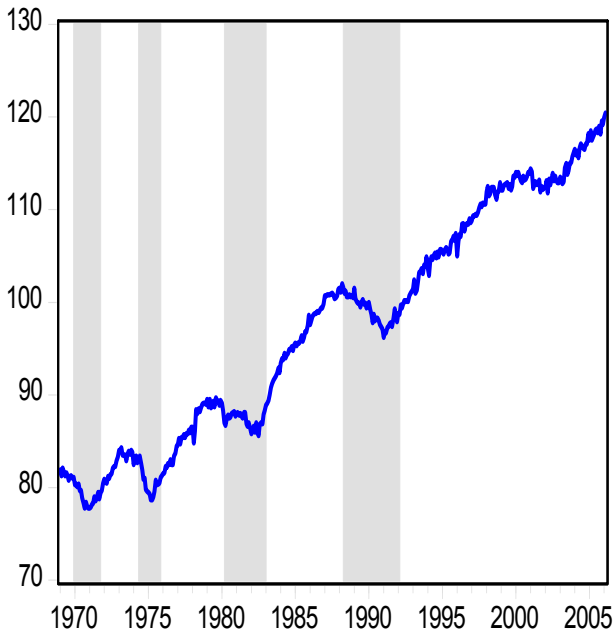
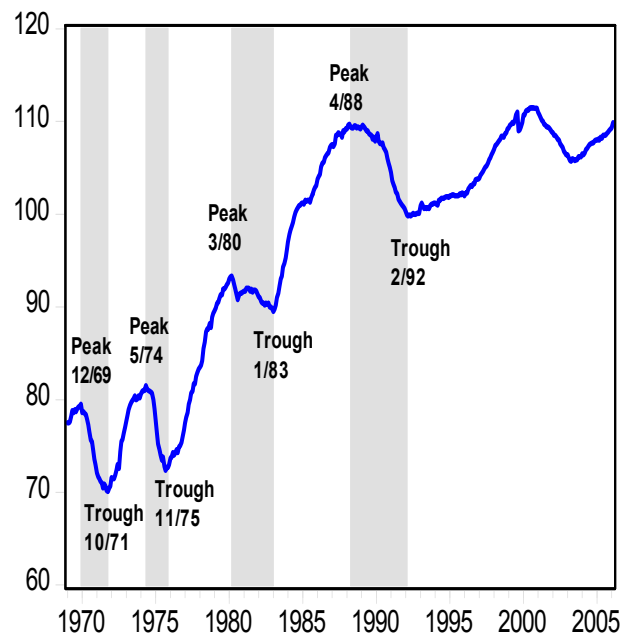


LEADING INDEX



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.

Will the Second Half Be As Good As the First For Connecticut?

For the second time in a row, the Federal Open Market Committee (FOMC) at its September 20 meeting decided to keep the target federal funds rate at 5.25%. Once again, the committee cited for its decision moderating U.S. economic growth due to a slowing housing market, and moderating energy costs that would help to keep inflation in check. The current recovery and expansion phase of the business cycle is almost five years old. So, while there is no reason to expect that it would come to an end soon, we

should also not be surprised that it does. Having said that, I should also mention that we are only predicting a slowdown, and not a recession. The surest sign that the U.S. economy may be entering a recession is when the FOMC decides to lower the target federal funds rate, which some economists are predicting may come as early as the beginning of next year.

On the home front, the revised CCEA-ECRI Connecticut coincident employment index rose on a year-to-year basis from 108.53 in July 2005 to 110.50

July 2006

in July 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, however, from 110.76 in June 2006 to 110.50 in July 2006. In this case, a marginally higher total non-farm employment is the only positive contributor to the index. The revised Connecticut Coincident Index published by the Philadelphia Federal Reserve Bank also rose from 151.79 in July 2005 to 156.25 in July 2006. On a sequential month-to-month basis, the Philadelphia Federal Reserve Bank's revised Connecticut Coincident Index also rose from 156.01 in June to 156.25 in July 2006. Thus, 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. Interestingly, since the beginning of 2006, the Philadelphia Federal Reserve Bank's Connecticut Coincident Index has risen steadily, while the CCEA-ECRI Coincident Employment Index for Connecticut has fallen three times on a month-to-month basis – February to March, April to May, and June to July. It is difficult to interpret these conflicting signals at the moment, however.

The revised CCEA-ECRI Connecticut leading employment index rose from 118.67 in July

2005 to 119.65 in July 2006. A higher Moody's Baa corporate bond yield, lower total housing permits, an increase in initial claims for unemployment insurance, and a higher short duration (less than 15 weeks) unemployment rate, are the four negative contributors. A higher Hartford help-wanted advertising index and higher average weekly hours worked in manufacturing and construction are the two positive contributors. On a sequential month-to-month basis, the revised CCEA-ECRI Connecticut leading employment index rose from 119.61 in June 2006 to 119.65 in July 2006. The negative contributors are lower total housing permits, a marginally higher short duration (less than 15 weeks) unemployment rate, and a lower Hartford help-wanted advertising index. The Moody's Baa corporate bond yield edged down marginally in July, while initial claims for unemployment insurance fell, and average weekly hours worked in manufacturing and construction both increased slightly in July. 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 CCEA-ECRI coincident employment Index.

I reported last month that Connecticut turned in a robust performance for the first six months (December to June) of this year when total employment increased by 24,699, and the

unemployment rate fell from 4.6% to 4.1%. Please note, however, that much of the improvement came between December and April. Since April, total employment increased only by 400, while the total unemployment rate crept up from 3.9% to 4.3%. As part of this reflects the slowing national economy, the expectation that the national economy will continue to

moderate in the coming months, does not bode well for Connecticut for the remainder of the year. However, a few large projects are soon to get underway, e.g., Cabela's in East Hartford and Utopia in Norwich, and I am still hopeful that this year will be a good one for Connecticut.

Contributors: Francis W. Ahking, Department of Economics, University of Connecticut, Storrs, CT 06269, (860) 486-3026. Stan McMillen, Connecticut Center for Economic Analysis, University of Connecticut, Storrs, CT, (860) 486-0485, provided 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.