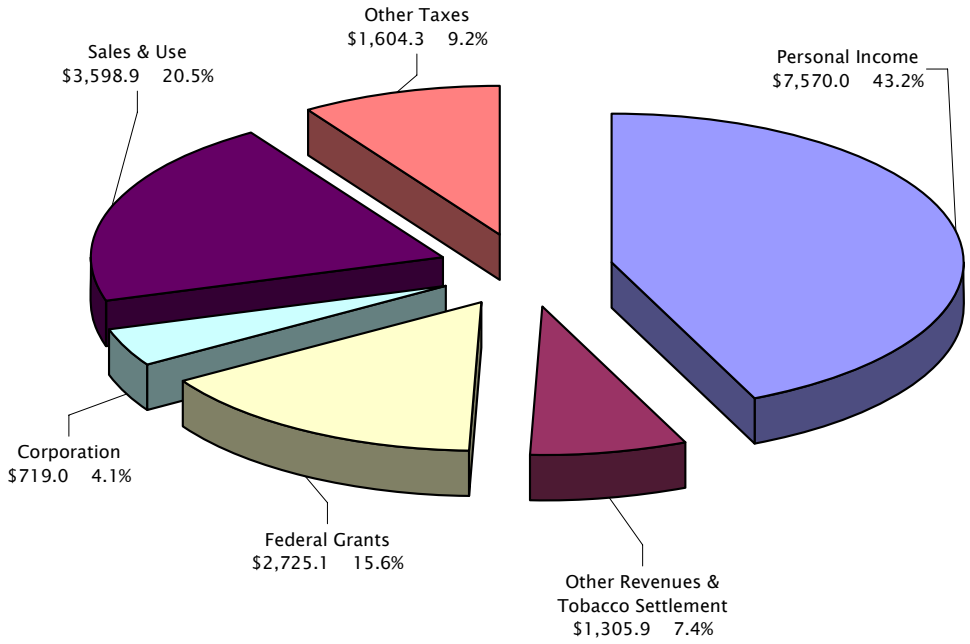
Oil Companies Tax
Increase transfer to the Special Transportation Fund by $20.0 million annually.

License, Permits, and Fees
Convert credit card discount fee from an appropriation to a revenue offset for the payment of various licenses, effective 7/1/08.

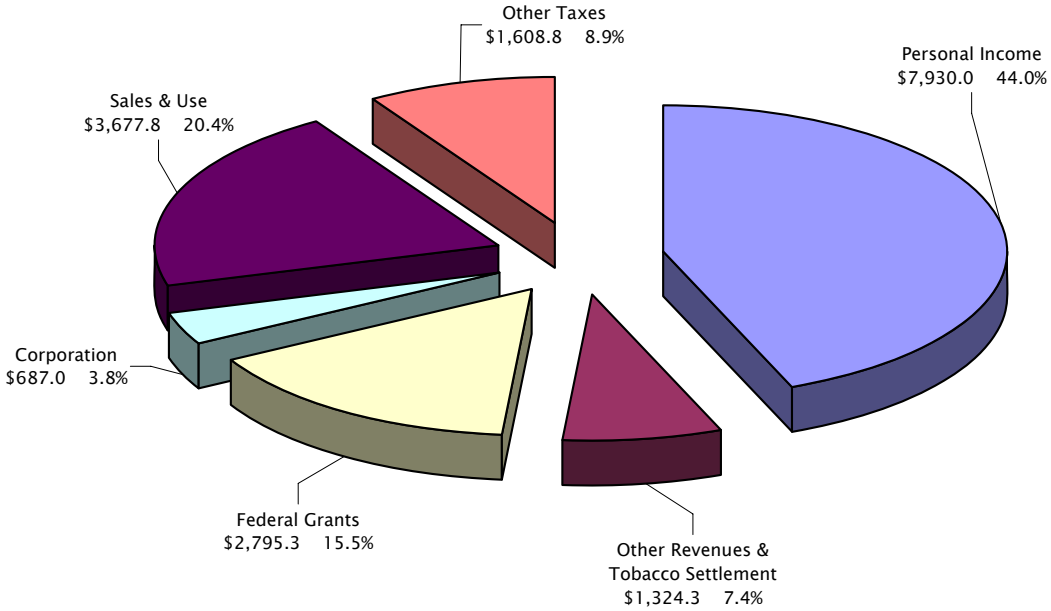
Miscellaneous Revenue
Reimbursement for vaccine purchase.

Federal Grants
Reflects an increase in the Child Support Pass-through Disregard to $100 and the impact of recommended expenditure changes.

GENERAL FUND
FISCAL YEAR 2007-08 – TOTAL $16,612.5 MILLION*



GENERAL FUND
FISCAL YEAR 2008-09 – TOTAL $17,175.3 MILLION*



* Refunds of Taxes are estimated at $797.8M for FY 2007-08 and $836.8M for FY 2008-09, R&D Credit Exchange are estimated at $10.0M for FY 2007-08 and $10.5 M for FY 2008-09, Refunds of Payments are estimated at $0.6M for both FY 2007-08 and FY 2008-09, Transfers to Other Funds are $102.3M in FY 2007-08 and Transfers from Other Funds are $9.7M in FY 2008-09.

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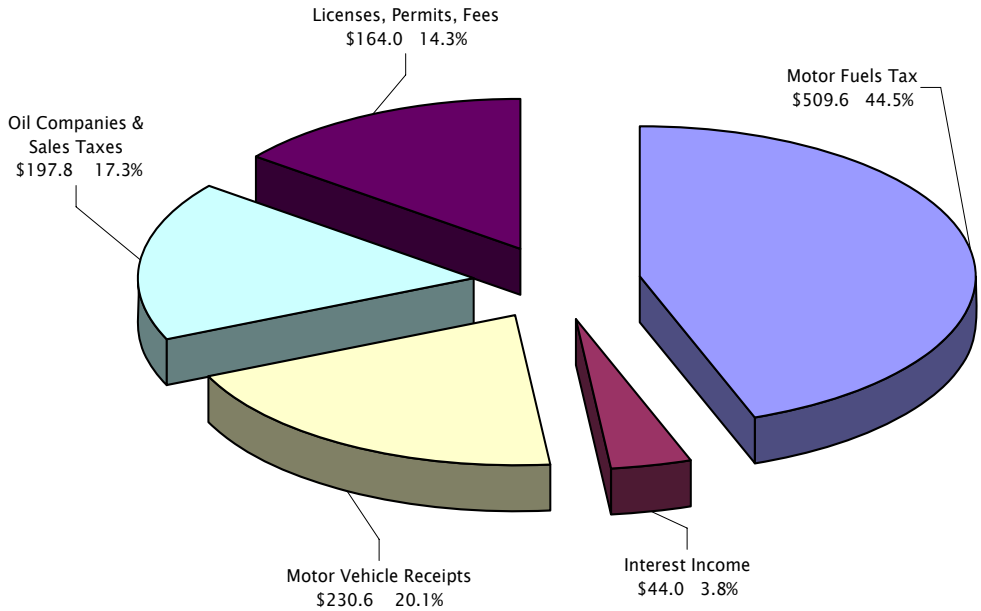
TABLE 98
STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND REVENUES
(In Millions of Dollars)

	Actual Revenue 2006-07	Projected Revenue Current Rates 2007-08	Proposed Revenue Changes 2007-08	Net Projected Revenue 2007-08
Taxes				
Motor Fuels Tax	$ 478.3	$ 509.6	$ -	$ 509.6
Oil Companies Tax	141.0	127.8	-	127.8
Sales Tax DMV	67.9	70.0	-	70.0
Less Refunds of Taxes	(7.9)	(7.8)	-	(7.8)
TOTAL - Taxes Less Refunds	$ 679.2	$ 699.6	$ -	$ 699.6
Other Sources				
Motor Vehicle Receipts	$ 224.7	$ 230.6	$ -	$ 230.6
Licenses, Permits & Fees	170.5	164.0	-	164.0
Interest Income	46.0	44.0	-	44.0
Transfers From (To) Other Funds	1.0	(9.5)	-	(9.5)
Transfer To TSB	(20.3)	(20.8)	-	(20.8)
Less Refunds of Payments	(2.7)	(2.9)	-	(2.9)
TOTAL - Other Sources	$ 411.1	$ 405.4	$ -	$ 405.4
TOTAL – S.T.F.	$ 1,098.3	$ 1,105.0	$ -	$ 1,105.0

FISCAL YEAR 2007-08 - TOTAL $ 1,105.0 MILLION*



* Refunds of Taxes are estimated at $7.8M, Transfers to Other Funds are estimated at $9.5 M, Refunds of Payments are estimated at $2.9M and Transfers to Transportation Strategy Board are estimated at $20.8M in fiscal 2007-08.

	Projected Revenue Current Rates 2008-09	Proposed Revenue Changes 2008-09	Net Projected Revenue 2008-09
	$ 512.4	$ -	$ 512.4
	141.9	20.0	161.9
	70.6	-	70.6
	(8.0)	-	(8.0)
	$ 716.9	$ 20.0	$ 736.9
	$ 234.5	$ -	$ 234.5
	166.0	1.0	167.0
	39.0	-	39.0
	(9.5)	-	(9.5)
	(15.3)	-	(15.3)
	(3.0)	-	(3.0)
	$ 411.7	$ 1.0	$ 412.7
	$ 1,128.6	$ 21.0	$ 1,149.6

Explanation of Changes

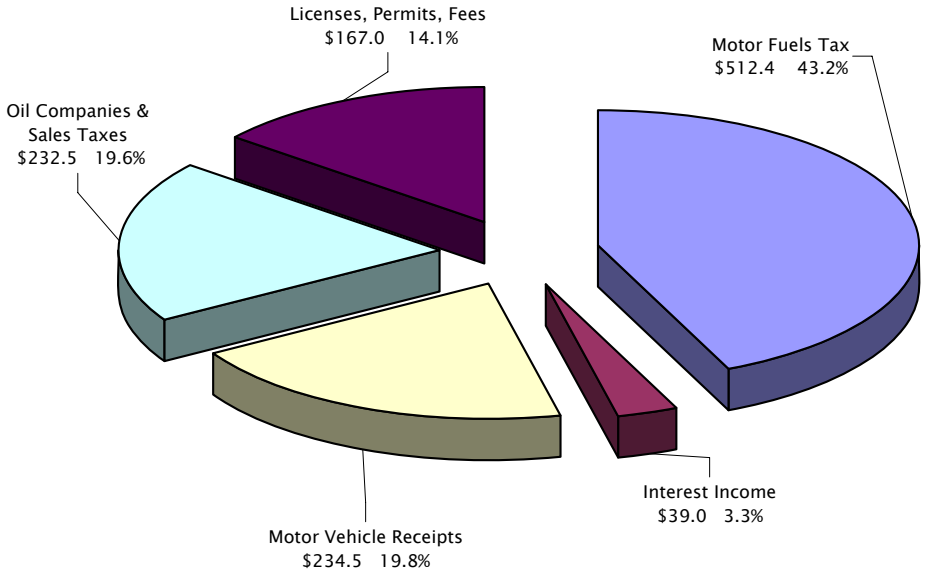
Oil Companies

Increase the transfer from the General Fund by $20.0 million.

