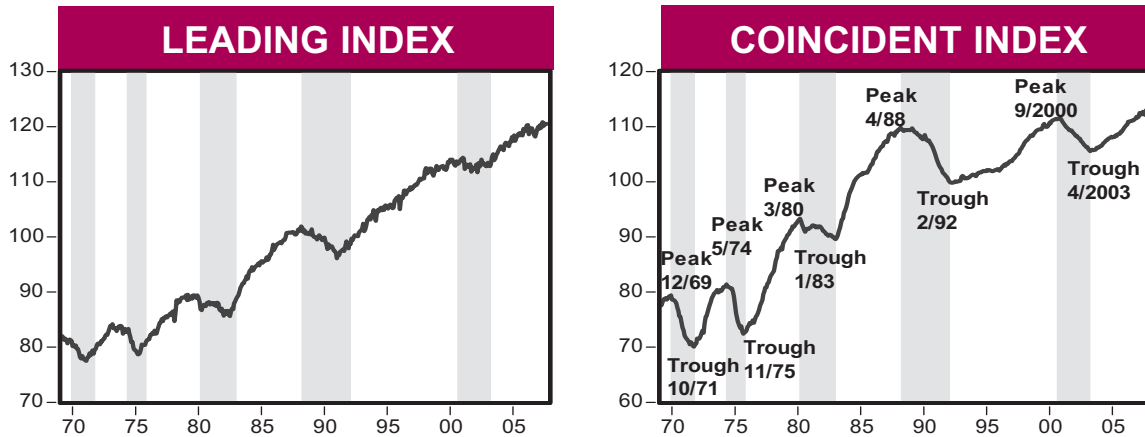


EMPLOYMENT INDICATORS



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.

The Slow and Unsteady Fall in the Housing and Credit Markets

The National Outlook

The Federal Open Market Committee (FOMC) lowered its target for the federal funds rate 25 basis points to 4.5% on October 31. Economic growth was solid in the third quarter, and strains in financial markets eased. However, the pace of economic expansion will likely slow in the near term, partly reflecting the intensification of the housing correction. This rate reduction, combined with the policy action taken in September, should help forestall some of the adverse effects on the broader economy that might otherwise arise from the disruptions in financial markets and promote moderate growth over time. Readings on core inflation have improved modestly this year, but recent increases in energy and commodity prices, among other factors, may put renewed upward pressure on inflation.

According to the New England Economic Partnership (NEEP) forecast released November 13, the housing recession has yet to play out nationally and in Connecticut. This is counterbalanced by significant job gains in the state and rising labor productivity.

Connecticut Employment Indexes

The DECD-ECRI Connecticut coincident employment index is a measure of contemporaneous activity and rose on a year-to-year basis from

111.1 in September 2006 to 113 in September 2007. Total employment (from the household survey) increased 2% or 34,050 persons and nonfarm employment (from the employer survey) rose 1.17% since July 2006 and contributed positively to the annual change in this index. The total unemployment rate (4.5% vs. 4.44% a year ago) and the insured unemployment rate (2.46% vs. 2.39% a year ago) contribute negatively to the annual change in this index.

On a month-to-month basis, the September 2007 coincident employment index rose to 113 from 112.1 a month earlier. This reflects an accelerating 12-month moving average growth rate of this index (1.7% vs. 0.4% last month). Total employment increased by 21,000 persons (the largest monthly increase in the past seven years) and nonfarm employment increased by 600 jobs as both contributed positively to this month's index. The total insured employment rate inched downward from 2.4% last month to 2.39% in September and the total unemployment rate improved slightly from 4.6% to 4.5% as both contributed positively to the monthly change in this index.

The DECD-ECRI Connecticut leading employment index that estimates future activity improved from 118.5 in September 2006 to 119.9 in September 2007. Manufacturing employment decreased by 1,700 jobs

from 193,200 a year ago, while construction gained 1,500 jobs over the year (offsetting contributors). Average weekly hours increased slightly in both manufacturing and construction from a year ago. Positive contributors include the Hartford help-wanted index that increased slightly from a year ago; the short duration unemployment rate that decreased from 1.48% to 1.44% over the year, and initial claims for unemployment insurance that decreased by 8.3% from 16,781 a year ago. Negative contributors include Moody's Baa bond yield that worsened from 6.43% to 6.59% and housing permits that decreased from 733 last September to 500 in September 2007.

On a month-to-month basis, the leading employment index worsened from 120.4 to 119.9. Manufacturing employment declined by 600 jobs while construction employment declined by 1,000 jobs (both negative contributors). Average weekly hours increased slightly in manufacturing and inched downward in construction (offsetting contributors). The Hartford help-wanted index declined slightly and housing permits declined by 167 or 25% for the month (each a negative contributor). Initial claims declined by 1,003 and short duration unemployment inched downward with both contributing positively to the monthly change in this index.

By Stan McMillen, Ph.D., Managing Economist, DECD, (860) 270-8166. Mark Prisloe provides research assistance. Professors Pami Dua and Stephen M. Miller, in cooperation with Anirvan Banerji at the Economic Cycle Research Institute developed the leading and coincident employment indexes. The views expressed herein are the author's own and do not necessarily represent those of the Connecticut Department of Labor or the Connecticut Department of Economic and Community Development. Components of the indexes are described in the Technical Notes on page 23.