



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

Once again, as expected, the FOMC at its meeting on August 9, raised the target Federal Funds rate by another 25 basis points to 3.5 percent. The statement released by the FOMC after the meeting leaves no doubt that this “measured” increase in the Federal Funds rate will continue. Meanwhile, real GDP growth for the second quarter came in below expectations but nevertheless the economy grew at a robust 3.4 percent annual rate, somewhat lower than the 3.8 percent annual rate for the first quarter. The chained GDP deflator, on the other hand, came in below expectations for the second quarter at an annual rate of 2.4 percent, despite record-setting energy prices. Thus, the

report card for the U.S. economy at the midpoint of 2005 is one of healthy growth and tamed inflation.

June 2005 was a relatively good month for the Connecticut economy. The revised CCEA-ECRI Connecticut coincident employment index rose on a year-to-year basis from 107.24 in June 2004 to 107.86 in June 2005. Two components of this index are positive contributors, with a lower insured unemployment rate, and higher total non-farm employment. A higher total unemployment rate and lower total employment are the two negative contributors. On a sequential month-to-month basis, the revised CCEA-ECRI Connecticut coincident employment index fell slightly from 107.862 in May 2005 to 107.857 in June 2005.

Three components contributed positively to this index, with a lower insured unemployment rate, a drop in the total unemployment rate from 5.3 percent in May to 5.1 percent, and higher total non-farm employment. The only negative contributor is lower total employment.

The revised CCEA-ECRI Connecticut leading employment index provided us with positive news as well. It rose from 117.20 in June 2004 to 118.66 in June 2005. Four components of this index are positive contributors, with a lower Moody's Baa corporate bond yield, lower initial claims for unemployment insurance, a lower short duration (less than 15 weeks) unemployment rate, and higher average weekly hours worked in both manufacturing and construction. A decrease in total housing permits and a lower Hartford help-wanted advertising index are the two negative contributors. On a sequential month-to-month basis, the revised CCEA-ECRI Connecticut leading employment index rose from 118.23 in May 2005 to 118.66 in June 2005. Three of the six components are positive contributors, with a lower Moody's Baa corporate bond yield, a higher Hartford help-wanted advertising index, and an increase in the average weekly hours worked in manufacturing and construction. A decrease in the number of total housing permits, an increase in

initial claims for unemployment insurance, and a higher short duration (less than 15 weeks) unemployment rate, are the three negative contributors to this index.

Connecticut's economy has made some modest progress since the beginning of the year. Since January, the total unemployment rate has gone up from 4.7 percent to 5.1 percent, while short duration unemployment rate (less than 15 weeks) has gone down from 1.63 percent to 1.52 percent. Total employment and total non-farm employment both increased by approximately 10,000. The average total non-farm employment for the first six months of this year is higher than the average for 2004. On the other hand, average total employment for the first six months of 2005 is lower than that for 2004. While we have made some modest progress since the beginning of 2005, the employment picture is rather mixed when compared to last year. Finally, the Base Realignment and Closure Commission (BRAC) will make its final recommendations in September. At that time, we will know the fate of the Groton submarine base. At this time, we can only hope for the best. ■

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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.