License, Permits, Fees

Increase truck safety enforcement.
Increase traffic enforcement.
Convert credit card fee from an appropriation to a revenue offset for the payment of various licenses.

FISCAL YEAR 2008-09 - TOTAL $ 1,149.6 MILLION*



* Refunds of Taxes are estimated at $8.0M, Transfers to Other Funds are estimated at $9.5M, Refunds of Payments are estimated at $3.0M and Transfers to Transportation Strategy Board are estimated at $15.3M in fiscal 2008-09.

IMPACT OF THE GOVERNOR'S BUDGET ON THE STATE'S ECONOMY

The traditional purpose of a governmental budget is threefold: it outlines necessary and desirable public services; it estimates how much these services will cost; and it defines the resources that are required to provide these services. The budget is the fundamental policy document of every level of government. As proposed, enacted and implemented, it represents a consensus on what government realistically can and ought to do.

The economic implications of governmental budgets are significant. The government sector including federal and local governments is an important dimension of the national economy, accounting for 11.4% of the Gross Domestic Product. The spending and tax policies of government profoundly influence the performance of the economy. Because the Governor's budget accounts for 9.0% of the Gross State Product, it is inevitable that state government's expenditure and revenue actions influence the State's economy.

The economy has undergone significant change over the past several years and along with it, so has the state's budget. The result is a budget recommendation that proposes few but targeted revenue changes while continuing to make changes in resource allocation to improve the social and economic wellbeing of the state's residents. This budget is also part of the vision of the Governor to attain and retain structural balance in the budget. Governor Rell believes this budget will maintain the positive impact previous budgets have had on the economy, while preserving the most important aspects of our quality of life.

Expenditure Actions

Education

Connecticut is much like the rest of the country, less certain and less optimistic about its future labor force. Connecticut's future mirrors national trends: significant overall declines in 12th grade enrollments coupled with large increases in minority and low-income students. Connecticut's difficulties are compounded by its small size and proximity to large out-of-state urban areas that attract college-bound students. The State loses a majority of its postsecondary students, many of them top achievers, retaining lower-achieving college students and individuals not attending college. This Education Initiative, with its investments in the youngest learners through college-age students in Connecticut, works to stop the "brain drain" and to create quality workers for tomorrow. To accomplish this, the Education Initiative has three major goals: (1) Improve educational outcomes for all students, (2) Create research-based early childhood programs for students with significant barriers to academic success, such as poverty, to improve student achievement, and (3) Enhance student financial aid to entice more qualified students to matriculate in Connecticut.

To improve the quality of education in the State, the Education Initiative first invests significantly in the K-12 system. The budget for the current biennium includes $3.7 billion for the Education Cost Sharing (ECS) grant, the State's largest municipal grant. With this investment, the State will have spent $453 million more on ECS than it did in the previous biennium. Fifty-seven percent of these funds must be spent on additional educational services; the remainder of that additional aid can be spent at the discretion of the municipality. Also, the

Governor recommended, and the General Assembly adopted in large measure, strict new education accountability requirements. With all this new money invested in education, the Governor wanted to see positive returns on the state's investments. If communities cannot improve educationally, the new law sets into motion a series of increasing state interventions, culminating (in rare and severe cases) in the takeover of a district's schools by the State or another entity. For the dozen most underachieving districts, the State Department of Education has sequestered 20% of their new ECS funding to pay for any education-related improvements deemed necessary. For fiscal year 2008, this sequestered funding totals approximately $13.0 million.

Additionally, this Initiative devotes almost $136.0 million to improving the education of disadvantaged young children. For the first ten years of the State's preschool program (School Readiness), the program reached only about 6,000 youngsters each year. By the end of fiscal year 2009, it is expected that about 10,000 of the state's most needy students will have access to a quality (research based) preschool experience. For each dollar invested in early childhood, according to studies, taxpayers will save $13.00 in future societal costs (for things like incarceration, special education, income support, etc.).

With more students attending preschool and then entering quality K-12 schools, more Connecticut students will be college-ready and able to attend college in the state. Recent research has indicated that Connecticut loses its brightest students to out-of-state colleges and universities. Once these students leave, they are less likely to come back to work in the state. By investing in state financial aid programs, the Governor hopes to entice the state's most capable students to go to college in Connecticut and to stay, work and raise a family here. Connecticut's economy depends on its ability to create and grow a skilled labor force - which has become increasingly more difficult with the college "brain drain."

The Biennial FY 2007-09 Budget includes over $13.7 million (an 83% increase over fiscal year 2007) in financial aid for students attending public colleges in Connecticut. This additional funding means almost 8,800 more students will have access to average grants of $1,500 to attend one of the institutions of higher education in Connecticut. In total, over 20,000 students will benefit from this program. Additionally, the Budget includes an increase of $8.1 million (a 51% increase over fiscal year 2007) in financial aid for Connecticut students attending private college in the state. With this increased funding, an additional 1,800 students will receive average awards of $3,600. With 6,600 students reaping the benefits of this program, and 20,000 in the public college program, almost 27,000 students receive aid from the state's two major financial aid programs. This sound investment in quality education will create the human capital needed by the state's future economy.

Finally, it has been estimated that the arts, film, history and tourism industries generate more than $14 billion in economic activity and support more than 170,000 jobs – 10 percent of the state's labor force – annually in the state. In her proposed mid-term adjustment budget, as an economic development incentive, Governor Rell provides a boost of $3.6 million in additional funding for these industries. Combining the resources of the $4 million Culture, Tourism and Arts program with $2.4 million from the Basic Cultural Resources grants, along with the new $3.6 million, Governor Rell has created a $10.0 million Cultural Treasures program. Not less than 25% of the program's resources must be spent on smaller programs which play such

important roles in our state. Overall, this program will be used to provide grants to create, preserve, promote, and expand nonprofit arts and cultural activities in the state.

Health and Human Services

For Connecticut to meet the health needs of its diverse population, the Governor proposes implementing a number of initiatives which involve the planning and development of lower cost, home and community-based options as an alternative to higher cost institutional care.

Through an effort to "re-balance" the long-term care system, the Department of Social Services (DSS) will plan for development of lower cost home and community-based options as an alternative to higher costing institutional care, saving $1.0 million in FY 2009. The Governor is also recommending $4.6 million in the Departments of Social Services and Mental Health and Addiction Services (DMHAS) ($9.5 million in FY 2010) to enhance efforts to move individuals with psychiatric disabilities from long-term care facilities to community settings, building on efforts begun by DSS in 2007. Through this program, DSS expects to transition up to 700 individuals over the next five years. This budget includes funding of $6.5 million in FY 2009 to transition clients into the community.

To prevent inappropriate nursing home admission, the budget includes $1.3 million to develop an online screening system to allow DSS to screen individuals with mental illness and mental retardation for placement in the appropriate setting. In FY 2008, DSS is expected to spend over $430 million for community-based services for a wide spectrum of services, including existing federal waivers for Home and Community-Based Services, Personal Care Assistance and Acquired Brain Injury, as well as Medicaid home health services and a state-funded home health program. Combined with new funding totaling over $12.8 million in FY 2009, these ongoing efforts will allow for the transition of over 1,350 elderly and disabled individuals to the community.

The Governor is recommending $8.0 million and 6 new positions for FY 2009 for the Department of Developmental Services, including $7.7 million to fund additional discretionary caseload growth beyond what is already budgeted for FY 2009. This is in addition to $25.2 million for new placements and annualization of FY 2008 caseload costs already funded in FY 2009. In addition, the Governor is recommending $24.5 million and 163 new positions in FY 2009 for DMHAS. This new funding will permit a significant investment in adult mental health services in FY 2009 by funding new programs such as diversion and wrap-around support for many high users of hospital care who often have criminal justice involvement.

The Governor is recommending $1.9 million and 23 new positions to augment community based services for individuals with mental health needs who are involved with the criminal justice system. In response to recommendations made by the Hospital Task Force, the Governor is recommending $4 million ($5.7 million in FY 2010) to reduce the inappropriate use or extended lengths of stay for emergency department patients waiting to receive behavioral health services and to increase the capacity to provide such services in the appropriate setting within identified "high-demand" areas. Also recommended are $12.26 million and 126 positions to improve services and maintain accreditation at Connecticut Valley Hospital.

The Governor is recommending $11.2 million in new funding for FY 2009 for the Department of Children and Families (DCF). These new resources will help enable the department to meet the outcome measures required under the Juan F. consent decree exit plan.

The Governor is also recommending five additional staff for the Department of Public Health (DPH) to allow DPH to conduct more frequent inspections of nursing homes. Also, Governor Rell is providing DPH with five new staff to increase the frequency of inspections of child care facilities. In addition to the increased inspection of care provided in nursing homes, the Governor is recommending stiffer financial oversight of the nursing home industry with five additional staff in the Department of Social Services. Included in their purview will be planned changes in ownership or control and reviews of indebtedness, and financial reporting requirements.

Governor Rell is proposing legislation that would provide tuition waivers to surviving spouses and dependent children of Connecticut's military service members killed in action in order that those family members may attend one of the state's public institutions of higher education. In addition, the Governor is recommending $250,000 for the Department of Veterans' Affairs to implement a support program for returning veterans.

The Governor is proposing to annualize $3 million in supportive housing debt service in the FY 2009 budget in order to provide 150 new units of supportive housing. Although no new funding is needed during the biennium for this initiative, proposed legislation includes a proposal to provide the Connecticut Housing Finance Authority (CHFA) with the statutory authority to issue $35 million in bonds and to entrust the state to pay the debt service on these bonds over the next twenty years, a significant investment of $57 million.

