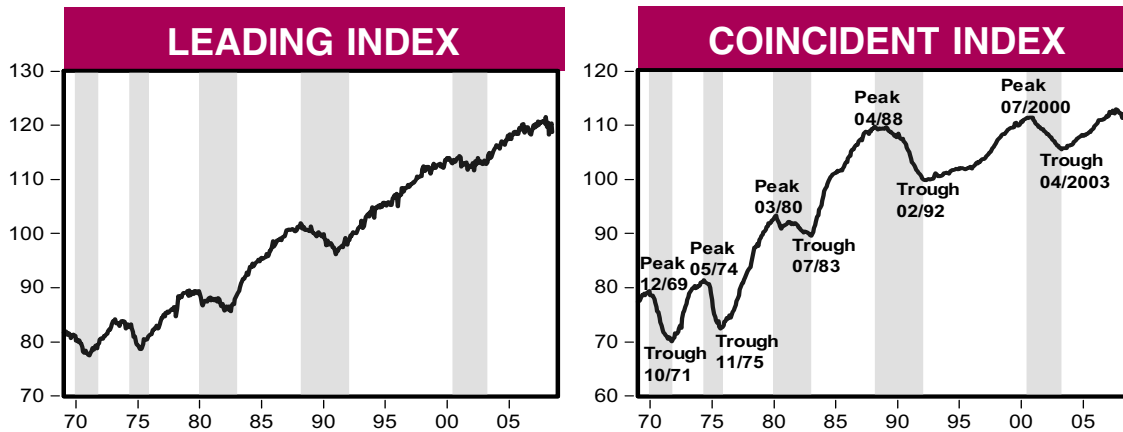


EMPLOYMENT INDICATORS



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.

Indicators Warn of Connecticut Economy at Risk

The National Outlook

As if to underscore the seriousness of the slumping housing market, rapidly worsening credit crisis, a record rate of home mortgage foreclosures, and a five-year high 6.5% unemployment rate amid ongoing inflationary pressures, the Bush Administration last month seized Fannie Mae and Freddie Mac. This dramatic takeover comes on the heels of a federal government-brokered sale last March of Bear Stearns – one of the largest global investment banks, securities trading, and brokerage firms — to JPMorgan Chase. In 2008, the U.S. economy lost 605,000 jobs in payroll employment. Inflation rose at 6.2% in the first seven months of 2008 compared with 4.1% for the year ending December 2007. At its most recent meeting, the Fed held the federal funds rate at its previous level as if to signal the tradeoff of higher inflation and lower unemployment. There may not be much more the Fed can do with interest rates to stabilize and grow the economy.

Connecticut Employment Indexes

The DECD-ECRI Connecticut coincident employment index is a measure of contemporaneous activity and decreased on a year-over-year basis from 112.0 in July 2007 to 110.7 in July 2008. Year-over-year total employment (from the household survey) decreased for the first time in five years by 0.07% or 1,286 persons, while nonfarm employment (from the employer survey) increased by 0.33% from July 2007 (the only positive influence on the annual change in this index). Connecticut's insured unemploy-

ment rate (2.70% vs. 2.38% a year ago) and total unemployment rate (5.8% vs. 4.5% a year ago) contribute negatively to the year-over-year change in this index.

On a month-over-month basis, the July 2008 index at 110.7 decreased from 111.3 a month ago. This index's 12-month moving average growth rate (-2.0%) continued its negative trend and is the largest monthly decline in the growth rate of this index since April 2003. Total employment that decreased by 4,000 persons to 1.78 million from a downward revision of the previous month and the total insured unemployment rate that increased from 2.64% last month to 2.70% in July contribute negatively to the monthly change in this index. Negative contributors include the total unemployment rate of 5.8% in July 2008 that increased from the previous month's 5.40% and nonfarm employment that decreased by 1,000 jobs from the previous month's level.

The DECD-ECRI Connecticut leading employment index that estimates future activity decreased from 120.4 in July 2007 to 118.7 in July 2008. Manufacturing employment decreased by 2,500 jobs from 191,400 jobs a year ago to 188,900 jobs in July 2008, contributing negatively to the year-over-year change in this index. Construction employment rose from 68,600 in July 2007 to 71,900 in July 2008 perhaps reflecting growth in commercial construction. Average weekly hours were unchanged in manufacturing and decreased in construction from a year ago acting as neutral and negative contributors,

respectively. Moody's Baa bond yield increased from 6.65% in July 2007 to 7.16% in July 2008; short duration unemployment increased from 1.68% to 1.80% over the year; and initial claims increased 19.0% from 18,443 a year ago. The Hartford help-wanted index declined from eight in July 2007 to six in July 2008. Housing permits decreased by 47% from 737 units in July 2007 to 389 units in July 2008. Each of these latter five factors contributes negatively to the annual change in this index.

On a month-over-month basis, Connecticut's leading employment index declined from 120.4 to 118.7 in July 2008. Construction employment increased by 600 jobs from 71,300 the prior month and construction average weekly hours edged up from 38.3 to 39.0 as both contributed positively to the month-over-month change in this index. Manufacturing employment decreased by 300 jobs; housing permits decreased by 240 units (38.2% seasonally adjusted or SA), manufacturing average weekly hours declined by 0.3 from 42.6; the Hartford help-wanted index declined by one point; initial claims increased by 1,712 (SA); the short duration unemployment rate increased from 1.68 to 1.80 (SA); and Moody's corporate bond yield increased from 7.07% to 7.16%; each was a negative contributor to this index on a month-over-month basis.

Each indicator's decline suggests Connecticut may be on the slippery slope toward recession.

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