

WINTER 2013

THE
Connecticut Economy
A UNIVERSITY OF CONNECTICUT QUARTERLY REVIEW



Repackaging Connecticut's Economy

A New Take on State Manufacturing

Revisiting Government's Role in the Economy

An Unlikely Source of Public Revenue Revealed

CONNECTICUT ECONOMIC INDICATORS

(Percent change: 2011-Q3 to 2012-Q3)

Indicators of Current Economic Activity

Total Nonfarm Jobs	+0.2%
Number Unemployed	0.0%
Labor Force	-1.0%
Manufacturing	
Jobs	-1.0%
Avg. Weekly Hours	-0.4%
Avg. Hourly Earnings	-5.1%
CT Mfg. Prod. Index	-1.7%
New Auto Registrations	+8.6%
Travel and Tourism Index	+0.4%
Bradley Airport	
Passengers	-5.4%
Freight	-3.5%
State Tax Receipts	
Income	+8.6%
Sales	+4.9%
Real Estate Conveyance	+10.9%
Electricity Sales	+2.2%
State Exports	+4.1%
Personal Income (est.)	+3.3%
Coincident GDI	+0.3%

Indicators of Future Economic Activity

Initial Unemp. Claims	-9.9%
Housing Permits	+25.2%
Net New Business Starts	+7.3%
Leading GDI	+3.8%

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TAKING STOCK BREAKING BAD

The only breaks Connecticut's economy seems to catch these days are bad ones. The state lost another 1,700 jobs in 2012-Q3, following a 4,000-job swoon the previous quarter. Unemployment surged even as potential workers appeared to leave the labor force in droves. Cracks began appearing in what had been a rock-solid state budget. And the jobs forecast for 2013 remains tepid at best.

Employment may be up a hair from the same point last year, but it's down on a seasonally-adjusted basis for the second quarter in a row. Four of the last five quarters have been the worst for job growth in the recovery to date.

The transportation, trade and utilities sector shrank by 2,400, nearly half stemming from staff reductions at retail stores. Hotels and restaurants trimmed their workforces by 900, too. Construction dropped 1,800, despite the best quarter for housing permits in four years. And in a poor harbinger of future hiring, professional and business services contracted by 1,300 as employers let about as many temporary workers go.

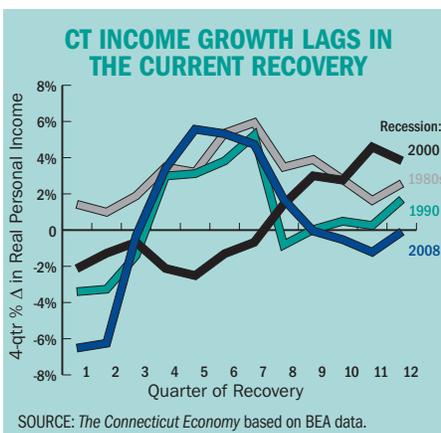
There were gains, to be sure, 1,400 in education, 2,500 in health care, even 1,100 in arts, entertainment and recreation, but not enough to offset the drag from industries that downsized.

The dim employment picture might be expected to aggravate unemployment, but the jobless rate shot up nearly a full point between 2012-Q2 and 2012-Q3, three times faster than the jobs erosion alone might warrant. What's more, the quarter recorded the largest exodus of would-be workers from the labor force—more than 12,000—since 1976, which should have offset any upward pressure on the jobless rate. The real source of this seeming misfortune might simply be a survey error by the U.S. Census Bureau.

There's less doubt, however, that the state's budget situation has taken a turn for the worse, as state revenue slipped 2% in 2012-Q3, following a 0.4% decline a quarter earlier, and growing shortfalls are anticipated in the current and coming fiscal years. Personal income, which drives income, sales and other tax revenue, has for the latest four quarters underperformed relative to all recent recovery periods (graph).

A year from now, the state could be marking job gains of 3,000 or more per quarter, but that assumes we manage to steer clear of some rocky shoals in the intervening period (see page 14). Until then, avoiding additional job losses would not be an insignificant achievement.

This issue introduces a new report card on Connecticut manufacturing, maps manufacturing concentration across Connecticut towns, and welcomes in our "Forward Look" the founder and CEO of Lex Products, a maker of electrical power and distribution systems, who shares his secret to manufacturing success in this state. We also comb through years of cross-state data for evidence of government's contribution to real per-capita output and, in an aside, we offer a short primer on the economics of seized property.



A Manufacturing Report Card

DOES CONNECTICUT MAKE THE GRADE?

BY STEVEN P. LANZA

Mention “manufacturing” and images from a bygone era, of sprawling brick factories, belching smokestacks, clanking machines, and earnest workers, might come to mind. But manufacturing is more than just a vestige of Connecticut’s economic past. Our new report card of manufacturing activity suggests that the industry remains a vital part of Connecticut’s economic present and promises to play a key role in its future.

Like the premature obituaries written of Mark Twain, reports of the death of Connecticut manufacturing are greatly exaggerated. True, manufacturing isn’t the jobs engine that it once was. Factory employment in the state has shrunk from 477,000 or about one-third of total jobs in 1969 to just 174,000 or less than 10% of jobs statewide in 2011 according to BEA records.

But in recent days the industry’s long secular jobs decline has shown signs of abating. The Labor Department’s count of manufacturing jobs (which because of accounting differences is smaller than BEA’s tally) seems to have stabilized at about 165,000 over the last two years. Adjusting for the industry’s declining trend, manufacturing employment sits about 8,000 jobs above its expected level (see first graph). And by other measures, too, the industry displays surprising vitality.

EXPANDING OUTPUT, GROWING PRODUCTIVITY

Even as manufacturing employment has slumped, real output has expanded (see second graph overleaf). Between 1990 and 2007, which marked the peaks of two separate business cycles, Connecticut manufacturers boosted output by more than half, and did it

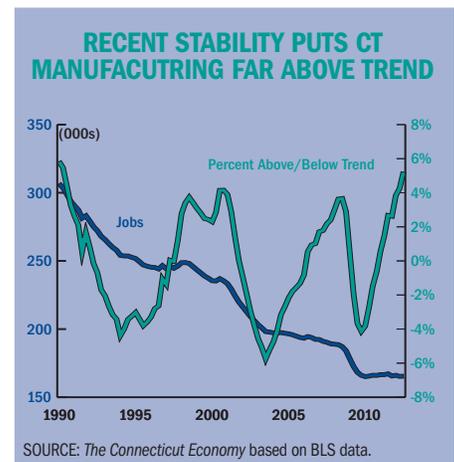
with 35% fewer workers. (These are ballpark estimates. The switch in 1997 from the old SIC to the new NAICS industrial classification system makes exact comparisons difficult.)

And in 2011, when Connecticut ranked 10th in GDP growth among states, manufacturing was responsible for more than a quarter of the state’s 2% increase in real output, a contribution that was second only to that of the financial services industry. In the past decade, manufacturing has typically accounted for one-fifth of the annual change in Connecticut real GDP.

Expanding output combined with falling employment has translated to rising productivity among factory workers. Real output per worker (measured in 2005 dollars) grew from \$57,900 in 1990 to \$135,800 in 2007, an impressive 134% increase. By comparison, the productivity of the average worker in Connecticut’s economy increased 38% over the same period. Relative to U.S. factory workers Connecticut workers maintained a productivity advantage during this period that ranged from 10% to 20% and averaged about 16%.

That distinct productivity edge translates into high earnings for industry employees. Annual earnings among Connecticut factory workers averaged \$76,900 in 2011, 26% above the state’s all-industry average of \$61,100. Among the state’s major industries, only workers in information, professional services, wholesale trade, finance and management of companies earned more. Productivity growth has also contributed to faster-than-average growth in earnings for manufacturing workers over time. Since 2000, manufacturing earnings are up 41% compared with 34% for workers economywide.

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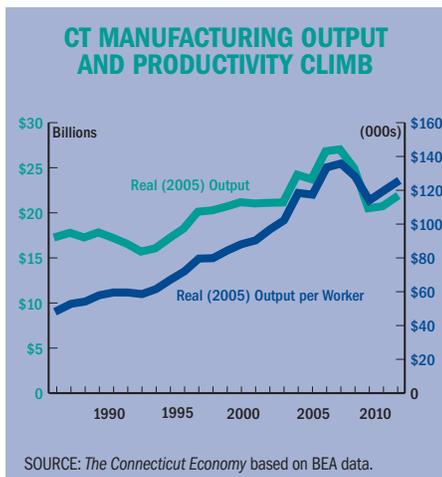


MANUFACTURING'S FACELIFT

The factory floor isn't the noisy, grimy workshop it once was. Manufacturing has become far more technologically advanced, requiring sophisticated machines and computers operated by highly trained and skilled workers. While there's no universal definition of a high-tech industry, one common standard developed by the OECD defines a sector as technologically intensive if it either produces or uses products that require substantial and ongoing research and development efforts. So sectors like food, beverage, textile and apparel manufacturing are less technologically advanced while computers, electronics and chemicals are more so.