Governor Rell formed a task force with broad representation from the health care industry as well as policy makers to develop strategies to stabilize and chart the future course of Connecticut's hospitals, many of which are facing financial hardship. Over $6.3 million is included in Governor Rell's recommended budget to implement some of the recommendations of the Task Force, including: relief of overcrowded and overused hospital emergency departments, especially by those needing behavioral health services; increased nursing education opportunities; strengthened requirements for state health planning and studies of hospital reimbursement systems and gaps in and the capacity of the primary care service system; and a media campaign to encourage HUSKY clients and Medicaid recipients to seek out appropriate primary care providers rather than turn to hospital emergency departments for primary care.

Parole Reform and Public Safety

On January 25, 2008, the Governor signed into law "An Act Concerning Criminal Justice Reform." In addition, the Governor's Recommended Budget includes further reforms to address the concerns of criminal justice professionals and the citizens of Connecticut. Reforms include tougher home invasion and burglary statutes, an improved persistent offender law, a full-time Board of Pardons and Paroles and more rights for victims. The Governor is adding 5 full-time Parole Board Members to work with the part-time Board of Pardons and Paroles members, who have appropriate expertise but will still receive additional training, as well as a position for a forensic psychologist to assist the Board in its parole decisions. The Governor

supports the enhancement of community supervision of parolees through the use of passive global positioning surveillance (GPS) devices. This initiative adds 300 new GPS devices and 9 Parole Officers to monitor the offenders. Other major initiatives include:

- $8.8 million to contract for re-entry, diversionary and mental health beds.
- $2 million to provide residential treatment facilities for sex offenders.

In addition, the initiatives enacted in the January Special Session are expanded to include:

- $107,000 for IDs to all inmates who are legal citizens but lack identification to aid them in seeking employment upon release.
- Nine Probation staff and $414,000 to increase the number of warrants served.
- $566,000 for the Connecticut Offender Re-entry program in DMHAS.
- Funds in the Department of Correction (DOC) to replace expiring federal funds for five substance abuse counselors.
- $500,000 to expand the Urban Youth Violence Prevention funding.

The Governor is proposing legislation to allow the collection of DNA from inmates in Correction facilities not yet tested and persons newly incarcerated for the most serious offenses, as well as all Class A and B felons arraigned and all convicted felons released without being incarcerated. Also, the Governor's MidTerm Budget Adjustments include funding in the Department of Information Technology for technology needs related to her criminal justice initiatives.

To accommodate the staffing requirements in the Department of Correction facilities, the Governor is providing 125 additional Correction Officers and additional staff with appropriate funding. The DOC has reconditioned 3 former dormitory areas that were being used for other purposes, but will now again house inmates.

Transportation

In July of 2007, the Governor formed a commission to make recommendations to reform the Department of Transportation (DOT). As a result of the findings of the Commission, included in the Governor's MidTerm Budget Adjustments is $250,000 to develop a transition plan for the reorganization of the agency into two separate departments, a Department of Public Transportation and a Department of Highways. An additional $100,000 has been provided to the Office of Policy and Management to study the feasibility of transforming Bradley Airport into a quasi-public agency, resulting in three mission driven, efficiently functioning departments. These changes are expected to begin taking effect on January 1, 2010. In order to continue the current operations of the Department, the Governor's Midterm Budget Adjustments for FY 2009 include 109 additional positions and nearly $4.8 million.

Governor Rell has included 11 positions and $2.55 million to immediately implement some of the recommendations included in the Governor's Commission Report to reform the DOT, such as: (1) Establishing a Chief Operating Officer to assist the Commissioner in day-to-day operations, (2) Creating an Office of Strategic Planning and Evaluation to work closely with the Transportation Strategy Board and other agencies and organizations, (3) Adding financial positions for the continued centralization of financial operations, (4) Separating the existing

Bureau of Engineering and Highways to operate more as a shared service and to develop capabilities tailored to public transportation needs, and (5) Implementing a "511" telephone system for the public to get needed travel information.

In addition, these Initiatives include establishing 92 positions and providing nearly $1.4 million to add 50 engineers; 42 inspectors and maintainers for bridge repair and maintenance for the mandatory two year bridge inspection schedule; and provide for a road signage assessment, utilizing mostly federal funds.

Although the number of inspections of commercial vehicles statewide has increased, there are still many vehicles on our roads that should not be. In her Midterm Adjustments for FY 2009, the Governor provides over $700,000 for the addition of ten Commercial Vehicle Safety Inspectors within the Department of Motor Vehicles (DMV) in order to enhance inspection squad activity to cover all areas including school bus inspections.

In order to increase the level of traffic enforcement, the Governor is adding 100 State Troopers over the next 5 years, starting with 20 Troopers in this FY 2009 Midterm Adjustment budget. Additionally, the Governor is proposing a pilot program in the Old Lyme/Lyme area for electronic camera radars aimed at catching and ticketing speeders. The Governor also is proposing statutory revisions to require coverage of the Greenwich weigh station for three Saturday shifts every month.

General Government

In order to ensure fiscal integrity, the Governor is proposing legislation to allow the Secretary of the Office of Policy and Management to request that the Auditors of Public Accounts review the budget and financial condition of municipalities that receive more than 35% of their annual operating budget from the state, estimated to be 35 to 40 municipalities. The auditors' report shall include recommendations on savings, efficiencies, financial improvements and reforms and be submitted to the Governor and to the committees of cognizance of the General Assembly, and will cost $500,000 for fiscal 2009. The Governor is also extending the funding for the Regional Performance Incentive Program, conceived to promote regional cooperation, by an additional $5 million in FY 2009, to improve the program by enacting certain program modifications. The Governor is providing $500,000 to be used to enter into assistance agreements with municipalities, who apply for and are selected to jointly undertake with the State Office of Policy and Management, operational efficiency studies and audits of specified municipal operations to include a 5-year health care cost containment plan. The state will cover up to 75 percent of the outside costs of these studies.

Governor Rell will continue to implement energy initiatives that will assist not only state agencies but the citizens of Connecticut. Based on a model used by the Office of Policy and Management to procure electricity for state agencies in the Fall of 2007, Governor Rell is instituting a "reverse auction" electricity procurement process by the Department of Public Utility Control for residential and small business consumers. Two positions and $200,000 are recommended for the Department of Public Utility Control by the Governor for this project.

In an effort to promote "Transparency in Government," this budget provides funding for the creation of a centralized state agency regulation system to be available on the Department of

Consumer Protection's website to allow the public to easily review regulations online without having to visit multiple locations and websites. Governor Rell is also requiring the Department of Consumer Protection to establish a Citizen's Forum on the agency's website. The forum will allow citizens centrally and conveniently to submit suggestions electronically on how to improve services in state government.

Governor Rell convened a subprime mortgage task force to review the subprime lending situation within Connecticut and is proposing legislation that would implement recommendations of the task force. The legislation will redefine loans in Connecticut that would fall into the subprime category and provides for additional disclosures that would alert consumers to the economic risk associated with these loans. The legislation will also do away with any pre-payment penalty associated with subprime loans.

Revenue Actions

During the latter half of calendar year 2007, economic conditions in our country began to shift. Against the backdrop of already rising energy prices came the unfolding subprime mortgage meltdown. Almost overnight, interest rates rose dramatically particularly for individuals and businesses without the strongest of credit scores. This of course immediately impacted the nation's housing market which had expanded significantly this decade fueled by cheap credit which had existed since the depths of the last recession. The ensuing credit crunch and financial market uncertainty whipsawed investors as the new year began and led to the dramatic reduction in interest rates by the Federal Reserve combined with news of an emerging economic stimulus package from the federal government. Within this economic environment the Governor developed her revenue proposals for the new fiscal year. Concerned that the state would be facing a period of economic uncertainty, the Governor proposed modest, but important, changes to the state's revenue structure while conserving the state's resources should the economic ill winds affecting the nation arrive at our doorstep. These changes had to not only provide a measure of tax relief, but also serve a dual role in promoting certain public policy initiatives.

Within this framework the Governor is proposing four initiatives that will provide tax relief, but also improve the quality of life for our state's citizens. Last year the Governor signed into law a 3 month sales tax exemption for the purchase of energy star appliances. The goal of that program was to promote the purchase of energy saving equipment that would not only reduce consumers' electric bills through lower consumption, it would also benefit the environment by lowering the amount a greenhouse gas emissions from electric plants that generate such power. This time however the Governor is proposing a full 12 month exemption in order to afford consumers ample time to make appropriate purchasing decisions. Unfortunately, given the short time frame of last year's exemption, the tax incentive expired before consumers either became aware of the program or had an opportunity to purchase such items. This program will be effective July 1, 2008 and run through June 30, 2009 and save consumers $23 million.

According to the 2002 National Agricultural Statistics Service Survey, Connecticut lost 12.08% of its farmland between 1997 and 2002. This was the largest percentage loss of any state in the United States. The report also cites the fact that Connecticut has only 357,000 acres of farmland remaining. Connecticut loses approximately 7,000 to 9,000 acres of farmland to development each year and at this pace, there will be no farmland left in the state by the year 2047! A survey

of Connecticut residents issued in February 2000 found that 91% of Connecticut residents agree that preserving rural areas in Connecticut is important, while 90% agree that it is important to maintain farmland for future generations.

One way to ensure that this valuable asset remains farmland for future generations is to ensure that state tax laws are not driving current farmers to sell their land for development. Governor Rell is proposing to exempt working farmland from the estate tax so farmers do not have to sell their farms simply to pay the Connecticut death tax. Effective July 1, 2008, for an annualized cost of only $1.2 million, the working farmland estate tax exemption promotes responsible growth and the preservation of open space, two of Governor Rell's top priorities for enhancing the quality of life in Connecticut.

The United States is the largest source of global warming pollution, producing 25% of the world's carbon dioxide emissions with only 4% of the planet's population. With the recent surge in fossil fuel prices due to increased world-wide demand for energy, there is no better time than the present to look for ways to reduce our dependence on these damaging resources. To reduce global warming pollution, we must increase our reliance on renewable energy sources such as wind and sun and reduce greenhouse gas emissions from our buildings. There is a movement afoot to promote these ideals called "building green". Sustainable buildings, or "green buildings", use energy resources more efficiently and effectively and provide healthier environments for working, learning and living. By building green, businesses receive the benefit of reducing their on-going operation and maintenance costs while promoting global health.

