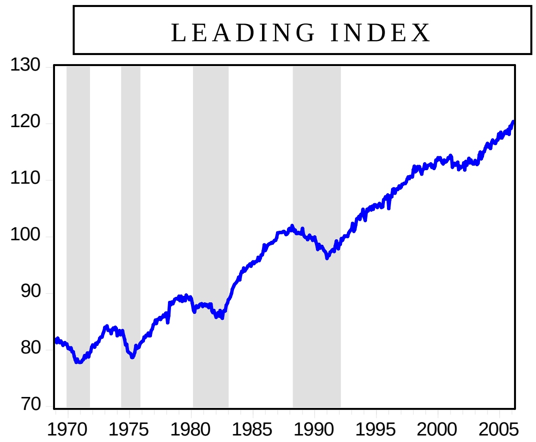

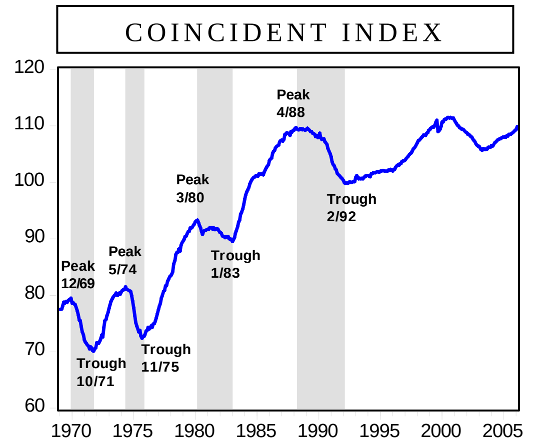

The distance from peak to trough (shaded areas) measures the duration of an employment cycle recession. The vertical scale in each chart is an index with 1992=100.

A Mixed Report Card for Connecticut in March

To no one's surprise, the FOMC raised the Federal Funds rate by another 25 basis points to 5.00 percent at its May 9th meeting. More importantly, the FOMC left open the possibility of further rate hikes should the outlook for inflation deteriorate. Unfortunately, the CPI and core inflation rates for April 2006 were higher than expected, leading many to predict that further rate hikes by the FOMC in the coming months are inevitable. This sparked a sell-off in the financial markets despite strong first quarter corporate earning results, which earlier had driven up the Dow Jones Industrial Index to within sight of a new record. Rising energy costs and the reported slowdown in the housing market do not bode well for the U.S. economy. No one, however, predicts a recession, but a slowdown in the growth of the U.S. economy in the second half of 2006 is a real possibility.

For March 2006, the revised CCEA-ECRI Connecticut coincident employment index rose on a year-to-year basis from 107.96 in March 2005 to 109.67 in March 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, the revised CCEA-ECRI Connecticut coincident employment index fell from 109.86 in February 2006 to 109.67

in March 2006, however. A marginally higher total unemployment rate, lower total non-farm employment, and lower (by 100) total employment contributed negatively to this index. The only positive contributor is a lower insured unemployment rate. The revised Connecticut Coincident Index published by the Philadelphia Federal Reserve Bank also increased from 151.29 in March 2005 to 156.14 in March 2006. Contrary to the revised CCEA-ECRI Connecticut coincident employment index, the Philadelphia Federal Reserve Bank's revised Connecticut Coincident Index shows an increase from 155.78 in February to 156.14 in March 2006, however. It is too soon to know why there is a divergence of these two indexes on a month to month basis. It is entirely possible that it is purely a statistical artifact. We want to, however, keep careful track of these two indexes in the next several months.

The revised CCEA-ECRI Connecticut leading employment index rose from 117.46 in March 2005 to 120.48 in March 2006. An increase in total housing permits, a decrease in initial claims for unemployment insurance, a lower short duration (less than 15 weeks) unemployment rate, a higher Hartford help-wanted advertising index, and higher average weekly hours worked in manufacturing and construction are positive contributors. Not surprisingly, a higher Moody's Baa corporate bond yield is the only negative contributor to the index. On a sequential month-to-month basis, the revised CCEA-ECRI Connecticut leading employment index rose from 120.41 in February 2006 to 120.48 in March 2006. A decrease in initial claims for unemployment insurance, a lower short duration (less than 15 weeks) unemployment rate, and a higher Hartford help-wanted advertising index contributed positively to this index. A higher Moody's Baa corporate bond yield, lower total housing permits, and lower average weekly hours worked in manufacturing and construction are the three negative contributors.

As I was hoping that it would not happen, the question of job growth in Connecticut has recently became a political issue. The issue revolves around whether job growth in Connecticut is last in the nation or around the middle of the pack. To the informed observer, this is totally irrelevant because one can obtain any statistics one wishes with clever choice of the time period used to compute the statistics. Moreover, there is frequent confusion between job growth and employment growth. They are not the same because of job-sharing on the one hand, and multiple job holders on the other. In my opinion, the relevant and important issue is not where we stand in the nation in job growth, but rather what we are doing now to ensure sustainable job growth going forward.

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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.