



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.

We Will Have a Good 2006, But What Will Happen In 2007?

To no one's surprise, the Federal Open Market Committee (FOMC) voted to keep the target federal funds rate at 5.25% at its December meeting. The inflation outlook appears benign; the seasonally adjusted Consumer Price Index for all Urban Consumers (CPI-U) was unchanged from October to November 2006. More importantly, the core inflation rate (CPI-U less the food and energy components) remained unchanged from October to November. The third quarter real Gross Domestic Product was revised from 2.2% to 2% (annual rate), reflecting the slowdown in the housing market. Meanwhile, responding to healthy corporate earnings growth, and anticipating that the FOMC may be at

the end of the current interest rate hike cycle, both the Dow Jones Industrial Average and the S&P 500 index have so far registered healthy double-digit gains for the year. All in all, I expect that 2006 will end on a high note for the U.S. economy. However, the new Democratic Congress will face many challenges, both political and economic as we enter the New Year.

In Connecticut, for the month of October 2006, the revised CCEA-ECRI Connecticut coincident employment index rose on a year-to-year basis from 108.85 in October 2005 to 111.40 in October 2006. Three of the four components of this index are positive contributors, with a lower total

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unemployment rate, higher total non-farm employment, and higher total employment. The insured unemployment rate remained constant from its year earlier level. On a sequential month-to-month basis, this index also rose from 110.40 in September 2006 to 111.40 in October 2006. There was a very small increase in the insured unemployment rate, while the total unemployment rate went down quite substantially from 4.7% in September to 4.2% in October. In addition, both higher total non-farm employment and total employment are positive contributors. The revised Connecticut Coincident Index published by the Philadelphia Federal Reserve Bank rose from 152.58 in October 2005 to 158.84 in October 2006. On a sequential month-to-month basis, the Philadelphia Federal Reserve Bank's revised Connecticut Coincident Index also rose from 158.14 in September to 158.84 in October 2006. Thus, the CCEA-ECRI and the Philadelphia Federal Reserve Bank indexes are in agreement both on a month-to-month basis and on a year-to-year basis.

The revised CCEA-ECRI Connecticut leading employment index rose from 118.16 in October 2005 to 118.29 in October 2006. A higher Moody's Baa corporate bond yield, an increase in initial claims for unemployment insurance, and a lower Hartford help-wanted advertising index are the

three negative contributors. Total housing permits increased from a year ago, while a lower short duration (less than 15 weeks) unemployment rate, and higher average weekly hours worked in manufacturing and construction are all positive contributors. On a sequential month-to-month basis, the revised CCEA-ECRI Connecticut leading employment index fell slightly from 118.49 in September 2006 to 118.29 in October 2006. A marginally lower Moody's Baa corporate bond yield, higher total housing permits, and lower short duration (less than 15 weeks) unemployment rate are the three positive contributors to this index. An increase in initial claims for unemployment insurance, and a lower average weekly hours worked in manufacturing and construction are negative contributors, while the Hartford help-wanted advertising index remained constant from its level in September 2006.

As is the case with the national economy, Connecticut faces challenges going forward. Two recent reports show that Connecticut's population growth and real income growth are significantly below the national average. Clearly, they reflect the slow job growth in Connecticut during the past several years. While this issue is recognized, there does not seem to be a comprehensive plan to address it. Happy Holidays to all my readers.

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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.