To promote the use of sustainable building practices in the state, Governor Rell is proposing a new Green Building Corporation tax credit. Beginning January 1, 2009, businesses that make investments in building systems that reduce greenhouse gas emissions will be eligible to receive a corporation tax credit in the amount of 25% of the cost of the investment, up to $50,000 per business per year. This new credit is projected to cost approximately $2.0 million annually beginning in fiscal 2010.

In 1991, as part of the income tax compromise, the General Assembly adopted an expenditure cap to prevent the state from spending more than the economy's ability to provide resources. Fiscal 2009 will be the seventeenth budget subject to that limit. Current revenue projections indicate that by remaining within the bounds set by the Constitutional expenditure cap, Connecticut's citizens can expect a reduction in their taxes. To that end, the Governor is proposing to eliminate the $250 Business Entity Tax that was only enacted in 2002 and affects well over 100,000 business enterprises. As the economy has slowed there has been much discussion of the need for an economic stimulus package and the track record of small businesses in being the primary generators of new hiring is unsurpassed. Therefore, no longer will Connecticut's upstart businesses be required to pay this tax when we are counting on them to lead our economy into the future.

In 1993 the General Assembly passed and the Governor signed into law an act requiring the state to more properly account for its revenues and expenditures by switching to Generally Accepted Accounting Principles (GAAP) beginning in fiscal 1996. To date, the only action the state has taken in regards to GAAP is to postpone its implementation. A state of such material wealth and human talents should have a balance sheet to match. Regrettably, Connecticut does not. As part of this year's budget proposal the Governor is recommending that the accrual

period for the Corporation tax be ended within the first month after the close of the fiscal year. Currently corporation tax revenue received all the way through August 15th of the following fiscal year is counted, or accrued, to the prior fiscal year. This change will result in a one-time revenue loss to fiscal 2008 of $8 million and has three significant benefits. First it will aid in the timely closing of the financial books of the state at year-end. Second, it will make the accrual period consistent with the other taxes which the state accrues. Third, for this one item, it will move the state closer to the principles of GAAP accounting. Although GAAP accounting would eliminate the corporation tax accrual completely, and the Governor would welcome such efforts if resources permit, the Governor believes this is an important first step in a long journey toward financial integrity.

Conclusion

These proposals, taken all together, demonstrate Governor Rell's recognition of the reality of a challenging economic climate for the state. This budget also demonstrates a pragmatic response to this environment. The Governor has attempted to maintain the fiscal stability already established while making certain targeted investments.

APPENDIX

Connecticut Resident Population Census Counts

	Population 1990	Rank	Population 2000	Rank	1990-2000 Change	% Chg.	2006 DPH* Est.
Total	3,287,116		3,405,565		118,449	3.6	3,510,787
Andover	2,540	149	3,036	147	496	19.5	3,211
Ansonia	18,403	52	18,554	57	151	0.8	18,650
Ashford	3,765	138	4,098	135	333	8.8	4,444
Avon	13,937	72	15,832	68	1,895	13.6	17,342
Barkhamsted	3,369	140	3,494	143	125	3.7	3,708
Beacon Falls	5,083	124	5,246	125	163	3.2	5,711
Berlin	16,787	60	18,215	59	1,428	8.5	20,137
Bethany	4,608	128	5,040	126	432	9.4	5,525
Bethel	17,541	56	18,067	61	526	3.0	18,634
Bethlehem	3,071	144	3,422	144	351	11.4	3,580
Bloomfield	19,483	51	19,587	52	104	0.5	20,643
Bolton	4,575	129	5,017	127	442	9.7	5,142
Bozrah	2,297	152	2,357	153	60	2.6	2,432
Branford	27,603	35	28,683	32	1,080	3.9	29,083
Bridgeport	141,686	1	139,529	1	-2,157	-1.5	138,166
Bridgewater	1,654	161	1,824	160	170	10.3	1,900
Bristol	60,640	9	60,062	11	-578	-1.0	61,258
Brookfield	14,113	71	15,664	69	1,551	11.0	16,429
Brooklyn	6,681	110	7,173	113	492	7.4	7,815
Burlington	7,026	107	8,190	108	1,164	16.6	9,149
Canaan	1,057	168	1,081	168	24	2.3	1,103
Canterbury	4,467	131	4,692	130	225	5.0	5,102
Canton	8,268	101	8,840	101	572	6.9	10,081
Chaplin	2,048	155	2,250	156	202	9.9	2,512
Cheshire	25,684	37	28,543	33	2,859	11.1	28,884
Chester	3,417	139	3,743	141	326	9.5	3,842
Clinton	12,767	77	13,094	81	327	2.6	13,638
Colchester	10,980	87	14,551	74	3,571	32.5	15,421
Colebrook	1,365	164	1,471	165	106	7.8	1,546
Columbia	4,510	130	4,971	129	461	10.2	5,370
Cornwall	1,414	163	1,434	166	20	1.4	1,489
Coventry	10,063	91	11,504	87	1,441	14.3	12,215
Cromwell	12,286	79	12,871	83	585	4.8	13,540
Danbury	65,585	8	74,848	7	9,263	14.1	79,428
Darien	18,196	53	19,607	51	1,411	7.8	20,431
Deep River	4,332	132	4,610	133	278	6.4	4,698
Derby	12,199	80	12,391	84	192	1.6	12,481
Durham	5,732	120	6,627	116	895	15.6	7,358
East Granby	4,302	133	4,745	132	443	10.3	5,082
East Haddam	6,676	111	8,333	105	1,657	24.8	8,857
East Hampton	10,428	88	13,352	78	2,924	28.0	12,459
East Hartford	50,452	17	49,575	19	-877	-1.7	48,934
East Haven	26,144	36	28,189	35	2,045	7.8	28,741
East Lyme	15,340	67	18,118	60	2,778	18.1	18,321

Connecticut Resident Population Census Counts

	Population 1990	Rank	Population 2000	Rank	1990-2000 Change	% Chg.	2006 DPH*Est.
East Windsor	10,081	90	9,818	94	-263	-2.6	10,563
Eastford	1,314	165	1,618	163	304	23.1	1,790
Easton	6,303	113	7,272	111	969	15.4	7,451
Ellington	11,197	84	12,921	82	1,724	15.4	14,370
Enfield	45,532	20	45,212	20	-320	-0.7	45,297
Essex	5,904	118	6,505	117	601	10.2	6,776
Fairfield	53,418	14	57,340	13	3,922	7.3	57,930
Farmington	20,608	48	23,641	45	3,033	14.7	25,040
Franklin	1,810	160	1,835	159	25	1.4	1,896
Glastonbury	27,901	33	31,876	29	3,975	14.2	33,077
Goshen	2,329	151	2,697	151	368	15.8	3,154
Granby	9,369	93	10,347	93	978	10.4	11,187
Greenwich	58,441	12	61,101	9	2,660	4.6	62,193
Griswold	10,384	89	10,807	89	423	4.1	11,264
Groton	45,144	21	39,907	23	-5,237	-11.6	39,520
Guilford	19,848	50	21,398	49	1,550	7.8	22,376
Haddam	6,769	109	7,157	114	388	5.7	7,743
Hamden	52,434	15	56,913	14	4,479	8.5	57,944
Hampton	1,578	162	1,758	161	180	11.4	2,085
Hartford	139,739	2	124,121	2	-15,618	-11.2	124,699
Hartland	1,866	158	2,012	158	146	7.8	2,090
Harwinton	5,228	123	5,283	124	55	1.1	5,600
Hebron	7,079	106	8,610	104	1,531	21.6	9,238
Kent	2,918	147	2,858	150	-60	-2.1	2,970
Killingly	15,889	64	16,472	67	583	3.7	17,679
Killingworth	4,814	127	6,018	121	1,204	25.0	6,438
Lebanon	6,041	115	6,907	115	866	14.3	7,319
Ledyard	14,913	68	14,687	72	-226	-1.5	15,100
Lisbon	3,790	137	4,069	136	279	7.4	4,188
Litchfield	8,365	100	8,316	106	-49	-0.6	8,750
Lyme	1,949	157	2,016	157	67	3.4	2,083
Madison	15,485	66	17,858	64	2,373	15.3	18,791
Manchester	51,618	16	54,740	15	3,122	6.0	55,738
Mansfield	21,103	45	20,720	50	-383	-1.8	24,779
Marlborough	5,535	121	5,709	123	174	3.1	6,321
Meriden	59,479	11	58,244	12	-1,235	-2.1	59,552
Middlebury	6,145	114	6,451	118	306	5.0	7,146
Middlefield	3,925	135	4,203	134	278	7.1	4,276
Middletown	42,762	22	43,167	21	405	0.9	47,528
Milford	49,938	18	52,305	17	2,367	4.7	55,127
Monroe	16,896	59	19,247	54	2,351	13.9	19,599
Montville	16,673	61	18,546	58	1,873	11.2	19,660
Morris	2,039	156	2,301	155	262	12.8	2,381
Naugatuck	30,625	29	30,989	30	364	1.2	31,933
New Britain	75,491	7	71,538	8	-3,953	-5.2	70,855
New Canaan	17,864	55	19,395	53	1,531	8.6	19,976

