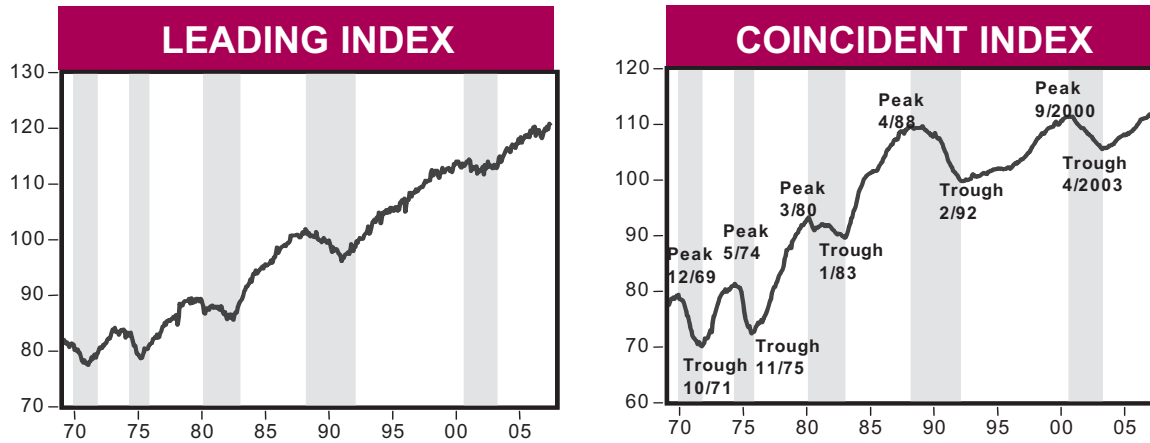


EMPLOYMENT INDICATORS



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.

Cloudy Days in the Connecticut Economy in June 2007

The National Outlook

On August 17, the Federal Reserve, reacting to concerns about the subprime lending crisis that's rocked financial markets in recent weeks, cut its discount rate, half a percentage point, to 5.75%. The discount rate, the rate the Federal Reserve charges qualified lenders, mainly banks, for temporary loans, is largely symbolic. The Fed did not change its more closely watched federal funds rate, which affects credit cards, home equity lines of credit, car loans and other consumer loan rates. That rate remains at 5.25% last decided on August 6. Economists expect the discount rate cut could help convince banks it is acceptable to keep lending to companies or consumers that actually are creditworthy. The Fed wants to ensure appropriate liquidity to the markets without creating more uncertainty by cutting the federal funds rate. With this in mind, several market observers felt that Fed chairman Ben Bernanke needed to acknowledge the risk that the subprime mortgage crisis could hurt the broader economy. The near-term effects of that crisis are yet to be played out.

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 111.0 in June 2006 to 112.7 in June

2007. Total employment (from a household survey) increased 1.75%, or 30,895, and nonfarm employment (from an employer survey) rose 1.21% since June 2006 and contributed positively to the annual change in this index. Both the total unemployment rate (4.3% vs. 4.23% a year ago) and the insured unemployment rate (2.39% vs. 2.37% a year ago) are negative contributors.

On a month-to-month basis, the June 2007 coincident employment index increased to 112.7 from 112.2 a month earlier. This reflects an accelerating 12-month moving average growth rate of this index (1.8% vs. 1.3% last month). Total employment increased by 2,100 persons and nonfarm employment increased by 4,000 jobs in June 2007 with both contributing positively to the index. The total insured employment rate inched downward from 2.45% last month to 2.39% in June and the total unemployment rate improved from 4.5% to 4.3%; both contributed positively to this index.

The CCEA-ECRI Connecticut leading employment index that estimates future activity improved from 119.7 in June 2006 to 120.5 in June 2007. Manufacturing employment decreased by 1,500 jobs from 196,100 a year ago, while construction added 1,700 jobs over the year (offsetting contributors). The following items contributed positively to the annual

change in this index. Average weekly hours increased ever so slightly in both industries and Moody's Baa bond yield improved from 6.78% to 6.70%. Initial claims for unemployment insurance declined by 7% from 18,521 a year ago and the short duration unemployment rate decreased from 1.50% to 1.44% over the year.

Housing permits decreased significantly from 764 last June to 604 in June 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 worsened slightly from 120.8 to 120.5. Together, manufacturing and construction employment increased by 2,300 jobs over the month. Average weekly hours increased slightly in both industries and contributed positively to the index. In addition, initial claims declined by 742 (positive), while short duration unemployment inched up (negative), and the Hartford help-wanted index remained unchanged. Housing permits declined by 18% for the month contributing negatively to this index.

The moderation of the 12-month moving average growth rate (1.53% vs. 2.19% last month) of the leading index portends perhaps more sanguine 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.