Connecticut Economic Outlook

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Modest CT Outlook

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Lower than expected national and State third quarter results have taken some of the wind out Connecticut's sails and weakened expectations. Preliminary data for 2006 indicate national RGDP $11,422, billion, $3 billion below expectations in the previous outlook.

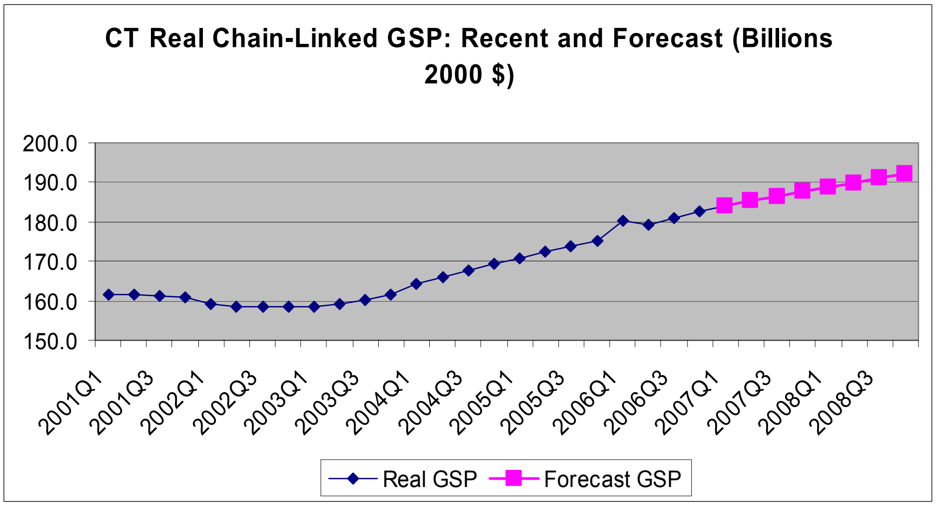
Due to third and fourth quarter slowdowns and data revisions, estimated RGSP for Connecticut in 2006 is now at $181 billion suggesting growth of 4.5% rather than the more bullish 5.1% in the previous outlook. This shortfall in RGSP expectations is concentrated in non-durable manufacturing and construction. Non-durable manufacturing is expected to continue to decline by 7.1% in 2006 and more moderately into the future by 4.0% in 2007 and 2.9% in 2008.

Seasonally adjusted permits for the last quarter were 1,975 units, a construction decline of 30.7% relative to the same quarter in 2005. This precursor of future construction demand for durables exaggerates the likely decline of residential construction into the future. Since home renovation permits were deleted from the series in the last three quarters of 2006, the average value of the permits rose by 20%. Higher values also resulted from cost-push pressures on petroleum-based and energy intensive materials.

It is too early to weight these factors underlying higher average permit values. Nevertheless, low numbers of permits in 2006 lead to an expected 2.3% decline in construction RGSP in 2007. followed by an upturn in 2008 of 3.9%.

Drivers of CT RGSP growth in 2006 included growth in durable manufacturing (8.6%), FIRE (7.9%), and other services (4.0%). More modest growth rates in these sectors, especially FIRE, are expected to perpetuate slower CT growth at 2.8% annually in 2007 and 2.5% in 2008. See Chart 1.

Chart 1:



CT 2006 employment is expected to reach 1,673 thousand, up 10,000 from 2005. Future expectations are for growth this year of 13,000 persons filling some of the current backlog in hiring, and for another 10,000 increase in 2008, reflective of the slower growth. The bulk of the additional jobs will be in FIRE, other services, construction and all levels of government each accounting for 3,000- 4,000 each over the two years.

There are both upside and downside risks inherent in this outlook. Continuing low interest rates, reduced inflationary pressures from OPEC pricing, and strong performances in equity markets could encourage more housing construction and expanded growth. Alternatively, adjustments in the supply chains of automotive manufacturers could impact adversely on durable manufacturing. Similarly, cutbacks in pharmaceuticals and other non-durables could further adversely impact non-durable manufacturers. Pressures on the federal government to reduce its deficit could also lead to actions that would adversely impact its expenditures and/or increase its tax revenues, curtailing disposable income and consumption.