Connecticut Resident Population Census Counts

	Population 1990	Rank	Population 2000	Rank	1990-2000 Change	% Chg.	2006 DPH* Est.
New Fairfield	12,911	75	13,953	75	1,042	8.1	14,248
New Hartford	5,769	119	6,088	120	319	5.5	6,794
New Haven	130,474	3	123,626	3	-6,848	-5.2	124,220
New London	28,540	32	25,671	41	-2,869	-10.1	25,979
New Milford	23,629	40	27,121	37	3,492	14.8	28,694
Newington	29,208	31	29,306	31	98	0.3	29,586
Newtown	20,779	47	25,031	42	4,252	20.5	27,034
Norfolk	2,060	154	1,660	162	-400	-19.4	1,678
North Branford	12,996	74	13,906	76	910	7.0	14,478
North Canaan	3,284	142	3,350	145	66	2.0	3,388
North Haven	22,247	41	23,035	39	788	3.5	24,077
North Stonington	4,884	126	4,991	128	107	2.2	5,209
Norwalk	78,331	6	82,951	6	4,620	5.9	84,344
Norwich	37,391	25	36,117	26	-1,274	-3.4	36,408
Old Lyme	6,535	112	7,406	110	871	13.3	7,427
Old Saybrook	9,552	92	10,367	92	815	8.5	10,581
Orange	12,830	76	13,233	79	403	3.1	13,878
Oxford	8,685	96	9,821	96	1,136	13.1	12,333
Plainfield	14,363	69	14,619	73	256	1.8	15,447
Plainville	17,392	57	17,328	66	-64	-0.4	17,312
Plymouth	11,822	81	11,634	86	-188	-1.6	12,164
Pomfret	3,102	143	3,798	140	696	22.4	4,173
Portland	8,418	99	8,732	102	314	3.7	9,595
Preston	5,006	125	4,688	131	-318	-6.4	4,894
Prospect	7,775	105	8,707	103	932	12.0	9,282
Putnam	9,031	95	9,002	98	-29	-0.3	9,325
Redding	7,927	103	8,270	107	343	4.3	8,919
Ridgefield	20,919	46	23,643	44	2,724	13.0	24,044
Rocky Hill	16,554	62	17,966	62	1,412	8.5	18,835
Roxbury	1,825	159	2,136	154	311	17.0	2,344
Salem	3,310	141	3,858	138	548	16.6	4,100
Salisbury	4,090	134	3,977	137	-113	-2.8	4,047
Scotland	1,215	167	1,556	164	341	28.1	1,724
Seymour	14,288	70	15,454	70	1,166	8.2	16,249
Sharon	2,928	146	2,968	149	40	1.4	3,058
Shelton	35,418	26	38,101	25	2,683	7.6	40,217
Sherman	2,809	148	3,827	139	1,018	36.2	4,146
Simsbury	22,023	44	23,234	47	1,211	5.5	23,660
Somers	9,108	94	10,417	91	1,309	14.4	10,888
South Windsor	22,090	42	24,412	43	2,322	10.5	26,030
Southbury	15,818	65	18,567	56	2,749	17.4	19,722
Southington	38,518	24	39,728	24	1,210	3.1	42,249
Sprague	3,008	145	2,971	148	-37	-1.2	2,986
Stafford	11,091	85	11,307	88	216	1.9	11,826
Stamford	108,056	5	117,083	4	9,027	8.4	119,483
Sterling	2,357	150	3,099	146	742	31.5	3,657

Connecticut Resident Population Census Counts

	Population 1990	Rank	Population 2000	Rank	1990-2000 Change	% Chg.	2006 DPH* Est.
Stonington	16,919	58	17,906	63	987	5.8	18,262
Stratford	49,389	19	49,976	18	587	1.2	49,607
Suffield	11,427	83	13,552	77	2,125	18.6	15,127
Thomaston	6,947	108	7,503	109	556	8.0	7,922
Thompson	8,668	97	8,878	100	210	2.4	9,324
Tolland	11,001	86	13,146	80	2,145	19.5	14,699
Torrington	33,687	27	35,202	27	1,515	4.5	35,931
Trumbull	32,016	28	34,243	28	2,227	7.0	35,028
Union	612	169	693	169	81	13.2	753
Vernon	29,841	30	28,063	36	-1,778	-6.0	29,672
Voluntown	2,113	153	2,528	152	415	19.6	2,609
Wallingford	40,822	23	43,026	22	2,204	5.4	44,825
Warren	1,226	166	1,254	167	28	2.3	1,385
Washington	3,905	136	3,596	142	-309	-7.9	3,704
Waterbury	108,961	4	107,271	5	-1,690	-1.6	107,455
Waterford	17,930	54	19,152	55	1,222	6.8	18,809
Watertown	20,456	49	21,661	48	1,205	5.9	22,347
West Hartford	60,110	10	61,046	10	936	1.6	60,794
West Haven	54,021	13	52,360	16	-1,661	-3.1	52,820
Westbrook	5,414	122	6,292	119	878	16.2	6,617
Weston	8,648	98	10,037	95	1,389	16.1	10,270
Westport	24,410	39	25,749	40	1,339	5.5	26,642
Wethersfield	25,651	38	26,271	38	620	2.4	26,057
Willington	5,979	117	5,959	122	-20	-0.3	6,205
Wilton	15,989	63	17,633	65	1,644	10.3	17,887
Winchester	11,524	82	10,664	90	-860	-7.5	10,870
Windham	22,039	43	22,857	46	818	3.7	23,810
Windsor	27,817	34	28,237	34	420	1.5	28,703
Windsor Locks	12,358	78	12,043	85	-315	-2.5	12,444
Wolcott	13,700	73	15,215	71	1,515	11.1	16,300
Woodbridge	7,924	104	8,983	99	1,059	13.4	9,245
Woodbury	8,131	102	9,198	97	1,067	13.1	9,765
Woodstock	6,008	116	7,221	112	1,213	20.2	8,203

* DPH stands for the Connecticut Department of Public Health

Source: U.S. Bureau of the Census, April 1, 1990 & 2000
Department of Public Health, "Est. Population in Connecticut as of July 1, 2006"

MAJOR U.S. ECONOMIC INDICATORS - FISCAL YEAR BASIS

TABLE 1
U.S. ECONOMIC VARIABLES

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Gross Domestic Product ($B)	8,524.4	8,996.0	9,571.3	9,991.5	10,280.3	10,664.0	11,330.4	12,049.8	12,846.0	13,495.0
Percent Change	5.8%	5.5%	6.4%	4.4%	2.9%	3.7%	6.2%	6.3%	6.6%	5.1%
Real GDP	8,885.9	9,261.0	9,679.2	9,876.4	9,947.5	10,131.3	10,510.9	10,839.4	11,181.7	11,416.2
Percent Change	4.4%	4.2%	4.5%	2.0%	0.7%	1.8%	3.7%	3.1%	3.2%	2.1%
GDP Deflator (2000=100)	95.9	97.1	98.9	101.2	103.3	105.3	107.8	111.2	114.9	118.2
Percent Change	1.3%	1.3%	1.8%	2.3%	2.2%	1.9%	2.4%	3.1%	3.3%	2.9%
Housing Starts (K)	1,530.2	1,659.3	1,637.8	1,570.7	1,645.9	1,729.2	1,945.3	2,016.3	2,039.3	1,545.9
Percent Change	5.0%	8.4%	-1.3%	-4.1%	4.8%	5.1%	12.5%	3.7%	1.1%	-24.2%
Unemployment Rate	4.6%	4.4%	4.1%	4.1%	5.5%	5.9%	5.8%	5.3%	4.8%	4.5%
New Vehicle Sales (M)	15.40	16.06	17.54	16.89	16.96	16.64	16.81	17.02	16.78	16.32
Percent Change	3.0%	4.3%	9.2%	-3.7%	0.4%	-1.9%	1.0%	1.2%	-1.4%	-2.7%
Consumer Price Index ('82-'84=100)	161.8	164.5	169.3	175.1	178.2	182.1	186.1	191.7	199.0	204.1
Percent Change	1.8%	1.7%	2.9%	3.4%	1.8%	2.2%	2.2%	3.0%	3.8%	2.6%
Industrial Production Index ('02=100)	92.4	96.7	101.9	102.6	99.0	100.7	102.1	105.3	108.9	112.4
Percent Change	7.5%	4.7%	5.4%	0.7%	-3.5%	1.8%	1.4%	3.1%	3.5%	3.2%
Personal Income ($B)	7,158.3	7,607.0	8,109.6	8,613.9	8,788.1	8,974.1	9,398.2	10,011.6	10,632.7	11,303.8
Percent Change	6.8%	6.3%	6.6%	6.2%	2.0%	2.1%	4.7%	6.5%	6.2%	6.3%
Real Personal Income ($B in 82-84=100)	4,425.5	4,622.9	4,790.3	4,920.4	4,932.5	4,927.9	5,050.3	5,223.2	5,344.0	5,537.5
Percent Change	4.9%	4.5%	3.6%	2.7%	0.2%	-0.1%	2.5%	3.4%	2.3%	3.6%
Disposable Personal Income ($B)	6,188.7	6,548.9	6,938.7	7,343.8	7,685.2	7,947.6	8,416.7	8,897.5	9,365.7	9,897.3
Percent Change	6.1%	5.8%	6.0%	5.8%	4.6%	3.4%	5.9%	5.7%	5.3%	5.7%
Disposable Personal Income ($B in 1996$)	6,478.0	6,777.2	7,019.7	7,261.0	7,483.3	7,598.1	7,876.5	8,100.4	8,263.5	8,531.6
Percent Change	4.9%	4.6%	3.6%	3.4%	3.1%	1.5%	3.7%	2.8%	2.0%	3.2%

MAJOR U.S. ECONOMIC INDICATORS - FISCAL YEAR BASIS

TABLE 2
U.S. PERSONAL INCOME
(BILLIONS OF DOLLARS)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Personal Income	7,158.3	7,607.0	8,109.6	8,613.9	8,788.1	8,974.1	9,398.2	10,011.6	10,632.7	11,303.8
Percent Change	6.8%	6.3%	6.6%	6.2%	2.0%	2.1%	4.7%	6.5%	6.2%	6.3%
Wages & Salaries	4,025.6	4,323.3	4,651.3	4,917.4	4,948.8	5,014.9	5,233.5	5,528.2	5,844.9	6,192.4
Percent Change	7.6%	7.4%	7.6%	5.7%	0.6%	1.3%	4.4%	5.6%	5.7%	5.9%
Manufacturing Income	n/a	n/a	n/a	n/a	682.0	667.8	673.3	698.6	718.5	744.4
Percent Change	n/a	n/a	n/a	n/a	n/a	-2.1%	0.8%	3.8%	2.8%	3.6%
Nonmanufacturing Inc.	n/a	n/a	n/a	n/a	4,266.8	4,347.1	4,560.2	4,829.6	5,126.4	5,448.0
Percent Change	n/a	n/a	n/a	n/a	n/a	1.9%	4.9%	5.9%	6.1%	6.3%
Other Labor Income	804.9	855.7	914.2	973.2	1,040.7	1,152.5	1,229.1	1,309.7	1,382.8	1,447.9
Percent Change	4.6%	6.3%	6.8%	6.5%	6.9%	10.7%	6.7%	6.6%	5.6%	4.7%
Proprietor's Income	598.3	655.5	703.1	754.5	768.5	782.0	863.1	944.6	993.3	1,019.8
Percent Change	7.1%	9.6%	7.3%	7.3%	1.9%	1.8%	10.4%	9.4%	5.2%	2.7%
Farm Income	31.3	31.1	24.3	21.2	12.7	20.4	36.1	33.4	23.6	26.1
Percent Change	-8.9%	-0.6%	-21.9%	-12.8%	-40.3%	61.5%	76.9%	-7.5%	-29.3%	10.3%
Nonfarm Income	567.0	624.4	678.8	733.3	755.8	761.6	827.0	911.2	969.7	993.7
Percent Change	8.1%	10.1%	8.7%	8.0%	3.1%	0.8%	8.6%	10.2%	6.4%	2.5%
Rental Income	130.6	144.0	149.7	153.9	173.1	135.0	132.6	92.3	31.0	54.8
Percent Change	-0.2%	10.3%	4.0%	2.8%	12.5%	-22.0%	-1.8%	-30.4%	-66.5%	76.8%
Personal Dividend Inc.	345.7	342.6	351.6	379.0	376.3	409.7	459.0	581.8	647.3	745.1
Percent Change	9.8%	-0.9%	2.6%	7.8%	-0.7%	8.9%	12.0%	26.8%	11.3%	15.1%
Personal Interest Income	893.4	930.4	970.3	1,020.8	976.4	920.3	897.8	943.7	1,071.4	1,124.3
Percent Change	8.8%	4.1%	4.3%	5.2%	-4.3%	-5.8%	-2.4%	5.1%	13.5%	4.9%
Transfer Payments	964.5	997.9	1,050.2	1,134.0	1,246.3	1,317.7	1,388.3	1,463.9	1,567.1	1,676.6
Percent Change	2.9%	3.5%	5.2%	8.0%	9.9%	5.7%	5.4%	5.4%	7.1%	7.0%

