

The Connecticut Economy

Purpose and Scope of the Panel's Research Study¹

1. The Panel's Report on the *Connecticut Economy* provides a thorough study of the trends and profile of the Connecticut's population and its economy. These trends are examined both with respect to Connecticut-only data as well as with the context of both the US and North East/New England region. The Report begins with an examination of Connecticut population and employment trends, and then proceeds to examine in detail three recent periods: (i) the economic prosperity of the 1980s; (ii) relative to the US, an era of slow growth that began quarter century ago (1989—present); and (iii) pre- and post- Great Recession (officially, 20074Q-20092Q).

Key Messages

2. Three key messages emerge from this Report:
 - There has been a long term shift in the composition of employment and output from manufacturing to services (retail, financial, and personal, business and professional services). Moreover, it is trend that is reflected in both regional and national data. In the 1950's *Manufacturing* accounted for 50% Connecticut employment compared to 34 % nationwide—a gap of 16%. By the 1990s there was a positive gap, but one that had narrowed (20.0 % in Connecticut, 17.4% US). As of 2014 today there has a bit more convergence (CT, 11.5%| US 10.7%). The trend in *service sector* employment (including in these numbers finance, insurance and real estate, FIRE) that of emerging importance. In the 1950s the sector accounted for about 15% of total employment in both Connecticut and the US. But, in part driven by the growth in FIRE in the 1980s, Connecticut is now approaching 50% services (45.3% in 2014 vs. US at 34.7%). As will be reviewed in the following notes on Fiscal Architecture, these “new-economy” numbers have significant implications for revenue policy.
 - A look at the aggregate numbers shows that Connecticut is a small state in both its geography (number 48 out of 50) and its population (3.6 m, which make it 29th). This has merits and vulnerability. As Wasylenko notes (September 30), it gives the state the chance to continue to be a high wage, knowledge “cluster” economy. Porter (2012) reaches a similar, positive conclusion. However as a relatively small economy due to geographic size, national cycles and trends (e.g., recession, robotics) and institutional shocks (e.g., the federal budget sequestration) can buffet Connecticut's economy more than in larger states.
 - To note this shift away from a goods to a service producing economy—the same shift that is occurring regionally and nationally-- is neither cause for alarm nor a counsel for staying-the-course regarding revenue policy comfort. Indeed, Connecticut is not alone

¹ This note drawn on Manisha Srivastava, *The Connecticut Economy*, September 16, 2015 Revised November 18, 2015

among the states in reviewing whether its revenue system “fits” today’s 21st century economy. Moreover, Connecticut is, or ought to be, among the most well positioned of the states to adjust its changing demographics and economics. Connecticut has (i) highest per capita personal income of any of the 50 states (\$64,862 in 2014) and the fifth highest per capita Gross State Product -- \$70,351, just behind NY (\$71, 108) and the petroleum outliers of Alaska, Wyoming and North Dakota;²(ii) a population density that makes it one of the most urbanized states (4th, just behind RI, NJ, and MA); (iii) a robust export sector (in 2014 \$15.9 bn of exports, largely in transport equipment, but also in primary metal manufacturing, fabricated metal, chemicals, electrical equipment including appliances, machinery and computer and electronics); (iv) a rank of second among the states in per capita dollars awarded by the US Department of Defense (\$10 bn. of prime contracts in 2013); and, (v) it has water (double the US state in terms of water/land ratio)

3. Demographics

- During the immediate post-WWII years and through the 1970s, Connecticut population grew at or above the national rate of growth. However, beginning in the late 1970s the population growth slowed, and by 1980 Connecticut fell to less than a fourth of the national rate. Population growth continues to lag both national and New England rates of growth (but New England also shows show growth compared to the US).
- The Connecticut population, and thus its workforce, is also trending older than the US, which, as with the change in the state’s economic structure, has revenue implications for both the revenue and expenditure side of the state/local budget (see next summary note on Connecticut’s Fiscal Architecture)

4. Pre and Post Great Recession

- The term “Great Recession” is an appropriate term to describe pervasive economic downturn of the late 2000s. The national contraction that began in 2007 was the deepest of the last 60 years and longer than any since the Great Depression. Of the six key US indicators—employment, wages, personal income, gross domestic product, the consumer price index and the Standard and Poor’s 500 index –all were contracting by 2009. The last time that happened was in 1948-49, and even then the eleven month duration was shorter than the eighteen month Great Recession. The US poverty rate increased to 15.1% in 2010, the highest since the early 1960s.
- But, there has been recovery. A look at the aggregate numbers reveals that Connecticut’s unemployment rate peaked at 9.2% during the recession is, as of October 1 (preliminary), now down to 5.1% this tracks the national economy: the US high was 10.0% and is now down to 5.0%. There has not been a similar progress on poverty. The 2014 rate is 14.7%.
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² Contrary to the conventional wisdom (for some), Connecticut and its New England neighbors have higher per capita state GDPs than the average US state (16% higher) and all other regions (e.g., 42% above the Southeast; 7% greater than the Far West). BEA, 2012. Connecticut is not a poor state nor is it in a poor region.

5. Change in employment (sectoral) composition.

With respect to the change in the composition of employment the recovery reflects the longer term structural trends: The sectors that have exhibited the fastest growth are those in services: both in the low wage sectors of Retail Trade, Administration and Support, Health Care, Leisure and Hospitality and the high wage Management of Companies, Construction, and Professional, Scientific, and Technical Services sectors (Srivastava Graph 9). Industries growing slower than pre-recession include Manufacturing (other than the transportation Equipment subsector of manufacturing, which provides defense related goods) and government. Finance, Insurance and Real Estate has been remarkably stable since the 1980s (accounting for a share of total employment range from a high of 6.1% in 1990, to 5.8 % in 2000, 5.9% in 2010, and 5.7% in 2014).³

³ When examining GSP growth data, when Finance and Insurance is broken out of FIRE, Finance and Insurance shows a very slow recovery 2010-2014. /Srivastava reports that Finance and Insurance are starting to show employment gains (Srivastava, p. 15)