



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

Progress in the First Half of this Year Was Modest

The U.S. economy continued to hum along in the fourth quarter of 2005. The real Gross Domestic Product (GDP) grew at a 1.7 percent annual rate. For the entire year, real GDP grew 3.5 percent, not bad for an economy that is entering the fifth year of an economic expansion, and against the background of rising interest rates. Fed Chairman Ben Bernanke held his first meeting of the FOMC on March 27th – 28th, and raised the Federal Funds rate by another 25 basis points to 4.75 percent. Going forward, Chairman Bernanke faces the task of preventing rising energy costs from posing an inflation threat to the economy, while at the same time avoiding making his own policy of combating inflation from causing the economy to go into a recession.

The two indexes reported this month have been revised and re-benchmarked. The revised and re-benchmarked CCEA-ECRI Connecticut coincident employment index rose on a year-to-year basis from 108.09 in February 2005 to 109.85 in February 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, the revised and re-benchmarked CCEA-ECRI Connecticut coincident employment index rose from 109.34 in January 2006 to 109.85 in February 2006. A marginally lower total unemployment rate, higher total non-farm employment, and higher total

employment contributed positively to this index. The only negative contributor is a higher insured unemployment rate. The revised Connecticut Coincident Index published by the Philadelphia Federal Reserve Bank also increased from 151.00 in February 2005 to 156.140 in February 2006, and increased from 155.59 in January to 156.14 in February 2006. Thus, both the CCEA-ECRI coincident employment index and the Philadelphia Federal Reserve Bank's Connecticut Coincident Index indicate continuing growth for the Connecticut economy.

The revised and re-benchmarked CCEA-ECRI Connecticut leading employment index rose from 118.49 in February 2005 to 120.26 in February 2006. An increase in total housing permits, a lower short duration (less than 15 weeks) unemployment rate, a higher Hartford help-wanted advertising index, and higher average weekly hours worked in manufacturing and construction are positive contributors. A higher Moody's Baa corporate bond yield, and a rather substantial increase in initial claims for unemployment insurance are the two negative contributors to the index. On a sequential month-to-month basis, the revised CCEA-ECRI Connecticut leading employment index fell from 120.43 in January 2006 to 120.26 in February 2006. Higher total

housing permits, a lower short duration (less than 15 weeks) unemployment rate, and a higher Hartford help-wanted advertising index contributed positively to this index. A marginally higher Moody's Baa corporate bond yield, a very substantial increase in initial claims for unemployment insurance, and lower average weekly hours worked in manufacturing and construction are the negative contributors.

The Connecticut economy has gotten off to a promising start in 2006. Since December, both total non-farm employment and total employment have risen, and the total unemployment rate decreased from 4.6 percent in December 2005 to 4.5 percent in February 2006. The revised and re-benchmarked data now show a much less rosy picture for Connecticut in 2005, however. On a December-to-December basis, the new data now shows that total employment grew only 0.9 percent in 2005, and not the 1.76 percent originally reported. The new data also show a 0.6 percent growth in total employment for 2004 (again, December-to-December) and not the 0.26 percent originally reported. Thus, after a dismal year for employment growth in 2004, we did not do much better in 2005. Given that this is an election year, employment and job growth are now hot issues in the race for the governorship. I hope that this time,

the politicians realize the severity of the situation, and offer sensible solutions that would put Connecticut on a solid foundation for long-term economic growth.■

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

Phone: (860) 486-3026. Stan McMillen [(860) 486-0485, Storrs Campus], Connecticut Center

for Economic Analysis, University of Connecticut, provides research support. 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.

***** 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.