MAJOR U.S. ECONOMIC INDICATORS - FISCAL YEAR BASIS

TABLE 3
U.S. PERSONAL INCOME AND ITS DISPOSITION
(BILLIONS OF DOLLARS)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Less:										
Contributions to										
Social Insurance	605.5	643.7	682.0	719.9	740.5	760.6	801.9	852.6	902.3	953.3
Percent Change	6.1%	6.3%	5.9%	5.6%	2.9%	2.7%	5.4%	6.3%	5.8%	5.7%
Equals:										
Personal Income	7,158.3	7,607.0	8,109.6	8,613.9	8,788.1	8,974.1	9,398.2	10,011.6	10,632.7	11,303.8
Percent Change	6.8%	6.3%	6.6%	6.2%	2.0%	2.1%	4.7%	6.5%	6.2%	6.3%
Less:										
Personal Taxes	977.2	1,065.2	1,176.5	1,278.4	1,113.5	1,035.1	997.6	1,128.7	1,283.9	1,422.1
Percent Change	11.5%	9.0%	10.5%	8.7%	-12.9%	-7.0%	-3.6%	13.1%	13.8%	10.8%
Equals:										
Disposable Personal Inc.	6,188.7	6,548.9	6,938.7	7,343.8	7,685.2	7,947.6	8,416.7	8,897.5	9,365.7	9,897.3
Percent Change	6.1%	5.8%	6.0%	5.8%	4.6%	3.4%	5.9%	5.7%	5.3%	5.7%
Less:										
Personal Outlays	5,937.2	6,319.0	6,792.0	7,204.2	7,498.1	7,793.7	8,235.7	8,763.5	9,331.6	9,855.2
Percent Change	5.8%	6.4%	7.5%	6.1%	4.1%	3.9%	5.7%	6.4%	6.5%	5.6%
Equals:										
Personal Savings	251.5	229.9	146.8	139.7	187.2	153.8	181.0	134.0	34.1	42.0
Percent Change	12.0%	-8.6%	-36.1%	-4.9%	34.0%	-17.8%	17.6%	-26.0%	-74.5%	23.2%
Personal Savings Rate	4.1%	3.5%	2.1%	1.9%	2.4%	2.0%	2.1%	1.5%	0.4%	0.4%

MAJOR U.S. ECONOMIC INDICATORS - FISCAL YEAR BASIS

TABLE 4
U.S. EMPLOYMENT AND THE LABOR FORCE
(TENS OF THOUSANDS OF JOBS)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Establishment Employ.	12,438.0	12,742.7	13,059.8	13,225.2	13,088.0	13,011.8	13,046.5	13,247.2	13,501.6	13,717.6
Percent Change	2.6%	2.4%	2.5%	1.3%	-1.0%	-0.6%	0.3%	1.5%	1.9%	1.6%
Manufacturing	1,755.9	1,742.7	1,728.9	1,704.1	1,573.4	1,487.9	1,432.4	1,429.0	1,421.1	1,413.5
Percent Change	1.5%	-0.8%	-0.8%	-1.4%	-7.7%	-5.4%	-3.7%	-0.2%	-0.6%	-0.5%
Nonmanufacturing	10,682.1	10,999.9	11,330.9	11,521.1	11,514.6	11,524.0	11,614.1	11,818.1	12,080.5	12,304.1
Percent Change	2.8%	3.0%	3.0%	1.7%	-0.1%	0.1%	0.8%	1.8%	2.2%	1.9%
Construction & Mining	661.2	697.7	729.7	742.9	736.7	726.7	741.8	774.2	822.0	839.5
Percent Change	4.4%	5.5%	4.6%	1.8%	-0.8%	-1.4%	2.1%	4.4%	6.2%	2.1%
Information	315.2	330.3	353.9	367.6	350.7	328.1	314.9	308.1	305.5	307.1
Percent Change	4.7%	4.8%	7.1%	3.9%	-4.6%	-6.5%	-4.0%	-2.2%	-0.8%	0.5%
Public Utility, Trade & Transportation	2,493.9	2,546.3	2,605.2	2,621.0	2,568.1	2,538.3	2,535.4	2,573.1	2,613.5	2,634.8
Percent Change	1.9%	2.1%	2.3%	0.6%	-2.0%	-1.2%	-0.1%	1.5%	1.6%	0.8%
Finance, Insurance & Real Estate	731.8	757.7	767.0	774.8	782.7	791.0	800.3	807.7	826.2	842.8
Percent Change	3.6%	3.6%	1.2%	1.0%	1.0%	1.1%	1.2%	0.9%	2.3%	2.0%
Services	4,503.7	4,658.5	4,813.8	4,926.6	4,940.5	4,981.3	5,065.2	5,183.9	5,325.3	5,466.5
Percent Change	3.7%	3.4%	3.3%	2.3%	0.3%	0.8%	1.7%	2.3%	2.7%	2.7%
Professional & Business	1,475.9	1,553.2	1,635.8	1,674.1	1,614.5	1,593.0	1,615.7	1,664.0	1,728.2	1,776.2
Percent Change	6.4%	5.2%	5.3%	2.3%	-3.6%	-1.3%	1.4%	3.0%	3.9%	2.8%
Education & Health	1,426.8	1,463.3	1,493.8	1,534.8	1,593.7	1,642.1	1,675.8	1,714.6	1,760.7	1,808.8
Percent Change	2.7%	2.6%	2.1%	2.7%	3.8%	3.0%	2.1%	2.3%	2.7%	2.7%
Leisure & Hospitality	1,110.6	1,138.5	1,170.8	1,197.7	1,199.4	1,207.0	1,232.8	1,265.5	1,295.4	1,336.2
Percent Change	1.8%	2.5%	2.8%	2.3%	0.1%	0.6%	2.1%	2.6%	2.4%	3.2%
Other Services	490.4	503.4	513.4	520.0	532.9	539.2	540.9	539.7	541.1	545.3
Percent Change	3.2%	2.7%	2.0%	1.3%	2.5%	1.2%	0.3%	-0.2%	0.3%	0.8%
Government	1,976.4	2,009.4	2,061.2	2,088.2	2,135.9	2,158.5	2,156.5	2,171.2	2,188.0	2,213.5
Percent Change	0.9%	1.7%	2.6%	1.3%	2.3%	1.1%	-0.1%	0.7%	0.8%	1.2%
Civilian Labor Force	13,699.5	13,856.9	14,111.3	14,315.1	14,425.4	14,573.5	14,680.4	14,823.4	15,035.3	15,246.2
Percent Change	1.3%	1.1%	1.8%	1.4%	0.8%	1.0%	0.7%	1.0%	1.4%	1.4%
Unemployment Rate	4.6%	4.4%	4.1%	4.1%	5.5%	5.9%	5.8%	5.3%	4.8%	4.5%

MAJOR U.S. ECONOMIC INDICATORS - FISCAL YEAR BASIS

TABLE 5
CONSUMER PRICE INDEXES
(1982-1984 = 100)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
All Items – Urban Consumers	161.8	164.5	169.3	175.1	178.2	182.1	186.1	191.7	199.0	204.1
Percent Change	1.8%	1.7%	2.9%	3.4%	1.8%	2.2%	2.2%	3.0%	3.8%	2.6%
Food & Beverages	159.4	162.9	166.2	170.9	175.6	178.1	183.6	189.0	193.4	198.9
Percent Change	2.1%	2.2%	2.0%	2.8%	2.8%	1.4%	3.1%	2.9%	2.3%	2.9%
Housing	158.5	162.1	166.4	173.4	178.2	182.7	186.8	192.4	199.6	206.5
Percent Change	2.4%	2.2%	2.6%	4.2%	2.8%	2.5%	2.3%	3.0%	3.8%	3.5%
Energy	107.5	102.0	115.9	131.5	121.0	130.5	142.0	159.6	194.2	198.8
Percent Change	-3.6%	-5.2%	13.7%	13.4%	-8.0%	7.9%	8.7%	12.4%	21.7%	2.4%
Commodities	141.8	142.7	147.0	150.6	149.6	150.7	152.4	156.9	163.1	165.0
Percent Change	0.5%	0.6%	3.0%	2.4%	-0.6%	0.7%	1.1%	3.0%	3.9%	1.2%
Apparel	132.9	132.2	130.6	128.9	125.3	122.1	120.7	120.2	119.2	119.6
Percent Change	0.6%	-0.5%	-1.2%	-1.4%	-2.8%	-2.5%	-1.2%	-0.4%	-0.8%	0.3%
Transportation	142.9	141.6	149.4	155.2	151.9	156.2	159.2	167.0	179.9	181.2
Percent Change	-0.9%	-0.9%	5.5%	3.9%	-2.1%	2.9%	1.9%	4.9%	7.7%	0.8%
Services	181.9	186.4	191.7	199.6	206.5	213.3	219.5	226.2	234.6	242.9
Percent Change	2.8%	2.5%	2.8%	4.1%	3.5%	3.3%	2.9%	3.0%	3.7%	3.5%
Medical Care	238.0	246.3	255.4	266.7	278.9	291.6	303.5	316.7	329.7	343.0
Percent Change	2.8%	3.5%	3.7%	4.4%	4.6%	4.6%	4.1%	4.3%	4.1%	4.0%
Other Goods & Services	230.8	248.2	264.9	276.3	288.6	296.6	301.4	308.9	317.6	327.5
Percent Change	5.0%	7.6%	6.7%	4.3%	4.5%	2.8%	1.6%	2.5%	2.8%	3.1%

