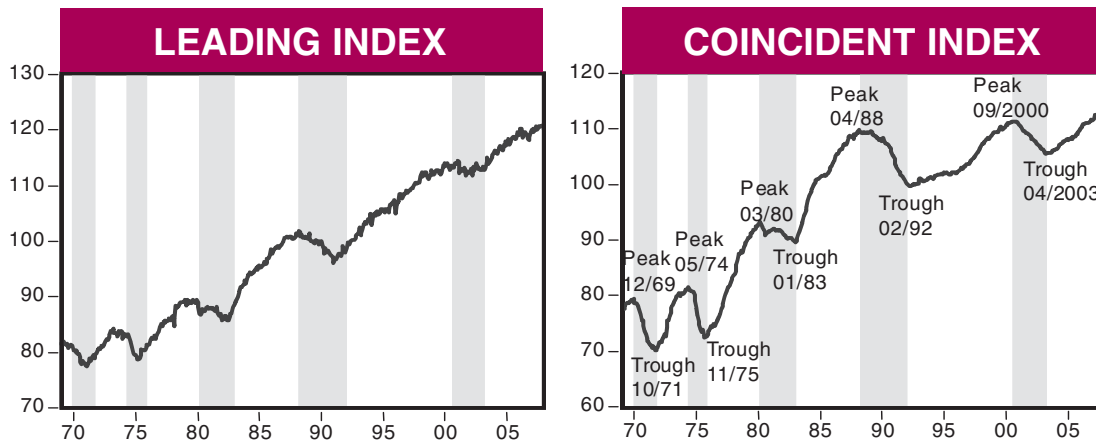


EMPLOYMENT INDICATORS



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.

Do Higher Indices Signal Lower Growth?

The National Outlook

As 2007 ended, the U.S. economy showed improvement relative to 2006 in job growth, and gross domestic product, but it faces greater uncertainty for economic growth at recent rates. Stressed financial markets, tightened credit, falling housing permit levels, lower house prices and sales volumes, and the implications of these trends for consumer spending and business investment concern economists, homeowners and business leaders alike. Citing "a weakening of the economic outlook and increasing downside risks to growth," the Fed's Open Market Committee exercised an unusual step of cutting the federal funds rate between normal meetings by three-quarters of a point in January followed with another half-point cut to 3.0 percent in the same month. December's unemployment rate rose to 5.0% confirming the usefulness of the monetary stimulus. The fiscal stimulus package recently signed by President Bush confirms a "recession-fighting" mode is looming.

Connecticut Employment Indexes

The DECD-ECRI Connecticut coincident employment index is a measure of contemporaneous activity and increased on a year-to-year basis from 111.8 in December 2006 to 112.5 in December 2007. Total employment (from the household survey) increased 1.0% or 17,800 persons, nonfarm employment (from the employer survey) increased 1.3% from December 2006, and the insured unemployment rate

(2.37% vs. 2.46% a year ago) each contributed positively, while the total unemployment rate (5.0% vs. 4.2% a year ago) contributed negatively to the annual change in this index. This seeming anomaly (employment and unemployment are both higher) implies that more people are looking for work than a year ago.

On a month-to-month basis, the December 2007 coincident employment index declined slightly to 112.5 from 112.7 a month earlier. This reflects a decelerating 12-month moving average growth rate of this index (0.3% vs. 0.8% last month). Total employment decreased by 5,400 persons, nonfarm employment decreased by 200 jobs, and the total insured unemployment rate edged up from 2.36% last month to 2.37% in December; each contributed negatively to the monthly change in this index. The total unemployment rate of 5.0% was unchanged from the previous month.

The DECD-ECRI Connecticut leading employment index that estimates future activity increased from 119.7 in December 2006 to 120.1 in December 2007. Manufacturing employment decreased by 2,500 jobs from 194,100 a year ago to 191,600 jobs in December 2007, and was a negative contributor. However, construction employment increased by 3,200 jobs over the year and the Hartford help-wanted index increased from a year ago; both measures contributed positively to the annual change in this index. Average weekly hours decreased in manufacturing and construction from a

year ago; both measures contributed negatively to the annual change in this index. Other negative contributors include the short duration unemployment rate that increased from 1.50% to 1.52% over the year, and housing permits that decreased from 678 units in December 2006 to 416 in December 2007. Negative contributors also include initial claims that increased 3.3% from 17,064 a year ago, and Moody's Baa bond yield that worsened from 6.22% to 6.65%.

On a month-to-month basis, the leading employment index edged down from 120.9 to 120.1. Manufacturing employment of 191,600 jobs was unchanged over the month. Negative contributors include housing permits that decreased by 224 units or 35.0% for the month, construction employment that decreased by 2,400 jobs, and initial claims that increased by 1,740. The Hartford help-wanted index and short duration unemployment rate were negative contributors as well to the monthly change in this index. Manufacturing average weekly hours that increased slightly was the positive contributor.

To answer the question posed in the title, "Do Higher Indicators Signal Lower Growth?" we note that the U.S. and Connecticut economies grew over the past year which both indicators measure and affirm. The downward trend of both indicators may indicate slower growth in the months ahead. Other macro factors point to slower growth but we have to wait for the next few months of data to confirm our expectations.

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