From 1997 to 2010, the share of manufacturing output produced by Connecticut high-tech firms has increased from less than 60% to more than 70% (third graph). Particularly striking is the growth in computer and electronic product manufacturing, which jumped from barely 1% of all manufacturing output in 1997, to more than 13% in 2010. Chemical manufacturing, which includes pharmaceuticals, also climbed from 12% in 1997 to as high as 30% in 2007, before the recession cleaved that quotient back to 15% in 2010.

Transportation equipment, where aerospace and much defense-related manufacturing takes place, has also gained share. The sector produced 23% of industry output in 2010 compared with 20% in 1997.



BIG THINGS, SMALL PACKAGES

Though the iconic manufacturing enterprise may be a concrete behemoth claiming acres of industrial property and employing thousands of workers in round-the-clock shifts, the reality is a bit different. The lion's share of Connecticut manufacturers are small to mid-sized, and most manufacturing workers are employed by these more modest enterprises.

In 2009, the latest year for data from the Small Business Administration, the vast majority of Connecticut manufacturing establishments (85%) employed fewer than 100 workers (fourth graph). That's up from 80% in 1990. The share of mid-size (100 to 499 workers) and large (> 500 workers) establishments saw corresponding decreases, from 8% to 6% and from 12% to 8%, respectively.

Although the employment statistics aren't quite so lopsided, a slim majority (51%) of workers was employed in small to mid-sized firms in 2009. That's a jump of 14 percentage points from 1990. So the typical Connecticut manufacturer is far more likely to be small to mid-sized rather than large; and the typical employee is more likely to be employed in these smaller enterprises.

Outsourcing, the contracting-out of business activities once performed within a firm, has no doubt contributed to the shrinking size of firms over time. So, too, has the rise of custom and batch manufacturing processes run by numerically controlled devices that have, in many cases, supplanted old-style mass production carried along moving assembly lines.

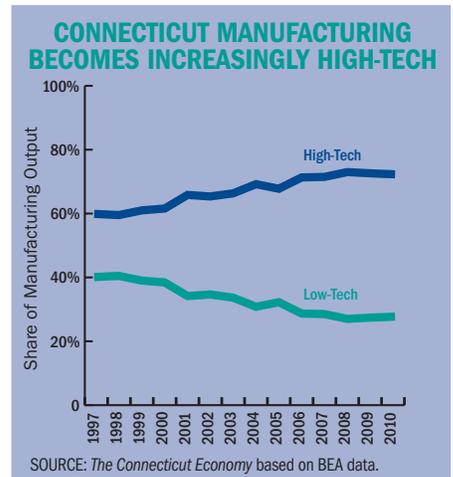
On a related note: establishments with fewer employees are far more dynamic than are their larger counterparts. A typical year between 1990 and 2009, for example, saw the birth of about 290 establishments with fewer than 500 employees, most with fewer than five workers. That's a birth rate of about 6%. By comparison, an average of fewer than 20 large firms were born annually, a birth rate of just 3.5%.

Death rates for smaller firms are higher, too, about 7.5% versus 6% for large enterprises. The pattern for jobs is much the same: higher birth and death rates for smaller firms than for larger ones.

The difference between the birth and death rates yields the net growth in the number of firms (or jobs). But the sum of the two rates is what analysts call "churn," a combination of firms (or jobs) simultaneously appearing and disappearing from the economy. Early 20th century Austrian economist Joseph Shumpeter described this process as one of "creative destruction" whereby obsolete products or technologies make way for new innovations, and resources are allocated to more efficient uses. Though in the short-run the disruption that "churn" causes might crimp industry growth, in the long run "churn," led by smaller firms, can be an important source of economic change and development.

A MANUFACTURING INDEX

So, overall, how does Connecticut's manufacturing industry stack up? To answer that question, it would help to combine these various dimensions of manufacturing activity—income, output, employment, productivity, technological sophistication and "churn"—into a composite index that would allow us to compare Connecticut to other states. But that raises at least two potential problems: how do we combine data measured in different units, number of jobs and dollars of output



for example, and how do we weight the contributions of each component to the overall index without introducing our own personal, subjective biases?

A common way to do this is to let the numbers “do their own talking” by standardizing the data, and then calculating the first principal component of the several data series, something many statistical software packages do easily. Standardizing the variables—subtracting each series’ mean from the individual observations and then dividing by the standard deviation—converts each observation into a score on a scale with a mean of zero and standard deviation of one. The first principal component is the simple linear combination of these standardized data series that provides a “best fit” model for all the data points. By capturing the central tendency of the data, the first principal component provides a good way of summarizing the data without introducing the researcher’s own prejudices.

The nearby table ranks states from high to low based on this first principal component measure. Component scores were converted to percentiles and then curved to an average of 75, so states could be graded along the familiar A-F academic scale. Connecticut ranks sixth, behind Oregon, Indiana, Wisconsin, Massachusetts, and Louisiana, with a score of 91—a solid A- grade.

Connecticut owes its high mark to impressive scores in employee compensation and a relative concentration in high technology activity, outrank-

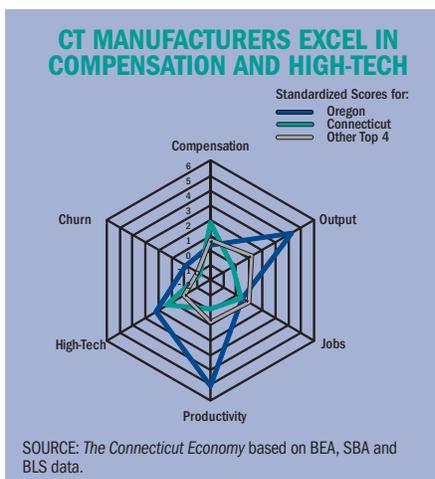
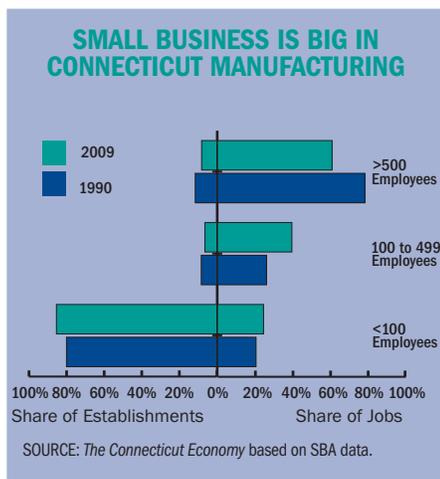
ing all but Oregon by this measure. Connecticut also ranks above-average in manufacturing jobs as a percent of total jobs, but a bit below average in manufacturing’s share of GDP, manufacturing output per worker and the “churn” rate among smaller manufacturers. The other top states in the list, by contrast, tended to have better scores for manufacturing share and worker productivity. The radar graph shows the standardized scores for Oregon, Connecticut and the average for the other four top states.

As the graph makes clear, Oregon, which cultivates a “Silicon Forest” offshoot of California’s nearby “Silicon Valley,” occupies a commanding lead among states in manufacturing activity. The Beaver State scored a hat trick, ranking first among all states in manufacturing output as a percent of GDP, worker productivity, and high-tech manufacturing.

CONCLUSION

Though manufacturing no longer accounts for as large a share of Connecticut’s economy as it once did, the state’s manufacturers have managed to adapt to changing times, to survive, and even to thrive. Rising output and productivity, an increasing emphasis on advanced technology, and a relatively high rate of churn or creative destruction among smaller rather than larger firms are hallmarks of the state’s current manufacturing industry. Together, these attributes help earn Connecticut an impressive A- grade

in manufacturing activity, and offer promise that the manufacturing industry will remain a cornerstone of the state’s economy for years to come. ■



CONNECTICUT MANUFACTURING SITS AT THE HEAD OF THE CLASS

Oregon	100	A+	New Mexico	78	C+
Indiana	99	A+	Missouri	76	C
Wisconsin	94	A	Arizona	74	C
Massachusetts	93	A	Nebraska	73	C
Louisiana	92	A-	Maryland	73	C
Connecticut	91	A-	Rhode Island	72	C-
Iowa	91	A-	West Virginia	71	C-
Michigan	91	A-	Utah	71	C-
North Carolina	90	A-	Mississippi	68	D+
New Hampshire	88	B+	Maine	67	D+
Ohio	88	B+	Virginia	67	D+
Illinois	86	B	New York	67	D+
Minnesota	84	B	Arkansas	67	D+
Kansas	82	B-	Colorado	67	D+
California	82	B-	Delaware	66	D
Kentucky	82	B-	Oklahoma	65	D
Texas	81	B-	Georgia	65	D
Washington	81	B-	South Dakota	64	D
Vermont	81	B-	North Dakota	62	D-
Pennsylvania	80	B-	Florida	56	F
Tennessee	80	B-	Nevada	53	F
New Jersey	80	B-	Wyoming	53	F
Idaho	79	C+	Montana	51	F
South Carolina	79	C+	Hawaii	50	F
Alabama	78	C+	Alaska	50	F

SOURCE: *The Connecticut Economy* based on BEA, SBA and BLS data.