MAJOR CONNECTICUT ECONOMIC INDICATORS - FISCAL YEAR BASIS

TABLE 6
PERSONAL INCOME
(BILLIONS $-SAAR)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Personal Income	119.43	126.77	135.78	145.74	146.95	146.98	153.24	163.41	173.11	183.97
Percent Change	7.2%	6.1%	7.1%	7.3%	0.8%	0.0%	4.3%	6.6%	5.9%	6.3%
Disposable Personal Income	97.94	103.29	109.75	116.64	121.57	124.48	130.67	137.14	141.34	150.47
Percent Change	5.9%	5.5%	6.3%	6.3%	4.2%	2.4%	5.0%	4.9%	3.1%	6.5%
Total Wages	71.44	76.42	81.55	86.08	84.86	84.41	87.81	92.81	97.66	103.74
Percent Change	7.8%	7.0%	6.7%	5.6%	-1.4%	-0.5%	4.0%	5.7%	5.2%	6.2%
Manufacturing Wages	n/a	n/a	n/a	n/a	12.75	12.28	12.48	12.89	13.15	13.85
Percent Change	n/a	n/a	n/a	n/a	n/a	-3.6%	1.6%	3.3%	2.1%	5.3%
Nonmanufacturing Wages	n/a	n/a	n/a	n/a	72.11	72.13	75.33	79.92	84.50	89.89
Percent Change	n/a	n/a	n/a	n/a	n/a	0.0%	4.4%	6.1%	5.7%	6.4%
Other Labor Income	13.28	14.04	14.90	15.90	17.04	18.39	19.56	21.11	21.86	22.74
Percent Change	3.9%	5.7%	6.1%	6.7%	7.2%	7.9%	6.4%	7.9%	3.6%	4.0%
Proprietor's Income	9.32	10.44	12.18	14.37	15.18	14.93	15.69	16.90	17.86	18.14
Percent Change	12.2%	12.0%	16.7%	18.0%	5.6%	-1.6%	5.1%	7.7%	5.7%	1.6%
Property Income	21.80	22.64	23.91	25.83	25.49	24.33	24.94	27.17	29.76	32.65
Percent Change	7.6%	3.8%	5.6%	8.0%	-1.3%	-4.6%	2.5%	9.0%	9.5%	9.7%
Transfer Payments Less Social Insurance	3.58	3.23	3.23	3.56	4.38	4.92	5.25	5.43	5.97	6.70
Percent Change	-6.5%	-9.9%	0.2%	10.3%	22.9%	12.4%	6.7%	3.3%	9.9%	12.3%
Transfer Payments	13.71	13.96	14.47	15.27	16.39	17.17	17.92	18.68	19.68	21.20
Percent Change	2.3%	1.8%	3.7%	5.5%	7.4%	4.7%	4.4%	4.2%	5.4%	7.7%
Social Insurance	10.13	10.73	11.24	11.70	12.01	12.25	12.67	13.25	13.71	14.50
Percent Change	5.8%	5.9%	4.7%	4.1%	2.7%	1.9%	3.4%	4.6%	3.5%	5.8%

MAJOR CONNECTICUT ECONOMIC INDICATORS - FISCAL YEAR BASIS

TABLE 7
DEFLATED PERSONAL INCOME
(BILLIONS '00$-SAAR)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Personal Income	124.49	130.51	137.33	144.07	142.19	139.64	142.17	147.01	150.69	155.64
Percent Change	5.8%	4.8%	5.2%	4.9%	-1.3%	-1.8%	1.8%	3.4%	2.5%	3.3%
Disposable										
Personal Income	102.10	106.34	111.00	115.30	117.64	118.27	121.23	123.37	123.04	127.30
Percent Change	4.5%	4.2%	4.4%	3.9%	2.0%	0.5%	2.5%	1.8%	-0.3%	3.5%
Total Wages	74.47	78.68	82.48	85.09	82.11	80.20	81.46	83.49	85.01	87.76
Percent Change	6.4%	5.7%	4.8%	3.2%	-3.5%	-2.3%	1.6%	2.5%	1.8%	3.2%
Manufacturing Wages	n/a	n/a	n/a	n/a	12.33	11.67	11.58	11.59	11.45	11.72
Percent Change	n/a	n/a	n/a	n/a	n/a	-5.4%	-0.8%	0.1%	-1.2%	2.3%
Nonmanufacturing	n/a	n/a	n/a	n/a	69.78	68.53	69.88	71.90	73.56	76.05
Wages	n/a	n/a	n/a	n/a	n/a	-1.8%	2.0%	2.9%	2.3%	3.4%
Percent Change										
Other Labor Income	13.85	14.45	15.07	15.71	16.48	17.47	18.14	18.99	19.03	19.24
Percent Change	2.5%	4.4%	4.3%	4.3%	4.9%	6.0%	3.9%	4.6%	0.2%	1.1%
Proprietor's Income	9.72	10.75	12.32	14.21	14.69	14.19	14.56	15.21	15.55	15.35
Percent Change	10.7%	10.6%	14.6%	15.3%	3.4%	-3.4%	2.6%	4.5%	2.2%	-1.3%
Property Income	22.73	23.30	24.19	25.53	24.67	23.11	23.13	24.44	25.91	27.62
Percent Change	6.2%	2.5%	3.8%	5.6%	-3.4%	-6.3%	0.1%	5.7%	6.0%	6.6%
Transfer Payments										
Less Social Insurance	3.73	3.32	3.27	3.52	4.24	4.68	4.87	4.88	5.19	5.67
Percent Change	-7.7%	-11.0%	-1.6%	7.8%	20.3%	10.4%	4.2%	0.2%	6.4%	9.1%
Transfer Payments	14.29	14.37	14.63	15.09	15.86	16.31	16.62	16.80	17.13	17.93
Percent Change	0.9%	0.5%	1.8%	3.1%	5.1%	2.8%	1.9%	1.1%	1.9%	4.7%
Social Insurance	10.56	11.05	11.37	11.57	11.62	11.63	11.75	11.92	11.93	12.27
Percent Change	4.4%	4.6%	2.9%	1.8%	0.5%	0.1%	1.0%	1.4%	0.1%	2.8%

Note: All categories are deflated by GDP Price Index (2000 = 100).

MAJOR CONNECTICUT ECONOMIC INDICATORS - FISCAL YEAR BASIS

TABLE 8
MANUFACTURING EMPLOYMENT
(THOUSANDS -SA)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Manufacturing	247.12	244.65	236.72	233.64	218.32	204.95	197.59	196.65	194.01	193.42
Percent Change	0.7%	-1.0%	-3.2%	-1.3%	-6.6%	-6.1%	-3.6%	-0.5%	-1.3%	-0.3%
Electronic & Electrical	37.96	36.39	35.05	35.40	31.33	27.73	25.95	25.76	25.06	25.21
Percent Change	4.9%	-4.1%	-3.7%	1.0%	-11.5%	-11.5%	-6.4%	-0.8%	-2.7%	0.6%
Metals Manufacturing	51.84	51.56	50.01	49.10	44.76	41.87	40.70	41.27	41.02	41.21
Percent Change	-0.3%	-0.5%	-3.0%	-1.8%	-8.8%	-6.4%	-2.8%	1.4%	-0.6%	0.5%
Industrial Machinery	25.83	24.69	23.70	23.32	21.23	19.50	18.65	18.34	17.99	18.20
Percent Change	4.0%	-4.4%	-4.0%	-1.6%	-9.0%	-8.1%	-4.4%	-1.7%	-1.9%	1.2%
Transportation Equip.	51.65	51.73	47.93	46.95	46.34	44.18	43.06	43.31	43.60	43.61
Percent Change	-1.4%	0.2%	-7.3%	-2.1%	-1.3%	-4.7%	-2.5%	0.6%	0.7%	0.0%
Chemical, Plast. & Rub.	27.32	28.08	28.67	29.48	27.88	26.52	25.51	25.21	24.57	23.97
Percent Change	1.3%	2.8%	2.1%	2.8%	-5.4%	-4.9%	-3.8%	-1.2%	-2.5%	-2.4%
Printing, Publ. & Textile	26.89	26.03	25.14	23.99	21.82	19.95	19.28	18.53	17.60	17.21
Percent Change	-0.5%	-3.2%	-3.4%	-4.6%	-9.1%	-8.6%	-3.3%	-3.9%	-5.0%	-2.2%
Food, Bev. & Tobacco	8.64	8.76	8.89	8.48	8.56	8.76	8.41	8.40	8.54	8.45
Percent Change	-2.4%	1.4%	1.5%	-4.7%	1.0%	2.3%	-4.0%	0.0%	1.7%	-1.1%
Miscellaneous	17.00	17.41	17.32	16.93	16.41	16.43	16.02	15.83	15.63	15.58
Percent Change	-0.6%	2.4%	-0.5%	-2.3%	-3.1%	0.2%	-2.5%	-1.2%	-1.3%	-0.3%

