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INVESTMENT INSIGHTS

Federal spending plan good news for CT defense industry



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Despite a seemingly endless national discussion regarding the capabilities of the U.S. military, Congress' recently passed federal spending bill provides a significant boost for Connecticut's defense industry.

The omnibus bill increases the Pentagon's budget by more than \$30 billion, giving the military the ability to purchase F-35 Joint Strike Fighters to bring the total to 68 — 11 more for the Marine Corps, three additional planes for the Air Force and two more for the Navy. This is significant because the engines for the F-35 are made right here in Connecticut.

The bill also boosts the Navy's shipbuilding budget by \$2.1 billion, keeping the construction of two more Virginia-class submarines, also in Connecticut, on track. This means that \$5.3 billion has been earmarked for the two-a-year build rate for the Virginia-class attack submarines.

Also included is \$1.4 billion for continued design and engineering work on the Ohio-class Replacement Program, the next generation of ballistic missile submarines that are referred to as "boomers."

Not only is this significant for continued employment at firms directly involved in defense work, but it bodes well for the near and long-term future of the region. In addition to the primary defense contractors in the state, smaller contractors also will benefit from hundreds of orders for a wide range of spin-off work.

Additionally, a generational shift is occurring in the workforce across the defense spectrum, not just in the shipbuilding industry but in aerospace as well, with older workers reaching retirement age in increasing numbers and a growing need already existing for younger workers with the necessary skills.

A growing demand already has been identified for skilled workers including welders, pipefitters and sheet-metal workers in the shipbuilding industry, as well as trades and skills that are needed for aerospace applications. The demand for skilled shipbuilding trades is expected to continue as long as Congress supports the Ohio-class Replacement Program, a new class of 12 ballistic missile submarines to replace the Navy's current force of 14 Ohio-class ballistic missile submarines; and continued production of the Virginia-class nuclear attack submarine.

The demand for new hires, especially those who have the desired skill sets for the wide range of defense work, itself will create further demand for the goods and services required by a youthful workforce, from housing to recreation.

For investors looking for a modicum of long-term industry stability, defense work in Connecticut is a good place to start. A robust defense industry has long been a mainstay of Connecticut's investment picture and, by all accounts, that industry will continue to provide jobs and investment opportunities into the foreseeable future.

While the primary defense contractors receive most of the media attention, and would seem to be the primary focus of most portfolio builders, there also are significant "downstream" investment opportunities among the myriad contractors who contribute to the larger systems.

Defense contractors in addition to their subcontractors and the suppliers that provide the raw materials or basic components to the larger corporations together are providing a target-rich environment for investment, not to mention supporting the nation's defensive capabilities.

Of course, this does not mean all companies involved in these industries are proper investment targets. As with any potential investment, careful research is necessary, both to make certain the investment is in line with the individual's personal financial objectives and to be sure that what is benefitting a company in Connecticut is, indeed, indicative of national and international potential.

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