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In July...

Nonfarm Employment

Connecticut 1,623,100
Change over month -0.02%
Change over year +0.5%

United States 131,190,000
Change over month +0.09%
Change over year +1.0%

Unemployment Rate

Connecticut 9.1%
United States 9.1%

Consumer Price Index

United States 225.9
Change over year 3.6%

Connecticut's Defense-Related Industry: Spending, Employment, and Dependency

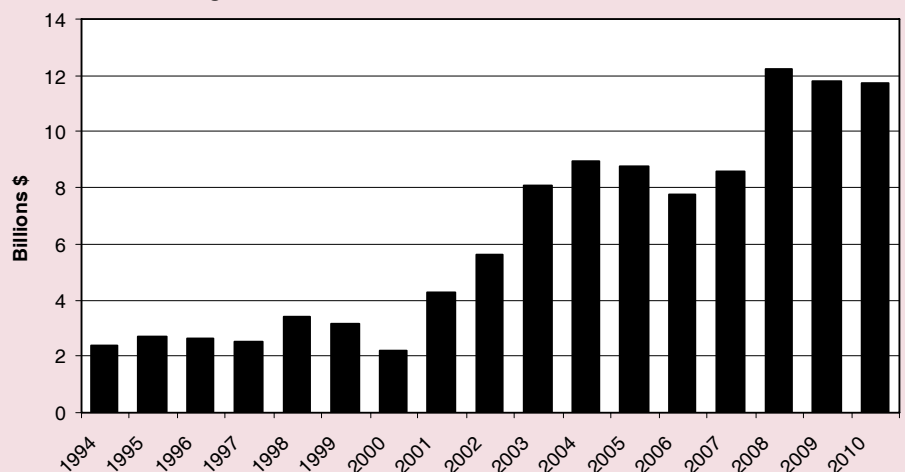
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This article examines how Connecticut's defense industry has fared in recent years and how much the overall state economy depends on it. When last reported in this publication (August 1996 and February 2005), from 1985 to 1995 U.S. federal defense procurement had dropped precipitously by 43% from \$179 billion in 1985 to \$101 billion in 1995. It was \$327.5 billion in federal fiscal year (FFY) 2009.¹ This was in part attributable to the "peace dividend" following the end of the Cold War. In Connecticut defense procurement also dropped significantly over the same period by 64%, from \$7.1 billion to \$2.5 billion (in fixed 1992 dollars). This trend has been thoroughly reversed by one of the largest surges in national security spending in the state's history (Figure 1).

Although prime contract awards in Connecticut from 1994 to 1997 averaged \$2.586 billion,² in contrast, from 1996 to 2010, prime contract awards averaged \$6.781 billion and topped \$12.0 billion in FFY 2009, the highest level of prime contracts awarded to Connecticut in one year. The FFY 2010 estimate of prime contracts awarded in Connecticut is \$11.17 billion.³ This massive boost in defense spending was part of a national trend, partly in response to 9/11 and partly because of the wars in Iraq and Afghanistan.

In FFY 2010, Connecticut's defense contract awards of \$11.17 billion represented 5.3% of Connecticut's \$211.3 billion real 2010 state gross domestic product (SRGDP), as estimated by the Bureau of Economic Analysis. To put this in perspective, a share of

Figure 1: Connecticut Prime Contract Awards



Source: Department of Defense

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SRGDP defense contracts in Connecticut were at an all-time high in FFY 1982 of 12.6%.⁴ One conclusion is that despite the large dollar increase in defense procurement in Connecticut in recent years, the state economy has undergone a marked diversification.

Office of Military Affairs

The Connecticut Office of Military Affairs (OMA) was established in 2007 to, among other things, “promote and coordinate statewide activities that enhance the quality of life of all branches of military personnel and their families and to expand the military and homeland security presence in this state.”⁵ OMA’s *Annual Report 2009-2010* cites broader measures of the magnitude of the defense industry in Connecticut including not only prime contracts, but also all Department of Defense (DoD) purchases of goods and services as well as payments to military and civilian Connecticut residents that have “direct,” “indirect,” and “induced” economic impacts.⁶ These impacts are substantial and are projected to position Connecticut ahead of numerous other states for some years to come, according to the OMA based on data from *The Projected Defense Purchases: Detail by Industry and State: Calendar Years 2009 through 2015* published in October 2010.

