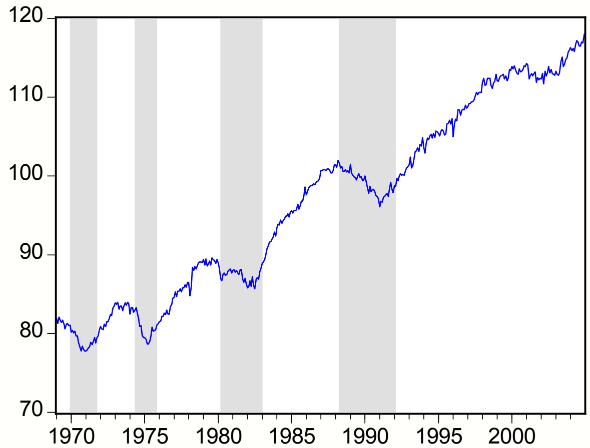
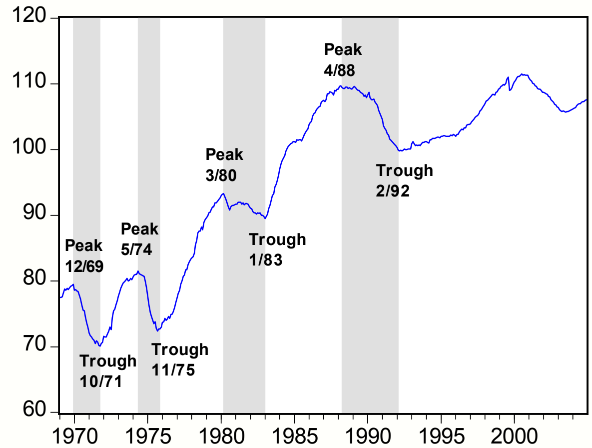
LEADING INDEX



COINCIDENT INDEX



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.

The Connecticut Economy is Meandering Back and Forth

We received a bit of unwelcome news this month. Three U.S. Army Reserve centers and the Groton submarine base are on the Pentagon's list of recommended base closures. The major impact would come from the closure of the submarine base. Unfortunately, it is difficult to estimate both the economic and human costs at this time. However, should this become a reality, we can expect not only major impact in southeastern Connecticut, but the whole state as well. I should stress that this is only a recommended list of base closures; we should expect to see a lot of political maneuvering in the coming months. I will report to my readers as this progresses. This is the kind of news that we could do without.

Meanwhile, the Connecticut economy turned in a mixed performance for March 2005. The revised CCEA-ECRI Connecticut coincident employment index rose on a year-to-year basis from 106.59 in March 2004 to 107.57 in March 2005. Three of the four components of this index are positive contributors, with a lower insured unemployment rate, a lower total unemployment rate, and higher total non-farm employment. Lower total employment is the sole negative contributor. On a sequential month-to-month basis, the revised CCEA-ECRI Connecticut coincident employment index rose from 107.23 in February 2005 to 107.57 in March 2005. Two components contributed positively to this index, with a higher total non-farm employment, and higher total employment. A slightly higher insured unemployment rate and higher total unemployment rate are the two negative contributors.

The revised CCEA-ECRI Connecticut leading employment index provides mixed news. It rose from 116.23 in March 2004 to 117.22 in March 2005. Three components of this index are positive contributors, with a lower Moody's Baa corporate bond yield, a lower short duration (less than 15 weeks) unemployment rate, and higher average weekly hours worked in both manufacturing and construction. The three negative contributors are a lower number of total housing permits, higher initial claims for unemployment insurance, and a lower Hartford help-wanted advertising index. On a sequential month-to-month basis, the revised CCEA-ECRI Connecticut leading employment index fell from 118.45 in February to 117.22 in March 2005. Only two of the six components are positive contributors, with an increase in total housing permits, and a slightly lower short duration (less than 15 weeks) unemployment rate. The four negative contributors to this index are a higher Moody's Baa corporate bond yield, an increase in initial claims for unemployment insurance, a rather large drop in the Hartford help-wanted advertising index and a slight decrease in average weekly hours worked in manufacturing and construction.

Thus far this year, both the coincident and leading employment indexes have been meandering, up one month and down the next, with no clear trend. There is some good news, however. Connecticut will end its fiscal year with a surplus, with higher than expected tax receipts, especially from the income tax levy. While I don't necessarily believe this means that the Connecticut economy is stronger than expected, it does mean that we can expect tax increases to be held to a minimum for the coming fiscal year. This is always good news. ■

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******************** 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.