Government Employment: Boondoggle, Necessary Evil, or Essential?

BY DENNIS HEFFLEY

"The wages of sin are death, but by the time taxes are taken out, it's just sort of a tired feeling." — Paula Poundstone

Humorous quotes about the ill effects of taxes abound, but just try to find one about the benefits of government spending or public employment. We also seldom see data-driven measures of public program benefits in the media, but let's see if we can remedy that by assessing the economic impact of both private and public employment on economic output, using data from a variety of sources.

Most of us would prefer to be taxed less rather than more, so maybe our asymmetric attention to taxes is inevitable, but there is still a wide spectrum of opinion about the "right" level of taxation, and often that view is determined by the perceived benefits—both personal and social—of government activities. How well do our perceptions about the benefits of government activity square with more concrete measures of these benefits?

TRACKING OUTPUT

A useful way to tackle this issue is to view the total output of a state's economy, frequently measured by real gross domestic product (RGDP), as a function of both private and public resources or "inputs," particularly private-sector labor and public-sector labor. Economists often use this approach to study the output of individual firms or industries, but an aggregate "production function" also can be useful in evaluating the relative contributions to total output by private and public labor.

Before we try to estimate the private and public sources of RGDP, let's first see how Connecticut fares by this measure of economic output. Given

differences in population across states, it makes sense to consider RGDP per capita. The first exhibit charts per capita RGDP over the period 1997-2011 for Connecticut, Massachusetts, the average for the remaining four New England states (Maine, New Hampshire, Rhode Island, and Vermont), as well as for New Jersey, New York and the entire U.S.

Connecticut performs well by this measure of output per head. Only two states (not shown)—Delaware (\$63,159) and Alaska (\$61,853)—topped Connecticut's 2011 figure of \$56,242, and these two states are anomalies. Delaware's number is inflated by the nominal presence of corporations seeking refuge from taxes and Alaska's high figure is driven by the oil industry.

Concerns that Connecticut may be "slipping" in such rankings are not well supported by the data. In 1997, 3rd-ranked Connecticut's per-capita output (\$49,162) was 81% of top-ranked Alaska's (\$60,589). Every year since then, per capita RGDP in the state was at least 86% of the top state's figure, and since 2006 it has regularly been closer to 90% of the highest sum. In two years, 2009 and 2010, Connecticut dropped to 4th place—displaced by oil-abundant Wyoming—but last year

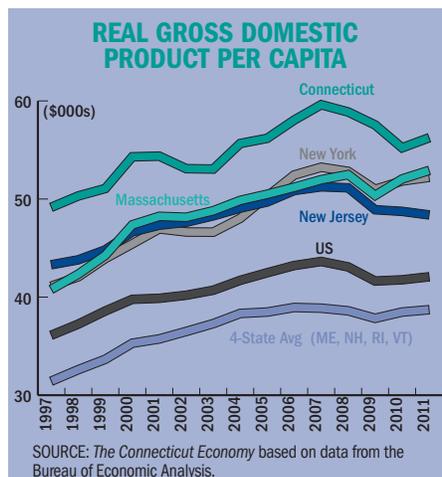
it regained the 3rd spot. The graph clearly shows that Connecticut was hit hard by the latest recession and started to rebound a bit later than some other states, but this lagged recovery has been a feature of Connecticut's economy over many years, and probably has more to do with its industry mix than anything else.

We may not have lost much ground to the "competition" in relative terms, but the level of RGDP per capita, in Connecticut and nearly all states, has suffered during the latest recession. By 2007, the state's figure had risen to \$59,613. Since then, it fell to \$55,223 by 2010, before regaining a bit (\$56,242) in 2011. Even so, the 2011 output per head is only slightly above the state's 2005 level of \$56,190. Connecticut and other states are recovering, but the cost of the recession, in terms of lost real output, has been large.

PRIVATE VS. PUBLIC

Economists often reveal a politically eclectic view of the world. A randomly generated sample of 1,000 American Economic Association members, surveyed by Daniel Klein and Charlotta Stern and published in the 2006 volume of *Public Choice*, indicates that: "...most economists are supporters of safety regulations, gun control, redistribution, public schooling, and anti-discrimination laws. They are evenly mixed on personal choice issues, military action, and the minimum wage. Most economists oppose tighter immigration controls, government ownership of enterprise and tariffs."

Many in the profession have a healthy skepticism of government intervention, but few would reject the notion that certain types of services either require public provision, such as national defense, or rely heavily on the



public sector to finance the activity. A public tax or toll used to pay private contractors for road construction is a good example of the latter. Most of these “gray areas” involve goods or services that could, and often are, provided privately as well as publicly: health care, education and prisons are the obvious ones. It’s no coincidence that these “mixed good” examples are also the biggest and most controversial areas in the ongoing debate about government’s appropriate role in the economy.

We can’t resolve an issue of this sort, one that’s been around for decades if not centuries, but we can shed some light on how both the private sector and the public sector contribute to economic performance. The earlier graph only shows a few states, but even so, it reveals how one measure of economic performance, RGDP per capita, varies across states and over time. To focus on the role of the private and the public sectors in generating output, a panel database—48 contiguous states over 15 years, 1997-2011—was compiled and used to estimate the simple linear regression model reported in the table.

Output for each state in each time period, as measured by RGDP per capita, was regressed on five primary variables: private employment per 100 persons, public employment (local, state, and federal) per 100 persons, the percent of the population who have only completed high school, the percent with a bachelor’s degree or higher, and the number of patents per million persons. The latter three variables are meant to control for each state’s educational attainment and “inventiveness,” at various points in time. Year-specific dummy variables (D1998-D2011) serve to distinguish the data for each year following the initial year of data (1997). The coefficients for the zero/one dummy variables allow the estimated constant (22,515), which pertains to the 1997 base year, to shift over time by the value of the dummy variable coefficient in each subsequent year.

BOTH DO MATTER

The estimated coefficients in the regression model suggest that both private and public workers are positively associated with per capita output, across states and over time. The coefficients are of similar magnitude—1,092 and 1,180—and both are statistically significant, as indicated by any p-value less than about 0.05. This simple regression won’t put the private vs. public sector debate to bed, but it may add some perspective. If nothing else, it suggests that simply “killing off” the public sector without a compensating increase in private employment could harm economic performance. In fact, if one believes the estimates, laying-off one public worker to hire one private worker (each per 100 persons) could reduce per capita RGDP by nearly \$88.

BOTH PRIVATE AND PUBLIC EMPLOYMENT CONTRIBUTE TO OUTPUT PER CAPITA (48 STATES, 1997-2011)

Dependent Variable: RGDP Per Capita	Coefficient	p-Value
<i>Constant</i>	22,515.27	0.000
<i>Private Employment per 100 Persons</i>	1,092.41	0.000
<i>Public Employment per 100 Persons</i>	1,180.20	0.000
<i>Percent of Population with High School Only</i>	-729.13	0.000
<i>Percent of Population with BA Degree or Higher</i>	68.00	0.379
<i>Patents Per Million Persons</i>	3.51	0.001
<i>D_1998</i>	266.80	0.786
<i>D_1999</i>	749.13	0.446
<i>D_2000</i>	2,621.25	0.008
<i>D_2001</i>	3,397.93	0.001
<i>D_2002</i>	4,715.55	0.000
<i>D_2003</i>	5,954.03	0.000
<i>D_2004</i>	6,839.68	0.000
<i>D_2005</i>	7,288.85	0.000
<i>D_2006</i>	7,443.58	0.000
<i>D_2007</i>	7,862.23	0.000
<i>D_2008</i>	8,398.38	0.000
<i>D_2009</i>	9,895.31	0.000
<i>D_2010</i>	10,565.68	0.000
<i>D_2011</i>	10,834.14	0.000
<i>Adjusted R-Squared = .560</i>		
<i>N = 720</i>		

SOURCE: *The Connecticut Economy* based on data from the Bureau of Economic Analysis, the Bureau of Labor Statistics, and the Census Bureau.

Education and inventiveness also seem to play a role in determining a state’s economic performance. Having a population with a larger percentage of “high school only” workers is negatively associated with RGDP per capita—a good reason to prepare students well for work or college. The college degree variable—percent with a bachelor’s degree or higher—is positive, but not very significant. This may, in part, reflect a relatively strong correlation with another explanatory variable that is significant, the number of patents per million persons. Inventiveness rewards the economy as well as the inventor.