MAJOR CONNECTICUT ECONOMIC INDICATORS - FISCAL YEAR BASIS

TABLE 9
NONMANUFACTURING EMPLOYMENT
(THOUSANDS -SA)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Nonmanufacturing	1,378.1	1,412.7	1,445.3	1,456.7	1,456.8	1,447.4	1,446.1	1,460.3	1,476.1	1,495.7
Percent Change	2.1%	2.5%	2.3%	0.8%	0.0%	-0.6%	-0.1%	1.0%	1.1%	1.3%
Construction & Mining	57.92	60.44	63.60	65.90	65.77	62.40	64.43	67.23	67.08	68.51
Percent Change	4.8%	4.4%	5.2%	3.6%	-0.2%	-5.1%	3.2%	4.4%	-0.2%	2.1%
Information	44.41	44.23	45.36	46.43	42.64	40.04	39.20	38.67	37.82	37.59
Percent Change	0.2%	-0.4%	2.5%	2.4%	-8.2%	-6.1%	-2.1%	-1.3%	-2.2%	-0.6%
Utilities	9.72	9.80	9.72	9.48	9.07	8.92	8.70	8.65	8.31	8.00
Percent Change	1.2%	0.8%	-0.8%	-2.4%	-4.3%	-1.7%	-2.5%	-0.6%	-3.9%	-3.7%
Transportation	39.95	41.29	41.73	41.98	40.31	39.85	40.39	42.76	43.98	44.58
Percent Change	1.0%	3.3%	1.1%	0.6%	-4.0%	-1.1%	1.4%	5.9%	2.9%	1.4%
Wholesale Trade	65.47	66.35	67.04	68.10	66.57	65.74	65.58	65.91	67.20	68.17
Percent Change	1.7%	1.3%	1.0%	1.6%	-2.2%	-1.3%	-0.2%	0.5%	2.0%	1.4%
Retail Trade	191.17	192.87	196.59	195.63	195.12	192.43	191.26	192.73	191.27	190.61
Percent Change	2.5%	0.9%	1.9%	-0.5%	-0.3%	-1.4%	-0.6%	0.8%	-0.8%	-0.3%
Finance & Insurance	112.93	119.16	120.48	121.68	122.21	122.54	121.15	120.75	122.33	124.03
Percent Change	3.8%	5.5%	1.1%	1.0%	0.4%	0.3%	-1.1%	-0.3%	1.3%	1.4%
Real Estate	20.11	20.70	21.34	21.57	20.68	20.29	20.21	20.49	20.99	20.87
Percent Change	1.3%	2.9%	3.1%	1.1%	-4.1%	-1.9%	-0.4%	1.4%	2.4%	-0.6%
Professional & Business	199.22	207.53	214.33	214.08	205.81	199.02	196.50	197.92	202.53	206.63
Percent Change	4.1%	4.2%	3.3%	-0.1%	-3.9%	-3.3%	-1.3%	0.7%	2.3%	2.0%
Education & Health	235.62	240.09	244.47	247.76	256.59	262.14	266.23	270.96	275.97	282.82
Percent Change	1.1%	1.9%	1.8%	1.3%	3.6%	2.2%	1.6%	1.8%	1.8%	2.5%
Leisure & Hospitality	115.37	118.09	120.48	120.49	121.08	123.52	126.62	128.70	130.73	133.98
Percent Change	1.9%	2.4%	2.0%	0.0%	0.5%	2.0%	2.5%	1.6%	1.6%	2.5%
Other Services	60.38	60.46	60.68	61.52	62.84	62.34	62.30	62.67	62.99	63.92
Percent Change	1.1%	0.1%	0.4%	1.4%	2.1%	-0.8%	-0.1%	0.6%	0.5%	1.5%
Federal Government	22.36	22.47	23.38	22.07	21.37	21.14	20.38	19.96	19.77	19.53
Percent Change	-2.7%	0.5%	4.0%	-5.6%	-3.2%	-1.1%	-3.6%	-2.1%	-0.9%	-1.2%
State & Local Gov't.	203.53	209.23	216.14	220.01	226.74	227.05	223.18	222.91	225.10	226.40
Percent Change	0.9%	2.8%	3.3%	1.8%	3.1%	0.1%	-1.7%	-0.1%	1.0%	0.6%

MAJOR CONNECTICUT ECONOMIC INDICATORS - FISCAL YEAR BASIS

TABLE 10
LABOR FORCE & OTHER ECONOMIC INDICATORS
(THOUSANDS -SA)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Labor Force	1,749.5	1,741.4	1,739.9	1,742.2	1,764.9	1,796.2	1,803.1	1,811.4	1,831.8	1,859.3
Percent Change	-0.6%	-0.5%	-0.1%	0.1%	1.3%	1.8%	0.4%	0.5%	1.1%	1.5%
Nonagricultural Employment	1,625.3	1,657.4	1,682.0	1,690.4	1,675.1	1,652.4	1,643.7	1,657.0	1,670.1	1,689.1
Percent Change	1.9%	2.0%	1.5%	0.5%	-0.9%	-1.4%	-0.5%	0.8%	0.8%	1.1%
Residential Employment	1,680.3	1,691.0	1,697.4	1,698.4	1,700.5	1,702.7	1,708.6	1,723.0	1,749.2	1,779.4
Percent Change	0.8%	0.6%	0.4%	0.1%	0.1%	0.1%	0.3%	0.8%	1.5%	1.7%
Unemployed	69.2	50.4	42.5	43.7	64.4	93.5	94.4	88.4	82.6	79.9
Percent Change	-25.9%	-27.1%	-15.8%	3.0%	47.2%	45.3%	1.0%	-6.4%	-6.6%	-3.3%
Unemployment Rate	3.9%	2.9%	2.4%	2.5%	3.7%	5.2%	5.3%	4.9%	4.5%	4.3%
Households	1,277.5	1,287.4	1,299.7	1,309.5	1,317.9	1,327.8	1,334.1	1,337.2	1,339.2	1,344.2
Percent Change	0.6%	0.8%	1.0%	0.8%	0.6%	0.7%	0.5%	0.2%	0.2%	0.4%
Housing Starts	9,949.3	11,127.4	9,552.7	8,597.7	9,215.4	8,558.9	9,856.4	11,688.6	11,224.9	8,403.4
Percent Change	11.3%	11.8%	-14.2%	-10.0%	7.2%	-7.1%	15.2%	18.6%	-4.0%	-25.1%
Single Family	8,408.5	9,373.3	8,406.3	7,352.2	8,268.3	7,322.8	7,922.8	9,698.5	9,269.7	6,841.3
Percent Change	7.8%	11.5%	-10.3%	-12.5%	12.5%	-11.4%	8.2%	22.4%	-4.4%	-26.2%
Multi Family	1,540.7	1,754.1	1,146.4	1,245.5	947.1	1,236.0	1,933.6	1,990.1	1,955.2	1,562.2
Percent Change	34.6%	13.8%	-34.6%	8.6%	-24.0%	30.5%	56.4%	2.9%	-1.8%	-20.1%
New Car Registrations	187.2	224.6	233.8	245.0	231.8	227.4	254.8	228.1	230.5	212.8
Percent Change	-3.1%	20.0%	4.1%	4.8%	-5.4%	-1.9%	12.0%	-10.5%	1.1%	-7.7%

Note: Connecticut housing starts are already in thousands.

MAJOR CONNECTICUT ECONOMIC INDICATORS - FISCAL YEAR BASIS

TABLE 11
ANALYTICS

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Wages/Total Income	59.82%	60.29%	60.06%	59.06%	57.75%	57.43%	57.30%	56.79%	56.41%	56.39%
Other Labor Income /Total Income	11.12%	11.07%	10.97%	10.91%	11.59%	12.51%	12.76%	12.92%	12.63%	12.36%
Social Insurance /Total Income	8.49%	8.47%	8.28%	8.03%	8.17%	8.33%	8.27%	8.11%	7.92%	7.88%
Transfer Payments /Total Income	11.48%	11.01%	10.66%	10.47%	11.16%	11.68%	11.69%	11.43%	11.37%	11.52%
Proprietor's Income /Total Income	7.81%	8.24%	8.97%	9.86%	10.33%	10.16%	10.24%	10.34%	10.32%	9.86%
Property Income /Total Income	18.26%	17.86%	17.61%	17.72%	17.35%	16.55%	16.27%	16.63%	17.19%	17.75%
Average Wages (Thousands in 2000 $)	45.84	47.49	49.06	50.36	49.04	48.56	49.58	50.41	50.93	51.98
Average Mfg. Wages (Thousands in 2000 $)	n/a	n/a	n/a	59.64	56.49	56.93	58.60	58.95	59.02	60.57
Average Nonmfg. Wages (Thousands in 2000 $)	n/a	n/a	n/a	48.87	47.92	47.37	48.35	49.26	49.86	50.87
Manufacturing Share of Employment	15.21%	14.77%	14.08%	13.83%	13.04%	12.41%	12.03%	11.87%	11.62%	11.46%
Residential Employment /Total Nonagricultural	1.034	1.021	1.010	1.005	1.016	1.031	1.040	1.040	1.048	1.054

MAJOR CONNECTICUT REGIONAL ECONOMIC INDICATORS - CALENDAR YEAR BASIS

TABLE 12
PERSONAL INCOME (MILLIONS-SAAR)

BRIDGEPORT-STAMFORD-NORWALK

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Personal Income	40,621.9	44,997.1	47,458.5	52,183.0	54,988.1	53,476.5	53,284.3	57,839.0	60,610.4	64,726.0
Percent Change	6.9%	10.8%	5.5%	10.0%	5.4%	-2.7%	-0.4%	8.5%	4.8%	6.8%
Total Wages	21,748.7	23,671.5	25,465.1	27,952.1	28,579.2	27,269.9	27,979.1	29,760.5	31,541.5	n/a
Percent Change	11.7%	8.8%	7.6%	9.8%	2.2%	-4.6%	2.6%	6.4%	6.0%	n/a

HARTFORD-WEST HARTFORD-EAST HARTFORD

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Personal Income	35,038.1	37,298.7	38,896.5	42,563.3	43,991.6	44,296.5	45,181.9	47,835.9	50,232.0	52,533.4
Percent Change	6.4%	6.5%	4.3%	9.4%	3.4%	0.7%	2.0%	5.9%	5.0%	4.6%
Total Wages	22,551.1	23,988.6	25,425.5	27,291.6	28,169.5	28,186.5	28,519.9	30,377.6	31,817.6	n/a
Percent Change	6.7%	6.4%	6.0%	7.3%	3.2%	0.1%	1.2%	6.5%	4.7%	n/a

NEW LONDON-NORWICH, CT-RI

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Personal Income	7,288.4	7,716.3	8,010.8	8,512.8	8,921.3	9,215.7	9,542.5	10,028.5	10,378.5	10,798.7
Percent Change	6.4%	5.9%	3.8%	6.3%	4.8%	3.3%	3.5%	5.1%	3.5%	4.0%
Total Wages	4,434.2	4,632.5	4,786.1	4,992.3	5,308.8	5,511.2	5,677.4	5,926.8	6,083.7	n/a
Percent Change	6.9%	4.5%	3.3%	4.3%	6.3%	3.8%	3.0%	4.4%	2.6%	n/a