



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.

Connecticut's Economy in 2007: Cautiously Optimistic

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The Federal Open Market Committee (FOMC) maintained the target federal funds rate at 5.25% at its second 2007 meeting on March 21, 2007. Recent indicators have been mixed and the adjustment in the housing sector is ongoing. Nevertheless, the U.S. economy seems likely to continue to expand at a moderate pace over coming quarters.

The CCEA-ECRI Connecticut coincident employment index is a measure of contemporaneous activity. This index rose on a year-to-year basis from 110 in January 2006 to 111.6 in January 2007 using the

latest benchmarked data from Connecticut's Department of Labor. The four components of this index contribute positively, with a lower insured rate (2.37% vs. 2.43% a year ago) and total unemployment rate (4.43% vs. 4.54% a year ago), as well as higher total non-farm employment (rising 1.5% since January 2006), and higher total employment (rising 0.95% in the year past).

On a month-to-month basis, the coincident index dipped slightly from 111.8 in December 2006 to 111.6 in January 2007. Non-farm employment inched upward and the total insured unemployment rate eased

downward contributing positively to this index. Total employment declined 0.08% from last month and the total unemployment rate inched upward from 4.13% in December to 4.43% in January contributing negatively to this index.

The Connecticut Coincident Index published by the Philadelphia Federal Reserve Bank (FRB) rose from 154.05 in January 2006 to 158.92 in January 2007. On a month-to-month basis, the Philadelphia FRB's Connecticut Coincident Index rose from 158.63 in December 2006 to 158.92 in January 2007. The CCEA-ECRI and the Philadelphia FRB indexes agree on a year-to-year basis differ slightly on a month-to-month basis.

The CCEA-ECRI Connecticut leading employment index rose from 119.6 in January 2006 to 120 in January 2007. A negative contributor to this index is manufacturing employment that declined by 900 jobs from 193,800 a year ago. Manufacturing average weekly hours declined as well by 0.4 hours per week. Initial claims for unemployment insurance climbed by more than 2,500 from a year ago contributing negatively to this index. Total housing permits declined from 693 to 675 over the period contributing negatively to this index. A higher Moody's Baa corporate

bond yield also contributed negatively to this index moving for 6.24% to 6.34% over the year. However, a lower short duration (less than 15 weeks) unemployment rate, and higher average weekly hours worked in construction and 1,500 additional construction jobs offset the negative contributions. The 12-month moving average growth rate (1.08%) of this index ostensibly portends slow but positive growth in the Connecticut economy in the near term. This is confirmed by the persistent upward trend in the leading indicator graph since the trough of the last cycle in April 2003. On a month-to-month basis, the revised CCEA-ECRI Connecticut leading employment index rose exactly as it did on a yearly basis and each variable contributed in the same way.

The Chicago FRB National Activity Index was +0.03 in February, up from -0.72 in January. The production and income categories made strong positive contributions to the index, which was offset by the negative contributions in the other three broad categories of indicators—employment, consumption and housing, and sales. Let us hope that Connecticut will make key investments in education and infrastructure to enhance its prospects for growth in the coming year.

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University of Connecticut 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 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.