The OMA noted: “We have a very positive story to tell. Defense spending is up and any future declines will be much smaller in Connecticut relative to other states. As we experienced this major [2007-2009] recession, it was the defense and military sector that not only thrived, but also grew as a portion of the state’s economy. Major firms like Sikorsky and Pratt & Whitney saw great losses on the commercial side, but were shored up by increases on their military productions.”⁷

DoD “projects that it will make \$12.963 billion in direct payments for purchases and pay to Connecticut entities in 2011. While this represents a 3.76% reduction in outlays of \$13.47 billion in 2010, nationwide DoD outlays for purchases and pay during the same period will be down 11.3%. By

2015, when nationwide defense spending is projected to have dropped by more than 20%, Connecticut will face only about a 10% cut, to \$12.290 billion...On a per capita basis, Connecticut currently ranks 6th among all states with direct and indirect defense expenditures of \$4,953 per person. This is 66% higher than the national average of just \$2,986 per person.” (See footnote 6, p. 5)

Although “Connecticut’s defense industry and military bases produce billions of dollars in economic activity throughout the state, in large and small businesses in virtually every Municipality,” (footnote 6, p. 2) southeastern Connecticut is particularly impacted by the Naval Submarine Base and Electric Boat in Groton. The Navy assesses this impact at \$4.55 billion in SFY 2009, up from \$3.1 billion in SFY 2008.⁸ The Base employs 9,500 workers (7,500 active-duty personnel and 2,000 civilians and contractors, see footnote 6). In late 2008, the Navy contracted with Electric Boat for eight Virginia-class submarines, one ship per year in 2009 and 2010 and two ships per year from 2011 through 2013 (about \$2.4 billion each). OMA noted the statewide impact: “in the Virginia Class program, 622 suppliers are dispersed in all five congressional districts, with the largest concentration in central Connecticut’s 1st District. All together, they supply over \$600 million of goods and services in this defense acquisition program alone.” In addition, DoD’s multi-billion investment in a new ballistic-missile submarine program to replace the current fleet of Ohio-class, or Trident, submarines is having a beneficial statewide impact. In 2009 and 2010, Connecticut invested \$11 million from bond revenues to finance construction of training and energy efficiency facilities. These investments enhanced the “military value” of Submarine Base New London that narrowly escaped closure during the 2005 Base Realignment and Closure (BRAC) round (footnote 6). It is the first time a state has completely financed infrastructure improvements on a military installation.

Table 1: Connecticut's Top Five Direct and Indirect Defense Purchases

	2009	2010	2011	2012	2013	2014	2015
Total Direct Expenditures (Purchases and Pay)	(Millions of 2011 dollars)						
Aerospace products and parts	4,321	4,820	4,623	4,382	4,242	4,489	4,518
Ship and boat building	2,756	1,945	2,242	2,631	3,161	2,192	2,465
Professional, scientific and technical services	1,988	1,995	1,909	1,832	1,736	1,624	1,551
Engine, turbine and power transmission equipment	984	1,039	966	840	922	996	1,003
General government industry	625	651	622	637	696	538	548
Indirect Defense Purchases Resulting from Direct Purchases							
Professional, scientific and technical services	780	768	722	685	648	605	586
Management of companies and enterprises	710	710	614	560	525	516	512
Insurance	430	419	368	343	326	323	323
Fabricated metal products	412	407	346	307	283	272	268
Securities, investments, funds and trusts	370	361	316	292	277	267	267

Source: DoD, *Projected Defense Purchases: Detail by Industry and State*, p. 116, October 2010

Industries

Table 1 shows Connecticut's top five largest purchases by industrial sector for total direct expenditures (purchases and pay) and indirect defense purchases resulting from direct purchases. Of note are Connecticut's aerospace and ship building industries and fabricated metals among manufacturing industries, and professional, scientific and technical services and insurance and securities among service industries.

