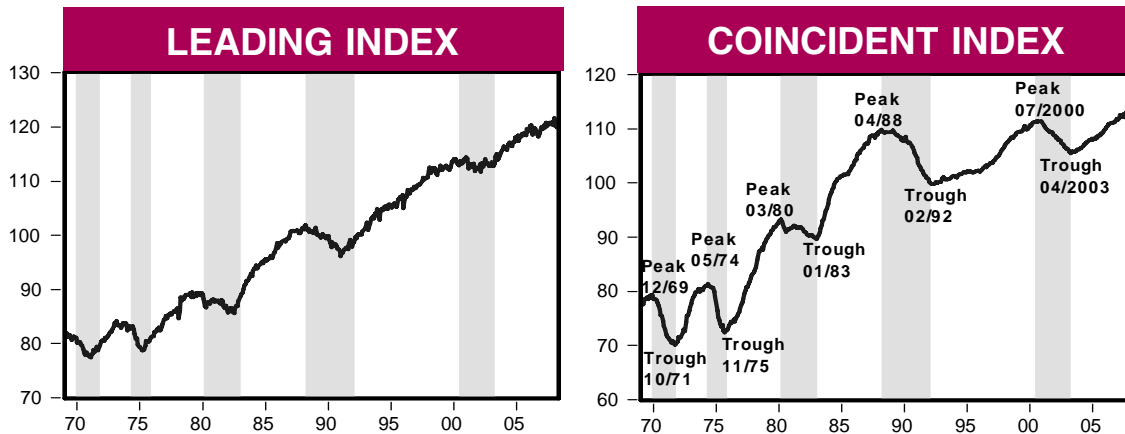


EMPLOYMENT INDICATORS



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.

Connecticut: Taking Punches But Weathering the Storm

The National Outlook

The U.S. economy is beset by a mix of escalating inflation – in particular food, fuel, and energy prices, and simultaneously stagnant growth referred to as “stagflation” – a period of high expected inflation and high unemployment– a phenomenon not seen since the 1970s. Payroll employment (from the employer survey) decreased on average by 94,000 jobs per month through June. The U.S. unemployment rate rose to 5.5 percent. The housing sector continues to decline, and a weakening labor market exacerbates the ongoing mortgage crisis. Inflation, if it remains unchecked at 5.0 percent compared to a year ago, and 1.0 percent over the previous month, may be the largest inflation rate seen in a generation. The Fed has to be wary of the deleterious effects of rising prices.

Connecticut Employment Indexes

The DECD-ECRI Connecticut coincident employment index is a measure of contemporaneous activity and decreased on a year-to-year basis from 111.8 in May 2007 to 111.3 in May 2008. Total employment (from the household survey) increased 0.4% (7,302 persons) and nonfarm employment (from the employer survey) increased 0.5% from May 2007; both variables contribute positively to the annual change in this index. The insured unemployment rate (2.53% vs. 2.44% a year ago) and Connecticut's total unemployment rate (5.4% vs. 4.4% a year ago) contribute negatively to the

annual change in this index. The latter is at its highest level in five years.

On a month-to-month basis, the May 2008 coincident employment index decreased to 111.3 from 112.0 a month earlier. This index's 12-month moving average growth rate (-1.1%) declined again into negative territory as it did in March. Nonfarm employment (jobs) that increased by 2,900 jobs from the previous month's level is the sole positive contributor. Total employment that decreased by 5,400 persons and the total insured unemployment rate that increased from 2.51% last month to 2.53% in May, as well as Connecticut's total unemployment rate that increased from 4.7% last month to 5.4% in May 2008 contribute negatively to the monthly change in this index.

The DECD-ECRI Connecticut leading employment index that estimates future activity was unchanged over the year at 120.8. Manufacturing employment decreased by 1,800 jobs from 191,100 jobs a year ago to 189,300 jobs in May 2008, and is a negative contributor to the annual change in this index. However, construction employment increased by 700 jobs over the year, the Hartford help-wanted index is up from a year ago, and, average weekly hours increased in manufacturing and decreased slightly in construction from a year ago acting as offsetting contributors. Housing permits decreased from 730 units in May 2007 to 462 units in May 2008, Moody's Baa bond yield increased from 6.39% to 6.93% in May 2008, short duration

unemployment increased from 1.43% to 1.64% over the year, and initial claims increased 12.2% from 17,962 a year ago to 20,160 with each contributing negatively to the annual change in this index.

On a month-to-month basis, the leading employment index increased from 119.9 to 120.8 in May 2008. Manufacturing employment decreased by 100 jobs over the month (a negative contributor); however, construction employment increased by 2,600 jobs from 66,600 the prior month to 69,200, contributing positively to the monthly change in this index. In addition, housing permits increased by 103 units or by 28.7%. Construction average weekly hours edged down from 38.8 to 38.5 contributing negatively to the monthly change in this index. Manufacturing average weekly hours increased from 42.5 to 42.6 contributing positively to the index. The Hartford help-wanted index was unchanged over the month and initial claims decreased by 462, while the short duration unemployment rate decreased slightly from 1.67 to 1.64; all are positive contributors to this index on a month-to-month basis.

The decline of the May coincident index from one year and one month ago indicates weakness in the Connecticut economy continues; however, the leading indicator's behavior suggests some latent strength in the Connecticut economy, perhaps driven by exports and non-residential construction.

By Stan McMillen, Ph.D., Managing Economist, DECD, (860) 270-8166. Mark Prisloe, Associate Economist, DECD, 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.