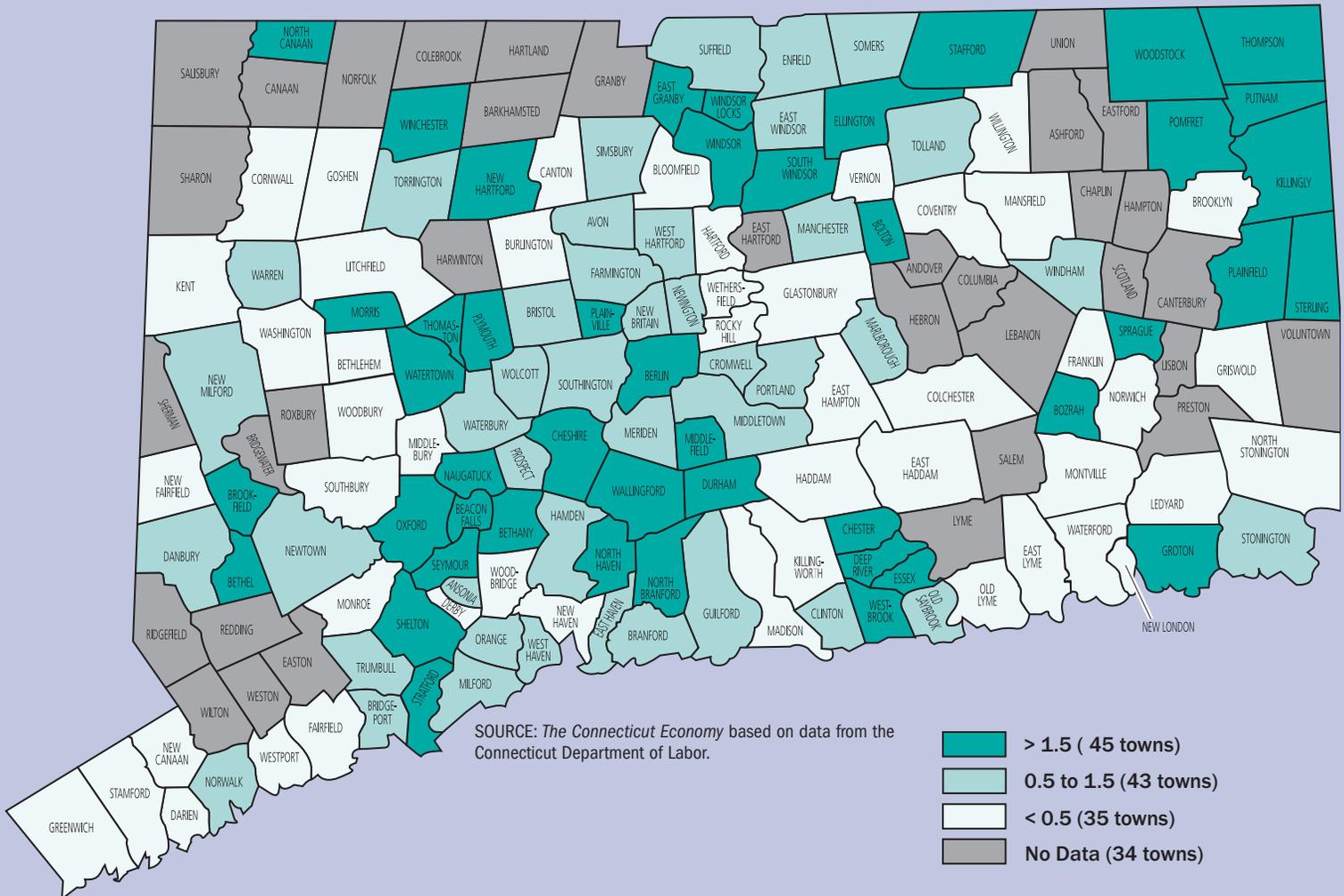
Overall, the five variables and the year-specific dummy variables, which tend to capture the upward trend in RDGP over time, jointly account for about 56% of the variation in RGDP across the 48 states and over the 15-year period.

THE RIGHT BALANCE

If one accepts the proposition that both the private and public sectors have a legitimate role to play in the economy, as well as in our politics, a rather natural question to ask is: What’s the optimal mix of private and public activity—employment, spending, or some other measure of government size—to maximize economic performance? Furthermore, how do various private/public combinations affect economic incentives and the distribution of income within the economy? At one time, these were the “big questions” tackled by the best economists. They need to be resurrected and read-dressed by a new generation of economists with the technical skills, but also the common sense, to know how important the answers might be in the years ahead.

THE CENTERFOLD

Manufacturing Employment Location Quotients, 2011



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

ANNUAL AVERAGE EMPLOYMENT ANNUAL AVERAGE WAGE (\$) JOB LOCATION QUOTIENT

Bridgeport - Stamford LMA

Ansonia	358	56,697	0.89
Bridgeport	4,143	61,407	0.96
Darien	50	120,566	0.07
Derby	149	41,449	0.31
Easton	N/A	N/A	N/A
Fairfield	678	80,705	0.28
Greenwich	643	57,731	0.18
Milford	3,631	67,847	1.25
Monroe	212	49,513	0.38
New Canaan	9	99,143	0.01
Newtown	426	64,962	0.55
Norwalk	2,455	132,325	0.54

ANNUAL AVERAGE EMPLOYMENT ANNUAL AVERAGE WAGE (\$) JOB LOCATION QUOTIENT

Oxford	466	57,390	1.63
Redding	N/A	N/A	N/A
Ridgefield	N/A	N/A	N/A
Seymour	1,011	63,246	2.35
Shelton	4,088	103,429	1.89
Southbury	121	28,854	0.14
Stamford	3,439	101,038	0.47
Stratford	9,044	91,680	3.51
Trumbull	915	66,933	0.52
Weston	N/A	N/A	N/A
Westport	37	31,817	0.02
Wilton	N/A	N/A	N/A
Woodbridge	73	49,863	0.20

ANNUAL AVERAGE EMPLOYMENT ANNUAL AVERAGE WAGE (\$) JOB LOCATION QUOTIENT

Danbury LMA

Bethel	1,145	66,116	1.59
Bridgewater	N/A	N/A	N/A
Brookfield	1,142	66,870	1.65
Danbury	5,558	103,649	1.29
New Fairfield	28	35,464	0.17
New Milford	797	61,595	0.93
Sherman	N/A	N/A	N/A

Enfield LMA

East Windsor	435	53,157	0.63
Enfield	1,898	63,704	0.99
Somers	140	51,647	0.55
Suffield	297	62,453	0.70
Windsor Locks	4,341	101,913	3.23

	ANNUAL AVERAGE EMPLOYMENT	ANNUAL AVERAGE WAGE (\$)	JOB LOCATION QUOTIENT
Hartford LMA			
Andover	N/A	N/A	N/A
Ashford	N/A	N/A	N/A
Avon	659	109,877	0.80
Barkhamsted	N/A	N/A	N/A
Berlin	1,935	61,202	1.67
Bloomfield	836	70,552	0.44
Bolton	339	39,787	2.82
Bristol	2,836	60,578	1.33
Burlington	44	54,469	0.44
Canton	26	29,168	0.08
Colchester	150	54,245	0.42
Columbia	N/A	N/A	N/A
Coventry	50	40,835	0.36
Cromwell	351	59,805	0.55
East Granby	1,249	64,741	3.28
East Haddam	49	47,781	0.33
East Hampton	89	53,775	0.45
East Hartford	N/A	N/A	N/A
Ellington	462	63,031	1.54
Farmington	2,391	71,320	0.72
Glastonbury	669	67,014	0.41
Granby	N/A	N/A	N/A
Haddam	51	41,183	0.39
Hartford	1,229	43,849	0.11
Hartland	N/A	N/A	N/A
Harwinton	N/A	N/A	N/A
Hebron	N/A	N/A	N/A
Lebanon	N/A	N/A	N/A
Manchester	2,451	64,755	0.86
Mansfield	35	44,480	0.03
Marlborough	107	55,126	0.93
Middlefield	576	75,339	3.36
Middletown	4,027	85,405	1.45
New Britain	3,748	74,603	1.44
New Hartford	448	47,784	2.99
Newington	1,885	62,010	1.14
Plainville	1,647	69,166	1.74
Plymouth	380	50,000	1.84
Portland	265	54,513	1.20
Rocky Hill	613	110,998	0.44
Simsbury	530	84,663	0.52

