



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.

## Connecticut Continues to Grow In Spite of High Interest Rate and Energy Costs

**F**or the 17<sup>th</sup> straight time, the Federal Reserve raised its target for the federal funds rate to 5.25 percent at its Federal Open Market Committee meeting on June 29, 2006. At his Senate Banking Committee hearing earlier in July, Federal Reserve Chairman Ben Bernanke indicated that the U.S. economy is showing signs of slowing, but the inflation rate is higher than expected, driven mostly by higher energy costs. Chairman Bernanke is facing a classic policy dilemma. On the one hand, further monetary tightening may turn a slowdown in the economy into a recession. On the other hand, failure to act aggressively against inflation may ultimately undermine the economy, especially if inflationary expectations are allowed to build up in the economy. Thus, what the Federal Reserve does

for the rest of this year will have a profound impact on the U.S. economy. Right now, another quarter point increase in the target federal funds rate is expected for August and there is continued hope that Chairman Bernanke can engineer a sort of “soft-landing” for the U.S. economy in which we avoid both recession and inflation.

The revised CCEA-ECRI Connecticut coincident employment index rose on a year-to-year basis from 108.19 in May 2005 to 110.68 in May 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 from 110.98 in April 2006 to

110.68 in May 2006. In this case, all four components contributed negatively to this index. The revised Connecticut Coincident Index published by the Philadelphia Federal Reserve Bank also rose from 150.02 in May 2005 to 156.39 in May 2006. On a sequential month-to-month basis, the Philadelphia Federal Reserve Bank's revised Connecticut Coincident Index shows an increase from 156.03 in April to 156.39 in May 2006. Thus, both the CCEA-ECRI and the Philadelphia Federal Reserve Bank indexes are in agreement on a year-to-year basis, they give a slightly conflicting signal on a month-to-month basis, however. The two indexes are based on different data and methodologies and they may not track each other precisely.

The revised CCEA-ECRI Connecticut leading employment index rose from 118.23 in May 2005 to 119.41 in May 2006. Interestingly, the only positive contributor is a higher Hartford help-wanted advertising index. While a higher Moody's Baa corporate bond yield, a decrease in total housing permits, an increase in initial claims for unemployment insurance, a higher short duration (less than 15 weeks) unemployment rate, and lower average weekly hours worked in manufacturing and construction are the five negative contributors. On a sequential month-to-

month basis, the revised CCEA-ECRI Connecticut leading employment index rose from 118.84 in April 2006 to 119.41 in May 2006. The negative contributors are a higher Moody's Baa corporate bond yield, an increase in initial claims for unemployment insurance, and an increase in the short duration (less than 15 weeks) unemployment rate. The three positive contributors are higher total housing permits, a higher Hartford help-wanted advertising index, and higher average weekly hours worked in manufacturing and construction.

All is relatively quite in Connecticut as the major political parties gear up for the November 2006 election. Thus far, both the rising mortgage interest rate and energy costs appear to have relatively little impact on Connecticut's economy as the total unemployment rate fell from 4.6 percent in December 2005 to 4.0 percent in May 2006. I am not sure how long we can continue to grow under these circumstances especially with new conflicts in the Middle East which certainly will keep energy costs high for the foreseeable future. Let's enjoy the party while it lasts.

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**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.