



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.

### A Robust First Half of 2006 for Connecticut

**A**t its August 8 meeting, the Federal Open Market Committee (FOMC) decided to keep its target federal funds rate at 5.25%, thus breaking the string of seventeen consecutive quarter-point increases in this key interest rate. The committee cited moderating economic growth due to a slowing housing market, which in turn is due to past policy actions and higher energy costs, as well as the committee's expectations that inflation expectations will moderate over time due to past policy actions and other unspecified factors as the basis for its decision. Interestingly, the financial press reported the FOMC's decision as a "pause" and not as an "end" to the current cycle of interest rate hikes. Quite clearly, no one is ruling out future hikes in the federal funds rate target. This "pause" is

welcome news to many, especially in the financial markets. I, on the other hand, am somewhat confused by the signal being sent by the FOMC. For example, it is not entirely clear to me whether the current "pause" is motivated by a slowing economy or by a moderating inflation outlook. In any event, the FOMC's meeting on September 20 will be eagerly anticipated by many in the U.S., and indeed, around the world.

The revised CCEA-ECRI Connecticut *coincident employment index* rose on a year-to-year basis from 108.47 in June 2005 to 110.74 in June 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 rose from 110.69 in May 2006 to 110.74 in June 2006. In this case, a marginally higher total unemployment rate is the sole negative contributor to the index. The revised Connecticut Coincident Index published by the Philadelphia Federal Reserve Bank also rose from 151.61 in June 2005 to 156.21 in June 2006. On a sequential month-to-month basis, the Philadelphia Federal Reserve Bank's revised Connecticut Coincident Index also rose from 155.88 in May to 156.21 in June 2006. Thus, both the CCEA-ECRI and the Philadelphia Federal Reserve Bank indexes are in agreement on a year-to-year basis and on a month-to-month basis.

The revised CCEA-ECRI Connecticut *leading employment index* rose from 118.63 in June 2005 to 119.70 in June 2006. A higher Moody's Baa corporate bond yield, lower total housing permits, an increase in initial claims for unemployment insurance, and lower average weekly hours worked in manufacturing and construction are the four negative contributors. A lower short duration (less than 15 weeks) unemployment rate and a higher Hartford help-wanted advertising index are the two positive contributors. On a sequential month-to-month basis, the revised CCEA-ECRI Connecticut *leading*

*employment index* rose from 119.30 in May 2006 to 119.70 in June 2006. The negative contributors are a higher Moody's Baa corporate bond yield, lower total housing permits, and a marginally higher short duration (less than 15 weeks) unemployment rate. Lower initial claims for unemployment insurance, a higher Hartford help-wanted advertising index, and higher average weekly hours worked in manufacturing and construction are the three positive contributors.

Connecticut turned in quite a robust performance for the first six months of 2006. Total employment increased by 24,699 jobs, the unemployment rate fell from 4.6% to 4.1%, and the average work week in manufacturing and construction remained relatively stable at 41.51 hours, up slightly from 41.49 hours from December 2005. In comparison, for all of 2005 total employment in Connecticut increased by 15,483 jobs, by 10,351 jobs in 2004, and by 2,749 jobs in 2003. At this current pace, 2006 may turn out to be a very good year for Connecticut indeed. Going forward, there are encouraging signs on the horizon. For one thing, the state has recently announced a \$22 million commitment to develop Rentschler Field and a Cabela's store in East Hartford, which may turn into a top tourist attraction in Connecticut. Furthermore, the

developer of the Utopia Studio plans to add a marina and two luxury condominiums to the project. All these bode well for the future of Connecticut.

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\*\*\*\*\* Components of the 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.