Employment

As noted in *The Digest* in 2005,⁹ defense-related employment declined by almost half in Connecticut, from 96,200 jobs (in SIC-based industries) in 1988 to 52,000 jobs in 1999 and 48,600 jobs in 2003 (both recent years used NAICS-based accounting). These estimates of private defense-related employment were derived by tracking industries isolated from a U.S. Bureau of Labor Statistics input-

output defense model and mapping the older SIC-defined industry codes to the newer NAICS-defined codes.¹⁰ The original model indicated that approximately 40% of the product of certain industries related to defense.

Based upon this same set of industries and updating the Connecticut employment in these NAICS industries using 40% of the industry's employment as involved with defense work, we estimate the current employment in defense-related industries to be about 24,436 (see Table 2).¹¹ For purposes of this analysis, defense industries include NAICS 32952 (Explosives Manufacturing), NAICS 33299 (All other Fabricated Metal Product Manufacturing, Small Arms, Ordnance, and ammunition found here), NAICS 334511 (Search, Detection, Navigation, Guidance, Aeronautical, and Nautical System and Instrument Manufacturing), NAICS 3364 (Aerospace Products and Parts

Manufacturing including Guided Missiles, and Space Vehicle Manufacturing), NAICS 3366 (Ship and Boat Building), NAICS 336992 (Military Armored Vehicle, Tank, and Tank Component), and NAICS 5417 (Scientific Research and Development Services).

It should be noted that some of these industries encompass manufacturing that is not entirely defense-related, but may be partly commercial in nature (e.g., Pratt & Whitney Aircraft). In addition, there are industries that may contain military-related production not included here such as electronics and computers. Therefore, the defense-related job estimates presented here are conservative. The March 2011 estimate by the Connecticut Department of Labor, using the same NAICS codes as used to define the defense industry as in 2005, shows 48,004 jobs. One possible reason for the decline in Connecticut defense-related employment, even as contract dollars increased in recent years, is the outsourcing of component manufacturing.

State Ranking

Connecticut (with \$12.0 billion total and \$3,412 per capita) ranked 3rd highest in prime contract awards per capita and 8th highest in the total dollar amount of its prime contract awards in FFY 2009, just behind Virginia (with \$51.12 billion total and \$6,485 per capita) and Alaska (with \$3.459 billion total and

--Continued on page 5--

Table 2: Private Defense-Related Employment by NAICS Industry Code

NAICS	Employment (mid-pt of range)	Employment (upper-end of range)	Estimated Employment based on 40% of total
32592	325	500	130
33299	3,186	3,186	1,274
334511	1,750	2,500	700
3364	37,500	50,000	15,000
3366	7,500	10,000	3,000
336992	10	20	4
5417	10,818	10,818	4,327
Total	61,089	77,024	24,436

Source: Census County Business Patterns, 2009

--Continued from page 3--

\$3,412 per capita).¹² Connecticut's figure was nearly three times the national average per capita of \$1,181. Connecticut's rank improved from 11th in total defense contracts awarded and 4th in per capita defense contract dollars awarded in FFY 2008.

Counties

Among Connecticut's counties, the distribution of defense contract dollars was overwhelming in New London and Fairfield. In FFY 2011, New London had the largest share at 38% and Fairfield the next largest share at 35%. Litchfield, Middlesex, Tolland, and Windham combined had 1% of defense contract dollars in FFY 2011.¹³

Conclusion

An issue that has faced Connecticut for decades has been the extent to which Connecticut's economy depends on defense expenditures. The short answer is that the economy seems sufficiently diversified so as not to be overly reliant on the defense industry. This is indicated in part by the state's survival of a dramatic downturn in defense contracts in the early to mid 1990s. Similarly, the strength of Connecticut's

defense industry is indicated by the sustained ability of Connecticut firms such as East Hartford-based Pratt and Whitney, Windsor Locks-based Hamilton Sundstrand, Groton-based Electric Boat, and Stratford-based helicopter maker Sikorsky Aircraft to attract significant defense dollars over the years. Undoubtedly, the Connecticut economy is strengthened by these and other defense contractors and subcontractors. They serve not only as investments in our state's highly skilled workers, but they are vital to maintaining a strong national defense. ■

¹ Hesse, William (1996). Connecticut Department of Labor and Connecticut Department of Economic and Community Development (August). "Defense spending down," *The Connecticut Economic Digest*, Vol. 1, No. 2, pp. 1-3.

