



Connecticut Economy Warming Up in May 2007

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The National Outlook

At its June 28th meeting, the Federal Open Market Committee (FOMC) decided to keep its target for the federal funds rate at 5-1/4 percent. Economic growth appears to have been moderate during the first half of 2007, despite the ongoing adjustment in the housing sector. The national economy seems likely to continue to expand at a moderate pace over coming quarters.

Estimates of core inflation (the CPI less more volatile items such as food and energy) have improved modestly in recent

months. However, a sustained moderation in inflation pressures has yet to be convincingly demonstrated. Moreover, the high level of resource utilization has the potential to sustain inflationary pressure. In these circumstances, the FOMC's predominant policy concern remains the risk that inflation will fail to moderate as expected. Future policy adjustments will depend on the evolution of the outlook for both inflation and economic growth as information is continually received.

Connecticut Employment Indexes

The CCEA_ECRI Connecticut coincident employment index is a measure of contemporaneous activity and rose on a year-to-year basis from 110.9 in May 2006 to 112.2 in May 2007. Total employment (from a household survey) increased 1.78% or 31,419 jobs and non-farm employment (from an employer survey) rose 1.08% since May 2006 and contributed positively to the annual change in this index. Both the total unemployment rate (4.5% vs. 4.14% a year ago) and the insured unemployment rate (2.45% vs. 2.38% a year ago) are negative contributors.

On a month-to-month basis, the May 2007 coincident index was unchanged at 112.2. This reflects a decelerating 12-month moving average growth rate of this index (1.2% vs. 1.3% last month). Total employment increased by 10,300 jobs in April 2007 even as non-farm employment inched downward by 1,200 jobs providing offsetting contributions to the index. The total insured unemployment rate inched upward from 2.44% last month to 2.45% and the total unemployment rate worsened from 4.2% to 4.5% with each contributing negatively to this index.

The CCEA-ECRI Connecticut leading employment index that estimates

future activity improved from 119.4 in May 2006 to 121.1 in May 2007. Manufacturing employment increased by 300 jobs from 194,300 a year ago, while construction added 3,600 jobs over the year (each a positive contributor). Over the past year, average weekly hours increased in both industries and Moody's Baa bond yield improved from 6.75% to 6.39%. Initial claims for unemployment insurance declined by 9% from 17,199 a year ago and the short duration unemployment rate decreased from 1.51% to 1.43% over the year with each contributing positively to the annual change in this index.

Housing permits decreased significantly from 835 last May to 736 in May 2007. The Hartford help-wanted index declined slightly from a year ago as well and these latter two indicators contributed negatively to the annual change in the leading index.

On a month-to-month basis, the leading employment index improved from 119.8 to 121.1. Together, manufacturing and construction employment increased by 3,300 jobs over the month. Average weekly hours increased slightly in both industries and contributed positively to the index. In addition, initial claims, short duration unemployment, and the Hartford help-wanted

index improved and contributed positively to this index. Housing permits declined by 3.3% for the month and contributed negatively to this index.

The sudden acceleration of the 12-month moving average growth rate (2.58% vs. 0.82% last month) of the leading index portends perhaps more positive growth in the Connecticut economy in the near term.

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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.