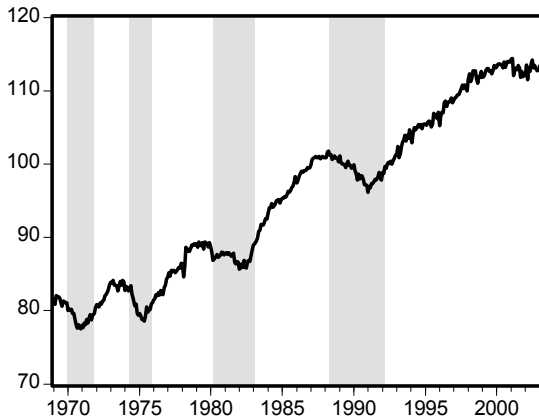
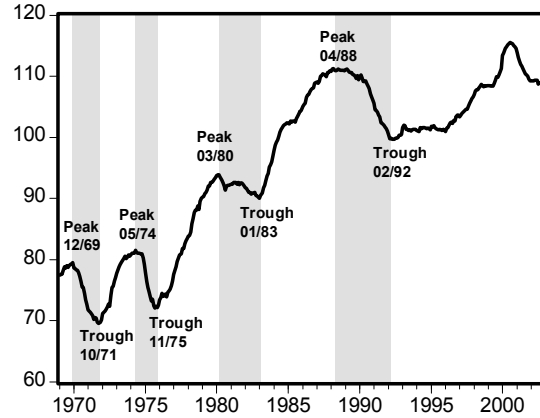


## LEADING INDEX



## 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 Encouraging Signs in May, But Will It Continue?

Last month, because of technical adjustments to our indicator series, we were unable to go to press. This month, we focus our discussion on the May 2003 indicators, but also provide a brief look at the movements of these indicators in April.

For May, our indicators showed signs of improvement in the Connecticut economy. The revised CCEA-ECRI Connecticut coincident employment index fell on a year-to-year basis from 109.3 in May 2002 to 107.48 in May 2003. This indicator also fell on a year-to-year basis from 109.3 in April 2002 to 107.1 in April 2003. In both cases, all four components are negative contributors to the index, with a higher insured unemployment rate, a higher total unemployment rate, lower total

non-farm employment, and lower total employment. On a sequential month-to-month basis, the CCEA-ECRI Connecticut coincident employment index turned in a much stronger performance, rising from 107.1 in April 2003 to 107.48 in May 2003. Three of the four components are positive contributors, with total non-farm employment remaining stable. There was an unexpected large drop in the total unemployment rate from 5.3 percent in April to 4.9 percent in May. However, total non-farm employment and total employment in Connecticut remained virtually unchanged in these two months, indicating a shrinkage in Connecticut's labor force. Thus, it is difficult to interpret this drop in the total

unemployment rate as good news. From March to April of this year, the coincident employment index fell slightly from 107.2 in March to 107.1 in April. Three indicators are negative contributors with total employment being the sole positive contributor. May 2003 is the first month this year that the CCEA-ECRI Connecticut coincident employment index has risen.

The revised CCEA-ECRI Connecticut leading employment index had a good month in May. It rose strongly from 112.4 in May 2002 to 114.4 in May 2003. Four 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, and a lower short duration (less than 15 weeks) unemployment rate. A lower Hartford help-wanted advertising index is the only negative contributor, while average weekly hours worked in manufacturing and construction remained stable. This index fell from 113.0 in April 2002 to 112.7 in April 2003, with only two positive contributors to this index. On a sequential month-to-month basis, the CCEA-ECRI Connecticut leading employment index rose strongly from 112.7 in April to 114.4 in May with all six components contributing positively to this index. In the previous month, this

index fell slightly from 112.8 in March 2003 to 112.7 in April 2003. There are three positive contributors, with a lower Moody's Baa corporate bond yield, higher total housing permits, and a higher Hartford help-wanted advertising index. The remaining three components are negative contributors.

Both indicators in May provide some good news and cause for optimism. But, it is far too early to tell whether this is a trend. The cloud hanging over Connecticut continues to be the budget impasse between the Governor and the legislature. A resolution of this issue will certainly go a long way in instilling confidence in the state economy.

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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.