	ANNUAL AVERAGE EMPLOYMENT	ANNUAL AVERAGE WAGE (\$)	JOB LOCATION QUOTIENT
South Windsor	3,102	63,267	2.53
Southington	1,891	59,686	1.24
Stafford	1,000	44,900	2.72
Thomaston	1,262	53,702	4.63
Tolland	513	70,075	1.17
Union	N/A	N/A	N/A
Vernon	209	59,486	0.23
West Hartford	2,379	67,344	0.84
Wethersfield	254	46,513	0.25
Willington	41	50,360	0.29
Windsor	4,203	84,900	1.74

New Haven LMA

Bethany	236	77,599	2.14
Branford	1,295	61,855	1.02
Cheshire	2,249	86,692	1.51
Chester	856	64,278	4.10
Clinton	494	65,899	1.16
Deep River	413	43,529	3.05
Durham	502	61,951	2.43
East Haven	417	42,373	0.65
Essex	563	51,638	1.60
Guilford	457	57,262	0.66
Hamden	1,184	47,212	0.58
Killingworth	15	58,294	0.21
Madison	126	47,814	0.26
Meriden	2,363	65,971	1.06
New Haven	2,532	52,847	0.31
North Branford	891	62,543	2.16
North Haven	3,992	64,294	2.05
Old Saybrook	320	46,315	0.53
Orange	570	61,642	0.64
Wallingford	4,741	89,932	1.71
West Haven	1,076	54,868	0.73
Westbrook	775	66,256	2.06

Norwich - New London LMA

Bozrah	186	46,256	1.87
Canterbury	N/A	N/A	N/A
East Lyme	266	49,876	0.47
Franklin	8	85,007	0.08
Griswold	18	10,053	0.10

	ANNUAL AVERAGE EMPLOYMENT	ANNUAL AVERAGE WAGE (\$)	JOB LOCATION QUOTIENT
Groton	10,838	97,215	4.11
Ledyard	87	81,589	0.07
Lisbon	N/A	N/A	N/A
Lyme	N/A	N/A	N/A
Montville	415	49,688	0.28
New London	365	61,241	0.24
North Stonington	18	32,552	0.12
Norwich	591	52,511	0.36
Old Lyme	28	46,797	0.10
Preston	N/A	N/A	N/A
Salem	N/A	N/A	N/A
Sprague	297	56,422	5.03
Stonington	786	75,676	1.08
Voluntown	N/A	N/A	N/A
Waterford	134	44,560	0.12

Torrington LMA

Bethlehem	2	44,065	0.03
Canaan	N/A	N/A	N/A
Colebrook	N/A	N/A	N/A
Cornwall	8	31,515	0.18
Goshen	19	30,115	0.48
Kent	19	54,846	0.15
Litchfield	48	20,151	0.15
Morris	73	33,394	1.71
Norfolk	N/A	N/A	N/A
North Canaan	601	60,688	3.11
Roxbury	N/A	N/A	N/A
Salisbury	N/A	N/A	N/A
Sharon	N/A	N/A	N/A
Torrington	1,863	50,717	1.17
Warren	9	34,655	0.57
Washingon	30	25,984	0.19
Winchester	793	51,252	2.23
Woodbury	86	34,148	0.41

Waterbury LMA

Beacon Falls	178	43,574	1.86
Middlebury	141	69,336	0.37
Naugatuck	1,209	55,031	1.67
Prospect	251	59,580	1.23
Waterbury	3,159	58,334	0.80
Watertown	2,299	58,330	2.88
Wolcott	389	50,301	1.34

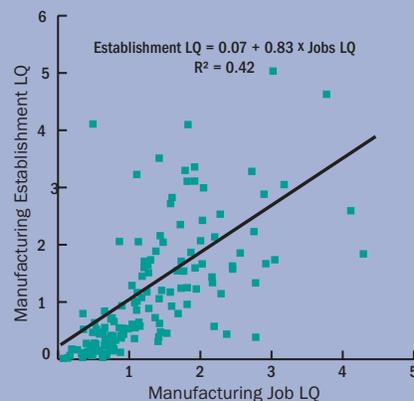
Willimantic - Danielson LMA

Brooklyn	21	32,715	0.15
Chaplin	N/A	N/A	N/A
Eastford	N/A	N/A	N/A
Hampton	N/A	N/A	N/A
Killingly	1,771	51,752	2.04
Plainfield	638	50,861	1.54
Pomfret	521	39,729	3.30
Putnam	985	57,272	1.58
Scotland	N/A	N/A	N/A
Sterling	102	47,908	2.59
Thompson	338	54,440	2.07
Windham	670	60,813	0.61
Woodstock	520	64,784	3.11

Town Average	1,108	\$59,646	1.18
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ABOUT THE CENTERFOLD

The centerfold maps the concentration of manufacturing activity across towns, as measured by a location quotient (LQ) for manufacturing jobs. These LQs are ratios of town to state manufacturing employment shares and range from a high of 5.03 in Sprague to a low of 0.01 in New Canaan. A town with an LQ of 1.00 would have the same concentration of manufacturing jobs as does the state as a whole. Manufacturing jobs are clustered along the Naugatuck Valley, north of the cities of Hartford and New Haven, and in the northeast corner of the state. The scatterplot shows that towns with high job LQs also tend to have a high concentration of manufacturing establishments.



Civil Forfeiture Statutes:

AN ADDITIONAL STATE AND FEDERAL REVENUE SOURCE?

BY DEREK M. JOHNSON*

Under federal and state laws, including Connecticut's, property connected with illegal activity can be forfeited to the government. A key purpose of forfeiture is to penalize wrongdoing and thereby discourage unlawful behavior. Seized assets also provide a significant revenue source for state, local and federal governments which, among other things, help fund law enforcement initiatives. But this revenue-raising potential also raises the risk of distorting law enforcement activities to maximize the proceeds at the expense of other law enforcement objectives. Though the risk of such distortions exists in all states, it is apparently lower in Connecticut than elsewhere.

HISTORIC ROOTS

Civil and criminal forfeiture has an extensive history with roots in admiralty law. One of the first acts of the United States Congress in 1790 was to adopt forfeiture laws to enforce customs duties, which was then the principal source of federal tax revenue. (Seizing cargo and ships was the only effective way to prevent ship owners from smuggling goods into the country.) Forfeiture's use has grown considerably since then. It was revitalized in the 1970s and 1980s as a tool against organized crime and narcotics trafficking and expanded by Congress to cover a myriad of federal offenses including fraud and other white collar crimes. It now runs the gamut from copyright infringement, to mail and bank fraud to identity theft.

With the passage of the Civil Asset Forfeiture Reform Act of 2000 ("CAFRA") and the USA PATRIOT Act of 2001, hundreds of additional illegal activities became subject to forfeiture. State forfeiture law has a long history that even predates the U.S.

Constitution. Under the common law, states were authorized to enforce state forfeiture laws. Currently 47 states, including Connecticut, authorize the civil forfeiture of assets.

CRIME AND PUNISHMENT

Though forfeiture laws play a critical role in the legal deterrence structure, they raise unique issues not often associated with the criminal justice system. In criminal forfeiture proceedings, the defendant property owner must first be convicted of a crime before any (ill gotten) property is forfeited to the government. And if the defendant is not convicted, the property is returned.

But property can also be seized in civil suits, where the government action isn't against the property owner, nor is it predicated on the conviction of any party. Rather, the action is against the property itself based on the property's connection to the illegal activity. Untethered from criminal law procedures and burdens of proof, these civil (and administrative) forfeitures increase the likelihood of *de facto* punishing innocent parties (often referred to as a "Type I error" or a "false positive"), which is an anathema to one of the most fundamental principles of U.S. criminal justice.

Property owners whose assets have been seized are allowed an "innocent owner" defense. But under this affirmative defense, the expense and burden of proof is on the owner to establish that she had no actual or constructive knowledge that the real or personal property was used in the illegal activity or that upon learning of the illegal activity acted "reasonably" under the circumstances or "took all reasonable steps" to stop the illegal activity. Meeting this burden is not always easy.

In *United States v. Two Parcels of Property at Castle Street*, 31 F.3d 35 (2nd Cir. 1994), for example, authorities seized a multi-family New Haven residence where the parents were aware of their children's narcotic use. While the parents pressed their adult children to stop using drugs, sent their adult children to Virginia to get away from the local narcotics environment and were threatened by local drug dealers after reporting narcotics activities to the police, the Court held that the parents "failed to undertake every reasonable means of preventing narcotics activities at the residence. For instance, they did not conduct searches of the residence parcel to check for narcotics."

Law enforcement officials can also bypass restrictions on their ability to seize assets under local law by employing federal law under an "equitable sharing" arrangement. So long as the illegal conduct violates "federal law and where federal law provides for forfeiture," federal law officials can commence forfeiture actions where state and local state law enforcement authorities have conducted all of the "pre-seizure activities." In these so called "adoptive forfeitures," local authorities receive 80% of the forfeited assets and the federal government the remaining 20%. Equitably shared federal funds must be used exclusively for law enforcement activities, such as the cost of investigation and law enforcement equipment.

