



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's Economy: Partly Sunny to Partly Cloudy in July 2007

The National Outlook

On September 18, the Federal Open Market Committee (FOMC) lowered the target for the federal funds rate by 50 basis points to 4.75%. In related action, the Board of Governors unanimously approved a 50-basis-point decrease in the discount rate to 5.25%. National economic growth was moderate during the first half of the year, but the recent tightening of credit conditions could intensify the ongoing housing correction and restrain economic growth generally. The Fed's action intends to help forestall some adverse effects on the broader economy that might otherwise arise from the disruptions in financial markets and to promote moderate growth over time. The Fed needs to watch closely that the increased liquidity created through these rate reductions does not foster a similar situation that arose six years ago whose effects have led to the financial market and housing crisis we now face.

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 111 in July 2006 to 112.5 in July 2007. Total employment (from the household survey) increased 1.52% or 26,924 persons and nonfarm employment (from the employer survey) rose 1.11%

since July 2006 and contributed positively to the annual change in this index. The total unemployment rate (4.5% vs. 4.36% a year ago) contributes negatively while the insured unemployment rate (2.37% vs. 2.42% a year ago) contributes positively to the annual change in this index.

On a month-to-month basis, the July 2007 coincident employment index declined to 112.5 from 112.7 a month earlier. This reflects a decelerating 12-month moving average growth rate of this index (1.2% vs. 1.8% last month). Total employment increased by 10,300 persons and nonfarm employment increased by 800 jobs in July 2007 with both contributing positively to the index. The total insured unemployment rate inched downward from 2.39% last month to 2.37% in July contributing positively while the total unemployment rate worsened slightly from 4.3% to 4.5% contributing negatively to the annual change in this index.

The CCEA-ECRI Connecticut leading employment index that estimates future activity improved from 119.7 in July 2006 to 120.6 in July 2007. Manufacturing employment decreased by 1,800 jobs from 194,200 a year ago, while construction gained 1,700 jobs over the year (offsetting contributors). Average weekly hours decreased slightly in both industries contributing negatively to the annual change in this index. Positive con-

tributors include: Moody's Baa bond yield that improved from 6.76% to 6.65%; seasonally-adjusted housing permits that increased from 730 last July to 861 in July 2007; and the short duration unemployment rate that decreased from 1.54% to 1.46% over the year. Negative contributors include: initial claims for unemployment insurance that increased by 5.3% from 17,506 a year ago and the Hartford help-wanted index that declined slightly from a year ago.

On a month-to-month basis, the leading employment index improved from 120.1 to 120.6. Manufacturing employment declined by 2,000 jobs while construction employment increased by 1,100 jobs over the month (offsetting contributors). Average weekly hours increased slightly in manufacturing and decreased in construction (offsetting contributors). In addition, initial claims increased by 1,224, short duration unemployment inched up and the Hartford help-wanted index declined (each a negative contributor). Some good news is that housing permits increased by 257 or 42% for the month contributing positively to this index.

The upturn of the 12-month moving average growth rate (1.67% vs. 0.9% last month [revised]) of the leading index portends perhaps more optimistic growth in the Connecticut economy in the near term given the Fed's realization of its expected behavior.

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