² Department of Defense, Prime Contract Awards by State – Fiscal Year 1997. http://siadapp.dmdc.osd.mil/procurement/historical_reports/geographic/p09/fy1997/p09_97.htm

³ USASpending.com. <http://usaspending.gov/advanced-search>.

⁴ State of Connecticut Department of Economic Development (1995). "Defense Contracts Continue to Decline," *Connecticut Economic Monitor*, (April). Vol. 2, No. 4. pp. 1-3.

⁵ Connecticut General Statutes 32-58b enacted by Public Act 07-205, "An Act

Establishing an Office of Military Affairs and Implementing Recommendations of the Governor's Commission for the Economic Diversification of Southeastern Connecticut," Section 1. Approved July 10, 2007.

⁶ Ross, Robert T. (2011). *State of Connecticut Office of Military Affairs (OMA) Annual Report 2009-2010*, February 4, 2011. <http://www.ct.gov/oma/site/default.asp>.

⁷ Ross, Robert. Email February 17, 2011.

⁸ McDermott, Jennifer (2010). "Navy showing stronger economic impact on local economy: \$1B annual hike seen as result of boost in sub quota," *The Day*, New London, Connecticut. October 23, 2010. <http://www.theday.com/article/20101023/NWS09/310239894/1069/rss>.

⁹ Dyer, Lincoln (2005). "Defense-Related Employment: Can Connecticut Stop the Decline?" *The Connecticut Economic Digest*, Vol. 10, No. 2, pp. 1-3, 5, Connecticut Department of Labor (February).

¹⁰ Dyer, Lincoln (2005). Connecticut Department of Labor & the Connecticut Department of Economic and Community Development (February 2005). "Employment in private defense-related industries drops again in 1995," *The Connecticut Economic Digest*, Vol. 1, No. 2, p. 4.

¹¹ Estimated from 2009 U.S. Census, County Business Patterns using 40% of the midpoint of employment ranges used by NAICS to protect confidentiality of individual business firms.

¹² Connecticut Office of Policy and Management, *FY 2012 - FY 2013 Biennium Economic Report of the Governor*, p. 58.

¹³ Source: Federal Procurement Data System – Next Generation. <https://www.fpds.gov/fpdsng.cms>

GENERAL ECONOMIC INDICATORS

<i>(Seasonally adjusted)</i>	2Q	2Q	CHANGE		1Q
	2011	2010	NO.	%	2011
Employment Indexes (1992=100)*					
Leading	117.1	115.4	1.7	1.5	116.1
Coincident	102.6	101.9	0.7	0.7	102.6
General Drift Indicator (1986=100)*					
Leading	NA	NA	NA	NA	NA
Coincident	NA	NA	NA	NA	NA
Farmington Bank Business Barometer (1992=100)**	124.4	123.8	0.6	0.5	124.7
Philadelphia Fed's Coincident Index (July 1992=100)***	JUL	JUL			JUN
<i>(Not seasonally adjusted)</i>	2011	2010			2011
Connecticut	156.4	152.1	4.3	2.8	156.0
United States	153.0	149.4	3.6	2.4	152.7

Sources: **The Connecticut Economy*, University of Connecticut **Farmington Bank ***Federal Reserve Bank of Philadelphia

The *Connecticut Economy's* **General Drift Indicators** are composite measures of the four-quarter change in three coincident (Connecticut Manufacturing Production Index, nonfarm employment, and real personal income) and four leading (housing permits, manufacturing average weekly hours, Hartford help-wanted advertising, and initial unemployment claims) economic variables, and are indexed so 1986 = 100.

The **Farmington Bank Business Barometer** is a measure of overall economic growth in the state of Connecticut that is derived from non-manufacturing employment, real disposable personal income, and manufacturing production.

The **Philadelphia Fed's Coincident Index** summarizes current economic condition by using four coincident variables: nonfarm payroll employment, average hours worked in manufacturing, the unemployment rate, and wage and salary disbursements deflated by the consumer price index (U.S. city average).