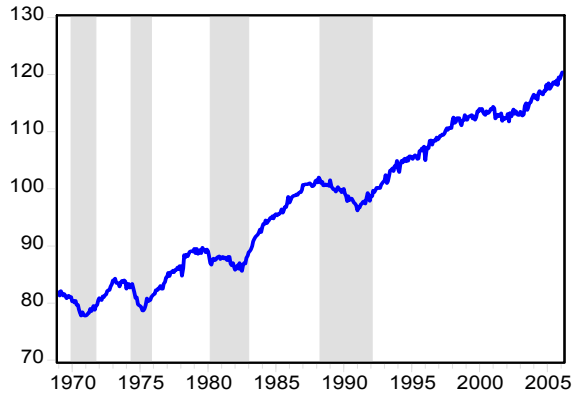
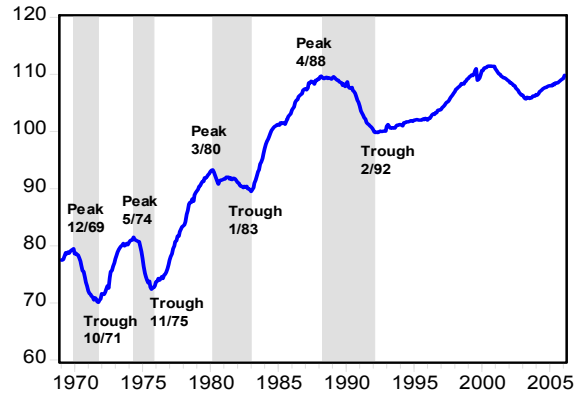


LEADING INDEX



COINCIDENT INDEX



The distance from peak to trough measures the duration of an employment cycle recession. The vertical scale in each chart is an index with 1992=100.

### Signals Are Mixed, Connecticut's Economy May Be Slowing

The signals from the U.S. economy have been decidedly mixed recently. To begin with, amid increasing signs of a slowing economy, the Dow Jones Industrial Average closed above 12,000 for the first time ever on Thursday, October 19, 2006. Helped by falling energy prices, both the producer and the consumer price indexes registered a decline in September 2006. However, the core inflation rate - the inflation rate without the volatile food and energy components, showed a larger than expected increase. This has contributed to speculation on the likely course of interest rates when the Federal Open Market Committee (FOMC) meets on October 24 and 25. It is widely expected that the FOMC would leave the

target Federal Funds rate unchanged for the third time in a row, however. The most compelling reason for this belief is that this is the last meeting before the November election, and the Central Bank does not want to be seen as trying to influence the outcome.

In Connecticut, for August 2006, the revised CCEA-ECRI Connecticut coincident employment index rose on a year-to-year basis from 108.50 in August 2005 to 110.45 in August 2006. All four components of this index are positive contributors, with a lower insured unemployment rate, a lower total unemployment rate, higher total non-farm employment, and higher total employment. On a sequential month-to-month basis, this index fell

August 2006

slightly, however, from 110.51 in July 2006 to 110.48 in August 2006. Higher insured and total unemployment rates are the two negative contributors to the index, while a small increase in total non-farm employment and an increase in total employment are the two positive contributors. This is the second consecutive month that this index has fallen on a month-to-month basis. The revised Connecticut Coincident Index published by the Philadelphia Federal Reserve Bank rose from 152.01 in August 2005 to 156.37 in August 2006. On a sequential month-to-month basis, the Philadelphia Federal Reserve Bank's revised Connecticut Coincident Index also rose from 156.13 in July to 156.37 in August 2006. Thus, once again as was the case last month, the CCEA-ECRI and the Philadelphia Federal Reserve Bank indexes are in agreement on a year-to-year basis but disagree on a month-to-month basis.

The revised CCEA-ECRI Connecticut leading employment index rose from 118.33 in August 2005 to 119.03 in July 2006. A higher Moody's Baa corporate bond yield, lower total housing permits, and a higher short duration (less than 15 weeks) unemployment rate, are the three negative contributors. A decrease in initial claims for unemployment insurance, a higher Hartford help-wanted advertising index, and a marginally higher average weekly hours worked in manufacturing and

construction are the three positive contributors. On a sequential month-to-month basis, the revised CCEA-ECRI Connecticut leading employment index fell from 119.65 in June 2006 to 119.03 in August 2006. The negative contributors are lower total housing permits, higher initial claims for unemployment insurance, a lower Hartford help-wanted advertising index, and lower average weekly hours worked in manufacturing and construction. The Moody's Baa corporate bond yield edged down in August, while short duration (less than 15 weeks) unemployment rate went down marginally in August. Thus, the revised CCEA-ECRI's Connecticut leading employment index continues to indicate expansion in Connecticut's employment in the near future, despite a downturn this month from the previous month in the coincident employment index.

The signals provided by both the coincident and leading employment indexes this month are mixed. On the whole, they suggest a slowdown in Connecticut rather than a continuation of the robust growth experienced in the first four months of this year. On the negative side, the total unemployment rate stood at 4.5 percent in August, about what it was at the beginning of the year at 4.6 percent. On the other hand, total employment grew by 4,900 from July to August – the most robust month-to-month growth since the 12,100 added in April. We are, of course,

August 2006

also in the midst of the election cycle where all the politics, the candidates are long on promises but short political candidates are promising a brighter future for on the specifics. Connecticut residents. However, as is the case with

**Contributors: Francis W. Ahking, Department of Economics, University of Connecticut, Storrs, CT 06269.**

**Phone: (860) 486-3026. Stan McMillen [(860) 270-8166], Connecticut Department of Economic and Community Development, provides research support. Professors Pami Dua and Stephen M. Miller, in cooperation with Anirvan Banerji at the Economic Cycle Research Institute, developed the Connecticut coincident and leading employment indexes.**

\*\*\*\*\* Components of Indexes \*\*\*\*\*

The coincident employment index is a composite indicator of four individual employment-related series -- the total unemployment rate, non-farm employment (employer survey), total employment (household survey), and the insured unemployment rate. The leading employment index is a composite of six individual largely employment-related series -- the average workweek of manufacturing production and construction workers, the Hartford help-wanted advertising index, short-duration (less than 15 weeks) unemployment rate, initial claims for unemployment insurance, total housing permits, and Moody's BAA corporate bond yield. While not employment-sector variables, housing permits are closely related to construction employment and the corporate bond yield adds important information about the movement in interest rates. All data are seasonally adjusted and come from the Connecticut Labor Department, the Federal Reserve Bank of Boston, and the Board of Governors of the Federal Reserve System.