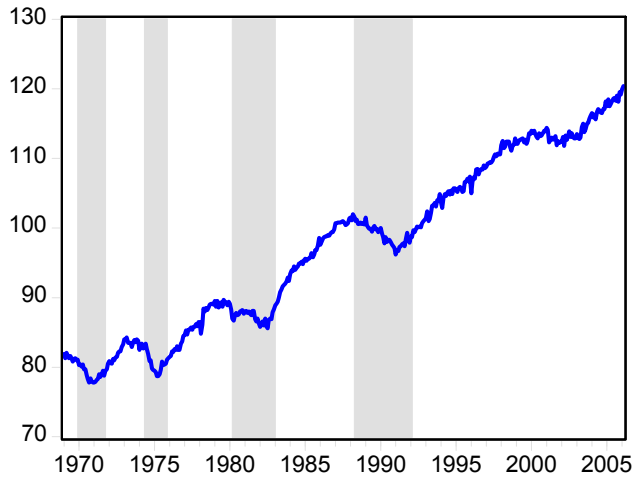
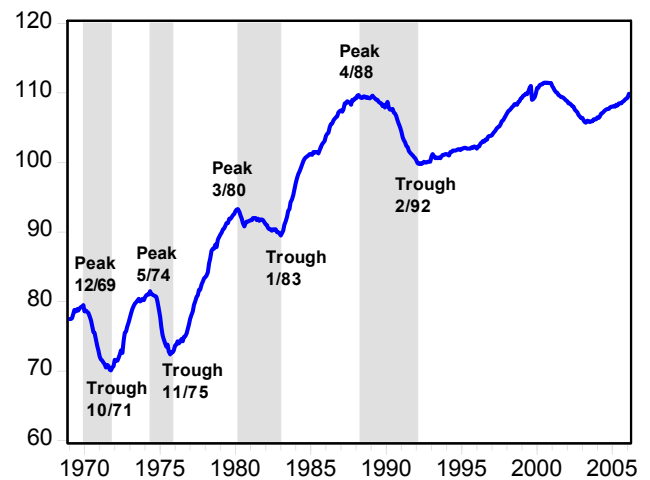


LEADING INDEX



COINCIDENT INDEX



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.

More of the Same – Positive but Slow Job Growth in Connecticut

Amid signs of a slowing economy and expected moderation in the inflation rate from the recent decline in energy costs, the Federal Open Market Committee (FOMC) voted to maintain the target federal funds rate at 5.25% at its October 24/25 meeting. Amid uncertainty created by November's midterm election result, the Dow Jones Industrial Average continues to set records. With one FOMC meeting left this year, we expect that the target federal funds rate will hold at its current level of 5.25%.

For September 2006, the revised CCEA-ECRI Connecticut coincident employment index rose on a year-to-year basis from 108.75 in September 2005 to 110.40 in September 2006. Three of the four index components are positive

contributors, with a lower total unemployment rate, higher total non-farm employment, and higher total employment. The insured unemployment rate remained unchanged from its year earlier level.

On a sequential month-to-month basis, this index fell, however, from 110.48 in August 2006 to 110.40 in September 2006. Both the insured unemployment rate and the total unemployment rates were up from their levels in August, while higher total non-farm employment and total employment are the two positive contributors to the index. The revised Connecticut Coincident Index published by the Philadelphia Federal Reserve Bank (PFRB) rose from 152.02 in September 2005 to 157.26 in

September 2006

September 2006. On a sequential month-to-month basis, the PFRB revised Connecticut Coincident Index also rose from 157.03 in August to 157.26 in September 2006. Thus, the CCEA-ECRI and the PFRB indexes agree on a year-to-year basis but disagree on a month-to-month basis. Since the beginning of 2006, while the PFRB Connecticut Coincident Index rose steadily, the CCEA-ECRI Coincident Employment Index for Connecticut declined steadily since July 2006, having fallen previously from February through May 2006. It is difficult to interpret these conflicting signals not knowing which is more accurate. Note that though the revised CCEA-ECRI Coincident Employment Index for Connecticut has been falling steadily since July, both total non-farm employment and total employment have been increasing during the same period, although not at the same pace as in the first four months of the year.

The revised CCEA-ECRI Connecticut leading employment index rose from 119.00 in September 2005 to 119.75 in September 2006. A higher Moody's Baa corporate bond yield, and lower total housing permits are the two negative contributors. A decrease in initial claims for unemployment insurance, a lower short duration (less than 15 weeks) unemployment rate, and higher

average weekly hours worked in manufacturing and construction are the three positive contributors. The Hartford help-wanted index remained unchanged from its level a year ago.

On a sequential month-to-month basis, the revised CCEA-ECRI Connecticut leading employment index rose from 119.08 in August 2006 to 119.75 in September 2006. The Hartford help-wanted advertising index remained constant from its level in August 2006, while the remaining five components are all positive contributors to this index. Thus, the revised CCEA-ECRI's Connecticut Leading employment Index continues to indicate expansion in Connecticut's employment in the near future.

Connecticut's total unemployment rate, at 4.7% in September 2006, is slightly above the U.S. total civilian labor force unemployment rate of 4.6% for September. A disturbing trend is that Connecticut's total unemployment rate stood at 3.9% in April 2006 and has been rising since. Although total non-farm employment and total employment have been rising, both are rising at a much slower pace than in the first four months of this year. With national economic growth projected to slow next year, I predict a modestly good year for Connecticut for 2006, and more of the same for 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.