



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.

## Cautious Optimism Blooms in March 2007

**O**n May 9 the Federal Open Market Committee (FOMC) maintained its target for the federal funds rate at 5-1/4 percent. U.S. economic growth slowed in the first part of this year and the adjustment in the housing sector is ongoing. Nevertheless, the economy seems likely to expand at a moderate pace over coming quarters even as core inflation (that excludes food and energy prices) remains somewhat elevated. Although inflation pressures seem likely to moderate over time, 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.

The CCEA-ECRI Connecticut coincident employment index is a measure of contemporaneous activity. This index rose on a year-to-year basis from 110.4 in March 2006 to 112.5 in March 2007. A lower total unemployment rate (4.1% vs. 4.33% a year ago), higher total non-farm employment (rising 1.16% since March 2006), and higher total employment (rising 1.98% over the year) contribute positively to this index. The insured unemployment rate (2.41% vs. 2.40% a year ago) is essentially unchanged.

On a month-to-month basis, the coincident index rose from 111.8 in

February 2007 to 112.5 in March 2007. This reflects an accelerating 12-month moving average growth rate of this index (2.1%). Total employment increased by 13,700 in March, while non-farm employment inched upward by 1,500 jobs and the total unemployment rate eased downward contributing positively to the index's improvement. The total insured unemployment rate inched upward from 2.39% last month to 2.41% contributing negatively to this index.

The Connecticut Coincident Index published by the Philadelphia Federal Reserve Bank (FRB) rose from 155.26 in March 2006 to 161.10 in March 2007. On a month-to-month basis, the Philadelphia FRB's Connecticut Coincident Index rose from 160.51 in February 2007 to 161.10 in March 2007. The CCEA-ECRI and the Philadelphia FRB indexes agree on a year-to-year basis and on a month-to-month basis. The Philadelphia FRB's Survey of Professional Forecasters revised downward their forecast for U.S. GDP growth for 2007 from 2.8% to 2.1% while predicting a rebound to 2.9% in 2008.

The CCEA-ECRI Connecticut leading employment index that measures future activity improved slightly from 120.3 in March 2006 to 120.4 in March 2007. Manufacturing employment increased by 2,700 jobs from 190,900 a year ago,

while construction added 1,300 jobs over the year. Average hours increased as well in both industries. Initial claims for unemployment insurance declined by 5.25% from 17,199 a year ago and Moody's Baa bond yield improved from 6.41% over the year to 6.27% contributing positively to the annual change in this index. Seasonally adjusted housing permits declined from 987 to 548 over the year and the short duration unemployment rate increased from 1.43% to 1.51% over the year both contributing negatively to the annual change in this index.

On a month-to-month basis, the revised CCEA-ECRI Connecticut leading employment index rose from 119.8 to 120.4. Each component of the monthly change in this index improved over the month. With net manufacturing and construction employment increasing by 1,300 over the month, most of the huge monthly gain reported above was in other sectors. The sole negative contributor to the monthly change in this index was reduced housing permits.

The accelerating 12-month moving average growth rate (1.76%) of the leading index portends slow and positive growth in the Connecticut economy in the near term.

*Stan McMillen [(860) 270-8166, DECD, 505 Hudson Street, Hartford, CT 06106-7106]. 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 Department of Economics, the University of Connecticut, 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.*