DOLLARS AND SENSE

Civil and criminal forfeitures have been enormously effective law enforcement tools and have contributed significantly to state and municipal operating budgets. In 2006, for example, one-third of all local police departments in the United States received property, assets and goods from drug

asset forfeitures (civil and criminal), totaling over \$300 million. Among local police departments in cities with populations of a million or more, the average receipts from drug asset forfeitures totaled \$2,802,100 in 2006. And from 2000 to 2008, federal equitable sharing payments to state and local authorities approximated \$2.4 billion.

The Department of Justice's Assets Forfeiture Fund (AFF) paid out \$550 million in equitable sharing payments in fiscal year 2010 alone, and another \$440 million in 2011. Proceeds from forfeitures have grown significantly. In 1986, net forfeited assets paid into the AFF totaled approximately \$94 million; at the end of the fiscal year 2011 the net assets in the AFF totaled approximately \$1.7 billion.

Connecticut, like the vast majority of states, authorizes civil forfeitures. Under Connecticut law, proceeds from civil forfeitures are paid into the state's "drug assets forfeiture revolving account," with 70% allocated to the Department of Public Safety and local police departments (15% of which is used for drug education, and the balance used for law enforcement activities and police training relating to illegal drug trafficking and gang violence.) The remaining 30% is paid to the Department of Mental Health and Division of Criminal Justice.

And while Connecticut is not required to collect certain data on civil asset forfeitures, what data is reported suggests that Connecticut state and local governments have received significant forfeiture proceeds. In 2003,

Connecticut reported to the U.S. Department of Justice receipts from drug asset forfeitures (civil and criminal) totaling \$2,564,780. Additionally, from 2000 to 2008, the federal government paid Connecticut over \$13 million in equitable sharing proceeds, an annual average of \$1,463,036.

STUMBLING BLOCK

Because most states authorize all of the proceeds from civil forfeitures to be used for law enforcement purposes, forfeitures have become a significant revenue source for law enforcement agencies. Tight budgets, combined with rent seeking behavior among law enforcement agencies, have the potential to alter the overall use of forfeitures, the value of assets seized and the specific forfeiture procedures employed.

Additionally, increased use of federal equitable sharing rules by state law enforcement agencies has been tied to states that afford greater procedural and other protections under their respective state forfeiture laws.

The empirical evidence is incomplete, but at least one study (conducted by the Institute of Justice) has shown a relationship between state law enforcement agencies adopting federal forfeiture procedures and the restrictiveness of a state's forfeiture laws: as state law affords greater protections to the "innocent owner" and increases the allocation of forfeited assets to non-law enforcement agencies (into, for example, a state's general fund), state law enforcement agencies were found to use federal forfeiture law more often. That's because federal equitable sharing rules override state law restrictions on the uses of forfeited assets.

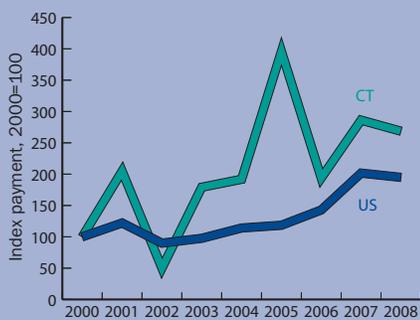
In a mirror image of the Institute of Justice study, after the constitutionality of an Oregon law was upheld that limited the use of federal equitable sharing proceeds, "forfeiture activity using this statute essentially ... ceased."

In 2010, the Institute of Justice graded states on the protections that their laws provide property owners in forfeiture cases, and on the behavior

of local law enforcement officials in respecting property rights. Though the institute assigned Connecticut a presumably middling grade of C+, our state's relatively high "preponderance of the evidence" standard for seizing property and the limitation we place on the share of proceeds going to local law enforcement means that we actually outranked all but three other states: Maine, North Dakota and Vermont. Most states could improve their scores by raising the government's burden of proof against property owners and by depositing revenue from seized assets into the general fund in order to reduce the incentive for "rent seeking" behavior.

Civil (and other) forfeiture proceedings are an enormously effective law enforcement tool. They also provide revenue to local, state and federal governments, with a majority of the states, but not Connecticut, allocating all of the proceeds from civil forfeitures to law enforcement agencies. Extensive empirical work remains to be done in this area, but, what does exist, suggests that the manner in which the penal deterrence framework (incarceration, fines and forfeitures) is structured influences law enforcement conduct.

CT EQUITABLE SHARING PAYMENTS OUTPACE THE US AVERAGE



SOURCE: *The Connecticut Economy* based on data reported by the Institute of Justice.

*Derek Johnson is a visiting lecturer in the Department of Economics at UConn.

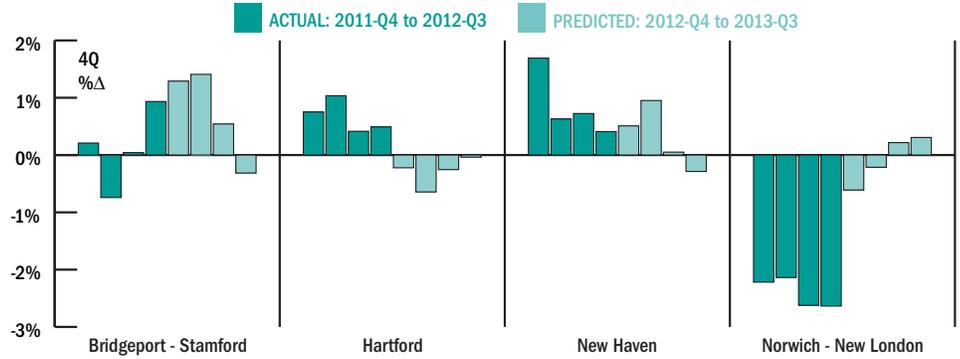
LABOR MARKET OUTLOOK

Forecasts for Key Labor Market Areas

BY STEVEN P. LANZA

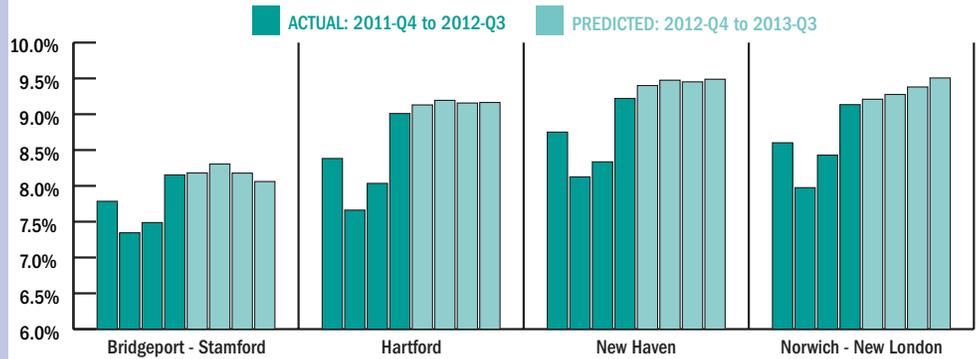
JOBS

In the relatively calm wake of a sluggish Connecticut employment forecast, area labor markets aren't apt to see many big changes in their job counts in coming quarters. Each of the four major LMAs is expected to hold to within about 1,000 jobs of its 2012-Q3 total by the same quarter next year. Measured in four-quarter percentage changes, that would translate into declines in each of the next four quarters for Hartford, but drops in only one or two quarters for the other major areas.



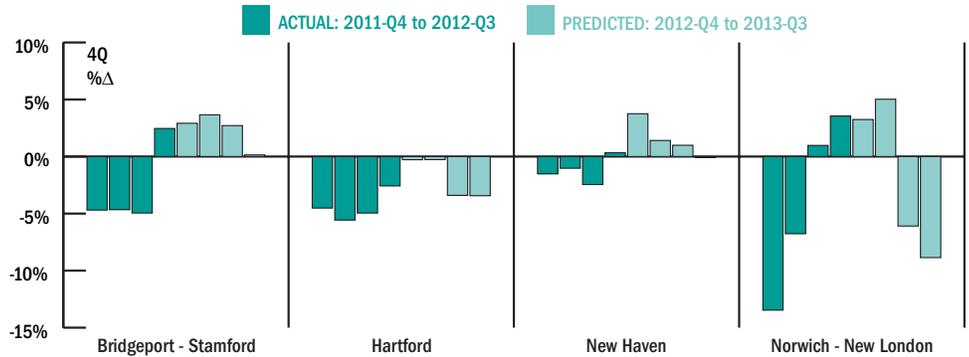
UNEMPLOYMENT RATE

Joblessness is growing again across labor markets as area labor forces shrink and the number listed as unemployed climbs. That surge should ease in coming quarters, however. Bridgeport-Stamford's jobless rate is expected to peak in 2013-Q2 and then retreat during the balance of the year. The other major labor markets, which have seen unemployment climb by more than a point, may add between two to four tenths of a percent to their current rates.



