



The distance from peak to trough, indicated by the shaded areas, measures the duration of an employment cycle recession. The vertical scale in both charts is an index with 1992=100.

## Connecticut Economy Warming Up in May 2007

### The National Outlook

At its June 28 meeting, the Federal Open Market Committee (FOMC) decided to keep its target for the federal funds rate at 5-1/4 percent. Economic growth appears to have been moderate during the first half of 2007, despite the ongoing adjustment in the housing sector. The national economy seems likely to continue to expand at a moderate pace over coming quarters.

Estimates of core inflation (the CPI less more volatile items such as food and energy) have improved modestly in recent months. However, a sustained moderation in inflation pressures has yet to be convincingly demonstrated. Moreover, the high level of resource utilization has the potential to sustain inflationary pressure. In these circumstances, the FOMC's predominant policy concern remains the risk that inflation will fail to moderate as expected. Future policy adjustments will depend on the evolution of the outlook for both inflation and economic growth as information is continually received.

### Connecticut Employment Indexes

The CCEA-ECRI Connecticut coincident employment index is a measure of contemporaneous activity and rose on a year-to-year basis from 110.9 in May 2006 to 112.2 in May 2007. Total employment (from a household survey)

increased 1.78%, or 31,419, and nonfarm employment (from an employer survey) rose 1.08% since May 2006 and contributed positively to the annual change in this index. Both the total unemployment rate (4.5% vs. 4.14% a year ago) and the insured unemployment rate (2.45% vs. 2.38% a year ago) are negative contributors.

On a month-to-month basis, the May 2007 coincident index was unchanged at 112.2. This reflects a decelerating 12-month moving average growth rate of this index (1.2% vs. 1.3% last month). Total employment increased by 10,300 in April 2007 even as nonfarm employment inched downward by 1,200 jobs providing offsetting contributions to the index. The total insured unemployment rate inched upward from 2.44% last month to 2.45% and the total unemployment rate worsened from 4.2% to 4.5% with each contributing negatively to this index.

The CCEA-ECRI Connecticut leading employment index that estimates future activity improved from 119.4 in May 2006 to 121.1 in May 2007. Manufacturing employment increased by 300 jobs from 194,300 a year ago, while construction added 3,600 jobs over the year (each a positive contributor). Over the past year, average weekly hours increased in both industries and Moody's Baa bond yield improved from 6.75% to 6.39%. Initial claims

for unemployment insurance declined by 9% from 17,199 a year ago and the short duration unemployment rate decreased from 1.51% to 1.43% over the year with each contributing positively to the annual change in this index.

Housing permits decreased significantly from 835 last May to 736 in May 2007. The Hartford help-wanted index declined slightly from a year ago as well and these latter two indicators contributed negatively to the annual change in the leading index.

On a month-to-month basis, the leading employment index improved from 119.8 to 121.1. Together, manufacturing and construction employment increased by 3,300 jobs over the month. Average weekly hours increased slightly in both industries and contributed positively to the index. In addition, initial claims, short duration unemployment, and the Hartford help-wanted index improved and contributed positively to this index. Housing permits declined by 3.3% for the month and contributed negatively to this index.

The sudden acceleration of the 12-month moving average growth rate (2.58% vs. 0.82% last month) of the leading index portends perhaps more positive growth in the Connecticut economy in the near term.

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