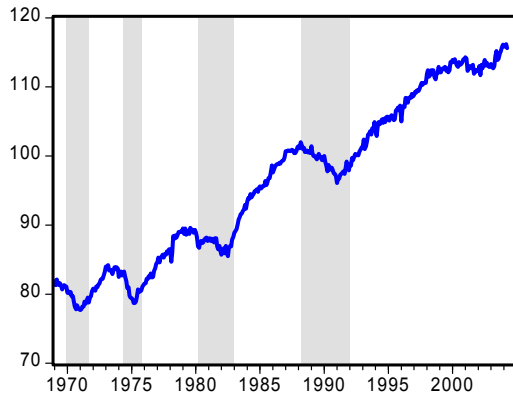
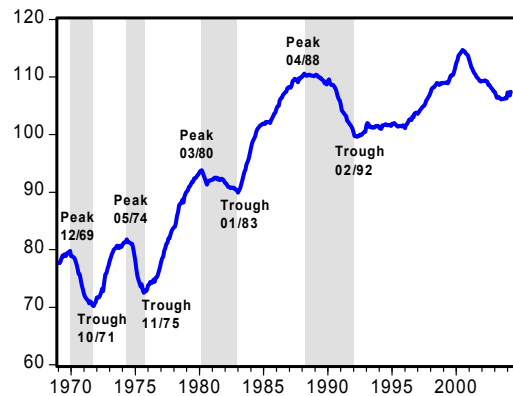


LEADING INDEX



COINCIDENT INDEX



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.

Some Good Signs of Job Creation at the Start of the Second Quarter 2004

The U.S. economy showed signs of healthy and robust growth in the first four months of this year. While labor productivity continues to increase at a healthy pace, jobs are also being created at a brisk pace. The flip side of robust economic growth is the threat of inflation. While market interest rates have already risen, a 25 basis points increase in the Federal funds rate seems a certainty at the next FOMC meeting at the end of June. It is widely expected that the Federal Reserve would increase the Federal funds rate gradually over the next 18 months, with minimal impact on the health of the economy. Alan Greenspan was recently sworn in for a fifth term as Chairman of

the Board of Governors of the Federal Reserve System. The most significant point of this is that it eliminated monetary policy uncertainty at a crucial time in the recovery and growth phase of the U.S. economy. Thus, we can expect a continuation of past monetary policy.

This month, the two employment indices provide us with signs of modest progress for the Connecticut economy. The revised CCEA-ECRI Connecticut coincident employment index rose on a year-to-year basis from 106.38 in April 2003 to 107.45 in April 2004. Two components of this index are positive contributors, with a lower insured unemployment rate, and a lower total

unemployment rate. Lower total non-farm employment and lower total employment are the two negative contributors. On a sequential month-to-month basis, the revised CCEA-ECRI Connecticut coincident employment index rose from 106.83 in March 2004 to 107.45 in April 2004. All four components contributed positively to the index.

The revised CCEA-ECRI Connecticut leading employment index provided us with mixed news. It rose from 113.00 in April 2003 to 115.57 in April 2004. Five components of this index are positive contributors, with a lower Moody's Baa corporate bond yield, higher total housing permits, lower 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. A lower Hartford help-wanted advertising index is the only negative contributor. On a sequential month-to-month basis, the CCEA-ECRI Connecticut leading employment index fell from 116.17 in March 2004 to 115.57 in April 2004. Lower initial claims for unemployment insurance, and a lower short duration (less than 15 weeks) unemployment rate are the two positive contributors this index. A higher Moody's Baa corporate bond yield, lower total housing permits, a

lower help wanted index, and lower average weekly hours worked in manufacturing and construction are the four negative contributors to this index.

It should be noted that total unemployment rate in Connecticut fell from 4.9 percent in March to 4.5 percent in April, and total non-farm employment rose by four thousand in the same period. These are all very positive signs for Connecticut's job picture. I cannot be sure that this will continue into the future, but these surely are good signs to start the second quarter with. Finally, I do not expect that the resignation of Governor Rowland would have major impact on the Connecticut economy one way or the other. It does, however, remove some political clouds from Connecticut.

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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.