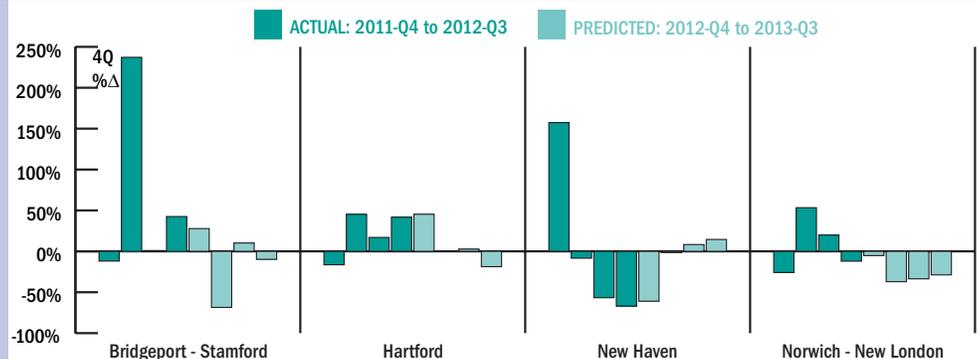
HOUSING PRICES

Seasonally-adjusted constant quality home prices, tracked by UConn's Real Estate Center, have shown some recent life, but they may soon again be skating on thin ice. Prices were up, on the quarter and on the year, in every major labor market except Hartford. Hartford's decline could continue and possibly spread, most likely to New London. Though some minor price erosion is possible in New Haven and Bridgeport-Stamford, home values should hold fairly steady in these two markets.



HOUSING PERMITS

Housing permits have shown some life of late. Recent quarters have witnessed frenzied bursts of activity in New Haven (2011-Q2 to 2011-Q4) and in Bridgeport-Stamford (2012-Q1) and slow but steady gains in Hartford and New London. But home building may reach a plateau in coming quarters, especially if weakness in the broader economy continues as is anticipated. Expect some ups and some downs in most areas, but mostly downs in New London.



LABOR MARKET DATA

2012-Q3 Summary Statistics

Connecticut's housing market gained traction in 2012-Q3 while other sectors slipped. Most LMAs registered an increase in house sales and permits, while half had higher prices than the year before. But worker paychecks shrank even as weekly hours inched up. Construction, finance, and government posted the steepest job losses.

Labor Market Area	LABOR FORCE		UNEMPLOYMENT RATE		NONFARM JOBS		CONSTRUCTION JOBS		MANUFACTURING		TTU* JOBS	
	2012-Q3 (000)	% Change year ago	2012-Q3 (%)	2011-Q3 (%)	2012-Q3 (000)	% Change year ago	2012-Q3 (000)	% Change year ago	2012-Q3 (000)	% Change year ago	2012-Q3 (000)	% Change year ago
Bridgeport - Stamford	487.5	-0.7	8.2	8.2	403.9	1.0	12.3	5.1	35.0	-1.2	71.7	2.3
Danbury	94.2	0.0	7.2	7.1	67.3	1.7	-	-	-	-	15.1	3.9
Enfield	50.5	-2.0	8.4	8.7	45.0	2.7	-	-	-	-	-	-
Hartford	602.9	-1.0	9.0	8.9	537.9	0.7	16.7	-8.4	58.1	1.5	86.4	0.5
New Haven	319.4	-1.0	9.3	9.3	267.5	0.8	9.2	-5.8	26.1	-1.5	48.1	0.5
Norwich - New London	151.7	-3.1	9.0	8.6	127.8	-2.1	3.8	-2.6	14.7	-1.1	22.1	-3.1
Torrington	56.0	-0.4	7.9	8.0	36.3	1.9	-	-	-	-	-	-
Waterbury	103.9	0.2	11.4	11.5	64.2	2.9	2.2	-2.9	7.5	-0.9	12.9	4.3
Willimantic - Danielson	59.4	-0.7	10.1	9.9	36.2	1.1	-	-	-	-	-	-
STATEWIDE	1913.5	-1.0	8.9	8.8	1623.7	0.2	53.1	-4.0	165.7	-1.0	293.0	0.3

Labor Market Area	INFORMATION JOBS		FINANCE JOBS		BUSINESS SERVICES		EDUCATION & HEALTH		LEISURE & HOSP.		GOVERNMENT JOBS	
	2012-Q3 (000)	% Change year ago	2012-Q3 (000)	% Change year ago	2012-Q3 (000)	% Change year ago	2012-Q3 (000)	% Change year ago	2012-Q3 (000)	% Change year ago	2012-Q3 (000)	% Change year ago
Bridgeport - Stamford	10.9	0.6	41.3	-2.8	66.6	0.0	68.9	5.2	36.5	-2.1	44.1	1.5
Danbury	-	-	-	-	7.6	-0.4	-	-	6.2	2.2	8.0	0.0
Enfield	-	-	-	-	-	-	-	-	-	-	-	-
Hartford	11.6	2.7	61.3	-1.3	60.5	0.6	101.3	3.3	46.0	5.1	76.1	-1.8
New Haven	4.7	0.0	12.2	-0.5	24.9	-3.5	75.8	2.8	25.5	5.7	30.2	0.4
Norwich - New London	1.5	2.3	3.1	-2.1	9.0	-2.2	20.7	-0.2	16.4	0.2	33.2	-4.3
Torrington	-	-	-	-	-	-	-	-	-	-	-	-
Waterbury	0.7	10.5	2.0	0.0	4.3	4.0	17.5	6.7	5.5	2.5	9.1	-0.7
Willimantic - Danielson	-	-	-	-	-	-	-	-	-	-	-	-
STATEWIDE	32.0	1.7	132.0	-2.4	195.9	-0.2	322.5	3.4	145.4	0.9	223.5	-1.1

Labor Market Area	HOUSING PRICES		HOUSING PERMITS		HOME SALES		AVG. WKLY. HOURS		AVG. WKLY. EARNINGS		AVG. HRLY. EARNINGS	
	2012-Q3 (\$000)	% Change year ago	2012-Q3	% Change year ago	2012-Q3	% Change year ago	2012-Q3	% Change year ago	2012-Q3 (\$)	% Change year ago	2012-Q3 (\$)	% Change year ago
Bridgeport - Stamford	466.0	2.6	475	45.3	1836	28.1	34.7	2.3	1094.72	4.4	31.55	2.1
Danbury	280.5	2.8	127	353.6	227	11.9	33.1	-5.3	919.35	-5.7	27.74	-0.4
Enfield	154.8	-8.5	13	44.4	124	20.7	-	-	-	-	-	-
Hartford	261.0	-2.5	371	43.8	1751	36.0	35.2	-0.4	1003.45	-2.9	28.51	-2.5
New Haven	203.6	0.3	65	-65.6	667	47.3	33.4	0.4	873.39	-3.7	26.12	-4.1
Norwich - New London	219.9	3.9	55	-11.3	179	66.9	32.3	3.6	804.86	14.5	24.94	10.4
Torrington	155.5	-5.0	13	225.0	96	80.6	-	-	-	-	-	-
Waterbury	115.5	-10.7	16	0.0	130	68.8	33.4	-1.8	776.50	-2.9	23.27	-1.1
Willimantic - Danielson	-	-	19	-34.5	30	-3.2	-	-	-	-	-	-
STATEWIDE	315.6	-0.2	1154	25.2	5040	34.5	34.1	0.1	950.94	-0.6	27.91	-0.7

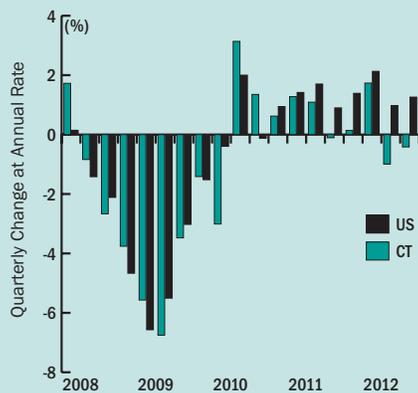
*Trade, Transaction and Utilities

THE QUARTERLY FORECAST

Economic Cliffhanger

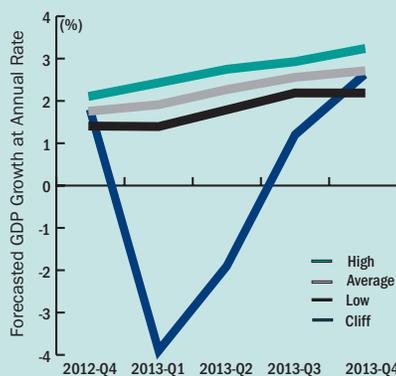
BY STEVEN P. LANZA

A ROCKY JOBS RECOVERY...



