



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.

All Is Quiet As We Head Into the Fall

The most recent economic reports suggest that the recovery in the U.S. economy is on track. Because a rising inflation rate typically accompanies an economic recovery, a concern that has been voiced several times by economists is whether the Federal Reserve will raise the Federal funds rate at its next FOMC meeting on October 28. I personally don't believe so. The recovery is indeed on track, but it has yet to have a major impact on the labor market. There is no sign that inflation will pickup anytime soon, although it could happen suddenly, especially with the volatile situation in the Middle East oil producing countries. Raising interest rates at this point may be counterproductive. It could slow the recovery and not have a major impact on the inflation rate.

For the month of August, our indicators provided some encouraging signs for the Connecticut economy. The revised CCEA-ECRI Connecticut coincident employment index fell on a year-to-year basis from 108.9 in August 2002 to 107.03 in August 2003. 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 revised CCEA-ECRI Connecticut coincident employment index rose from 107.0 in July 2003 to 107.3 in August 2003. Three components are positive contributors, with a lower insured unemployment rate, lower total unemployment rate and higher total

non-farm employment. The sole negative contributor is lower total employment.

The revised CCEA-ECRI Connecticut leading employment index rose from 112.8 in August 2002 to 114.03 in August 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. The two negative contributors are a lower Hartford help-wanted advertising index, and lower average weekly hours worked in manufacturing and construction. On a sequential month-to-month basis, the CCEA-ECRI Connecticut leading employment index also rose from 113.69 in July to 114.03 in August. There are three positive contributors namely, higher total housing permits, a lower short duration (less than 15 weeks) unemployment rate, and slightly higher average weekly hours worked in manufacturing and construction. Two components of this index are negative contributors, with a higher Moody's Baa corporate bond yield, and higher initial claims for unemployment insurance, while the help wanted index remained stable.

As Connecticut continues its slow recovery, it continues to shed jobs. A recent forecast reported in the Hartford Courant suggests that Connecticut will continue to lose jobs through the rest of this year, and a modest pickup is predicted for next year. This is to be expected, however, because the Connecticut economy lags behind the national economy by about six months, and without strong job creation at the national level, we can expect weak job creation in Connecticut. However, we should not lose sight of the fact that the recovery in Connecticut is on track.

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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.