



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

Is the Party Over For Connecticut?

Energy costs that drove inflation and inflation expectations for most of 2006 appear to be moderating as we enter 2007. Economists expect the U.S. economy to grow at a moderate rate in 2007, in part because of the housing sector slowdown. These factors lead many to believe that the Federal Open Market Committee (FOMC) may lower the target federal funds rate, perhaps as early as the first 2007 FOMC meeting scheduled for January 30-31.

The December Consumer Price Index (CPI), however, rose higher than expected, although the core CPI (CPI without the food and energy components) was in line with expectations. Several Federal Reserve

officials suggested recently that inflation remains a concern among policy makers. Congress began the session with an agenda that potentially impacts the U.S. economy, with universal healthcare, a higher minimum wage, and tax reform, among others. We enter year 2007 with uncertainty and it promises to be an interesting year.

In Connecticut, for November 2006, the revised CCEA-ECRI Connecticut coincident employment index rose on a year-to-year basis from 109.03 in November 2005 to 115.56 in November 2006. The four components of this index are each positive contributors, with lower insured and total unemployment rates, higher total non-farm

employment, and higher total employment. On a sequential, month-to-month basis, this index rose from 110.40 in October 2006 to 111.56 in November 2006. Three of the four components are positive contributors to the index; the exception is the total unemployment rate, which increased to 4.4% from 4.2% in October.

The revised Connecticut Coincident Index published by the Philadelphia Federal Reserve Bank rose from 152.88 in November 2005 to 157.30 in November 2006. On a sequential month-to-month basis, the Philadelphia Federal Reserve Bank's revised Connecticut Coincident Index rose from 157.04 in October to 157.30 in November 2006. Thus, the CCEA-ECRI and the Philadelphia Federal Reserve Bank revised indexes are in agreement on a year-to-year and on a month-to-month basis.

The revised CCEA-ECRI Connecticut leading employment index fell from 119.54 in November 2005 to 117.52 in November 2006. A lower Moody's Baa corporate bond yield and a lower short duration (less than 15 weeks) unemployment rate contributed positively to this index. However, lower total housing permits, higher initial claims for unemployment insurance, a lower Hartford help-wanted advertising index, and lower average weekly hours

worked in manufacturing and construction are the four negative contributors. On a sequential, month-to-month basis, the revised CCEA-ECRI Connecticut leading employment index fell from 118.18 in October 2006 to 117.52 in November 2006. A reduction in Moody's Baa corporate bond yield is the only positive contributor to the index. A decrease in total housing permits, a small increase in initial claims for unemployment insurance, an increase in the short duration (less than 15 weeks) unemployment rate, and a decrease in average weekly hours worked in manufacturing and construction are the four negative contributors. For the third consecutive month, the Hartford help-wanted advertising index remained unchanged.

This month, the revised leading employment index declined both on a year-to-year basis and on a month-to-month basis. I am concerned by this development, especially because this is the fourth consecutive drop in this index on a month-to-month basis. However, we should not be overly concerned because this month's reading is preliminary. I will keep a watchful eye on this index over the next several months.

Connecticut's minimum wage increased to \$7.65 per hour on January 1,

2007. It is the highest in the Northeast, and the third highest in the country. Congress plans to raise the U.S. minimum wage. Debates on the minimum wage tend to be emotional, with opponents typically branded as heartless, or in the pocket of large corporations. We should not forget, however, that minimum wage legislation has economic impacts. Much of the minimum wage literature of which I am aware suggests that it tends to have a relatively small impact on a national scale. Not much is known, however, on the impact at the state level, and between states with differential minimum wages. My unscientific observation suggests that the minimum wage tends to have a larger impact on small businesses than on large corporations that tend to pay higher than minimum wage anyway. This concerns me

because small businesses are the engine of job growth. While I do not oppose a higher minimum wage, I nevertheless feel that it is merely “feel good” legislation. For one, I am not aware of any scientific studies demonstrating that the minimum wage achieves what it is supposed to achieve, and I am not exactly sure what it is supposed to achieve other than the most obvious. Second, the minimum wage does not address the more fundamental question of why we have workers who start and stay at the bottom of the pay scale. I think the time may have come for us, in Connecticut at least, to have a rational discussion on the purpose of the minimum wage. In any case, I wish my readers a happy, healthy and prosperous 2007.

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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.

Note: The views expressed herein do not necessarily represent those of the Department of Economics, the University of Connecticut, the Connecticut Department of Labor, or, the Connecticut Department of Economic and Community Development.