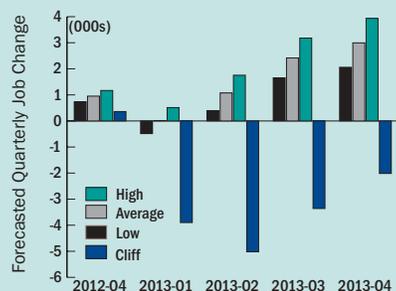
SOURCE: *The Connecticut Economy*, based on data from the Bureau of Labor Statistics.

...COULD DROP OFF A FISCAL CLIFF...



SOURCE: *The Connecticut Economy*, based on WSJ and CBO data

...AND CLAIM THOUSANDS MORE CONNECTICUT JOBS



SOURCE: *The Connecticut Economy*.

Connecticut needs more than lackluster U.S. GDP growth to begin notching serious job gains once again. Even doubling 2012-Q2's 1.3% growth rate in 2012-Q3 didn't do the trick, though the state went from hemorrhaging 4,000 jobs to shedding about 1,700. Unfortunately, the consensus among economists calls for another lull in growth until the second half of 2013. And an even worse obstacle is the fiscal abyss that could lie between here and there.

The U.S. economy has toiled mightily to recover from its worst recession in two generations. But it has managed to post an average annual gain of just 2.2% in the past 13 quarters. Connecticut hasn't done half bad, considering. Given the post-Cold War relationship between U.S. growth and the state's employment situation, we might only have expected to add 10,000 jobs over this period under such conditions, yet we've gained more than 30,000 net. Still, that hardly takes the sting out of the latest losses.

Economists generally believe the U.S. economy will resume 2.7% growth by the end of next year, but not before gathering headwinds slow that rate to 2% or less, according to some four dozen economists surveyed recently by the *Wall Street Journal*. Growth at the average forecasted rate would push quarterly Connecticut job gains to 3,000 by 2013-Q4, but only 7,500 in total over the period. The problem is that with momentum building so slowly Connecticut's economy will struggle to post more than nominal job gains in the intervening quarters.

But analysts are not unanimous. Respondents in the bottom 25th percentile of the *WSJ* survey believe growth will slow to 1.4% or lower in this year's fourth quarter and next

year's first, and rise to just 2.2% at best by the end of 2013. With unemployment still up, wages flat, Europe's debt crisis unresolved, global growth slowing and investors' nerves raw, who can blame the pessimists? But that would mean job growth could stall or even turn negative before resuming a modest pace. All told, the net change in payrolls over the period might be 4,000 to the upside.

That dour outlook assumes that we avoid the dreaded fiscal cliff. Driving over the edge would, in the estimation of the non-partisan Congressional Budget Office, slash nearly six points off 2013-Q1 GDP growth, more than four points off the second and a point plus off the third, using the middle-of-the-road *WSJ* scenario as the baseline. The consequences for Connecticut employment would be disastrous. The state could lose as many as 20,000 jobs before growth returned in 2014, with losses peaking at 5,000 in 2013-Q2. And that's not even counting the possible defense-related job cuts a sequestration might trigger.

Political analysts are cautiously optimistic that, in the wake of the president's re-election and modest legislative gains for the Democratic party, recalcitrant Republicans will negotiate an agreement to avert disaster. If the economy then follows the path anticipated by the optimists in the *WSJ* survey—respondents at the 75th percentile or higher—Connecticut could expect an earlier return of job growth. The state could add 1,000 jobs as soon as next quarter, and then grow at a quarterly rate of 4,000 by 2013-Q4. Under this more upbeat scenario, the state would gain perhaps 10,000 jobs next year. That's not a particularly remarkable performance, but it sure beats cliff diving.

A FORWARD LOOK (continued from page 16)

of Economic and Community Development—introduced us to Doug Hall, founder of the Eureka Ranch, a center for teaching “innovation engineering” in Newtown, Ohio, Doug sold us on the concept of developing products that deliver “overt benefits” to users. His mantra is “If it doesn’t have an overt benefit, don’t bother to develop it.” At Lex, we use this benchmark more than any other to determine if a new product idea makes the grade.

For example, our flagship products are portable power distribution boxes made out of rubber as opposed to metal. These boxes are not particularly innovative, in fact they’re almost retro, but they’re loaded with overt benefits for the user such as increased safety and longer life.

Our focus at Lex is on innovations viewed through the lens of overt benefits. Perhaps the word “benovation” best describes the process.

Another key to being a successful manufacturer in this region of the country is to adopt lean manufacturing techniques. Lean manufacturing is the concerted and systematic elimination of waste in the manufacturing process, and I can’t emphasize enough its contribution to the success of our company. Lean manufacturing means the difference between being able to invest in technology and the good paying jobs that go along with it and

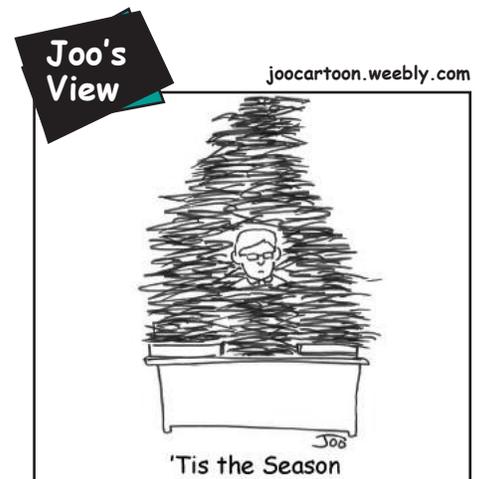
barely surviving. I have not seen a successful manufacturer in Connecticut that does not wholeheartedly embrace lean manufacturing.

Connstep also has shown Lex Products the way with regard to lean manufacturing. We have completed six projects under their leadership over the last seven years, one of which saved us an estimated \$6 million alone. Our total savings is probably double that amount. The rate of return on the lean manufacturing projects we have undertaken is incredible.

Something we’d like to see going forward, perhaps from an agency like Connstep, is assistance in targeting and winning federal military contracts. The market for military products is enormous and the Defense Department is always on the lookout for innovative solutions, an arena where Connecticut manufacturers shine. An agency ombudsman could help leverage Connecticut’s enviable position in military manufacturing, and identify and teach the best practices needed to win the business of the military.

Lex Products has a bright future ahead and expects to create many manufacturing jobs in the coming years. We believe the state of Connecticut can share that bright future in manufacturing if manufacturers develop products with overt benefits and follow best practices.

*Our focus at Lex
is on innovations
viewed through the
lens of overt benefits.*



THE CONNECTICUT TRAVEL AND TOURISM INDEX



The overall index increased 0.4% in 2012-Q3 compared with the same quarter the year before. The index consists of room occupancy, slot machine revenues, attendance at six major tourist attractions, and traffic on five tourist roads.

Room Occupancy	▲	+7.0%
Slot Machine Revenue	▼	-9.6%
Attendance	▲	+6.9%
Traffic	▼	-2.7%
Overall	▲	+0.4%



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THE ConnecticutEconomy

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A FORWARD LOOK

Adding "Benovation" to The Lexicon

BOB LUTHER
FOUNDER & CEO OF LEX PRODUCTS CORPORATION



Lex Products is proud to host the Winter 2013 release of *The Connecticut Economy* and to become a sustaining partner of this publication. As a Connecticut manufacturing firm, we are pleased to have the opportunity to share our perspective on what it takes to be successful and to make a meaningful contribution to the Connecticut economy.

Too often, it seems, we take manufacturing for granted or view it as a dying sector of the state's economy. Yet manufacturing is a dynamic and vital source of some of the state's most desirable jobs. Manufacturing accounts for 170,000 jobs at an average annual wage of \$95,000. We could use more jobs like that in our economy and we'd be correspondingly worse off if, instead, manufacturing jobs continued to disappear. The key is to identify what works for manufacturers here in Connecticut and replicate it wherever possible.

Innovation is part of the secret to being a successful manufacturer in Connecticut. There has been a great deal of talk lately about the role of innovation in Connecticut's economy. One article in last quarter's edition of *The Connecticut Economy* was entitled "Is Innovation the New Normal?" And our Valley Chamber of Commerce's theme this year is "Focus on Innovation."

The relatively high cost of doing business in Connecticut means that a manufacturer in this state cannot succeed by making a "me too" product. But these high costs are balanced by our location in one of the most vibrant regions on the planet and by our productive, educated work force. Still, the focus cannot be on innovation alone. For example, there are many patents that don't make their way into a product because they are too expensive to implement, or don't provide enough benefit to the user.

Our friends at Connstep—a non-profit business consulting firm supported by the Connecticut Department

(continued on page 15)

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